
Report To:	The Inverclyde Council	Date:	21 April 2022
Report By:	Interim Director Finance & Corporate Governance	Report No:	FIN/28/22/AP/LA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Contract Cost Increase and Supply Issues		

1.0 PURPOSE

- 1.1 The purpose of this report is to update the Council regarding emerging contractual, supply and delivery issues relating to a number of factors outwith the Council's control and to outline the potential implications.

2.0 SUMMARY

- 2.1 Members will be aware that there have been issues with material cost and delivery timescales for a number of commodities utilised by the Council over the last 2 years. These have related to a combination of the impact of Covid, Brexit and global demand.
- 2.2 Members will also be aware of significant increases in the price of oil and gas which is manifest both in the cost of petrol and diesel but also in the cost of utility bills. The war in Ukraine has added further pressure on these costs of fuel but is now also leading to supply difficulties for certain materials and food stuffs. The impact on the Council is beginning to manifest itself in a number of ways:
1. Requests from certain contractors to modify contract terms and conditions including contract rates.
 2. Delays in the supply of materials and hence the delivery of capital projects.
 3. Increases in capital project tender returns leading to either budget shortfalls for specific projects or fewer capital projects able to be delivered within the approved budget allocations.
 4. Requests for support from the business community and partners.
- 2.3 The Corporate Management Team have considered this matter and have approved a procedure to guide senior officers as to the actions to be taken in the event of requests to vary contractual sums or contract terms and conditions. It is important that actions taken do not expose the Council to legal challenge so therefore whilst there is sympathy for the position faced by some contractors and there is a need to ensure continued service delivery, the Council needs to ensure that it complies with the regulations around procurement and support to businesses and that decisions are affordable and secure Best Value.
- 2.4 The Council therefore need to be aware of potential delays and cost increases in capital projects and the increased budgetary pressures within day to day service delivery. The Council has a limited unallocated Non-Pay Inflation Contingency and Capital Contingency and it is intended to provide an update on this matter to the June Policy & Resources Committee.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Council note the number of challenges being experienced within the UK, Scottish and local economy and the impact that this may have in terms of timescales for delivery and costs of capital projects plus the costs of day to day service delivery.
- 3.2 It is recommended that the Council note that a procedural note has been issued to officers regarding action to be taken in the event of request to vary contract terms and conditions or rates.
- 3.3 It is recommended that the Council note that the Interim Service Director Finance and Corporate Governance will present an update on this matter highlighting any financial and service delivery implications to the June Policy & Resources Committee.

Alan Puckrin
Interim Director Finance & Corporate Governance

4.0 BACKGROUND

- 4.1 Members will be aware that there have been issues with material cost and delivery timescales for a number of commodities utilised by the Council over the last 2 years. These have related to a combination of the impact of Covid, Brexit and global demand.
- 4.2 Members will also be aware of significant increases in the price of oil and gas which is manifest both in the cost of petrol and diesel but also in the cost of utility bills. The war in Ukraine has added further pressure on these costs of fuel but is now also leading to supply difficulties for certain materials and food stuffs
- 4.3 The Council has a limited non-pay inflation contingency within the Revenue Budget and a £0.8million "Covid" capital contingency.

5.0 CURRENT POSITION

- 5.1 The impact on the Council is beginning to manifest itself in a number of ways:
 1. Requests from certain contractors to modify contract terms and conditions including contract rates.
 2. Delays in the supply of materials and hence the delivery of capital projects.
 3. Increases in capital project tender returns leading to either budget shortfalls for specific projects or fewer capital projects able to be delivered within the approved budget allocations.
 4. Requests for support from the business community and partners.
- 5.2 An officer group has been set up to oversee any requests/issues and the group is supported by a procedure prepared by the Head of Legal & Democratic Services and Corporate Procurement Manager. The procedure covers 3 specific eventualities:
 - Request to vary a Council contract
 - Variation to a Scotland Excel/Consortium contract
 - Request to vary an HSCP Commissioning arrangement

The CMT have agreed the procedure which has been issued to relevant officers.

- 5.3 It is important that actions taken do not expose the Council to legal challenge so therefore whilst there is sympathy for the position faced by some contractors and there is a need to ensure continued service delivery, the Council needs to ensure that it complies with the regulations around procurement and support to businesses and that decisions are affordable and secure Best Value.

6.0 IMPLICATIONS

6.1 Finance

It is too early to quantify the capital and revenue implications of the inflation and demand pressures set out in the report but if this situation continues for any length of time it will put real pressure on both the 2022/25 Capital Programme and 2022/23 Revenue Budget and increase the funding gap post 2022/23.

Financial Implications:

One off Costs

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

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

Any variations agreed will require to comply with contract and procurement legislation and regulations, and the Council's associated governance framework. This will be overseen by an officer steering group.

6.3 Human Resources

There are no HR implications arising.

6.4 Equalities

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

6.5 Repopulation

There are no repopulation issues arising.

7.0 CONSULTATIONS

7.1 The CMT support the contents of this report and the procedure referred to in this report has been prepared in consultation with the Corporate Procurement Manager

8.0 BACKGROUND PAPERS

8.1 None