

Review of 2022/23 Capital Programme

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Purpose of the Report

1. To inform Members about the future potential calls on the 2022/23 Corporate Capital Contingency Budget.

Forward Plan

2. This report did not appear on the District Executive Forward Plan.

Public Interest

3. Capital expenditure is expenditure on assets such as land, property, ICT equipment, and the refurbishment of existing assets that will prolong the useful life of the asset (such as replacing a roof). Lending to third parties is also capital expenditure in the majority of cases. This report sets out possible future calls on the Council's Corporate Capital Contingency Budget that may be needed to complete projects agreed in the 2022/23 capital programme given the unprecedented inflationary cost pressures currently being experienced in the construction industry.

Recommendations

4. That the District Executive:
 - a. Notes the possible future calls on the Corporate Capital Contingency Budget during 2022/23, as currently foreseen by Senior Leadership Team.
 - b. Recommends that the Chief Executive agrees to fund £125k from the Corporate Capital Contingency Fund towards the Ham Hill Project.

Background

5. Full Council approved a £4m Corporate Capital Contingency Budget at its Budget Setting meeting in February 2022.
6. District Executive agreed to allocate £1,015,495 from the Contingency Fund to the Leisure Facilities Capital and Decarbonisation programmes at its May 2022 meeting. This was done in order to fund increased tender prices for the works required. This decision currently leaves the budget with £2,984,505 (75%) remaining.

7. The use of the £4m Corporate Capital Contingency Budget does not require SSDC to seek a specific consent from Somerset County Council's Executive under the Section 24 Direction as the contingency sum was agreed as part of the capital budget by Council in February and the impact of funding it, through Prudential Borrowing, has been included in the agreed revenue budget (although see paragraph 12 below). Any additions to this contingency budget will however require specific consent.
8. The unprecedented inflationary price rises in the construction industry, currently at 30% to 40%, are well documented and have been explained to Members in recent reports; namely:
 - Reports to Full Council at its February 2022 meeting receiving approval to increase the Octagon Theatre project budget by £6m and the Yeovil Refresh Regeneration Programme budget by £1.059m in order to fund inflationary cost increases.
 - The report to District Executive in June 2022 on the Yeovil Refresh Regeneration Programme, which obtained agreement to reallocate £769k of the approved budget earmarked for Wyndham Street to the other agreed elements of the Yeovil Refresh public realm in order to remain within the approved budget. The need to do this arose from the tender prices received being higher than budget.

Possible future calls on the Corporate Capital Contingency Fund

9. Senior Leadership Team has undertaken a rapid review of possible future calls on the Corporate Capital Contingency Budget which are listed in the table below. This represents a current understanding of the situation.

PROJECT	Possible increase needed £000s	Commentary
Ham Hill	125	Estimated increase in the construction costs of the visitor centre.
Yeovil Crematorium	165	This is based on tender prices recently received to complete the project.
Millers Garage site car park	205	The current approved budget is based on estimates made several years ago. This is the estimated budget increase required to build the car park at today's prices.
Wincanton Regeneration Project	260	The decision as to how to fund the increase in tender prices arising from having to retender the public realm works, due to the previous contractor becoming insolvent, is a separate report on the District Executive's agenda.
Yeovil Refresh Project	770	This amount, at least, would be needed if District Executive wishes to undertake the Wyndham Street



PROJECT	Possible increase needed £000s	Commentary
		element of the public realm works (see paragraph 8 above).
Decarbonisation phase 2 project	1,276	Full Council agreed at its June 2022 meeting to vire £1,276k from the decarbonisation phase 2 programme budget into the PSDS budget in order to make up a shortage in grant funding due to works unlikely to be fully completed by the grant funding deadline. This amount, at least, would be needed if District Executive wishes to reinstate the original approved budget to implement the original scope of the scheme. Members should note however that the original budget may also come under pressure by inflationary increases when tenders are received later this year.
Total	2,801	

10. The amount currently left in the Corporate Capital Contingency Budget, of £2,985k, can just about meet these estimated future calls, but Members need to bear in mind that these are still largely forecasts and price certainty will not be reached until tenders are received and agreed. The use of the contingency on these projects will leave nothing remaining for other agreed projects within the capital programme. For example, the Octagon Theatre Project Team are currently working to close out the final stages of RIBA stage 3 designs for the project. At the moment, there is a material degree of uncertainty over the anticipated cost of this project, but the team are working to resolve this, and the situation will be known in early/mid-July.

11. The original Ham Hill project was costed at c£1.7m (pre-Covid). The revised costs for the project are now £2.24m, largely due to the increased construction costs of the visitor centre. The team have worked hard to minimise the increase in costs and have managed to secure an uplift from the Heritage Fund of £200k during the last round of bidding. With the other funding sources outlined below this leaves a funding shortfall of £125k, which is being sought from the contingency fund.
 - Heritage Fund £1.55 million (uplift of 200K since last round)
 - Volunteering match funding £145K
 - SSDC confirmed £324K
 - Fine Family foundation confirmed £30K
 - Wolfson Foundation – in second round application now £70K

Legal Implications

11. There are none to report.

Financial Implications



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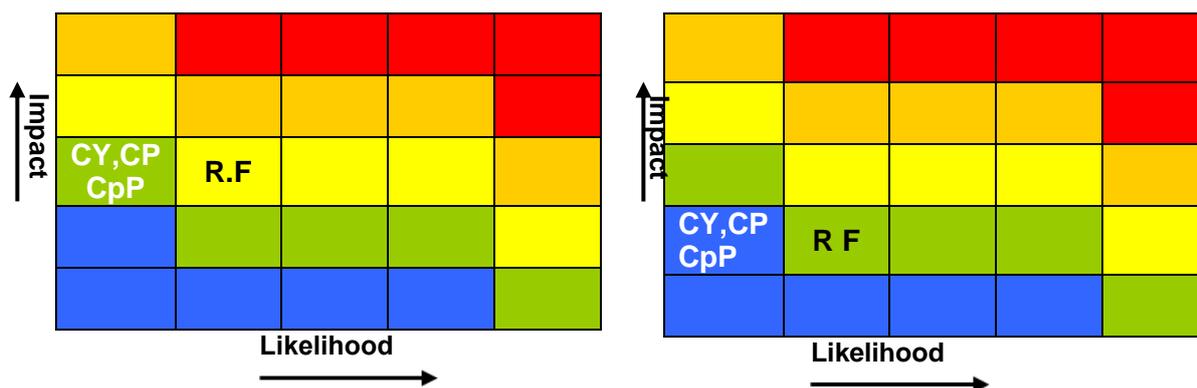
12. The Corporate Capital Contingency Budget is funded through Prudential Borrowing and the consequential financing charges are included in the 2022/23 revenue budget with the assumption, made in February 2022, that interest rates would not exceed 1%. The Bank of England’s Monetary Policy Committee increased the rate from 1% to 1.25% at its meeting on 16th June 2022 and warned that it is likely that this will increase further this year. This issue however is not specific to the funding of the Corporate Capital Contingency Budget but to the whole of the capital programme that is funded by using Prudential Borrowing. The Chief Finance Officer is in discussion with S151 Officer colleagues in Somerset on the best way forward on this issue along with other potential increases in costs falling on the 2022/23 revenue budget arising from inflation and pay award pressures.

Risk Matrix

13. The risk matrix below represents the risk assessment before and after the recommendation is agreed.

Risk Profile before officer recommendations

Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

Corporate Plan Implications

14. There are no specific implications in these proposals.

Carbon Emissions & Adapting to Climate Change Implications

15. There are no specific implications in these proposals.



South Somerset
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Equality and Diversity Implications

16. There are no specific implications in these proposals.

Privacy Impact Assessment

17. There are no specific implications in these proposals.

Background Papers

Budget Report, February 2021, to Full Council
Leisure Facilities Capital and Decarbonisation Programmes, May 2022, report to
District Executive