

Item 06 – Cost Pressures and Cost Management of Capital Projects

The attached report was considered by the Finance & Investment Advisory Committee on 11 January 2024. The relevant Minute extract is below.

Finance & Investment Advisory Committee (11 January, Minute 42)

The Portfolio Holder introduced the report, which outlined the cost pressures that the Council's capital projects had encountered, and the management measures enacted. Members had expressed concern regarding capital project overspend. The Portfolio Holder emphasised that much of this had come from unprecedented external factors that could not have been anticipated.

Members welcomed the report, and thanked the Portfolio Holder and the Strategic Head of Property and Commercial for preparing it.

The Construction Project Manager outlined the report, and corrected a typo in the fifth bullet point of Paragraph 3 – the total project cost for White Oak Leisure Centre was £22.27m. He set out some of the external factors that had impacted projects. These included the pandemic, Brexit, the Russo-Ukrainian War, high inflation, and rising labour and supply costs. Construction materials had undergone inflation of up to 30%, and interest rates from the Public Works Loan Board had increased from 1.5% in November 2021 to 5% in October 2023.

Capital projects were managed by officers, who procured consultants, design teams, and contractors in accordance with the Public Contracts Regulations 2015. Project teams were created for each project, with officers and specialised external advisors and consultants. All changes and options were put through a formal change control process, and the projects were all submitted through the committee process, to field Member feedback.

In response to questions, the officer explained that there were construction industry guidelines for contingency allowances, which tended to reduce as a project progressed and more information became available. For each project the Council took advice from the project team, including cost consultants and quantity surveyors, regarding the level of contingency considered appropriate dependent on the specific project context and information available at the time. The Council sought realistic and robust contingency amounts - raising the allowance would make certain projects unviable. Members were advised that work was ongoing on completing a property register for the Council.

Members asked questions regarding considering ending development projects before they were finished. They were advised that projects were complex and usually lasted many years, and that various factors during the project lifecycle could influence the journey. For example, the Bevan Place project was denied planning permission, and thus had stopped whilst alternative options were

explored for the site. The officer further clarified the process following the conclusion of a project. A project closure and lessons report was presented to the Corporate Programme Board and Capital Projects Progress Meeting for all finished schemes. Officers would investigate mechanisms for sharing this information with all Members.

Members discussed the report. They noted their interest for the proposed information session, and hoped that it would provide insight into the Council's control protocols. They further discussed the asymmetrical relationship between the Council and utility providers. Members queried how many of the projects were within their original estimate budget, and it was agreed that a response would be provided.

Action: For the Construction Project Manager to provide Members with a list of which capital projects were within budget.

Resolved: That it be recommended that Cabinet:

- (a) Notes the cost pressures SDC's capital projects have and can encounter as detailed in the report.
- (b) Notes the cost management measures SDC has in place as detailed in the report.
- (c) Endorses the continued use of the capital project cost management measures SDC employs.
- (d) An information session is offered to members to help better understand project management protocols and approaches that the Council uses for its capital projects.