

**Meeting:** Cabinet

**Date:** 27 September 2022

**Wards Affected:** All Wards

**Report Title:** Budget Monitoring 2022/23 supplement

**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 supplement provides an overview of the need for the increased Capital contingency budget and the increased working capital facility for TorVista.

## **2. Recommendation for Council**

- 2.1. Council approve the increase of the capital contingency budget to a total of £12m, with the allocation of the same to be delegated to the Chief Finance Officer, in consultation with the Leader of the Council and Cabinet Lead for Finance. 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.
- 2.2. Council approve that the TorVista Homes working capital facility be increased from £1.0m to £1.5m.

## **3. Capital Contingency**

- 3.1. In March 2022 as part of setting the 2022/23 budget a £4m capital contingency was added to the budget as it was recognised that throughout the country the cost of capital programmes was increasing.
- 3.2. This contingency totalled £4m with expected use in 2022/23 being £1m.
- 3.3. As per the approved budget report:  
“Capital allocation to support approved capital projects to ensure their viability that are subject to higher costs either from supply chain issues or cost inflation. Allocation of contingency to be by Chief Finance Officer in consultation with Leader of the Council and Cabinet Lead for Finance and reported to Cabinet.”

- 3.4. As this contingency was to be funded through increased prudential borrowing the revenue impact of this borrowing for 2022/23 was £0.2m, and this was factored into the 2022/23 budget.
- 3.5. When the £4m contingency was proposed (January 2022), Consumer Price Inflation (CPI) was at 5.5%. However since that time inflation has continued to rise with the latest CPI, August, at 9.9%.
- 3.6. This inflation combined with supply chain instability and labour shortages has meant that current capital projects are seeing significant increases to contractor quotes at each project milestone.
- 3.7. A review of the live schemes has been undertaken, and the following schemes have been prioritised by Cabinet, as schemes that are partly constructed, are in receipt of external grant funding or where the Council is legally obliged to complete the same, with the following schemes consequently prioritised;
  - 3.7.1. **Harbour View**, anticipated requirement £6.1m. The current status of this project is midway through construction and the Council are evaluating cost plans from the new contractors to complete construction.
  - 3.7.2. **Lymington Road**, anticipated requirement £2.1m. The current status of this project is that the site has now been demolished. Enabling works to the sewage system are expected to be carried out by South West Water starting in November 2022. Once this work has been completed, the main scheme construction will start and is expected to take approximately 8 months.
  - 3.7.3. **Edginswell enabling works**, anticipated requirement £2m. This current status of this project is that the contractor is mobilising on site. Work is expected to take 6 months working towards a completion date of Spring 2023.
  - 3.7.4. **Edginswell retail unit**, anticipated requirement £1m. This project will be able to start once the Wickes element of the Edginswell enabling works has been completed.
- 3.8. The totality of the projected requirements therefore totals £11.2m, and to allow for an element of contingency across the current figures, a £12m capital contingency budget is recommended.
- 3.9. Currently the only schemes approved as part of the previously approved £4m contingency are Lymington Road and Edginswell enabling works.
- 3.10. Each allocation from the contingency budget will require a revised business case that contains;
  - 3.10.1. Progress against project milestones and spend to date
  - 3.10.2. Re-stating the revised costings for scheme completion
  - 3.10.3. Where applicable, re-stating the revised income projections for the scheme
  - 3.10.4. Presenting a revised net position for the Council on the scheme i.e. new level of surplus and percentage (%) return
  - 3.10.5. A revised break even point for the scheme given the increased costs i.e. an additional xx years.
  - 3.10.6. Abortive costs, including any proceeds from sale of the site, that would be incurred if the scheme were to be terminated.

- 3.11. Based on this restated business case the allocation of the total £12m contingency is recommended to be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Lead for Finance and will then be reported to Cabinet.
- 3.12. In making a decision the Chief Finance Officer's analysis and conclusion must consider which option delivers the best value for money in the deployment of public money.
- 3.13. Once approved, revised total estimated scheme costs will also be included in the quarterly budget monitoring reports presented to Overview & Scrutiny Board.

#### **4. Increase to TorVista Homes working capital facility**

- 4.1. At the inception of TorVista Homes (TVH) the business case set out a 'peak debt' of £1m, and as a consequence in order to ensure that they were a going concern TVH sought a working capital facility (WCF) from Torbay Council of £1m.
- 4.2. Of the current WCF of £1m. £0.6m was drawn down in 2021/22, with the final £0.4m recently drawn down. This facility has been used for operating expenses and includes legal and other costs of registration as a Regulated Provider (RP), the Business modelling costs (software, consulting, TDA time) which was part of the submission to the Regulator, and TDA management costs.
- 4.3. The need for a higher WCF is driven by rising costs but also lower income due to the delays in getting registration and other planning and contractor issues, which has meant that the sites have not progressed in line with the originally envisaged time frame.
- 4.4. A number of cost elements have also been higher than originally estimated. In particular, the amount of time to get registration, and the complexity and quantity of questions that were asked by the Regulator. This has led to much higher Governance costs than anticipated, with a large number of policies and processes that needed to be created from the outset, rather than once the company was fully underway as originally anticipated.
- 4.5. The business plan is currently being reworked in order to reflect the priorities of the Council – it now includes an off-the-shelf programme for temporary accommodation and extra care sites as well as being continually updated in respect of the "moving targets" of cost inflation, RPI/CPI, interest rates and caps on rent increases.
- 4.6. It is anticipated that the reworked Business Plan will be in a position to be signed off in December, which will also set out the totality of the WCF required for all of TVH operations, as well as clarity as to the capital requirement to fund the new builds and stock acquisitions
- 4.7. In the event the increase to the WCF of £500k is not approved, the Board will be obliged to state that they cannot guarantee the Going Concern status of the company, thus violating the financial viability standards of the Regulator and Homes England. This would likely lead to an intervention by the Regulator, whose sole interest is ensuring that services to existing tenants will continue to be provided.

4.8. This would also affect the progress of current or future schemes. Totnes Road, which is under construction would continue as this has funding, but work to bring other sites to the point of contract to construct would have to cease. This includes St Kildas and Torre Marine which are at an advanced stage, with considerable pre-development costs already expended. TVH would also be unable to enter into a contract to purchase the homes at Crossways from the Council once complete, and their ongoing work on the temporary accommodation programme would have to stop.