Corporate Policy & Resources Committee

12 September 2022

Title	*Quarter 1 (30 June 2022) Capital Outturn report*
Purpose of the report	To note
Report Author	*Paul Taylor Chief Accountant*
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable housing Recovery Environment Service delivery
Recommendations	**The Committee is asked to note the current level of overspend on capital expenditure against its Capital Programme provision as at 30 June 2022 for the Council and in particular the Corporate Policy & Resources Committee.** **(Please note that individual committees will receive a full copy of this report once issued as part of the papers for Corporate Policy and Resources Committee (CPRC) meeting on 12 September).** **The Elmsleigh project has been disaggregated from 1 April 2022.**

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 30 June 2022.

1.2 Please note that

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, longer term economic impacts of COVID-19 on our building costs, availability of labour and shorter fixed price guarantees from building suppliers. Over the next few years the uncertainty around the inflationary risk to our development projects, is not clear. As with the Bank of England forecasts, some commentators expect to see construction cost inflation rise, while others predict a fall. The impact of global events continues to influence commodity prices, whilst Brexit has created a shortage of labour in the construction sector, and finally the impact of the Cost of living crisis cannot be ignored, therefore, taking these issues into account, officers will continue to closely monitor these risks and assess the impact on our Estimated Capital Programme for 2022/23 to 2025/26.

2.4 As reported last quarter (31 March 2022) officers continue to monitor the impact of the inflation on the material and labour costs for our development contracts, which is forecast to have a £40m+ adverse impact on the Council's Capital budgets (over the current Capital Programme period) and this will have a knock-on impact on our revenue budgets due to increased interest charges, as notified by the Public Works Loan Board (PWLB) and greater costs to be financed.

2.5 Further, a number of projects have been handed over as completed, such as West Wing and we are awaiting the final contract to be signed off. Officers don't believe that there will be any further increase in the forecast for these projects.

2.6 For the quarter ended 30 June 2022 our approved Capital Programme was £394.1m (March: £337.4m). The latest forecast outturn position is £405.5m (March: £350.5m), giving a projected aggregate overspend £11.4m (March: overspend of £13.1m) as per Appendix A below.

2.7 The projected aggregate overspend by Committee as per Appendix B is as follows:

(a) Administrative – projected underspend (£250k) (March: underspend (£35k) no change since last quarter.

(b) Community Wellbeing & Housing – projected overspend £14.7m (March: overspend £13.0m).

(c) Environment & Sustainability – projected over/underspend £87k (March: overspend £81k

(d) Corporate Policy & Resources Committee – projected underspend (£3.2m) (March: over/underspend £nil).

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 As highlighted last quarter, the average monthly cost to the Council for the delays in moving the development properties forward is £170k (£140k revenue and £30k capital)

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, or if there has been a significant development since last quarter, by committee as follows:

3.2 Administrative – projected underspend (£250k) (March: underspend (£35k))

(a) Scan Digital Rollout – underspend (£20k) (March: underspend (£20k)) Funds no longer required and estimated capital programme will be amended to reflect this saving.

(b) Corporate Electronic Document Management System (EDMS) Project – underspend (£231k) (March: £nil over/underspend). Funds no longer required and estimated capital programme will be amended to reflect this saving.

(c) Forward Scanning – underspend (£20k) (March: (£20k)) project complete, as dealt with via another project budget. Funds no longer required and estimated capital programme will be amended to reflect this saving.

3.3 Community Wellbeing & Housing – projected net overspend £14.1m (March: overspend £14.5m)

(a) Ashford MSCP - £1.6m overspend, (March: £500k overspend) Development Subcommittee to receive request for increased funds in August)

(b) Benwell 1 - £2.6m underspend (March: (£2.7m) underspend) an additional £100k spent on replacement trees.

(c) Oast House **-** £13.4m overspend (March: £13.4m overspend), as directed by Corporate Policy & Resources Committee at their July meeting, Officers will shortly be presenting a report to Development Subcommittee for a revised budget, in light of increased inflationary costs.

3.4 Environment & Sustainability – projected overspend £87k (September: £83k overspend)

(a) Laleham Park Upgrade – Overspend £87k, unchanged from last quarter, Officers will be submitting new plans for approval shortly to the Development Subcommittee.

3.5 Corporate Policy & Resources – Underspend (£3.2m) (March: £nil under/overspend)

(a) 91/93 High Street – Underspend (£1.2m) (March: (£1.2m) underspend) Please note that these projects have been disaggregated from the global budget for Elmsleigh Centre, with effect from 1 April 2022

(b) Former Decathlon unit – underspend (£2m). Subject to signing the contract with Surrey County Council, this capital expenditure is no longer required and will be removed from the estimated capital programme.

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 During 2022/23 officers will be expected to progress their capital projects, and where projects have not commenced, may be requested to cancel the project and reapply for capital funds, so that the unused funds can be utilised elsewhere by council, rather than being tied up in projects that are not progressing.

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 as at 30 June 2022.

Appendix B – Detailed Capital Monitoring Report by Committee as at 30 June 2022**.**