

**Supplement to the agenda for**

# **Cabinet**

**Wednesday 29 June 2022**

**5.00 pm**

**The Conference Room, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE**

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# Revision to the Resource Section of the Levelling Up Fund Bid Submission to Government

The following is a revision to the resource section to reflect the latest cost plan information for the Northern Constituency bid ahead of the Cabinet meeting in the 29<sup>th</sup> June 2022. The overall cost of the projects has risen by £90,000, to be included in the bid submission to government.

## Resource implications

1. The proposals detailed in this report are bid submissions to a specific funding opportunity and work has been commissioned to specifically support these bid proposals. Should the bids not be successful the council have the opportunity to consider whether there is merit in continuing their development but this would be subject to a separate decision and business plan.
2. As government identified Herefordshire as a priority 1 area for Levelling Up Funding consideration, the council has received £125,000 of capacity funding to support the development of bids. A separate Cabinet Member decision was taken to accept and implement these funds which can be found here: [Decision - Levelling Up Fund Capacity Funding - Herefordshire Council](#). These funds have been utilised to commission WSP and CBRE and a wider range of technical support required to develop the bids.
3. If bids are successful then the cost of implementation will be covered by the funding award and the identified council match funding. There is a risk that costs escalate beyond the funding award and the council would be required to cover any cost overrun, this risk is covered within the risk section and, following expert cost consultancy advice, it is considered that there is sufficient cost contingency within the funding submissions.
4. The stated value of the Levelling Up Fund bids is based on an approximate estimate worked up by experienced cost consultants in CBRE and WSP based on a range of information that has been used to support the proposals. The submissions have been based on conducting, as per the government guidance, an element of works within this current financial year and concluding within financial year 2024/25. Each project's ability to meet these government imposed spend deadlines was one of the assessment criteria the consultants used when assessing the viability of projects within the longlist of potential submissions.
5. Acknowledging that there is considerable financial uncertainty regarding construction costs and wage inflation an appropriate package of risk and contingency has been added to the project budgets. These costs are included within the table below and among the items considered as potentially influencing risk and contingency costs are:
  - Elevated fuel and energy costs
  - Red diesel rebate ban
  - Labour shortages

- Increases in National Insurance contributions
- Regional factors such as HS2 and busy Bristol and Cardiff markets
- Strong national and regional pipeline of work
- Contractors targeting higher margins and risk allowances

6. The cost plans for each of the proposed have been developed by qualified CBRE Quantity Surveyors and technical support from WSP, who have fully considered each of the factors identified above, and current market conditions including the experience of other similar construction projects, and national construction industry benchmarks to inform the level of contingency identified, mitigating the risk of significant future cost increases. Additional construction risk contingency has been included to account for the design stage of each of the projects, to accommodate unforeseen costs which arise during the subsequent detailed design process. Cost inflation will be built into the North Herefordshire and South Herefordshire Constituency bids to the mid-point of construction, to reflect the current trend of inflation in building materials and labour costs.

#### Bid Costs Tables

<b>North Herefordshire Constituency Bid costs</b>	<b>2022/23 (000's)</b>	<b>2023/24 (000's)</b>	<b>2024/25 (000's)</b>	<b>Future Years</b>	<b>Total (000's)</b>
Fees	157	291	166		614
Construction costs	966	1,737	987		3,690
Risks	88	152	85		325
Inflation	64	121	69		254
<b>TOTAL</b>	<b>1,275</b>	<b>2,301</b>	<b>1,306</b>		<b>4,884</b>

<b>South Herefordshire Constituency Bid costs</b>	<b>2022/23 (000's)</b>	<b>2023/24 (000's)</b>	<b>2024/25 (000's)</b>	<b>Future Years (000's)</b>	<b>Total (000's)</b>
Fee's	605	967	229		1,801
Construction costs		8,508	7,633	114	16,255
Risks		1,369	821		2,190
Inflation		511	608	9	1,128
<b>TOTAL</b>	<b>605</b>	<b>11,355</b>	<b>9,291</b>	<b>123</b>	<b>21,374</b>

Hereford Transport Bid costs	2022/23 (000's)	2023/24 (000's)	2024/25 (000's)	Future Years	Total (000's)
Construction Costs and fees	£1,956	£12,211	£7,022	£0	£21,188
Contingency	£59	£370	£213	£0	£641
Risk	£192	£1,200	£690	£0	£2,083
Inflation Contingency	£127	£793	£456	£0	£1,376
<b>TOTAL</b>	<b>£2,334</b>	<b>£14,574</b>	<b>£8,380</b>	<b>£0</b>	<b>£25,288</b>

### **Bid Funding Tables**

<b>North Herefordshire Constituency Bid Funding</b>	<b>2022/23 (000's)</b>	<b>2023/24 (000's)</b>	<b>2024/25 (000's)</b>	Future Years	<b>Total (000's)</b>
Levelling Up Fund external bid	£1,006	£2,032	£1,308		£4,346
Match funding – See P75 below	£269	£269			£538
<b>TOTAL</b>	<b>£1,275</b>	<b>£2,301</b>	<b>£1,308</b>		<b>£4,884</b>

<b>South Herefordshire Constituency Bid Funding</b>	<b>2022/23 (000's)</b>	<b>2023/24 (000's)</b>	<b>2024/25 (000's)</b>	Future Years	<b>Total (000's)</b>
Levelling Up Fund external bid	544	10,219	8,362	111	19,236
Match funding – See para 76 below	61	1,136	929	12	2,138
<b>TOTAL</b>	<b>605</b>	<b>11,355</b>	<b>9,291</b>	<b>123</b>	<b>21,374</b>

<b>Hereford Transport Bid Funding</b>	<b>2022/23 (000's)</b>	<b>2023/24 (000's)</b>	<b>2024/25 (000's)</b>	Future Years	<b>Total (000's)</b>
Levelling Up Fund external bid	£1,845	£11,521	£6,625	£0	£19,990
Herefordshire Council match funding – see para 77 below	£489	£3,053	£1,756	£0	£5,298
<b>TOTAL</b>	<b>£2,334</b>	<b>£14,574</b>	<b>£8,380</b>	<b>£0</b>	<b>£25,288</b>

7. The total amount of funding being applied for from the Fund is £43.572m.
8. The match funding has been identified from existing approved budgets and secured funds.
75. The match funding for the Northern Constituency bid has been identified as coming from:
  - a. £108k of Section 106 contributions towards the St Katherine's car park works.
  - b. £79k of Leominster Town Council contributions to the Priory and the Grange works.
  - c. £351k of Herefordshire Council £1.8m contribution Leominster Heritage Action Zone public realm budget. The Historic England grant is currently £1.3m. The additional Levelling Up Funding will deliver extended public realm enhancements in Leominster, extending and in no way reducing the current Heritage Action Zone programme.

76. The full match funding for the Southern Constituency bid will entirely be allocated from the Employment Land and Incubation Space budget. There is market demand and valuation report evidence to confirm that the Ross Enterprise Park project will generate sufficient return from sales of the created employment land to cover the council match funding contribution.
77. The match funding for the Transport Fund bid will come from within existing agreed budgets, specifically;
- a. £3.5m borrowing is currently approved to fund the transport hub within the HCCTP budget.
  - b. £120k from the Department for Transport Active Travel Fund as a contribution towards the Aylestone Hill cycleway works.
  - c. £700k from the Marches LEP Get Building Fund for the St Owen's Street cycle contraflow.
  - d. £978k from the council cycle superhighway budget as a contribution towards the Quiet Routes scheme in South Wye.
78. At this stage of the project development process it is considered that the level of contingency funding included within the project costs provides a realistic and appropriate level of financial mitigation against risk and cost increases. However it is acknowledged that the construction market is facing cost pressure and the schemes have yet to secure a construction contractor. Currently the council is unaware of the success of these bid submissions or the level of finance that may be secured through the Fund, consequently the risk associated with accepting any offered funds and the council being responsible for financing any cost overruns will be considered in a later report.
79. The Section 151 officer has appointed specialist economics consultancy Chamberlain Walker to provide additional assurance on the bid development and project submissions. Chamberlain Walker will be producing a report for the Section 151 officer to give the appropriate assurance.
80. Should the bids be successful and where a procurement of goods or services is required it will follow and comply with the council's contract procedure rules.