

# Corporate Policy & Resource Committee



14 March 2022

Title	Capital Monitoring Report 2021/22 – Q3 December 2021
Purpose of the report	To note
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Corporate Priority	Financial Sustainability
Recommendations	<p><b>The Committee is asked to note the current level of overspend on capital expenditure against its Capital Programme provision as at 30 September 2021 for the Council and the Corporate Policy &amp; Resources Committee.</b></p> <p><b>(Please note that individual committees will receive the relevant section of this report at their next meeting, noting that some will receive it before and some after this committee formally meets).</b></p> <p><b>Also, it has not been possible to disaggregate the housing element of the Elmsleigh project for 91/92 High Street for this report, therefore, the whole scheme is shown under Corporate Policy &amp; Resources.</b></p>

## 1. Key issues

- 1.1 The Capital Monitoring report covers the cumulative actual expenditure to date, against the cumulative Council approved Capital Programme budget and compares this against the latest forecast outturn from Officers.
- 1.2 Although the projects may have a budget allocation in the Capital Programme, any increases in budget will require prior approval by Corporate Policy & Resources Committee before drawing down on the budget.
- 1.3 Officers are beginning to see the impact of Brexit, COVID-19 on our building costs, availability of labour and shorter fixed price guarantees from building suppliers. **In the next few years there is an increasing risk of increased construction inflation increasing the cost of schemes in the Capital Programme.** This risk has increased as a result of recent sad events in Ukraine and the knock-on impacts on economic activity. This risk will continue to be monitored carefully.
- 1.4 In February 2022, officers were notified that due to the pressures mentioned above, the contractor costs had increase by almost 15% on the Ashford

Victory Place development project due to the delays in obtaining planning permission.

- 1.5 If this trend were to be applied across the Capital Programme just on our building development projects, this could cost the Council a further £40.0m+.
- 1.6 For the quarter ended 31 December 2021 our approved capital expenditure programme was £324.6m (September: £323.4m). The latest forecast outturn position is £339.2m (September: £324.7m), giving a projected aggregate overspend £14.6m (September: overspend of £1.3m) as per appendix A.
- 1.7 The substantial rise in overspend, which has yet to be approved by the Development Sub-Committee and is almost entirely due to the Oast House development, where officers are indicating that due to the prolonged delays in obtaining council agreement to the development, costs are estimated to rise by £13.4m.
- 1.8 There are also two downward adjustments to the approved budgets from last quarter following a review of all Development Sub-Committees minutes, as follows:
  - (a) Spelthorne Leisure Centre £40.00m increase to £40.42m
  - (b) Ashford MSCP £15.000m increased to £15.267m
- 1.9 The projected aggregate underspend including the items mentioned in 1.8 above by Committee as per Appendix B is as follows:
  - (a) Administrative – projected underspend (£8k) (September: underspend (£8k) no change since last quarter.
  - (b) Community Wellbeing & Housing – projected overspend £14.536m (September: underspend (£291k)) please refer to 2.3 l and m below for full details.
  - (c) Environment & Sustainability – projected overspend £81k (September: £83k).
- 1.10 In arriving at the cumulative expenditure to date, the Finance Team account for capitalised borrowing costs, salaries, and all costs of acquisition on each development project.
- 1.11 Since Council declared a moratorium on its own “high rise” developments in Staines-upon-Thames in January 2021 and the delays in the Planning Committee process in approving the Council’s plans has had a significant impact on the Council’s finances, which officers have been monitoring closely, particularly in respect of capitalising borrowing costs, the table below shows by each development property.

Property	Cumulative actuals		Monthly spend	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Ashford MCSP Residential Scheme	0.0	41.8	0.0	0.6
Benwell Land Phase II	115.4	10,713.5	0.0	4.5
White House Residential	0.0	404.5	0.0	1.5
Thameside House	1,664.4	1,308.4	16.0	2.8
Thameside House Land & Build	0.0	9,760.6	0.0	20.2
Victory Place	0.0	1,405.4	0.0	1.8
Victory Place – Land & Build	0	5,333.0	0.0	11.0
Oast House	66.1	21,400.0	14.1	33.3
<b>Total</b>	<b>1,845.9</b>	<b>50,367.2</b>	<b>30.1</b>	<b>75.7</b>

On a monthly basis between January and December 2021, it has cost the council £361.2k in revenue costs, and £908.4k in capital costs, to fund these developments during the moratorium and planning committee delays.

This is the equivalent of a £25 increase in the Band D equivalent Council Tax charges for every taxpayer in the Borough.

#### 1.12 **Capitalisation of borrowing costs**

1.13 Under normal circumstances, officers would capitalise the borrowing costs associated with these development properties based on the requirements of section 4 of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting, however, the delays caused by the moratorium on high rise developments in the Staines-upon-Thames area and the Planning Committee process in approving the Council's plans has had a significant impact on the Council's finances.

1.14 If these delays continue or the design of the buildings is significantly altered, to comply with the above CIPFA Code, Council may have to review the impact on the revenue budget and approve a write off of capital costs to the revenue budget in excess of £1m, which is the equivalent of running our day centres for almost two years.

## 2. **Variance analysis**

2.1 We report on any significant movement in forecast variance over £50k or 20% of budget, whichever is the highest, since last quarter by committee as follows:

2.2 Administrative – no changes in any variance to report from last quarter.

2.3 Community Wellbeing & Housing – projected net overspend £14.536m (September: underspend (£291k))

- (a) Spelthorne Leisure Centre - £420k overspend, as highlighted in section 1.8 above. Note however that this is before the contract price has been finalised with the construction tenderer.
- (b) Community Centre Projects - £69.5k overspend, no significant change from last quarter.
- (c) Ashford MSCP - £500k overspend, £267k increase due to amendment in approved budget, section 1.8 above refers.
- (d) Bugle - (£680k) underspend, no change from last quarter
- (e) Benwell 1 - no change to the reported underspend of (£2,700k) of last quarter.
- (f) Benwell land - £623k overspend, no change to the financials since our last report.
- (g) Whitehouse Land - £299k overspend back in 2017 and no change to the figures reported last quarter.
- (h) Thameside House - £1,570k overspend, no change to since last quarter.
- (i) Thameside House Land & Building – (£160k) underspend and is unchanged since last quarter's report.
- (j) West Wing -the projected overspend is below the reporting limit and unchanged since last quarter.
- (k) Whitehouse Hostel Phase A - £356k overspend, unchanged since last quarter.
- (l) Victory Place (Ashford Hospital) - £768k projected overspend is due to additional contractor costs and on 21 February Development Sub Committee recommended to the Corporate Policy & Reserves Committee to accept an addition £3.965m increase in the contractor costs, due to price inflation, shortage of labour and longer lead times for delivery of materials, due to the ongoing delays in obtaining planning permission. (September: £1.570k overspend due to Council approved expenditure on new heat pumps to be installed at the properties, which resulted in the approved budget being increased by the same amount).
- (m) Oast House - £13.4m overspend, due to the delays in agreeing the final design and as mentioned above in Victory Place, costs for construction have been forecast to rise significantly (September £nil)

2.4 Environment & Sustainability – projected overspend £83k (September: £83k overspend)

- (a) Laleham Park Upgrade – £88k overspend no change since last quarter.

### **3. Financial implications**

- 3.1 Once a project is completed, any underspend on the approved Capital Programme enables the Council to invest the monies to gain additional treasury management investment income or to fund additional schemes.

- 3.2 Working closely with our Treasury Management advisors, officers are currently saving the Council more than £1,300k per annum in interest charges, through prudent use of short-term interest rates to fund regeneration development projects.
- 3.3 Upon completion of each project, officers obtain fixed rate interest loans to significantly reduce the Council's exposure to risk of future interest rate rises over the next 50 years.
- 4. Other considerations**
  - 4.1 None.
- 5. Equality and Diversity**
  - 5.1 Not Applicable.
- 6. Sustainability/Climate Change Implications**
  - 6.1 Not Applicable.
- 7. Timetable for implementation**
  - 7.1 Not Applicable.

**Background papers:** There are none.

**Appendices:**

**Appendix A** – Summary Capital Monitoring Report by Committee at 31 December 2021.

**Appendix B** – Detailed Capital Monitoring Report by Committee at 31 December 2021.

**Appendix C** - Procurement UK Material Price Movements (as presented to the Development Sub-Committee on 21 February 2022)