

ABERDEEN CITY COUNCIL

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| COMMITTEE | Finance and Resources |
| DATE | 7 December 2022 |
| EXEMPT | No |
| CONFIDENTIAL | No |
| REPORT TITLE | Capital Programme Delivery: Projects Update |
| REPORT NUMBER | RES/22/281 |
| 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 summarise the general progress of delivery of key capital expenditure projects identified within the approved Capital Programme from the General Fund and Housing Revenue Accounts.
- 1.2 In addition, the report highlights those issues considered worthy of particular note which are specific to individual programmes/projects.

2. RECOMMENDATION(S)

the Committee:-

- 2.1 Note the current status of delivery of the Section 3 highlighted programmes/projects contained within the approved Capital Programme; and
- 2.2 Note that there is an on-going review of the approved Capital Programme to inform decision making when setting the new approved Capital Programme on Budget Day in March 2023.

3. CURRENT SITUATION

Background

- 3.1 At the Council meeting on Wednesday, 24 August 2022, the Committee considered the report Council Financial Performance – Quarter 1, 2022/23 RES/22/131, which contained within it an Appendix 5 – Reprofiling of Capital Programmes.
- 3.2 This report continues with that theme whereby the Chief Officer – Capital has continued to review the approved General Fund and Housing Capital programmes/projects in terms of timeline delivery and financial viability and has

considered the impact on service delivery as a result of revised delivery timelines.

General Fund Capital Programme (GFCP)

- 3.3 The GFCP is divided into the following sections for budgeting purposes:
- Projects Due for Completion
 - Rolling Programmes
 - City Region Deal
 - Fully Legally Committed Projects
 - Partially Committed Legal Projects
 - Projects with Indicative Budgets
- 3.4 These headings reflect the legal status of the contracts involved in delivery of the projects. To an extent this dictates the level of flexibility that the Council has in terms of reprofiling, pausing or cancelling projects. This is explained in more detail in the following sections.
- 3.5 Projects Due for Completion: The projects listed within this section are expected to complete in the current financial year. In many cases, the works are already physically complete, and the budgets relate to payment of final fees or outstanding contractor claims. Projects within this section continue to be closed out.
- 3.6 Rolling Programmes: These programmes relate to the on-going investment in sustaining the Council's existing asset base i.e. investment in buildings, roads, fleet and ICT. To date these programmes of work continue to be delivered as planned however officers are experiencing an increase on costs as individual projects are brought forward.
- 3.7 What this means in practice is, given current market conditions and commodity cost inflation pressures, with the approved budgets being retained unchanged, it is likely the volume of work delivered under each project line is likely to be reduced.
- 3.8 City Region Deal: This section of the GFCP relates to the Council's funding commitment to the Aberdeen City Region Deal (£10m). It also includes those projects funded by the City Region Deal that the Council has been asked to lead on as they directly relate to investment in Council-owned infrastructure.
- 3.9 The current 5-year total of this section of the GFCP is just under £30m.
- 3.10 The key significant project within this section is delivery of the new External Transportation Link to the new Aberdeen South Harbour with an approved budget of £25m.
- 3.11 Delivery and governance of this project is being reported to the City Region Deal Joint Committee.

- 3.12 Fully Legally Committed Projects: This section contains those projects which have progressed to tender and subsequent engagement of a contractor. Most of these projects are “on site”, though a number have already progressed to Practical Completion; the budgets remaining relate to settlement of final claims from the contractor(s) involved.
- 3.13 The current 5-year total of this section of the GFCP approved in March 2022 is just under £100m. Having reviewed this section the only projects which merit an update are as follows;

Aberdeen Art Gallery

- 3.14 A financial settlement has been agreed with the Principal Contractor. Notwithstanding this, there are still a small number of actions which require to be closed out to enable financial close for the project. Officers are compiling what this means in terms of work and valuation, following which they will implement these works going forward in collaboration with the users of the facility.

Union Terrace Gardens

- 3.15 The project is nearing completion. Key items of work still outstanding are the cladding works to Walkways 2 & 3 and the preparation works necessary in advance of placing turfing to the central lawn. With regard to the cladding works the required materials are sourced, on site and being installed.
- 3.16 Leading up to the gardens opening, it has been decided that the central lawn area will not have grass turf placed. There are a couple of reasons for this decision:
1. The current time of year (wet and frosty) is not ideal for placing grass turf for lawn establishment purposes; and
 2. The forthcoming Spectra lightshow event in February 2023 will have exhibits located within the central lawn area. This in turn will attract a significant footfall across the lawn.
- 3.17 It is expected that with reference to point 1, combined with the expected installation and mitigation protective measures put in place, there will inevitably still be a high risk that there will be turf damage across the lawn if it were to be laid.
- 3.18 As the new turf will not be laid in December 2022, it is recommended that post the Spectra event and following any remedial ground works required, the final turf will be laid to complete the central lawn, assuming the weather conditions are favourable. The public will be advised to stay off the new turfed lawn for a number of weeks to enable the new turf to become established.

- 3.19 Bearing in mind the above, the expectation is that practical completion will be achieved prior to Christmas thereby allowing the garden to be open to the public.

Countesswells Primary School

- 3.20 Construction works are well advanced, and the expectation is for the new school to be open in Spring/Summer 2023.
- 3.21 There are existing developer obligations in accordance with an agreed Section 75 agreement, however members will be aware the developer Countesswells Development Limited went into administration. Officers are still seeking clarification on what this means in relation to funding and other related commitments.

B999 Shielhill Road Junction

- 3.22 In light of the reprofiled Capital Programme approved at the last Council meeting, officers have reviewed the delivery of this project within the current priority workload. The project's delivery timeline will be determined by the time taken to obtain the necessary land to build the scheme.
- 3.23 Since May 2022 alignment and junction design work has continued. Finalisation of the land footprint has been delayed due to complications arising from the existing culvert and SSE transmission apparatus. Issues should be resolved soon allowing the land footprint to be finalised and landowner negotiations to commence later this financial year.

Torry Primary School and Hub

- 3.24 The works are progressing with the construction circa 50% complete. The expectation is the school will be complete by Autumn 2023 as planned.

Energy from Waste (EfW) Construction

- 3.25 Works are progressing, but the completion date is now expected to be Summer 2023. The delivery of the project to date has been hampered by several issues, both internally and externally. It should be noted that there is still a significant risk that external impacts may continue to affect the anticipated delivery timeline and budget.
- 3.26 Under the Contract the Principal Contractor was obliged to receive and manage the three councils' waste from 29 October 2022. Alternative arrangements are currently in place and the Contractor is responsible for its management. Once hot commissioning starts at the NESS Energy facility, the Councils will begin to deliver waste to the site according to the needs of the commissioning programme.
- 3.27 For some of these reasons the Contractor is seeking recompense through the Contract.

- 3.28 The Contractor has notified Council Officers that it will be seeking adjudications to consider several contractual matters related to the Contract. These are in the form of claims for both time and money. To date these claims have been successfully defended, however further submissions are expected. As claims are submitted, they are being considered in accordance with the contract between the parties and as such additional expenditure will be incurred in protecting the Councils' position. At this stage these costs can be accommodated within the approved project budget.

Tillydrone Primary School

- 3.29 Following the decision to retender the outstanding works, there were 8 expressions of interest registered from contracting organisations. The updated tender was issued on 11 November 2022. The tender return date is before Christmas 2022 which means the tender assessment will be carried out in early 2023.
- 3.30 The target date for completion within the tender documentation is Summer 2024, however achieving this may be dependent on the tender returns received given the current external factors affecting the construction sector; energy supplies, material availability and labour availability. Officers will clarify this following tender assessment.

New Mortuary at Aberdeen Royal Infirmary (ARI)

- 3.31 Work commenced on the new Mortuary at Aberdeen Royal Infirmary (ARI) on Monday 10 October 2022. This new facility will be operated as a single integrated multi-partner, multi-purpose mortuary serving all providers including NHS Grampian, Aberdeen City Council, Aberdeenshire Council, Moray Council, Orkney and Shetland Island Councils, the University of Aberdeen, Crown Office Procurator Fiscal Service and Police Scotland.
- 3.32 The project will replace existing mortuary facilities, both at Aberdeen Royal Infirmary (ARI) and Queen Street.
- 3.33 The new integrated facility will be approx. 2,280m² and will include:
- Body Storage Facilities:
 - 155-175 storage spaces, including 20% bariatric (high BMI), 10% freezer and 4% bariatric plus
 - Post mortem services:
 - Multi-purpose Post Mortem (PM) suite
 - Paediatric PM suite
 - High risk PM suite
 - Forensic PM suite
 - CT/X-ray suite
 - Bereavement suite including:
 - Multiple viewing spaces
 - Ritual washing facility
 - Staff and support facilities
 - Teaching, training and research facilities

- Storage and display facilities for pathology & forensic museum collection

3.34 The appointed Contractor is Kier Construction Ltd and the project will be managed under the New Engineering Contract (NEC 3) form of contract. The gross budget for the project is £31m with partner funding of £25.864m made up as follows:

| | |
|-----------------------|-----------------|
| Scottish Government | £20.5m |
| NHS Grampian | £1.25m |
| Aberdeenshire Council | £3.93m |
| Moray Council | £0.184m |
| Total | £25.864m |

3.35 The project is planned to be complete in Spring 2024.

Housing Revenue Account (HRA)

3.36 In general, the Housing Capital programmes/projects are primarily rolling refurbishment/replacement programmes of works, such as, but not limited to, windows, doors, bathrooms, and kitchens. There are however other distinct projects/housing units that require more extensive works to make the safe and secure and habitable which are related to their structural integrity and external fabric e.g. in relation to multi storey tower blocks.

3.37 Notwithstanding this, the most significant project line within the Housing Capital programme is the budget for New Build/Former Council House Buy Back.

3.38 The budget line for this item, located within the Community Plan and LOIP section, is circa 85% - 95% of this section's expenditure, and more than 50% of the 5 Year Housing Capital programme.

3.39 At the Capital Programme Committee held on Thursday, 16 June 2022, the Chief Officer – Capital was instructed to review the planned delivery of the Council led sites at Craighill, Kincorth, Tillydrone and Kaimhill, in light of the current forecast increase in costs across the construction sector and to report the outcome of that review to the next appropriate meeting of the City Growth & Resources committee or the Council.

3.40 The outcome of that review is now being reported to this committee as set out below.

3.41 Members will recall that all four sites are at different stages of delivery:

- Craighill (99 units);
- Kincorth (212 units);
- Tillydrone (70 units); and
- Kaimhill (35 units).

3.42 An assessment has been made of indicative tender costs for all four sites and in light of the inflationary pressures and increased costs in the housing sector,

following consultation with the Chief Officer - Finance, it has been decided to complete Tillydrone and Kaimhill but suspend all works at Craighill and Kincorth.

- 3.43 The decision to complete the smaller two sites is driven by the simple fact that both sites have seen greater than 50% expenditure, therefore negotiations are on-going to conclude contract agreements to complete the outstanding works and bring them into use.
- 3.44 Suspending the outstanding works on both the Craighill and Kincorth sites means there will be on-going cost of security obligations of managing both building sites, until a future date is reached when it is considered appropriate to resume the outstanding construction works.
- 3.45 The Chief Officer – Capital will continue to monitor cost trends within the housing construction market and will recommend when to resume the outstanding works in consultation with the Chief Officer Finance and the Chief Officer Commissioning and Procurement.

Summerhill New Build Housing

- 3.46 The first phase handover of units commenced on 14 November with 58 units complete. The expectation is for another 70 units in early December 2022. Further phased handovers will then follow with another 128 units in Spring 2023 and the remaining 113 units complete in Autumn 2023.

Auchmill New Build Housing

- 3.47 All 92 units have now been handed over to the Council and tenants are moving in.

Clinterty

- 3.48 Works commenced in early October 2022 to upgrade the Gypsy Traveller site at Clinterty with a budget of £6.5m, which is circa 50% funded by the Scottish Government. The Contractor for the works is the Council's Building Services.
- 3.49 The works are at an early stage with site clearance and demolitions underway and the project is planned for completion in Summer 2023.

Unable to be Relet (UTBR)

- 3.50 Members will be aware that the city is currently supporting circa 1,000 individuals in Welcome Hub accommodation across a number of hotels, council properties and private host properties.
- 3.51 Recognising that hotel accommodation does not afford the security and comfort that settled accommodation does, council officers proposed bringing approximately 516 void Council properties back in to use through grant funded procurement of contractors to refurbish void properties.

3.52 Following a period of discussion and negotiation throughout Summer/Autumn 2022, Council Officers secured funding support grant of circa £6.15m from the Scottish Government.

3.53 Officers are presently progressing these works through the appointment of external contractors.

4. FINANCIAL IMPLICATIONS

4.1 Notwithstanding all of the above, as alluded to in section 3.2, the Chief Officer – Capital continues to review the approved Capital Programme in light of external pressures, such as, but not limited to:

- Inflation;
- Energy supply and cost;
- Covid 19 impacts;
- War in Ukraine;
- Brexit; and
- forthcoming winter weather.

4.2 Cognisance of all of the above external factors will need to be considered for the forthcoming March 2023 budget.

4.3 In light of the current forecast of costs and increases in inflation, it is highly likely that projects which are not fully committed (construction award) will need to be reprofiled.

4.4 It should also be noted that there is still a significant risk that costs will increase for those projects under construction.

4.5 This review will also incorporate an awareness and expectation of projects which are not in the current approved capital programme, such as, but not limited to, the school estate review, depot review, along with a number of other distinct capital funded projects which are expected to be brought forward for consideration.

5. LEGAL IMPLICATIONS

5.1 The approved Capital Programme review, referred to in Section 4 will incorporate a review by legal colleagues to assess whether there are any legal implications as part of any programme/project consideration.

5.2 If there are any legal implications arising from the exercise undertaken officers will seek to mitigate these where possible. This will be taken forward in consultation with officers within the Capital and Finance Clusters who will work closely with the Commercial and Procurement Services legal team to consider the best way forward.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report. However, there may be implications as part of the wider Capital Programme review as noted in section 4. Any environmental implications, should they apply, will be considered as part of that review.

7. RISK

| Category | Risks | Primary Controls/Control Actions to achieve Target Risk Level | *Target Risk Level (L, M or H) *taking into account controls/control actions | *Does Target Risk Level Match Appetite Set? |
|-----------------------|--|--|---|---|
| Strategic Risk | Failure to manage Council finance and resources could lead to failure to achieve strategic objectives. | Regular financial reporting and monitoring activities, to incorporate financial resilience to address financial pressures arising in year is maintained and monitored. | M | Yes |
| Compliance | Failure to be able to comply with project requirements | Increase site visits and monitoring of the construction works. If required, review alternative options as soon as possible. | L | Yes |
| Operational | Balancing the pressures of finite resources both internal and external to the Council | Regular engagement between relevant Clusters within the Council along with ongoing engagement with Framework hosts, Suppliers, Procurement & Services re alternative products or delivery methods. | M | Yes |
| Financial | Escalation of costs | Development of suitable price mechanisms. Use of Business Intelligence to predict market changes/trends. Price Increase Request Process. | M | Yes |

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|------------------------------|--|---|---|-----|
| | Differing market conditions depending on commodity/service | Market engagement/use of business intelligence to assist in predicting market changes and trends. | M | |
| Reputational | Programmes/projects being delayed or stopped | As above. | M | Yes |
| Environment / Climate | Failure to consider sustainable options due to costs. | Ensure all contracts consider environmental considerations, and early market engagement is conducted to seek market intelligence. | M | Yes |

8. OUTCOMES

| <u>COUNCIL DELIVERY PLAN 2022-2023</u> | |
|---|--|
| Impact of Report | |
| Aberdeen City Council Policy Statement <u>Working in Partnership for Aberdeen</u> | Reviewing the approved Capital Programme in light of the cost pressures resulting from external drivers, will enable the Council best to meet and prioritise the delivery of its capital funded programmes /projects. |
| <u>Aberdeen City Local Outcome Improvement Plan 2016-26</u> | |
| Prosperous Economy Stretch Outcomes | The recommendations outlined within this report have included consideration of the current stage of programme/project delivery. |
| Prosperous People Stretch Outcomes | The recommendations outlined within this report have included consideration of the current stage of programme/project delivery. |
| Prosperous Place Stretch Outcomes | The recommendations outlined within this report have included consideration of the current stage of programme/project delivery. |
| Regional and City Strategies | Reviewing the approved Capital Programme in light of the cost pressures resulting from external drivers, will enable the Council best to meet and prioritise the delivery of its capital funded programmes /projects to align with its regional and city strategies. |

9. IMPACT ASSESSMENTS

| Assessment | Outcome |
|-----------------------------------|--------------|
| Integrated Impact Assessment | Not required |
| Data Protection Impact Assessment | Not required |
| Other | Not required |

10. BACKGROUND PAPERS

- 10.1 City Growth and Resources Committee 21 June 2022: Supply Chain Volatility: report no RES/22/131.
- 10.2 Council 24 August 2022: Council Financial Performance - Quarter 1, 2022/23: report no RES/22/152.
- 10.3 Finance and Resources Committee 2 November 2022: Council Financial Performance – Quarter 2, 2022/23:report no RES/22/247.

11. APPENDICES

- 11.1 None

12. REPORT AUTHOR CONTACT DETAILS

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