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Dear Member

COUNCIL - THURSDAY, 27 OCTOBER 2022

I am now able to enclose, for consideration at the Thursday, 27 October 2022 meeting of the Council, the following reports that were unavailable when the agenda was printed.

Agenda No	Item	Page
4.	Capital Projects Additional Funding	(Pages 5 - 21)

Yours sincerely

June Gurry
Clerk

Agenda Item 4

TORBAY COUNCIL

Meeting: Overview and Scrutiny Board/Council **Date:** 25 October /27 October 2022

Wards Affected: All Wards

Report Title: Capital Projects Additional Funding

Is the decision a key decision? No

When does the decision need to be implemented? N/A

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1. Purpose and Introduction

- 1.1. This report set outs details of the Council's capital position and provides further information in respect of Harbour View and proposals to increase the Capital Contingency Fund.
- 1.2. The Council is facing significant external pressure due to the wide-reaching UK implications of the current economic situation. The levels of cost inflation impacting the Council are affecting almost every single service and are expected to be a 'recurring theme' when looking to set the budget for 2023/24 and draft the Medium-Term Resource Plan.
- 1.3. The Capital Plan budget totals **£256m** for the 4-year programme, with **£52m** forecast to be spent in 2022/23, including **£27m** on regeneration and **£8m** on various education projects. Of the £256m, £114m relates to borrowing approvals for Growth Fund and Housing awaiting proposals. Details of the current capital plan and the latest budget monitoring position were presented to OSB at its meeting on 20 September 2022.
- 1.4. The Council meeting on 13 October 2022 deferred consideration of the Officer recommendations in respect of the proposed increase to the capital contingency fund to request the further information as recommended by the Overview and Scrutiny Board, specifically in relation to Harbour View.

2. Recommendation (s) / Proposed Decision

1. That the capital contingency budget be increased by £1.4m to a total of £5.4m to be funded from prudential borrowing, with the allocation of the same to be delegated to the Chief Finance Officer in consultation with the Cabinet Capital Contingency Fund Working Party be approved. In increasing the capital contingency budget Council recognise that the increased costs of schemes may mean that the revised total

scheme costs would be outside of the thresholds set for the Economic Growth Fund at the time of approval;

2. That, an additional £6.6m, to be funded from prudential borrowing, be allocated to the Harbour View project, and
3. That the additional ongoing annual cost (approx. £0.6m) for the additional £8mborrowing in recommendation 1 and 2 above be included in future year budgets.

3 Capital Position

- 3.1 The Council is seeing extreme cost inflation in respect of Capital projects. As a result of this pressure several schemes that are in progress, are facing rising costs. The viability of schemes supported by prudential borrowing are further impacted from the recent rises in borrowing rates.
- 3.2 As part of the 2022/23 budget a capital contingency of £4m was established, however based on latest scheme cost forecasts officers are seeking proposals as to how a total contingency of up to £12m would be allocated to support a number of identified projects. This would have an ongoing annual revenue cost of £0.8m (£0.6m increase on 22/23 budget) which would need to be added to the 2023/24 budget.
- 3.3 The Overview and Scrutiny Board review of the Capital Programme recommended that the Council receives further information in respect of the Harbour View project. This information has now been received and is set out at exempt Appendix 1 to this report.

4 Capital Plan Overview

- 4.1 The impact on inflation on the council's revenue budget is concerning, the impact of cost increases, supply chain issues and limited contractor options are having a major impact on the council's' capital plan.
- 4.2 The Council's budget for 2022/23 recognised the rising risk of inflation and in the budget established a capital contingency of £4m. Since then, the economic position has significantly worsened, in part from the impact of war in Ukraine, resulting in inflation rates and projected higher inflation rates not experienced for 40 years. The council is experiencing up to 100% increases between its original forecast costs and the latest contractor quotes. As the contractors themselves are also subject to rapid changes in prices for materials and their sub-contractor costs, more quotes are now caveated which then result in more cost increases happening within a short period.
- 4.3 In addition, the economic position has resulted in higher bank base rate and increases in gilt yields which has pushed up the PWLB rates of borrowing to 5.0%. With the economic uncertainty the rates over the past month have been very volatile but are currently at around 5%.
- 4.4 The combination of increased costs of borrowing and significantly increased construction costs will result in the business cases for several council projects now

being potentially financially unviable. Any council project that has not started could now be at risk.

- 4.5 The capital contingency of £4m now needs to be £12m to enable the council to continue several projects, should the Council believe it is appropriate for them to continue. These include the retail unit at Edginswell and Harbour View hotel. In addition, the Council will continue with the project at Lymington Road coach station to mitigate abortive costs, loss of grant and the loss of the economic and public realm benefit that scheme will provide and will continue with the Edginswell enabling works to open up the site that the Council purchased development. This enables the purchased land to be developed as intended and mitigates abortive costs, any loss of grant and the loss of the economic and public realm benefit that scheme will provide.
- 4.6 As the cost pressure is impacting on most projects in the capital plan the risks will be mitigated in several ways.
- a) The officer Capital and Growth Board has taken the lead in prioritising projects prior to discussion with the Partnership and Directors.
 - b) Where a scheme or a range of schemes such as those in Town Deal and Future High Street, these will need to be revised to enable the schemes to be financially viable within the level of grant funding.
 - c) Where a scheme or a range of schemes such as those funded from the Highways and Schools grant funding, these will need to be revised to enable the schemes to remain within the level of grant funding.
 - d) The capital contingency to be increased to £12m (with an ongoing revenue impact of the borrowing) to enable some schemes where the council has a commitment to continue or a significant loss of grant and/or benefits.
 - e) Funding bodies will be approached where possible to increase the level of grant funding awarded to individual projects to enable them to continue.
 - f) Some projects will inevitably be paused until the project can become financially viable.
 - g) The Cabinet's Capital Contingency Fund Working Party provides cross party oversight on any delegated decisions on the Capital Contingency Fund (if approved by Council as recommended above).
- 4.7 This uncertainty has reduced the pace of progress and therefore the level of spend on the capital plan. To mid-October, £7m has been spent on the Plan and this rate of spend is likely to continue for the rest of this financial year with significant amount of spend on major projects unlikely to be incurred in 2022/23.
- 4.8 The reality of the significantly increasing construction costs and higher borrowing costs is that most projects on the capital plan to be financed all or in part from prudential borrowing will now need to be re assessed as outlined in 4.6 above.

Appendices:

Appendix 1 – Harbour View Update Report - Exempt

Supplementary Information/Background Paper:

Budget Monitoring 2022/23 – April to July 2022 Revenue Outturn Forecast and April to June 2022 Capital Outturn Forecast to Overview and Scrutiny Board 20 September 2022

2022/2023 Budget Pressures Review Capital Budget – Report of the Overview and Scrutiny Board to Cabinet and Council 13 October 2022

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