

East Herts Council Report

Executive

Date of Meeting: 7 July 2020

Report by: Cllr Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

Report title: Capital Contingency

Ward(s) affected: All

Summary

The Council has a substantial capital programme of more than £122 million. Some of the schemes have already been subject to problems that could not reasonably have been anticipated and that were beyond the control of the Council. A contingency is included in the budget for most capital schemes. However, based on recent experience, and anticipated Covid 19 related problems, it is prudent to establish an additional general capital contingency. Having a general capital contingency will assist with the most efficient and economic completion of capital schemes which could otherwise be delayed waiting for reports on additional funding to clear the Executive and Council.

RECOMMENDATIONS FOR EXECUTIVE:

- (a) That a capital supplementary estimate of £2.5 million is recommended to Council to establish a general capital contingency.**
- (b) That use of the capital contingency be delegated to the Chief Executive in consultation with the Executive Member for Financial Sustainability and that use of the contingency be reported to the next meeting of the Executive.**

1.0 Proposal(s)

- 1.1 This report proposes the creation of a general capital contingency of £2.5 million.

2.0 Background

- 2.1 The four-year capital programme approved by Council in January included spending in excess of £122 million. Several of the Council's capital schemes have encountered difficulties that could not have been reasonably predicted, ranging from Roman remains to judicial reviews. Given the scale and significance of some of the projects it seems likely that further difficulties will be encountered as the schemes progress.
- 2.2 The likelihood of problems has been made worse by the ongoing pandemic and its impact on construction activities and practices. A recent example being the need to put in place an Advanced Payment Bond to secure the supply of the concrete frame for the Northgate End multi-storey car park from the Irish manufacturer.
- 2.3 Another risk that could cause construction costs to increase is Brexit. If the United Kingdom is trading under World Trade Organisation terms from January 2021 we could see average tariffs of 2.8% imposed on materials. The consultants supporting the Grange Paddocks development have highlighted that this would create additional costs of approximately £200,000.
- 2.4 A contingency is included in the budget for most capital schemes. However, these amounts have been based on historical experience and may prove inadequate. If a scheme needed to incur significant expenditure above its budget, it is likely that there would be a delay while approval was sought from the Executive and Council. Any such delays could lead to the builders vacating the site and may prove very costly.

- 2.5 The individual schemes could all have the size of their contingencies increased. However, it is unlikely that all of the schemes will run into problems and so this could over commit resources. A general capital contingency that could be used to support any scheme should mitigate the risk of complications on schemes without over-committing resources.
- 2.6 The Constitution provides some ability for the Chief Finance Officer and the Chief Executive to approve additional capital estimates in year, £100,000 and £250,000 respectively. However, with several schemes having budgets either approaching or above £20 million these amounts could be too small.
- 2.7 Use of the capital contingency would only be considered after other options, such as value engineering or virements have been exhausted. The use of the contingency would then require the approval of the Chief Executive, in consultation with the Executive Member for Financial Sustainability. To ensure transparency, a report explaining the circumstances would then be made to the next meeting of the Executive.

3.0 Reason(s)

- 3.1 To reduce the risk of costly delays to major capital schemes.

4.0 Options

- 4.1 The first option is to do nothing and rely on existing contingencies and the in-year approvals allowed by the Constitution. Given current circumstances, and the size and complexity of some schemes, this would be a high risk strategy.
- 4.2 There is an option to substantially increase the

contingencies on each individual scheme. This would leave the smallest residual risk but would be likely to over-commit resources and may inhibit the consideration of other schemes.

- 4.3 The recommended option of the creation of a general capital contingency should provide adequate mitigation of the risk without setting aside an excessive amount of funds.

5.0 Risks

- 5.1 The risk is that one of the capital schemes will require additional funding that exceeds the available contingency. Using the Council's 3 x 3 matrix, a score of possible for likelihood and significant for impact seems appropriate and that puts the risk in the red or high risk area.

6.0 Implications/Consultations

- 6.1 No formal consultation has been undertaken on the content of this report.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

As set out in the body of the report.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

If the Council fails to discharge a legally binding commitment, in accordance with a construction contract, it could be liable for damages.

Specific Wards

No

7.0 Background papers, appendices and other relevant material

7.1 None

Contact Member

Councillor Geoff Williamson, Deputy Leader &
Executive Member for Financial Sustainability
geoffery.williamson@eastherts.gov.uk

Contact Officer

Bob Palmer, Interim Head of Strategic Finance
and Property
Contact Tel No 01279 50 2074

bob.palmer@eastherts.gov.uk

Report Author

Bob Palmer, Interim Head of Strategic Finance
and Property