

Corporate Policy & Resources Committee

16 October 2023



Title	Quarter 1 (30 June 2023) 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	To note the projected (£3.4m) underspend on the Council's capital projects as at 30 June 2023.

1. Report Summary

- 1.1 **This report does not reflect any changes in forecast expectations because of the revised Direct Housing Delivery Strategy document, which is aiming to suspend the Council's direct delivery housing development projects. The Corporate Policy & Resources Committee approved the suspension on 11 September 2023 and it will go before full Council on 19 October for a formal decision and if approved, it will see a reduction in the Capital Programme borrowing requirement over the next four years by £286m and it could see up to £13m of capitalised costs released back to the Revenue Budget, officers are currently looking to provide options to cover these costs and the ongoing revenue costs through a number of options, including the use of reserves.**
- 1.2 The report seeks to update Councillors on the performance of the Council's capital projects against the approved Capital Programme budget, as at 30 June 2023 and the projected (£3.4m) underspend (March: (£3.9m) underspend restated).
- 1.3 There have been no changes to the reported variances since the last report (Q4 Outturn on 31 March 2023) for the following committees:
 - (a) Community Wellbeing & Housing
 - (b) Environment & Sustainability
 - (c) Neighbourhood Services

1.4 There is no capital expenditure for the Economic Development Committee.

1.5 The main changes that have taken place between 1 April 2023 and 30 June 2023 for each committee is as follows:

(a) Corporate Policy and Resources

- i) Ashford MSCP – no under/overspend (Mar: £1.3m overspend) the approved budget has increased from £15,267,000 to £18,570,000.
- ii) Benwell 1 & 2 Land & Building – Following a review of the challenges facing Knowle Green Estates (KGE) the split of land values was reassessed and reapportioned, however, the combined overspend of £422,300 and £200,600 for phase 1 and phase 2 respectively, amounts to £622,900 overspend. (March: £622,900 overspend) **Therefore, no overall change from last quarter.**
- iii) Thameside House – (£160k) underspend (March: (£160k) underspend restated), the approved budget for this project was £64,290,000, which included the original land purchase. The forecast to complete based on the approved budget was £64,130,000.

In previous reports, as highlighted in the March Outturn report, the forecast was based on the latest design proposal submitted to the Development Subcommittee, rather than based on the approved budget design.

The report now reflects this, Tothill MSCP – Approved budget is now £82m and it has absorbed the initial Council approved budget of £4.5m, shown in March.

2. Key issues

2.1 The Capital Monitoring report covers the cumulative forecast expenditure to complete the project as at 30 June 2023, against the cumulative Council approved Capital Programme budget.

2.2 Although the projects may have a budget allocation in the Capital Programme, any changes to the approved project or increases in forecast to complete the project, over and above the approved budget will require prior approval by Corporate Policy & Resources Committee before drawing down against that budget.

2.3 Officers are beginning to see the impact of Brexit, and the Cost-of-Living Crisis on the Council's development projects, in particular inflation on building costs, availability of labour and shorter fixed price guarantees from building suppliers. Coupled with the substantial increase in the Bank of England base rate, and the short-term impact on the gilts market, the cost of borrowing has increased from an average of 2.3% to over 5.2% in the last twelve to eighteen months, and this has resulted in a significant increase in loan finance costs for financing of new capital works.

2.4 Previous Council decisions to impose height restrictions on the Oast House & Thameside developments has resulted in an opportunity cost to the Council of £70m over the next 50 years, or the equivalent of an average of £1.25m per annum.

- 2.5 Many of the development projects were acquired by the Council several years ago, and due to a mixture of delays including at the planning stage and Council imposed moratoriums, the projected income from these projects has not materialised as originally planned, creating a triple whammy, on the Council's finances, which will put pressure on future income over the short to medium term.
- 2.6 Going forward, it is imperative that the Council avoids taking projects to the Planning Committee, only for them to be refused as this is costing the Council a substantial amount of money, approximately £140k for the Whitehouse Residential project that was approved by Development Subcommittee and turned down by the Planning Committee. However, it should be noted the latter committee have different considerations to take into account, and need to make a planning based decision. They are required to set aside the financial implications of the Council as landowner to one side.
- 2.7 Officers are also concerned about the ongoing impact of the Cost-of-Living crisis, as the increase in the Bank of England base rates impacts on those residents with low interest fixed rate mortgages that have or are coming to an end and will need to be replaced with high interest fixed mortgages, which will squeeze household incomes even further and could impact on collection rates for the Councils Council Tax and reduce the income from Fees & Charges, notable the car parks and green waste and the ongoing underlying subsidy of the Council's Meals on wheels service.
- 2.8 Following the recommendations of the Corporate Policy & Resources Committee to cease the direct affordable housing and private rental schemes, at their meeting on 11 September, officers are updating the estimated Capital Programme to reflect these changes to enable Council to make an informed decision at their meeting in October.
- 2.9 Alongside this work, officers will continue to closely monitor all these risks.
- 2.10 As reported last quarter, 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 four years 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.
- 2.11 For the quarter ended 30 June 2023 the approved Capital Programme was £360.8m (March: £339.3m), The latest forecast outturn position is £357.4m (March: £335.4m), giving a projected aggregate (£3.4m) underspend (March: (£3.9m) underspend restated) 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 adverse fluctuation due to construction market volatility.
- 2.12 The projected aggregate over/underspend by Committee as per Appendix B is as follows:
- (a) Administrative – projected (£22k) underspend (March: (195k) underspend).
 - (b) Community Wellbeing & Housing – projected £nil over/underspend (March: £nil over/underspend restated). **No change from last quarter.**

- (c) Environment & Sustainability – projected £104k overspend (March: £104k overspend) **No change from last quarter.**
- (d) Corporate Policy & Resources Committee – projected (£3.5m) underspend (March: (£3.8m) underspend restated).
- (e) Neighbourhood Services & Enforcement – £nil over/underspend (March: £nil over/underspend – restated) **No change since last quarter.**

2.13 Capitalisation of borrowing costs

2.14 Due to the suspension of the Council’s Direct Affordable Housing Strategy officers are assessing each development property and calculating the expected impact on revenue budgets in 2023/24 and beyond, should Council endorse the decision at their meeting in October.

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 (£22k) underspend (March: (£195k) underspend).

3.3 Community Wellbeing & Housing – £nil over/underspend (March: £nil over/underspend - restated). **No change from last quarter.**

3.4 Environment & Sustainability – £104k overspend (March: £104k overspend), **no change from last quarter.**

(a) Laleham Park Upgrade – £104k overspend (March: £104k overspend) **no change from last quarter.**

3.5 Corporate Policy & Resources – (£3.5m) underspend (March: (£3.8m) underspend restated).

(a) Ashford MSCP – £nil under/overspend this quarter (March: £1.3m overspend) The approved budget was increased in the quarter to £18,570,000.

(b) Benwell House Phase 1 Development costs – Underspend (£2.6m) (March: (£2.6m) underspend). **No change from last quarter.**

(c) Benwell House Phase 1 land costs - £422k overspend, (March: £422k overspend restated, please refer to 1.3 (b) (ii) above. **No change from last quarter.**

(d) Benwell House Phase 2 design costs – £nil under/overspend as this is the first quarter of reporting this capital project.

(e) Benwell House Phase 2 land costs - £201k overspend (March £201k overspend restated, please refer to 1.3 (b) (ii) above. **No change from last quarter.**

(f) Former Decathlon unit – (£2.0m) Underspend (March: (£2.0m) underspend) **No change from last quarter.**

(g) Harper House – (£61k) underspend (March: £nil under/overspend) Contract now finalised.

- (h) Oast House – (£6.1m) underspend (March: (£6.1m) underspend). **No change since last quarter.**
- (i) Thameside House – (£160k) underspend (March: (£160k) underspend restated) please note comments in 1.3 (b) (iii) above. **No change from last quarter.**
- (j) Tothill MSCP – £nil under/overspend (March: £nil under/overspend) please note the comments in 1.3 (b) (iv) above. **No change from last quarter.**
- (k) Victory Place – £6.0m overspend (March: £6.0m overspend) **No change from last quarter.**
- (l) Whitehouse Residential – £110k underspend (March: £110k underspend) **No change from last quarter.**
- (m) West Wing - £70k overspend (March: £70k overspend) **No change from last quarter.**
- (n) 91/93 High Street – (£1.2m) underspend (March: underspend (£1.2m)) Original design is financially unviable and is being reviewed before being resubmitted for approval, **Therefore, no change from last quarter.**

3.6 Neighbourhood Services & Enforcement - Over/underspend £nil (March: over/underspend £nil). **No change from 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.

5. Risk considerations

5.1 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.

6. Procurement considerations

6.1 Where necessary, actions will be implemented to effectively manage any procurements that are in progress'.

7. Legal considerations

7.1 None.

8. Other considerations

8.1 During 2023/24 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, or to reduce expected borrowing requirements, rather than having funds tied up in capital projects that are not progressing.

9. Equality and Diversity

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

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

10. Sustainability/Climate Change Implications

10.1 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.

11. Timetable for implementation

11.1 Not applicable.

12. Contact

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

Background papers: There are none.

Appendices:

Appendix A – Summary Capital Monitoring Report by Committee as at 30 June 2023.

Appendix B – Detailed Capital Monitoring Report by Committee as at 30 June 2023.