

Questions for Cabinet 04/04/2023 – from Nick Quinn (Local Resident)

Firstly, concerning Item 5: Financial Monitoring

Paragraph 1.2 states that *“the purpose of this report is to provide a high level update on any material changes since the last report – Quarter 3 presented to February Cabinet”*.

In the Q3 Report, it was stated that a £467,000 overspend on the Modular Housing development at Shapland Place was *“largely due to additional planning requirements”*.

Since that report was issued it has become apparent, from written replies to Public Questions at the last Cabinet meeting regarding this development, that £332,000 of the overspend (70%) stems from Contract Inflation Rises – not from Additional Planning Requirements.

It is clear that Cabinet were misinformed on the cause of this overspend, which is concerning, as the costs of other Modular Home developments may also be affected - but Cabinet have not been forewarned.

Q1. Why were Cabinet given incorrect information in this Q3 financial monitoring report?

Response:

It is our intention to be as accurate as possible in the explanations we give on projected underspends and overspends, these are discussed between Finance and the Service prior to publication. In any report covering the entirety of a Council's budget there is always a challenge in the level of information that can be provided on each budget line. Nonetheless, the brief breakdown on the Capital Programme with the benefit of hindsight could have been more informative. With this in mind we will endeavour to provide a more detailed breakdown forecast of project movements whilst monitoring 23/24 budgets.

However, the Cabinet were not given incorrect information. Our previous, follow-up responses to requests for further detail have shown that planning requirements were a large part of the £467k amount directly through additional planning conditions or additional design and the non-material amendment application. In part, the latter also resulted in indirect costs due to CPI increases arising from unavoidable project delays.

As our detailed responses have shown, we were able to offset both these direct and indirect costs through subsequent, successful grant applications for funding via Homes England and One Public Estate resulting in a net underspend against the original budget.

Q2. Do other Modular Housing contracts have similar inflation bombs?

Response:

As the previous response sets out, inflation or CPI clauses are standard in such contracts. This is the case across infrastructure and construction contracts put in place with contractors by both Public Sector and private client organisations across traditional build and modern methods of construction projects. It is therefore in no way limited to the modular housing contracts for St Andrews and Shapland Place.

As such, the Council works with standard industry contracts including those specified by JCT (Joint Contracts Tribunal) which are supported by all parties including financial institutions providing scheme lending. This is underpinned by independent, authoritative guidance by the Royal Institution of Chartered Surveyors (RICS) including rules on the detailed measurement of building works.

Bottom line is, if the contractor starts making a loss on a contract due to unexpected rises in material/labour costs, the outcome will eventually impact on the quality of the service or goods or alternatively the contractor will cease trading. In these circumstances, the contractor may start to make shortcuts and/or submit design requests for low 'cheaper' grade of goods as they cannot not afford to meet their contractual obligations. If a contractor fails then there are significant additional costs to the Council from securing a site, legal provisions, retendering for a new contractor and loss of income due to project delays. These costs will sit outside of budget or grant funding already in place to deliver the project.

The level of recent CPI rises has been unexpected and largely unprecedented. These have occurred as a result of national economic policy and rising energy prices which have driven up material and other construction costs. As a result, the CPI rises on these contracts is above the typical baseline increase we have seen previously but nonetheless there have been very real cost increases to our contractor. It is important these projects stay viable and are delivered to the level of specification and quality required, which is the case here.