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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>10 August 2021</b>
<b>Report By:</b>	<b>Interim Service Director, Corporate Services &amp; Organisational Recovery</b>	<b>Report No:</b>	<b>FIN/40/21/AP/MT</b>
<b>Contact Officer:</b>	<b>Matt Thomson</b>	<b>Contact No:</b>	<b>01475 712256</b>
<b>Subject:</b>	<b>2020/21 Capital Programme Out-Turn &amp; Impact of Material Shortages on the Delivery &amp; Cost of the 2021/24 Capital Programme</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the performance in delivering the 2020/21 Capital Programme and to highlight issues relating to the availability and supply of materials which will potentially impact upon the 2021/24 Capital Programme.

## 2.0 SUMMARY

- 2.1 During the early part of 2020/21, in the early days of the Covid pandemic, construction work halted and it became clear that the approved Capital Programme for 2020/21 was not achievable. As a result a revised Capital Programme was approved by Policy & Resources Committee in August 2020.
- 2.2 In 2020/21 there was net advancement of 32.8% against the revised Capital Programme following on from net slippage of 13.4% in 2019/20. Appendix 1 illustrates the movement in slippage since 2016/17 and it can be seen that the 5 year average advancement is 2.5%. The Council target is that slippage should be kept under 10% and likewise for acceleration, as greater than this could indicate issues with initial budget setting. In 2020/21 advancement was greater than the 10% threshold due to a number of factors detailed in the report and appendices. It should be noted that had the original budget not been revised slippage of £2.2m or 11.2% would have been experienced.
- 2.3 Appendix 2 provides a summary of the main causes for slippage/advancement provided by Lead Officers. As has previously been the case, it is clear that variations are not attributable to either a single project or a single reason. It should be noted that the revised Capital Programme was approved at the height of the pandemic and was, understandably, cautious given the uncertainty around the construction industry at the time.
- 2.4 Appendix 3 provides more detail on an individual project basis whilst Appendix 4 shows the movement in projections throughout the year. From this it can be seen that there was significant movement in projections from the September cycle to the end of the year however the November cycle projection moved by only £0.593m, 3.9%, to the end of the year, albeit there were some larger, offsetting, movements within Environment and Regeneration and the School Estate.
- 2.5 Section 6 of the report highlights the issues being experienced throughout much of the world in relation to the supply and cost of certain materials. The impact on project delivery timescales, contractor sustainability and the funding allocated to the capital programme are set out.
- 2.6 The cost pressure arising from difficulties with the supply of materials and in some cases specialist services are viewed as being exceptional and due to a combination of a number of factors including Covid, Brexit, global demand and general economic factors. It would be prudent, to ensure the on-going delivery of the Capital Programme, to allocate additional revenue funding to generate prudential borrowing to meet potential costs.

2.7 The Interim Service Director, Corporate Services and Organisational Recovery will continue to work with relevant officers throughout the year to monitor project delivery and update Committee as required.

### **3.0 RECOMMENDATIONS**

3.1 It is recommended that the Committee notes the 2020/21 Capital Out-turn Position.

3.2 It is recommended that the Committee notes the pressure being experienced in relation to the availability and cost of materials and the impact this is likely to have on the delivery and cost of the 2021/24 Capital Programme.

3.3 It is recommended that the Committee agree to allocate up to £100,000 currently set aside for the impact of Brexit in the inflation contingency to prudentially borrow up to £1.6million to meet potential increases in capital project costs in 2021/22 and 2022/23.

3.4 It is recommended that the Committee delegate to the Interim Service Director, Corporate Services & Organisational Recovery decisions regarding the allocation of this Capital Contingency, the use of which will be reported to the Policy & Resources Committee.

**Alan Puckrin**

**Interim Service Director, Corporate Services & Organisational Recovery**

## 4.0 BACKGROUND

- 4.1 It was previously agreed that Committee receive an annual report comparing slippage/advancement against the approved Capital Programme and this report covers the 2020/21 performance.

## 5.0 2020/21 CAPITAL DELIVERY PERFORMANCE

- 5.1 Subject to the audit of the Final Accounts, the Capital out-turn for 2020/21 is reporting advancement of 32.8%(13.4% slippage reported in 2019/20) against the revised Capital Programme as approved in August 2020 and taking into account the impact of the Covid pandemic on the construction industry. Overall advancement is greater than the 10% threshold, this was due to a number of factors as detailed in Appendix 3. Officers actively sought to advance projects that could be progressed and this, along with the construction industry resuming albeit on a reduced basis due to social distancing etc, has resulted in significant advancement from the revised programme.
- 5.2 Appendix 2 provides an analysis of the main reasons for any slippage whilst Appendix 3 contains a commentary by the Lead Officer where appropriate and a categorisation of the type of slippage. This latter issue is not an exact science, but does give an indication of the main reasons for the slippage.
- 5.3 It can be seen that slippage of £2.184 million (75% of all slippage) arose from internal slippage and slippage involving 3<sup>rd</sup> Parties. This was more than offset by projects acceleration of £7.208m.
- 5.4 Directorate performance was as follows:

Environment, Regeneration & Resources – overall advancement 6%/£550,000 (2019/20: 7.2% slippage) this was mainly due to slippage within Roads (SPT, Spaces for People), Town and Village Centre Regeneration and Clyde Square Re-roofing offset by advancement in Vehicle Replacement, Minor Works and Statutory Duty Works.

Education, Communities & Organisational Development – overall project advancement of 100.1%/£3.702million (2019/20: 20.14% slippage) mainly as a result of advancement across most of the School Estate and Early Years programme partially offset by slippage in Gourrock Primary School Extension, Wellpark Alterations and Glenpark Outdoor Expansion.

Health & Social Care – overall advancement of 18.3%/£32,000 (2019/20: 18.2% slippage).

- 5.5 Allied to the early identification of slippage is the potential to identify alternative projects which could be accelerated. Roads investment in particular lends itself to this approach where projects can be developed and delivered in a far shorter timescale than many other capital projects. During 2020/21 a total of £7.208m (2019/20: £4.311m) was advanced. While some of this will have been due to the cautious approach taken when setting the revised Capital Programme as a result of the Covid pandemic much of this was as a result of Council policies such as the advancement of the Road Asset Management Plan, Vehicle Replacement, Property Minor Works, Statutory Duty Works, and the School Lifecycle Works.

## 6.0 MATERIAL SHORTAGES/PRICE INCREASES & THE 2021/24 CAPITAL PROGRAMME

- 6.1 An update from Scotland Excel at the start of July in respect of their Building and Timber Material Framework advised that the timber market is in the midst of significant supply chain disruption, with demand outstripping supply and the cost of materials rising at a rapid, unprecedented pace. Dialogue with key suppliers indicated that they were at a point of supplying goods on the framework at a loss, some of which were as large as 50%. Scotland Excel's framework has now been updated to reflect the exceptional price variance requests in order to retain supply and stocks during a period of accelerating demand in the construction industry.
- 6.2 The Society of Chief Quantity Surveyors (SCQS) contacted the BCIS in early June who provided a draft of a planned publication around materials supply to the UK construction industry. That update included many of the points above and is summarised below:

- Covid-19 has affected supply from mills and factories;
- Supply chain bottlenecks due to global demand shocks;
- Container shortages and port delays (busy shipping lanes and in the major ports of the world, ships have had to wait to dock and some have been diverted, and unloading and reloading times have risen 200%);
- Construction demand rose quite sharply in the second half of 2020 after initial lockdown;
- Increased administration at UK ports affecting imports and exports due to UK EU Trade and Cooperation Agreement;
- Sharp rises in shipping costs and temporary surcharges (container freight rates have quadrupled since the beginning of the year);
- Since the beginning of the year the UK Construction Purchasing Managers Index has shown shortages of over sixty different construction materials including bricks, timber, and roof tiles.

6.3 The existing capital programme is already experiencing the impact of the above with that impact varying depending on a number of factors including; the stage of the project; the size of the contractor; and type of project (materials) involved. The majority of contractors have reported issues with material availability to some degree and this, in the majority of projects, is having an impact on the programme with delays to completion projected or delays to commencing on site. Where possible the use of alternative products is being investigated to mitigate delays, however this is not always possible and there is the risk of impacting the quality of the end product if true equivalent products are not available.

6.4 There is a move within industry to raise awareness of the current issues to Scottish Government and suggestions that the Construction Policy Notes (CPN's) route could be used to promote a supportive approach to the issue similar to that taken for the Covid prolongation and phased construction recovery issues. This could include allowing 'time relief' for Contractors where it is evidenced there is equity to do so.

6.5 The current volatile materials situation is likely to result in other challenges in the short to medium term. Tenders being sought in this climate will face the following issues:

- Material availability will impact on programmes with potentially extended lead-in/pre-site periods and/or site programmes.
- Contractors may be reluctant to hold tenders open for the normal period (120 days) currently included in the majority of Council tenders.
- Although the market generally remains keen, there may be a move towards more selective tendering and lower numbers of tenders returned (depending on individual project circumstances / type).
- Tender costs are likely to increase to reflect the cost of current materials increases and future risks impacting affordability unless additional funding is possible.

For longer term / larger projects Contractors may struggle to secure pricing from supply chain partners for work packages without inflated risk and additional contract protections

6.6 The above issues will undoubtedly lead to both cost pressures and delays and it is important that Members are sighted on this when reviewing project updates at Committee.

## **7.0 IMPLICATIONS**

### **7.1 Finance**

#### Financial Implications

All financial implications arising from the 2020/21 Programme are shown in detail within the report and in Appendices 1 & 2.

The cost pressure arising from difficulties with the supply of materials and in some cases specialist services are viewed as being exceptional and due to a combination of a number of factors including Covid, Brexit, global demand and general economic factors. It would be prudent, to ensure the on-going delivery of the Capital Programme to allocate additional funding to meet potential costs. A recurring sum of up to £100,000 is recommended.

## One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

## Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
Miscellaneous	Non-pay inflation	2022/23	100		Will allow around £1.6million of Prudential Borrowing

### 7.2 Legal

There are no legal implications.

### 7.3 Human Resources

There are no direct staffing implications in respect of this report and as such the Head of Organisational Development, HR & Communications has not been consulted.

### 7.4 Equalities

(a) Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) **Fairer Scotland Duty**

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) **Data Protection**

**Has a Data Protection Impact Assessment been carried out?**

X

YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.

NO

## 7.5 Repopulation

The Council's continuing significant capital investment levels will have a positive impact on regeneration, job creation and hence repopulation.

## 8.0 BACKGROUND PAPERS

8.1 None.

## Annual Slippage Summary

## Appendix 1

<u>Year</u>	<u>Budget</u> <u>£000's</u>	<u>Slippage /</u> <u>(Advancement)</u> <u>£000's</u>	<u>%age</u>
2016/17	27,955	(2,560)	(9.2)%
2017/18	32,271	398	1.2%
2018/19	27,995	(146)	(0.5)%
2019/20	25,544	3,428	13.4%
2020/21	13,059	(4,284)	(32.8)%
5 year average	25,365	(633)	(2.5)%

## Summary of Reported Slippage by Category

## Appendix 2

<u>Committee</u>	<u>Policy Decision</u> £000	<u>Project Cost Reduced</u> £000	<u>Internal Slippage</u> £000	<u>Delay involving 3rd Party</u> £000	<u>Minor Slippage</u> £000	<u>Accelerated Projects</u> £000	<u>Total</u> £000      %age	
Policy & Resources	-	-	-	129	1	-	130	24.8%
Environment, Regeneration & Resources	-	657	681	1,114	22	(3,154)	(680)	(7.9)%
Education & Lifelong Learning	-	-	-	-	-	(348)	(348)	(74.5)%
School Estate	-	60	94	166	-	(3,674)	(3,354)	(103.8)%
Health & Social Care	-	-	-	-	-	(32)	(32)	(18.3)%
<b>Total</b>	<b>0</b>	<b>717</b>	<b>775</b>	<b>1,409</b>	<b>23</b>	<b>(7,208)</b>	<b>(4,284)</b>	<b>(32.8)%</b>
 <u>Directorate</u>								
Environment, Regeneration & Resources	-	657	681	1,243	23	(3,154)	(550)	(6.0)%
Education, Communities & Organisational Development	-	60	94	166	-	(4,022)	(3,702)	(100.1)%
Health & Social Care	-	-	-	-	-	(32)	(32)	(18.3)%
<b>Total</b>	<b>0</b>	<b>717</b>	<b>775</b>	<b>1,409</b>	<b>23</b>	<b>(7,208)</b>	<b>(4,284)</b>	<b>(32.8)%</b>



	Approved Budget 2020/21 £000's	Draft 2020/21 Final Outturn £000's	Slippage from Approved Budget £000's	Slippage from Approved Budget %age	1 Policy Decision £000's	2 Project Cost Reduced £000's	3 Internal Slippage £000's	4 Delay involving 3rd Party £000's	5 Minor Slippage £000's	6 Accelerated Projects £000's	Variation Category	Additional Comments
<b>Policy &amp; Resources</b>												
Server & Switch Replacement Programme	123	65	58	47.15%				58			4 Delay involving 3rd Party	Delays due to supply chain issues
Annual Allocation	71	0	71	100.00%				71			4 Delay involving 3rd Party	Delays due to supply chain issues
Various Projects	331	330	1	30%					1		5 Minor Slippage	
<b>TOTAL Policy &amp; Resources</b>	<b>525</b>	<b>395</b>	<b>130</b>	<b>24.76%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>129</b>	<b>1</b>	<b>0</b>		
<b>Environment &amp; Regeneration</b>												
<b>Environmental Services - Roads</b>												
SPT	1,300	511	789	60.69%				789			4 Delay involving 3rd Party	Delay in processing West Blackhall Street through Sustrans, external Consultants and stakeholders.
Spaces for People	585	107	478	81.71%		478					2 Project Cost Reduced	Reduced scope of project delivery, cycletracks and Town Centre social distancing schemes.
Flooding Strategy - Future schemes	222	147	75	33.78%		75					2 Project Cost Reduced	Reduced project and tender cost.
Drumshantie Road Carpark	80	0	80	100.00%				80			4 Delay involving 3rd Party	Awaiting public consultation outcomes and land purchase.
Former St Ninians School Site	75	0	75	100.00%			75				3 Internal Slippage	Final design to be agreed and completed.
Various Projects	341	338	3	88%					3		5 Minor Slippage	
<b>Roads Asset Management Plan</b>												
Structures	96	252	(156)	(162.50)%						(156)	6 Accelerated Projects	Early project completion.
Lighting	431	366	65	15.08%		65					2 Project Cost Reduced	Reduced tender price
Various Projects	1,369	1,330	39	2.85%		39					2 Project Cost Reduced	Reduced project scope.
<b>Environmental Services</b>												
Vehicles Replacement Programme	598	2,739	(2,141)	(358.03)%						(2,141)	6 Accelerated Projects	
Park, Cemeteries & Open Spaces AMP	60	121	(61)	(101.67)%						(61)	6 Accelerated Projects	
Various Projects	404	385	19	4.70%					19		5 Minor Slippage	
<b>Regeneration and Planning</b>												
Port Glasgow Town Centre Regeneration	0	79	(79)							(79)	6 Accelerated Projects	
T&VC - Jamaica Street Car Park	140	39	101	72.14%				101			4 Delay involving 3rd Party	Delay awaiting Scottish Water approval for project
T&VC - Other	889	283	606	68.17%			606				3 Internal Slippage	Babylon demolition delayed due to ownership issues which are now resolved
Various Projects	23	33	(10)	(43.48)%						(10)	6 Accelerated Projects	
<b>Public Protection</b>												
Scheme of Assistance	560	648	(88)	(15.71)%						(88)	6 Accelerated Projects	
Various Projects	15	17	(2)	(13.33)%						(2)	6 Accelerated Projects	
<b>Property Services</b>												
Greenock Municipal Buildings Carriageway Glazed Roof	96	156	(60)	(62.50)%						(60)	6 Accelerated Projects	
Greenock Municipal Buildings - Clyde Square Re-roofing	400	256	144	36.00%				144			4 Delay involving 3rd Party	9 week delay is due to the design and installation of the Scaffolding and the Tented Roof.
Greenock Municipal Buildings - Victoria/Dalrymple Tower Essential Works	0	69	(69)							(69)	6 Accelerated Projects	New project identified and completed within the financial year.
Minor Works	115	365	(250)	(217.39)%						(250)	6 Accelerated Projects	Various new minor projects identified and completed within the financial year.
Statutory Duty Works	69	198	(129)	(186.96)%						(129)	6 Accelerated Projects	Various new minor projects identified and completed within the financial year.
Various Projects	793	902	(109)	(13.75)%						(109)	6 Accelerated Projects	
<b>TOTAL Environment &amp; Regeneration</b>	<b>8,661</b>	<b>9,341</b>	<b>(680)</b>	<b>(7.85)%</b>	<b>0</b>	<b>657</b>	<b>681</b>	<b>1,114</b>	<b>22</b>	<b>(3,154)</b>		

	Approved Budget 2020/21 £000's	Draft 2020/21 Final Outturn £000's	Slippage from Approved Budget £000's	Slippage from Approved Budget %age	1 Policy Decision £000's	2 Project Cost Reduced £000's	3 Internal Slippage £000's	4 Delay involving 3rd Party £000's	5 Minor Slippage £000's	6 Accelerated Projects £000's	Variation Category	Additional Comments
<b>Education &amp; Lifelong Learning</b>												
<b>Non-SEMP</b>												
<b>Education &amp; Communities (Non-SEMP)</b>												
<b>Safer Communities</b>												
Leisure Pitches AMP - Lifecycle Fund	250	578	(328)	(131.20)%						(328)	6 Accelerated Projects	Parkela project completed within the financial year.
Various Projects	217	237	(20)	(9.22)%						(20)	6 Accelerated Projects	
<b>TOTAL Education &amp; Lifelong Learning (excl School Estate)</b>	<b>467</b>	<b>815</b>	<b>(348)</b>	<b>(74.52)%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(348)</b>		
<b>SEMP</b>												
Lifecycle Fund	400	1163	(763)	(190.75)%						(763)	6 Accelerated Projects	Lifecycle programme maintained with minimal covid impact.
Gourock PS Extension	250	84	166	66.40%				166			4 Delay involving 3rd Party	Covid impact on completion works re-tendering exercise.
St Mary's PS - Refurb & Extension	611	1106	(495)	(81.01)%						(495)	6 Accelerated Projects	Final account agreed requiring additional funding.
Hillend Children's Centre - Refurbishment	500	770	(270)	(54.00)%						(270)	6 Accelerated Projects	Actual progress on site better than projection.
Whiteboard refresh	75	694	(619)	(825.33)%						(619)	6 Accelerated Projects	All phases able to be completed within financial year through out of hours working.
Various Projects	57	74	(17)	(29.82)%						(17)	6 Accelerated Projects	
Gourock YAC - Internal & External Alterations	40	95	(55)	(137.50)%						(55)	6 Accelerated Projects	Project cost increased and completed within financial year.
Larkfield Children's Centre - New Build	500	1155	(655)	(131.00)%						(655)	6 Accelerated Projects	Actual progress on site better than projection.
Rainbow Family Centre - Extension	578	1371	(793)	(137.20)%						(793)	6 Accelerated Projects	Actual progress on site better than projection.
Wellpark Children's Centre Alterations - CFCR	80	20	60	75.00%		60					2 Project Cost Reduced	Actual cost of tendered scheme less than budget allocation.
Glenpark Early Learning Centre Outdoor Expansion - CFCR	120	26	94	78.33%			94				3 Internal Slippage	Project required to be re-tendered, behind original programme.
Various Projects	20	27	(7)	100.00%						(7)	6 Accelerated Projects	
<b>TOTAL SEMP</b>	<b>3,231</b>	<b>6,585</b>	<b>(3,354)</b>	<b>(103.81)%</b>	<b>0</b>	<b>60</b>	<b>94</b>	<b>166</b>	<b>0</b>	<b>(3,674)</b>		
<b>Health &amp; Social Care Committee</b>												
various projects	175	207	(32)	(18.29)%						(32)	6 Accelerated Projects	
<b>Total Health &amp; Social Care</b>	<b>175</b>	<b>207</b>	<b>(32)</b>	<b>(18.29)%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(32)</b>		
<b>Council Total</b>	<b>13,059</b>	<b>17,343</b>	<b>(4,284)</b>	<b>(32.80)%</b>	<b>0</b>	<b>717</b>	<b>775</b>	<b>1,409</b>	<b>23</b>	<b>(7,208)</b>		
<b>Movement per Category as %age of Capital Programme</b>				<b>(32.80)%</b>	<b>.00%</b>	<b>5.49%</b>	<b>5.93%</b>	<b>10.79%</b>	<b>.18%</b>	<b>(55.20)%</b>		
<b>Movement per Category as %age of total Slippage</b>				<b>100.00%</b>	<b>.00%</b>	<b>(16.74)%</b>	<b>(18.09)%</b>	<b>(32.89)%</b>	<b>(.54)%</b>	<b>168.25%</b>		

**Summary of Reported Slippage by Period**

**Appendix 4**

	<u>July'20 - Period 4</u>		<u>Sept' 20 - Period 6</u>		<u>Nov '20 - Period 8</u>		<u>Jan '21 - Period 10</u>		<u>March'21 - Period 12</u>		<u>Provisional Outturn</u>	
	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>
Policy & Resources	-	0.0%	40	7.1%	40	7.1%	51	9.7%	106	20.2%	130	24.8%
Environment, Regeneration & Resources	(100)	(6.8)%	(1,704)	(19.8)%	(1,713)	(20.5)%	(1,240)	(14.9)%	(1,169)	(13.6)%	(680)	(7.9)%
Education & Lifelong Learning	32	6.9%	17	3.6%	(316)	(72.6)%	(313)	(72.0)%	(346)	(74.1)%	(348)	(74.5)%
School Estate	-	0.0%	(314)	(9.7)%	(1,702)	(52.7)%	(2,553)	(79.0)%	(3,298)	(102.1)%	(3,354)	(103.8)%
Health & Social Care	-	0.0%	-	0.0%	-	0.0%	21	12.0%	(35)	(20.0)%	(32)	(18.3)%
<b>Total</b>	<b>(68)</b>	<b>(0.6)%</b>	<b>(1,961)</b>	<b>(15.0)%</b>	<b>(3,691)</b>	<b>(28.9)%</b>	<b>(4,034)</b>	<b>(31.7)%</b>	<b>(4,742)</b>	<b>(36.5)%</b>	<b>(4,284)</b>	<b>(32.8)%</b>

	<u>Movement Sept'20</u> <u>(Period 6) v Outturn</u>		<u>Movement Nov'20</u> <u>(Period 8) v Outturn</u>	
	<u>£000's</u>	<u>%</u>	<u>£000's</u>	<u>%</u>
Policy & Resources	90	17.7%	90	17.7%
Environment, Regeneration & Resources	1,024	11.9%	1,033	12.7%
Education & Lifelong Learning	(365)	(78.2)%	(32)	(1.9)%
School Estate	(3,040)	(94.1)%	(1,652)	(51.1)%
Health & Social Care	(32)	(18.3)%	(32)	(18.3)%
<b>Total</b>	<b>(2,323)</b>	<b>(17.8)%</b>	<b>(593)</b>	<b>(3.9)%</b>