

## **Report to Cabinet**

**Subject:** Druids Tavern Car Park Breach of Financial Regulations

**Date:** 24 April 2014

**Author:** Corporate Director and Chief Financial Officer

### **Wards Affected**

Arnold St Mary's

### **Purpose**

To inform Cabinet that the additional expenditure of £74,709 in respect of the above project has been committed in breach of the Council's financial regulations.

### **Key Decision**

This is not a key decision.

### **Background**

The site of the former Druids Tavern Public House was purchased by the council with the intention of constructing a car park on the site.

The cost of the construction was estimated at £250,000 prior to any site surveys or design having been carried out and a capital budget was approved for this amount.

It was proposed that the cost of the scheme was to be fully funded through Growth Point funding.

## **Pre Contract Expenditure**

Expenditure acquired prior to the tender process is detailed below.

Surveys and additional plans	£2,345.00
Planning fees	£487.00
Highway fees	£1,000.00
Fees for purchase of land	£906.00
Total	£4,738.00

## **Tendered Price**

The works were tendered in November 2013 and Whitehouse construction submitted the lowest bid of £249,014.15. Negotiations with the Contractor resulted in the use of alternative suppliers for some of the materials at the same contract specification and a £10,000.00 reduction in price was agreed.

The only additional works that were known about at the time of tendering were surfacing works to the Apollo works adjacent to the site as part of a land swap deal we were still arranging at the time the tender was being advertised. These costs were estimated at £15,000.

This gave a total expected cost of £258,746.15.

At this stage in the project the known variations in total expenditure was predicted to be above the available budget, the variation in the contract price was within the 5% allowance or £5,000 allowed in Financial Regulations (4.67). However, this variation should have been reported to the Executive.

## **Project Plan**

The site was to be developed in six phases;

Phase 1 The boundary wall,

Phase 2 The rear half of the site excavation and civil works,

Phase 3 The front half of the site excavation and civil works,

Phase 4 Electricals, surfacing and off site works,

Phase 5 Entrance and landscaping,

Phase 6 Final fit.

### **Additional Expenditure**

The majority of the additional costs are associated with the following areas of work;-

1. In December 2013 additional power supply costs were identified at £1,625.84, however this was to be offset by a saving that had been identified in the main contract in respect of the construction of a brick wall surrounding the car park.
2. Additional costs were then identified for the extra depth of excavation and back fill required.

The surfacing was designed using information from a ground condition survey, unfortunately some areas of the site were overgrown and not accessible at the time the surveys were completed.

When the excavation began in phase 2 it became apparent that rather than the 300mm of unsuitable material expected requiring excavation some parts of the site required up to 1m of unsuitable material to be removed giving an average extra depth of excavation and backfill of 280mm.

The clearance of the site also revealed that in some areas the topsoil was contaminated and needed to be riddled to remove the contamination and keep disposal costs as low as possible.

It was hoped that the additional costs incurred could be recouped through changes to the specification and through better ground conditions in Phase 3 which was completed more recently.

The excavation in Phase 3 while not adding to the additional cost did not give the opportunity to reduce costs either.

Additional cost of £27,349.35.

At this stage this variation order, when issued, placed the project in breach of Financial Regulations. Whilst the investigation into these breaches is ongoing, at this stage, potential breaches of Financial Regulations 4.67, 4.70, 1.10, 1.25, 2.21, 2.23, 2.25, 2.56, 2.57, 2.60, 2.61 and 2.62 appear likely.

3. The value of the work associated with the land swap from the Apollo site was higher than estimated.

The condition of the existing surfacing was worse than initially anticipated by the contractor when they started plaining and they found it difficult to find a stable edge to work from leading to a larger area of surfacing being completed than originally planned.

Arranging access with the various parties involved proved problematic and we ended up having to complete the works over a weekend leading to additional costs.

Additional cost of £3,102.20 – against original estimate of £15,000.

- 4 Additional costs were identified around the realignment of the adjacent boundary fences and the demolishing of sheds attached to or next to the original boundary.

Additional cost of £6,916.17.

- 5 Additional costs were then identified with the installation of the electrical cabling.

While carrying out the electricity connection works to the site Western Power located a High Voltage power cable in the footpath that would be within the construction of the proposed vehicle crossing. The site has had to be closed down while Western power arrange at our expense to lower the cable to enable our crossing to be constructed.

The costs are split between the contractor at £14,480.13 and Western Power at £10,572.60.

Additional cost of £25,052.73.

- 6 Additional costs have been identified with the final construction height of the boundary wall the original specification was for a 1.8 m high boundary wall however to maintain this height on both aspects the wall height had to be increased to 1.9m for some of its length.

Additional cost of £3,542.13.

### Table of Additional Expenditure

Phase	Overspend £
Original Tender	8,746.15
Phase 1	0
Phase 2	27,349.35
Phase 3	3,102.20
Phase 4	6,916.17
Phase 5	25,052.73
Phase 6	3,542.13
<b>Total Overspend</b>	<b>74,708.73</b>

As a result of these findings an investigation into the management of this project has been instigated in line with Council's disciplinary procedures. At this time this investigation is ongoing.

#### Proposal

That Cabinet notes the additional capital expenditure of £74,709 has been incurred in order to enable the works to be completed.

Identification and reporting of the breach in the Council's Financial Regulations supports its commitment to effective governance and transparency. Following the completion of the investigation into the management of the project, the findings will be reviewed and, where necessary, an action plan will be developed to address any issues raised.

In advance of the outcomes from the investigation, the risk profile of the contract management process has been raised, and additional Internal Audit activity and resource will be directed towards contract monitoring and compliance procedures.

#### Alternative Options

None.

### **Financial Implications**

Incurring the additional £74,709 capital expenditure may need to be funded through borrowing, and for comparative purposes this would add approximately an additional £6,400 per annum.

### **Appendices**

None.

### **Background Papers**

None.

### **Recommendation**

That Cabinet notes the additional capital expenditure of £74,709 in respect of this project has been committed in contravention of the Financial Regulations and issued outside of normal governance procedures.

### **Reasons for Recommendations**

To inform Cabinet of a breach in Financial Regulations.