

Corporate Policy & Resources Committee

11 July 2022



Title	<i>Month 12 Capital Outturn report</i>
Purpose of the report	To note and make a recommendation to Council
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable housing Recovery Environment Service delivery
Recommendations	<p>The Committee is asked to note the current level of overspend on capital expenditure against its Capital Programme provision as at 31 March 2022 for the Council and the Corporate Policy & Resources Committee.</p> <p>The Committee is asked to recommend to Council the £13.4m increased budget for the Oast House, based on the height and design agreed at the Extraordinary Development Sub Committee on 11 May 2022 and the increased construction costs.</p> <p>(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).</p> <p>Also, it has not been possible to disaggregate the housing element of the Elmsleigh project for 91/93 High Street for this report, therefore, the whole scheme is shown under Corporate Policy & Resources.</p>

1. Summary of the report

1.1 This report seeks to update Councillors on the performance of our capital projects against the approved budget, as at 31 March 2022.

2. Key issues

- 2.1 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.
- 2.2 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.
- 2.3 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 Council's Estimated Capital Programme for 2022/23 to 2025/26.** This risk has increased as a result of recent sad events in Ukraine and the Cost of Living Crisis. Officers will continue to closely monitor these risks.
- 2.4 In February 2022, officers were notified that due to the inflationary pressures mentioned above, the construction costs had increase by almost 15% on the Ashford Victory Place development project due to the delays in obtaining planning permission.
- 2.5 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+ in increased capital costs.
- 2.6 The recent increases in the Bank of England base rate and the Public Works Loan Board (PWLB) have put further upward financial pressure on our capital expenditure.

For the quarter ended 31 March 2022 our approved capital expenditure programme was £337.4m (December: £324.6m). The latest forecast outturn position is £350.5m (December: £339.2m), giving a projected aggregate overspend £13.1m (December: overspend of £14.6m) as per Appendix A below.

- 2.7 The projected aggregate overspend by Committee as per Appendix B is as follows:
 - (a) Administrative – projected underspend (£35k) (December: underspend (£8k) no change since last quarter.
 - (b) Community Wellbeing & Housing – projected overspend £13.0m (December: overspend £14.5m).
 - (c) Environment & Sustainability – projected overspend £81k (December: overspend £81k).
- 2.8 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.
- 2.9 Since Council declared an end to the moratorium on its own “high rise” developments in Staines-upon-Thames, officers are now moving forward with the six development projects and shown below is the revenue and capital impact on the Council's finances as a result of these delays. The table does not reflect the increase in capital expenditure caused by inflationary pressures or the Cost Of Living crisis mentioned in 2.5 above.

Property	Cumulative actuals		Average Monthly spend	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Ashford MCSP Residential Scheme	0	101	0	5
Benwell Land Phase II	0	100	0	0
White House Residential	0	604	0	10
Thameside House	1,452	1,674	30	36
Thameside House Land & Build	0	9,065	0	20
Victory Place	0	1,709	0	35
Victory Place – Land & Build	0	5,242	0	11
Oast House	40	21,539	1	23
Total	1,492	40,034	31	122

On a monthly basis between January 2021 to March 2022, it has cost the council £465k in revenue costs, and £1,830k in capital costs, to fund these developments during the moratorium and planning committee delays.

2.10 Capitalisation of borrowing costs

2.11 Under normal circumstances, officers would capitalise the borrowing costs associated with the six development properties in Staines-upon-Thames area 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 and the Planning Committee process in approving the Council's plans has had a significant impact on the Council's finances.

2.12 As the Council progresses with the plans for each development, following the end of the moratorium, officers, in consultation with our external auditors, will have to reassess each project and if the design of the buildings has significantly altered, once the Planning Committee has approved the revised plans and in order to comply with the above CIPFA Code, Council may have to charge the design fees for the previous building designs from capital to the revenue budget and this could have a significant adverse impact on the revenue outturn, increasing the predicted budget deficit even further.

3. Variance analysis

3.1 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:

3.2 Administrative – projected underspend (£35k) (December: underspend (£8k))

- (a) Knowle Green Council Offices Car Park Improvements - £20.2k overspend (December: £nil).
 - (b) Customer Service Contact Centre – underspend (£34.4k) (December: underspend (£10k)) Contract completed.
 - (c) Forward Scanning – underspend (£20k) (December: £nil) project complete.
- 3.3 Community Wellbeing & Housing – projected net overspend £13.0m (December: overspend £14.5m)
- (a) Spelthorne Leisure Centre – £nil, noting that council approved an increased budget for this project on 24 February 2022 (December: overspend £420k).
 - (b) Community Centre Projects - £69.5k overspend, no significant change from last quarter.
 - (c) Ashford MSCP - £500k overspend, no change from last quarter.
 - (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) Thameside House - £1,570k overspend, no change to since last quarter.
 - (h) Thameside House Land & Building – (£160k) underspend and is unchanged since last quarter's report.
 - (i) West Wing – overspend £70k and is unchanged since last quarter.
 - (j) Whitehouse Hostel Phase A - £356k overspend, unchanged since last quarter.
 - (k) Victory Place (Ashford Hospital) – revised budget approved by council on 24 February 2022, therefore no variance (December: overspend £768k)
 - (l) Oast House - £13.4m overspend (December: £13.4m overspend) is based on the revised material and labour costs per square metre being incurred on the new leisure centre and Victory Place, (see written response to Councillors questions at the March Community Wellbeing and Housing Committee meeting) officers have increased their forecast expenditure based on the new average cost of construction per square metre and the design approved at the extraordinary Development Subcommittee held on 11 May 2022. This Committee is asked to recommend to Council that the budget for this project is increased by £13.4m to £118.6m.
- 3.4 Environment & Sustainability – projected overspend £83k (September: £83k overspend)
- (a) Laleham Park Upgrade – £88k overspend no change since last quarter.

4. Financial implications

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 5. Risk considerations**
- 5.1 None, other than those mentioned above.
- 6. Legal considerations**
- 6.1 None.
- 7. Other considerations**
- 7.1 Committee Services will be required to schedule a meeting of this Committee in the first week of May 2023, as the committee must approve the Outturn report, before officers can published the draft unaudited statement of accounts, for the year end 31 March 2023, by the revised statutory reporting deadline of 31 May 2023.
- 8. Equality and Diversity**
- 8.1 This Council is committed to delivering equality, improving diversity and being inclusive in all our work as a service provider and an employer.
- 8.2 We incorporate equality into our core objectives, making every effort to eliminate discrimination, create equal opportunities and develop good working relationships between different people.
- 9. Sustainability/Climate Change Implications**
- 9.1 Spelthorne Borough Council has declared a climate emergency and each capital project will be looking to reduce its carbon footprint within the financial constraints imposed on it.
- 10. Timetable for implementation**
- 10.1 Not applicable.
- 11. Contact**
- 11.1 Paul Taylor p.taylor@spelthorne.gov.uk

Background papers: None.

Appendices:

Appendix A – Summary Capital Monitoring Report by Committee at 31 March 2022

Appendix B – Detailed Capital Monitoring Report by Committee at 31 March 2022.