Members Briefing Pack

January 2023

Title	*Quarter 2 (30 September 2022) Capital Monitoring 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 £23m overspend (June: (£8.6m) underspend) on capital expenditure against its Capital Programme provision as at 30 September 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 for noting once this report is issued as part of the papers for Corporate Policy and Resources Committee (CPRC) and that the Elmsleigh project has been disaggregated from 1 April 2022.**

1. Changes to the report since last quarter

1.1 Following feedback received from individual Councillors and the Committees, Officers have made the following changes and comparative figures have been restated:

(a) All the property acquisitions associated with the Community Wellbeing and Housing Committee have been moved to show under Corporate Policy & Resources Committee.

(b) The car park management systems previously shown in Environment & Sustainability have been moved to Neighbourhood Services & Enforcement Committee.

(c) Four projects which are no longer proceeding, as shown in section 4 below, have been removed from the Capital Programme.

(d)

2. Summary of the report

2.1 This report seeks to update Councillors on the performance of our capital projects against the approved budget, as at 30 September 2022 and the projected overspend of £23.0m (June: underspend of (£8.5m)).

2.2 Please note that this report is based on activity at 30 September 2022, subsequent events may have changed and if material, will be highlighted in the report, for example, Officers are exploring with Homes England the possibility of obtaining up to 25% grant funding of the total costs on the Council's development properties.

3. Key issues

3.1 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.

3.2 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.

3.3 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 ignore. Therefore, and 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. Therefore, it is critical that planning consents are obtained so that capital investment commitments can be made at the most financially advantageous time without further delay.

3.4 As reported last quarter, (30 June 2022) Officers continue to monitor the impact of 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 2022/23 to 2025/26 estimated Capital Programme) 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.

3.5 Further, a number of projects have been handed over as completed, such as West Wing, Benwell House Phase 1 and Whitehouse Hostel, and are awaiting final contracts to be signed off. Officers don't believe that there will be any significant further increase in the forecast for these projects.

3.6 For the quarter ended 30 September 2022 the approved Capital Programme was £374.3m (June: £394.1m). The latest forecast outturn position is £397.3m (June: £385.6m), giving a projected aggregate overspend of £23.0m (June: underspend (£8.5m)) as per Appendix A below. Until planning consent is granted, and final terms have been negotiated for build contracts, there is likely to be ongoing fluctuation due to construction market volatility.

(a) Please also note, as shown below four assets have been removed from the capital programme this quarter, as they are no longer proceeding, hence the difference in the approved capital programme figures.

3.7 The projected aggregate over/underspend by Committee as per Appendix B is as follows:

(a) Administrative – projected underspend (£1.7k) (June: underspend (£171k).

(b) Community Wellbeing & Housing – projected over/underspend £nil (June: over/underspend £nil restated). No change since last quarter.

(c) Environment & Sustainability – projected overspend £104k (June: overspend £87k) no change since last quarter.

(d) Corporate Policy & Resources Committee – projected overspend £22.9m (June: underspend (£8.5m) restated).

(e) Neighbourhood Services & Enforcement – no projected over/underspend (June: no projected over/underspend – restated)

3.8 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.

3.9 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) for the quarter ended 30 September 2022, (June: unchanged).

3.10 Officers are forecasting that as the Council comes to renew its short-term borrowing (three to twelve months maturity) and with current market interest rates have risen by over 250% in the last six months, from January 2023, they anticipate that the monthly short term borrowing costs will increase by over £90k per month.

3.11 **Capitalisation of borrowing costs**

3.12 Under normal circumstances, Officers would capitalise the borrowing costs associated with the six development properties in the 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, planning submission approval processes and the Planning Committee process in approving the Council's plans has had a significant impact on the Council's finances.

3.13 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.

4. Variance analysis

4.1 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:

4.2 Administrative – projected underspend (£1.7k) (June: underspend (£171k))

(a) Scan Digital Rollout – Over/underspend £nil (June: underspend (£20k)) Data scanning progressing well has now been incorporated within the digital transformation processes, which will reduce paperwork and thus the need for scanning. Funds will no longer be required and has been **REMOVED FROM THE CAPITAL PROGRAMME**.

(b) Corporate Electronic Document Management System (EDMS) Project – Over/underspend £nil (June: underspend (£131k)). A substantial amount of the work will be dealt with from the SharePoint budget (Cost centre 43512) and therefore £131,200 is no longer required and has been **REMOVED FROM THE CAPITAL PROGRAMME**

(c) Forward Scanning – Over/underspend £nil (£20k) (June: underspend (£20k)) Data scanning progressing well has now been incorporated within the digital transformation processes, which will reduce paperwork and thus reducing need for scanning. Funds no longer required and has been **REMOVED FROM THE CAPITAL PROGRAMME**.

4.3 Community Wellbeing & Housing – Projected Over/underspend £nil (June: over/underspend £nil - restated)

(a) As mentioned in 1.1 (a) above, from 1 July the development properties were transferred to Corporate Policy & Resources Committee

4.4 Environment & Sustainability – projected overspend £104k (June: £83k overspend)

(a) Laleham Park Upgrade – Overspend £104k, (June: overspend £87k) Cost inflation is impacting on this project and Officers will shortly be submitting revised plans for approval by the Development Sub Committee, to increase the budget.

4.5 Corporate Policy & Resources – Overspend £22.9m (June: underspend (£8.5m) restated).

(a) Ashford MSCP – Overspend £1.3m, (June: overspend £1.6m) due to building material and labour cost inflation, Development Sub Committee approved £267k increase in budget for additional design fees. A further budget increase proposal will be submitted in December 2022 for approval based on the revised costs and latest design proposals.

(b) Benwell House Phase 1 Development & Build costs – Underspend (£2.6m) (June: underspend(£2.7m)). An additional £100k was spent on replacement trees.

(c) Victory Place – Overspend £6.0m (June: £nil under/overspend), due to building cost inflation and delays in getting pre commencement conditions discharged.

(d) Thameside House – Overspend £26.7m (June: overspend £1.5m) based on current reduced height scheme planning application proposal agreed at Development Sub Committee and subject to final budget approval, once all viable options have been reviewed and submitted to that committee, as the current project is not viable for KGE.

(e) Oast House – Underspend (£6.1m) (June: overspend £13.4m). As directed by Corporate Policy & Resources Committee at their July meeting, Officers will present in October, a revised budget based on the plans currently being finalised, to Development Subcommittee for approval.

(f) Acquisition of a potential housing/regeneration asset – **REMOVED FROM THE CAPITAL PROGRAMME**

(g) 91/93 High Street – No change - Underspend (£1.2m) (June: underspend (£1.2m)) Please note that these projects have been disaggregated from the global budget for the Elmsleigh Centre, with effect from 1 April 2022

(h) Former Decathlon unit – No change - Underspend (£2m). (June: underspend (£2m)) Subject to signing the contract with Surrey County Council, this capital expenditure is no longer required and the capital programme will be amended to reflect this saving.

4.6 Neighbourhood Services & Enforcement - Over/underspend £nil (June: over/underspend £nil – restated)

(a) As mentioned in 1.1 (b) above, the two car park management systems projects were transferred from Environment & Sustainability Committee and both projects have not commenced yet.

5. Financial implications

5.1 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.

5.2 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.

5.3 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.

6. Risk considerations

6.1 The significant risks for our capital programme continue to be the delay in commencing our development projects, seeing costs rise as the construction industry experiences significant inflationary increases in building and labour costs. Further, the recent upward trend in interest base rates is impacting on our development properties, as the Council funds these projects from short term borrowing, before fixing the loan interest via the Public Works Board on completion of each project.

7. Procurement considerations

7.1 None.

8. Legal considerations

8.1 None.

9. Other considerations

9.1 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.

10. Equality and Diversity

10.1 This Council is committed to delivering equality, improving diversity and being inclusive in all our work as a service provider and an employer.

10.2 We incorporate equality into our core objectives, making every effort to eliminate discrimination, create equal opportunities and develop good working relationships between different people.

11. Sustainability/Climate Change Implications

11.1 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.

12. Timetable for implementation

12.1 Not applicable.

13. Contact

13.1 Paul Taylor p.taylor@spelthorne.gov.uk

Background papers: None.

Appendices:
Appendix A – Summary Capital Monitoring Report by Committee as at 30 September 2022.

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