

Please note that this is the public version of the report that goes to Cabinet on 23 June 2020 – this has had key financial information removed to avoid prejudicing the Council’s financial position – if, for example, the actual budget provision was disclosed in relation to Covid-19 costs that would prejudice the Council’s position to seek to reduce those Covid-19 costs to their bare minimum

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Cabinet 23rd June 2020</b>
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<b>Report title</b>	Covid 19 – Impact on the capital programme	
<b>Decision designation</b>	RED	
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	No	
<b>Wards affected</b>	All	
<b>Accountable Director</b>	Claire Nye	
<b>Originating service</b>	Finance	
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**Report to be/has been considered by**

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**Recommendations for decision:**

The Cabinet recommends that Council:

1. Notes that the Covid-19 pandemic has had a damaging impact on capital projects, internationally, across the UK and in the city, leading to cost pressures associated with new ‘social distanced’ operating models, materials and how they are sourced. Major development projects such as the Civic Halls and WV Living sites have been affected by this global issue.
2. Approves budgetary provision for specific risks emerging from the Covid-19 global pandemic in relation to the Civic Halls project, that cannot be contained within the contingencies already provided for within the existing budget.
3. Delegates authority to the Cabinet Member for City Economy in consultation with the Director for Regeneration, to approval the award of the construction contract for the Civic Halls restoration project, to Willmott Dixon Interiors Ltd of Lock House, Castle Meadow Road, Nottingham, NG2 1AG for a total contract value of £X.

4. That, due to the impact of Covid-19, a capital repayment holiday is provided to WV Living.
5. That, due to the impact of Covid-19, equity of £X million is provided to WV Living once evidence has been provided to satisfy the Director of Finance and the Director of Governance that the investment will comply with the relevant rules.
6. To delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance to approve the final terms of the capital repayment holiday and the equity provision.
7. To delegate authority to the Director of Governance to execute the necessary agreements to give effect to the decisions made.

## 1.0 Purpose

- 1.1 Covid-19 Pandemic has had a significant international, national and regional impact, and will continue to have, significant financial implications for the Council. The government has provided £16.7 million of grant to date to fund the cost pressures that have arisen as a result of responding to Covid-19.
- 1.2 Our current projections demonstrate that the grant will be sufficient to meet the immediate revenue cost pressures and loss of income but will not address the full year impact of the cost pressures, the impact of savings programmes which are unlikely to be deliverable and the financial impact on the capital programme. A report will be taken to Cabinet in July which will provide more detail on the budget implications and the Medium Term Financial Plan.
- 1.3 Covid-19 has had an impact on development projects internationally, nationally and regionally and also on projects within the City that would otherwise have been on budget and on time. This report considers the impact of Covid 19 on the Council's own capital programme. The statuses of the capital projects discussed in this report are such that decisions are required urgently to inform contracts with third parties and to ensure continued delivery which is essential to the city's post-covid economic recovery.
- 1.4 The Civic Halls restoration project is currently in the Pre-Construction Services Delivery Agreement stage (PCSDA), which will be completed on 30th June 2020. To enable construction works to begin on site on 1st July, the Council must enter into the full construction contract with Willmott Dixon Interiors Ltd.
- 1.5 Prior to covid-19, the Civic Halls project was progressing on track and to budget. As a direct result of this unprecedented global pandemic however, there is a risk that the project may incur additional costs. The contract with the selected contractor includes a "Covid" risk clause and as such budget provision must be made to cover the potential cost that this clause may cover. On that basis to cover the potential risk of additional Covid-related costs beyond the existing contingency within the current budget, the overall provision will need to increase from £38,100,000 to £X, that is not to say that the costs will amount to that but rather to give the authority to proceed should they amount up to this level.
- 1.6 This proposed increased provision is as a direct result of the Covid pandemic and its impact on the site construction works. The increase is based on a prudent risk assessment undertaken by the Council's advisors and may not be required.
- 1.7 The economic downturn resulting from Covid-19 has also had an immediate and significant detrimental impact on the Council's housing company, WV Living. Before the pandemic, WV Living was building hundreds of new and affordable homes for city residents, kick-starting the housing market. As a result of the crisis, the company has approached the Council for financial assistance. This report considers the request and makes recommendations for appropriate financial assistance

## **2.0 Background and considerations for the Civic Halls construction contract**

- 2.1 The Covid global pandemic has impacted on the Civic Halls Restoration project. The site works needed to be suspended for 12 weeks as it was not immediately possible for employees of the contractor, Willmott Dixon Interiors, and its sub-contractors to work in accordance with the UK Government guidelines and maintain the required levels of health and safety. As stated above prior to the Covid pandemic the project was on budget and on time.
- 2.2 Detailed design work has continued at pace whilst the site works have been suspended, the Stage 4 detail design is now close to completion.
- 2.3 The project team has been closely collaborating with Willmott Dixon to review and interrogate their construction cost plan. The team have completed their due diligence checks and the cost plan has now been finalised, the amount is £X.
- 2.4 The construction contract falls within the authorised current project budget envelope of £38,100,000. However, this sum excludes the potential £Xmillion Covid risk related costs that have now been identified.
- 2.5 Due diligence on the financial position of Wilmott Dixon will be refreshed again prior to awarding the construction contract.
- 2.6 The project team, in conjunction with our independent specialist risk consultants Equib, has been investigating and establishing the risks that could impact the site works as a direct result of the Covid global pandemic.
- 2.7 An in-depth, cost risk analysis based on the construction work packages is now complete. The Council's advisors have determined that the potential risks associated with Covid costs - based on a probability percentage and risk exposure - could be up to the value of £X. The increase is based on a prudent risk assessment but may not be required in full. The Council will seek to keep these costs to a minimum and will subject any potential claim for such costs to rigorous analysis.
- 2.8 Robust governance processes are in place to ensure that the project construction costs are continually monitored and interrogated by the project team. The direct impact of Covid and the potential risks it puts on the budget could not had been foreseen when the £38,100,000 was approved.
- 2.9 It should be noted that, despite Covid-19, work has progressed to procure the operator for the venue. A virtual bidders' open day was held on 11 June and submission of Selection Questionnaires are due on 3 July.

## **3.0 Reasons for decisions in relation to the Civic Halls**

- 3.1 Covid-19 has hit our city hard and early, exacerbating existing social and economic challenges. But we are a bold and ambitious city and we want to move forward and plan for recovery.

3.2 The Civic Halls are essential to the economic well-being of the city centre, generating millions of pounds every year for the local economy. It is also critical to how we are re-inventing and re-imagining a vibrant city centre for the future. The Civic Halls has brought millions of visitors to our city over the last 82 years and the restoration will guarantee this for another century.

#### **4.0 Background and considerations for WV Living**

4.1 In 2016 the Council created a wholly owned housing company, City of Wolverhampton Housing Company which trades as WV Living.

4.2 Based on the existing contractual commitments and also assuming pre-covid 19 emergency sales values, WV Living's trading position was positive. It is therefore clear that WV-Living is a viable and sustainable business and was delivering much needed properties and meeting all of its obligations to the Council.

4.3 However, as a result of Covid-19 and the virtual freeze in the housing market over the last couple of months, it is anticipated that WV Living will only sell a small number of houses in the short-term, therefore, a limited amount of income will be generated over the coming weeks and possibly months. However, many of the costs of the business are still having to be paid, including payments to contractors and loan repayments to the Council.

4.4 The Government permitted the housing market to 'reopen' on 13 May and WV Living are maximising the opportunity to start selling again and the sales and marketing strategy is under constant review having regard for housing market conditions.

4.5 WV Living has loans from the Council totalling £28.050 million, a schedule of the loans is provided at Appendix 1.

4.6 Many housing construction sites across the country have been closed as a result of the Government's Covid-19 restrictions. Some are now re-opening but are operating and delivering new homes at a slower pace due to the intermittent operation of their supply chains and the new procedures having to be put in place to address the pandemic. The industry is predicting a fall in the average housing market of between 5% and 15%.

4.7 WV Living is currently contracted to deliver 254 properties which are under construction and are planned for sale.

4.8 As detailed previously, WV Living has successfully built and sold houses and was projecting a profit of £1.8 million on current committed schemes. Like every house builder the company has been affected by Covid-19. The longer-term proposition of WV Living still stands and it is, as sole shareholder, that the Council must consider what level of financial assistance would be necessary to enable the company to progress through Covid-19, plan for recovery and continue to deliver a profitable position. Ultimately the Council remains confident that in the longer term the business will maintain a profitable position and is a business that should be invested in.

- 4.9 Understandably, it will take some time for the Company and the industry to analyse the impact of Covid-19. However, it should be noted that of the 27 units released for sale 22 have now exchanged or been reserved.
- 4.10 It is anticipated that the longer-term business model still provides a sustainable and profitable business. The need for quality housing in the City remains and WV Living has always had a flexible business model which provides some resilience at this time. The model contains a mixture of housing tenure, allowing for market sales, market rentals and sale to the Council for affordable housing. It is the intention of WV Living to review each site, and each property to determine the best route in light of the current market conditions.
- 4.11 It should be noted that, as part of an ongoing review of the business model prior to Covid-19, WV Living identified a positive change in strategic direction. The Board decided that it would be advantageous for WV Living to focus on building and selling and to work in partnership with Wolverhampton Homes to improve the market rental sector. WV Living Board subsequently approved the sale of 19 properties to WH. The sale of the properties will support the short-term cash flow of WV Living which will help to mitigate the impact of Covid-19. A separate report on this agenda recommends that approval is given to Wolverhampton Homes to undertake this purchase and that the Council provides a loan to facilitate the purchase.

## **5.0 Evaluation of alternative options and reason for decision for WV Living**

- 5.1 Option one would be to not provide any financial assistance to WV Living. In this scenario, WV Living would be unable to carry on trading. The financial liabilities of the company would fall to the council as parent organisation. It is anticipated that the outcomes for WV Living was created would be not be delivered.
- 5.2 Option two would be to only provide a capital repayment holiday. This would relieve WV Living of the immediate loan obligations. However, a review of the company cash flow indicates that the company would not be able to carry on trading as it would not be able to meet current contractual obligations to other parties.
- 5.3 Option three would be to provide a capital repayment holiday and an injection of equity. The additional injection of cash over and above option two would allow the company to meet the current contractual obligations. Importantly it would also allow the company to assess the impact of Covid-19, put together a recovery plan and refresh the overall business plan.
- 5.4 In order to stabilise the position for WV Living and to provide time to assess the impact of Covid-19 and build a recovery business plan, it is recommended that Option three is approved.
- 5.5 It is intended that, if the financial assistance is approved, then the Council will work very closely with WV Living over the coming months to monitor the impact of Covid-19 and the work undertaken to achieve recovery.

## **6.0 Impact on other capital projects**

- 6.1 The impact on all capital projects is being evaluated. It will be some time before the full implications are known and will depend on the pace at which lockdown restrictions are amended, the impact on contractors and inflationary increases. It is anticipated that inflationary increases may have an impact across the capital programme, including projects that are planned for future years. Individual business cases will be reviewed for projects that have not yet started to take account of the impact of Covid.
- 6.2 In relation to the Interchange Project, as a result of Covid 19, there was a delay for the entry into service for phase 1 of the train station. The contractor has submitted a claim which is currently being reviewed by the master developer and project team.
- 6.3 Work on i9 is progressing however the contractor for this project has claimed additional costs associated with Covid 19.
- 6.4 It is anticipated that the costs of the two claims identified will be under £X in total. Authority has been delegated to the Cabinet Member for Resources in consultation with the Director of Finance to approve virements from the Corporate Contingency within the approved capital programme. The two projects will be monitored and if the current project contingencies are not sufficient to cover the unexpected costs of Covid related delays, then budget virements will be approved through an Individual Executive Decision Notice.
- 6.5 The impact on other projects will be the subject of future reports.

## **7.0 Financial implications**

- 7.1 The report seeks approval to increase the budget for the Civic Halls by £X million to reflect the identified risks associated with Covid-19. The borrowing costs are estimated to be approximately £X per annum. It is estimated that the revenue impact will be in 2022/2023.
- 7.2 A 6-month capital repayment holiday is recommended for WV Living for the next two loan payments totalling £X million. The loan will still accrue interest and therefore there is no detrimental impact on the Council's budget.
- 7.3 In order to provide equity of £X million, the council would increase its borrowing requirement.
- 7.4 The Council will continue to provide data to government to evidence the total financial impact of Covid-19 on the Council including the impact on the capital programme outlined in this report. The council will continue to lobby government to secure sufficient grant funding to meet the budget pressures identified and other pressures that might be identified in the future.

7.5 If the government do not provide the grant that we require, the additional costs outlined in the report will increase the budget pressure in the medium term. This will need to be considered as part of the wider budget planning work and proposals to offset these costs would have to be developed.

7.6 In order to be prudent, it is recommended that the capital programme is increased to accommodate the additional costs identified, funded by external borrowing.

[CN/14062020/Q]

## **8.0 Legal implications**

8.1 In relation to the Civic Halls the legal requirements under the Public Contracts Regulations 2015 and the Council's own Contract Procedure Rules in relation to award of the contract have been met. The contract that will be entered into with the preferred supplier includes a Covid-19 risk, as is now standard practice in the development market, and as such authority is needed to cover the potential cost of such a clause. Whilst the Council will seek to minimise the costs incurred as a result of Covid-19 and they will be robustly examined – however authority is needed to allow for those payments to be made, and this is the authority sought in this report.

8.2 The contract documentation has been carefully considered by the Council's legal team and is considered to provide appropriate protection for the Council.

8.3 In terms of the proposals concerning WV living the Council has had regard to the rules regarding state aid and the view taken is that the approach is one that complies with the relevant rules subject to provision of certain evidence, no steps will be taken until that evidence has been provided to show that the market economy exemption applies.

[DP/18062020]

## **9.0 Equalities implications**

9.1 The design of the Civic Halls interiors will take into account all relevant legislation regarding equalities.

## **10.0 Climate change and environmental implications**

10.1 The design of the Civic Halls refurbishment will take into account the current building design practice and building regulations which will improve the efficiency of the Civic Halls.

## **11.0 Human resources implications**

11.1 There are no human resources implications.

## **12.0 Corporate landlord implications**

12.1 This refurbishment will improve the fabric and structure of the Civic Halls.

### **13.0 Health and Wellbeing Implications**

14.0 There are no health and wellbeing implications.

### **15.0 Covid Implications**

15.1 Covid implications are discussed throughout the body of the report.

15.2 Due to the nature of the refurbishment construction works, Willmott Dixon will submit a proposal for how they plan to implement social distancing and enhanced hygiene measures across the construction site. The plan will be reviewed and monitored by the health & safety project team before work on site is approved. Throughout the programme duration the site health & safety will be continually independently monitored by the project team.

15.3 The budget pressures referred to in this report relating to the Civic Halls, WV Living, and other capital projects are part of the full costs of COVID-19 and that they will form part of a fuller paper to Cabinet in July on the true costs to the Council of the Covid-19 pandemic.

### **16.0 Appendices**

16.1 The appendices are commercially confidential