

ABERDEEN CITY COUNCIL

COMMITTEE	Capital Programme
DATE	23 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Covid19 pandemic impact on the Capital Programme
REPORT NUMBER	RES/20/134
DIRECTOR	Steve Whyte
CHIEF OFFICER	John Wilson
REPORT AUTHOR	John Wilson
TERMS OF REFERENCE	1.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform the Capital Programme what the COVID-19 pandemic implications are for all projects within the Capital Programme. The report will explain in general terms what this means in terms of likely delay and cost.
- 1.2 For ease and understanding of what this means with respect to a project's timeline the report firstly considers the impact on current projects under construction / under design development and then goes onto consider the potential impacts for those projects which are at the early stages of their evolution.
- 1.3 It will also outline what work is being carried out by Officers to mitigate these impacts.

2. RECOMMENDATION(S)

That the Committee :-

- 2.1 Note in general terms the reasoning why individual project delay and additional costs are expected, across the delivery of capital projects in terms of their full project life cycle,
- 2.2 Note that officers continue to work with contractors on the financial implications of the programme delay and implications for future works, as a result of the COVID-19 virus requiring changing work practices across the full programme of projects,
- 2.3 Note the implications of what this means for future consideration within project Outline Business Cases of any new projects,
- 2.4 Note the actions which Officers are carrying out to mitigate the expected impacts,

- 2.5 Instruct the Chief Officer Capital to report any significant progress, in regard to the above, for each Capital Project reported to the Capital Programme Committee.

3. BACKGROUND

- 3.1 The Committee will be fully aware of the events leading to the spread of the COVID-19 virus which led to a full UK lockdown being announced on 23 March 2020.

Initial closure of live construction sites

- 3.2 Following this announcement, in the case of live capital projects (on site) there was a general construction stoppage across the industry.
- 3.3 This decision to stop the works was further clarified in the Scottish Government's Coronavirus (COVID-19): Construction Sector Guidance note, issued on 6 April 2020 which stated that non-essential works should cease. It provided the following guidance;
- Work on construction sites, unless it is for essential projects, should stop immediately, as confirmed in new guidance for the construction industry.
 - The guidance makes clear that work on construction projects should cease unless it is supporting crucial work during the coronavirus COVID-19 pandemic.
 - Any project deemed essential can only continue operating if it can comply with guidance on social distancing, safety and welfare during the COVID-19 outbreak. Any site unable to meet these requirements should close.
- 3.4 The only exemptions from this guidance was for projects that were actively contributing to the health and wellbeing of the nation.
- 3.5 Following the initial announcement and supplementary advice from the Scottish Government Contractors chose to close their sites at a planned safe and manageable stage in the project construction sequence, following which they then made them safe and secure.
- 3.6 In accordance with individual contract requirements, a number of the contractors then notified the Council that they would be seeking remuneration of their irrecoverable costs for the period of the shutdown.

Project(s) cost and time impact?

3.7 In simple terms, for live construction projects which were stopped, the following can be stated;

- These projects will now be delayed,
- It is difficult to predict when each project will be delivered,
- Some Contractors have already stated that it is their intention to open negotiation with the Council to discuss how to deal with their additional costs incurred during the site shutdown period,
- Some of these discussions are already underway,
- Project costs will increase following construction resumption.

3.8 In the case of construction resumption typical costs include, but are not limited to; demobilisation, remobilisation, staffing, security, sanitation, cleaning, welfare, social distancing, PPE, and having to working differently.

Construction Works Resume

3.9 On Thursday 28 May 2020, the Scottish Government approved a phased return to construction work but advised that works would have to be undertaken in a different manner. The phased approach is as follows;

- Phase 1: COVID-19 Pre-start Site prep
- Phase 2: “Soft start” to site works (only where physical distancing can be maintained)
- Phase 3: Steady state operation (only where physical distancing can be maintained)
- Phase 4: Steady state operation (where physical distancing can be maintained and/or with PPE use)
- Phase 5: Increasing density/productivity with experience

3.10 This phased approach required Contractors to prepare site assessments for COVID-19 modifications and develop any necessary new procedures.

3.11 Officers have been working closely with some Contractors during the site shutdown period and we already know that this phased approach is introducing additional costs and delays.

3.12 The following table shows an indicative list of changes in work practices which have been initiated across some of the capital projects once construction works resumed. These can be summarised as follows, but not limited to;

Issue	Mitigation
Safety	review of risk assessment method statements, additional Personal Protective Equipment (PPE)
Physical Distancing	review of risk assessment method statements

Welfare	Facilities to be re-configured to ensure physical distancing requirements are met
Cleaning	additional full-time cleaners to be employed to ensure and monitor cleanliness of all facilities and surfaces
Deliveries and Visitors	additional staff to be employed to manage access and egress from the sites, coordinate deliveries and carry out health checks prior to allowing access to the sites.

- 3.13 The amount of necessary change in work practices will be project specific as it will depend on the project nature, its size, location, what stage it is at in its delivery, the tasks underway and the tasks still outstanding and what impact this will have on the project's critical path.

Supplier Issues

- 3.14 Supply chain capacity is likely to pose another significant risk to the planned project(s) delivery following the COVID-19 pandemic. The supply industry faces the same challenges listed above with regard to labour, plant and materials.

Projects at Design Stage

- 3.15 For these projects which were at design stage at the time of the lockdown the design development work has continued. The impact on projects with regard to the levels of internal staff resources has been minimal. However, as inferred above for those projects which rely on external technical staff support, they have been impacted in lieu of external organisations furloughing staff.
- 3.16 It should also be noted that even if staff resources have been available there has still been cost and impact related to loss of productivity. There are several reasons attributed to this such as but not limited to homeworking, IT connectivity and lack of access to site and other critical-path project information.

Projects at Procurement Stage

- 3.17 Whilst the impact from the COVID-19 virus can be considered as unexpected for those projects which were already under construction when the pandemic struck, the same cannot be said for those which are still under design development. This is now specifically significant and relevant for projects which are nearing or are ready to go to through the Procurement Stage.
- 3.18 Prior to a project's tender issue, tendering parties are now aware of the very high likelihood of project risk delivery impact from the COVID-19 virus.

- 3.19 This issue may be particularly acute on a programme of projects where some contracts were awarded prior to the COVID-19 outbreak but others were not, and the parties are now aware of the issue before signature.

Mitigation

- 3.20 In general terms, for projects which are currently under construction Officers are in discussion with the Contractor Organisations to discuss and agree a way forward. These discussions are being treated on a confidential basis and are relevant to the contractual provisions within the particular contract documentation of each project.

- 3.21 Typical legal, financial and construction matters for consideration in these discussions are as follows, but not limited to:

- Scottish Government guidance
- Risk Assessments
- Payment arrangements
- Additional costs
- Delay, extensions of time
- Liquidated damages
- Loss and expense
- Critical tasks
- Critical suppliers
- Communication with stakeholders
- Scenario analysis and contingency planning

- 3.22 It is inevitable that the COVID-19 pandemic has introduced time and cost pressures on all parties. It should also be borne in mind that there is no precedent to help the contracting parties to understand what the potential future impacts may be or when restrictions may end.

Outline Business Cases

- 3.23 It is considered prudent to mention that for any new project Outline Business Cases (OBC), still to be considered through the governance process, there will be a requirement that the information presented within the OBC takes account of any COVID-19 impact.

- 3.24 Looking forward this will have a financial and delivery timeline impact on projects within the Capital Programme.

4. FINANCIAL IMPLICATIONS

- 4.1 In simple terms the cost of delivery of existing projects within the Capital Programme, irrespective where they currently sit within the project life cycle, is going to increase.

4.2 It is accepted that this will be very difficult to predict both in terms of project cost and risk transfer, but an allowance must be made. It is the intention that for each project as we are able to understand the time and cost implications we will report this back to the relevant committee.

5. LEGAL IMPLICATIONS

5.1 Capital Officers are working closely with colleagues with Commissioning and Procurement to consider the best way forward in legal terms for project delivery. They are considering drafting new contractual clauses which takes account of COVID-19 risk transfer, but which hopefully provides better cost certainty.

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Workforce, operations and the supply chain. Failure to deliver to expected timeline.	L	Awareness of project interdependencies. Regular review of risk. Review business continuity plans. Consideration of project prioritisation.
	Cost implications across the budget and the viability of future projects including those which may come forward via the Strategic Infrastructure Plan - Energy transition.	L	Ensure Business Cases incorporate consideration and allowance for COVID-19 related additional cost and time impacts.
Compliance	Failure to comply with project protocols	L	Increase site visits and monitoring of the construction works
Operational	Staff both internal and external	L	Maintain home working where possible (design). Review business continuity plans.
Financial	Increased project costs, supplier risk	H	Work with legal, finance and procurement teams to understand and address contractual impacts.
Reputational	COVID-19 outbreak on a construction site	H	Intensify existing safety measures. Contracting parties need to develop and agree new working practices, adopt a more

			flexible working system, and address broader concerns associated with the pandemic to protect one of the most valuable resources: people
Environment / Climate	Targeting net zero	L	Mitigating climate risks are embedded into service planning and decision making.

7. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report
<p>Aberdeen City Council Policy Statement Programmes in the Policy Statement include assess the digital needs of the region, working with our partners to ensure the city has the required infrastructure; maximise community benefit from major developments; build 2,000 new Council homes and work with partners to provide more affordable homes; refresh the local transport strategy, ensuring it includes the results of a city centre parking review; promotes cycle and pedestrian routes; and considers support for public transport</p>	<p>This report highlights the impact of the Covid-19 pandemic across all projects within the Capital Programme. It is expected that there will be a highly likely increase in costs and delays which will have a bearing on the timing for delivery of projects and a potential associated increase with approved programme/project budgets.</p>
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	The report highlights the likely delay and cost impact that the Covid-19 pandemic will have on the delivery of capital projects across the city, with associated impact on growth and employment goals.
Prosperous People Stretch Outcomes	Increase in costs and any delays will impact on the delivery of all projects with associated people outcomes, such as what/when projects can be taken forward and when the benefits will be realised.
Prosperous Place Stretch Outcomes	Increase in costs and any delays will impact on the delivery of all projects with associated place

	outcomes, such as what/when projects can be taken forward and when the benefits will be realised.
Regional and City Strategies	The Covid-19 pandemic is having an impact across the majority of regional and city strategies.
UK and Scottish Legislative and Policy Programmes	All projects are being advanced in accordance with current legislation and guidelines. Note that new legislation and regulations are being introduced at very short notice to meet new challenges.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

N/A

10. APPENDICES (if applicable)

N/A

11. REPORT AUTHOR CONTACT DETAILS

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