

Variations To Development Scheme Costs Policy

Policy Ref: F05

Prepared By	Investment Director
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Reviewed By	Investment Committee

1. INTRODUCTION

- 1.1 The sums involved in development contracts expose the Association to potential financial risks. To minimise and control this risk, we have strict processes in place and this policy aims to ensure that the Association safeguards our financial position through retaining budgetary control throughout the life of each project instructed.

2. GATEWAY STAGE 1: PROJECT INITIATION

- 2.1 At this stage the Project Initiation report is produced, focusing on the availability of a site its capacity and constraints. The fit of potential housing on the site with strategic priorities and demand is assessed. Outline costs are developed and the Project Initiation Document is presented. The conclusion of the stage is a report to PHA Board seeking approval to develop the project further.

3. GATEWAY STAGE 2: FEASIBILITY STUDY, COST PLAN, SITE ACQUISITION

- 3.1 During this stage the project brief is developed, the Project Execution Plan is drafted, consultants are appointed, consents applied for and the cost and funding packages are developed.
- 3.2 The Design Team is required to work to the Project Brief with any variations requiring the agreement of the Project Manager. Failure of the consultants to adhere to the Project Brief may result in action being taken against them.
- 3.3 Information on initial estimated scheme costs and funding will be collated by the Project Manager on completion of the project feasibility study and viability assessment. The Project Team will identify the costs as accurately as possible at this stage, as well as the anticipated funding for each aspect of the project, and the timing of payments and funding drawdown.
- 3.4 Progress in developing the project will be reported to PHA Board. Design Team meetings for each project will be held to ensure progress and to advise and agree any proposed changes. The Scheme Budget Monitoring and Variation Control sheets will be populated at this stage. This allows any changes to the project brief, design specification or in response to technical issues to be recorded and the effect on the outline costs tracked. The conclusion of this process is a report to PHA Board outlining the viability of the project and requesting authorisation to acquire the site.

4. GATEWAY STAGE 3: TENDER APPROVAL

- 4.1 During this stage the Bill of Quantities, Employer's Requirements or equivalent pricing document for the project, including prime costs and provisional sums, are developed to the point where tenders can be issued. To ensure that no cost overruns are incurred by underestimating the cost of works, provisional sums should be kept to a minimum and should reflect as accurately as possible the likely costs required.
- 4.2 The consultant's reports will form the basis for cost plan submissions to funders. These will indicate the approximate cost of developing the scheme. These reports will also be used by the Project Manager to update the Scheme Budget Monitoring and Variation Control sheets.
- 4.3 Tenders received for a project will be compared with the scheme budget to identify any differences. Savings may require to be identified before a tender report may be completed. A report on the tender, identifying any significant changes to the Project Brief, and departures from the Scheme Budget will be reported to the Board. Formal acceptance of the Tender Report by the Board, including approval of the scheme tender costs, funding and cash flow, is required before any legally binding contracts can be entered into with contractors or funders.
- 4.4 The conclusion of this stage is a report to the PHA Board seeking authorisation to let the contract on the basis of an agreed and fixed scheme budget.

5. GATEWAY STAGE 4: DELIVERY

- 5.1 The Scheme Budget Monitoring Sheet, detailing all of the approved costs and funds will be developed, showing the amounts and timing of costs to be incurred and funds to be drawn down against them. The Scheme Budget Monitoring Sheet will be updated monthly and a summary presented to the Board, so that any discrepancies between approved costs and funding and actual costs and funding can be reported.
- 5.2 Any significant variations required after tender acceptance will be instructed by means of Architect's Instructions or through an agreed Change Mechanism for Design & Build Projects. All Instructions should be issued timeously to the Client in the first instance, along with a report on the impact on project costs and programme. All instructions will require to be approved by PHA's Project Manager before being issued to the contractor.
- 5.3 A Variation Control Sheet will be developed for each project. All changes to the approved costs, funding and cash flow will be recorded and annotated on these sheets as the project develops.

- 5.4 To allow for insignificant variations and additional work on the project critical path to be implemented without causing delay to the contract, for an individual project the Board delegates authority to the Investment Director to authorise variations up to the maximum value of £25,000 or 1% of the total contract value, whichever is the higher. Any variations in excess of this must be reported to PHA Board for approval prior to the instruction being issued. The Chief Executive has authority to approve variations up to the maximum value of £35,000 in total or 1% of the total contract value, whichever is higher. Where a delay caused by having to seek Board approval would incur additional costs, e. g. for delay, the Chief Executive may use delegated authority to approve the variation and seek retrospective ratification at the next PHA Board meeting. It should be noted that through the duration of a project, the cost projection may go above or below budget forecast spend and therefore only those items where a known overspend is going to occur need to be reported at this time. A cost overrun that is cancelled out by a saving elsewhere need not be presented for approval.
- 5.5 The Scheme Budget Monitoring Sheet and Variation Control Sheet will clearly show actual costs and funding to date against anticipated costs and funding to date, and anticipated final costs and funding against the initially approved costs and funding. Any discrepancies between the project budget and the current or projected final costs will be annotated and drawn to the attention of the Board.
- 5.6 The conclusion of this stage is a Project Close-Out report to PHA Board outlining the extent to which the project met its objectives and targets, including adherence to the budget approved at Gateway Stage 3.

6. POLICY REVIEW

- 6.1 We will review the Variations To Development Scheme Costs Policy every three years or sooner if required by statutory, regulatory or best practice requirements.