

Members Briefing Pack

14 February 2024



Title	Quarter 2 (30 September 2024) 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 Addressing housing needs Resilience Environment Services
Recommendations	To note the estimated projected (£2.1m) underspend on the Council's capital projects as at 30 September 2023.

1.0 Summary of report

What is the situation	Why we want to do something
<ul style="list-style-type: none">• The Council has £101.3m of approved capital projects, which includes several projects that have been completed and officers are waiting to finalise the contract with suppliers. (Appendix A)• The figure above excludes all the direct development projects, which have been suspended. (Appendix C)• The Committee is asked to review and note the projected (£2.1m) underspend in the Council's capital projects as at 30 September 2023.	<ul style="list-style-type: none">• As part of the monitoring process, Council is expected to review the current approved capital projects and forecast under or overspends and ensure that they have sufficient understanding of why there has been any significant movements between the approved budget and the latest outturn forecast from officers.
This is what we want to do about it	These are the next steps

<ul style="list-style-type: none"> • Take a view on the capital projects as reported, noting that some have been completed and the final invoice is awaited, further some projects have not changed since last report. • Question budget managers about their forecast outturn projections (Appendix B). • Ignore the suspended projects (Appendix C). 	<ul style="list-style-type: none"> • That this Committee reviews the Q2 Capital Monitoring Report (Appendix B) • Asks relevant questions. • Note the current projected (£2.1m) underspend in the Council's capital projects at 30 September 2023.
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- 1.1 This report reflects the changes made to the capital programme because of the revised Direct Housing Delivery Strategy report which was approved by Council on 19 October. This will see a reduction in the Budgeted Capital Programme borrowing requirement over the next four years by £253.9m (net of funding), as set out in Appendix B.
- 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 September 2023 and the projected (£2.1m) underspend (June: (£3.4m) underspend restated).
- 1.3 There have been no changes to the reported variances since the last report (Q1 Capital Monitoring Report on 30 June 2023) for the following committees:
- (a) Administration
 - (b) Community Wellbeing & Housing
 - (c) Environment & Sustainability
- 1.4 There is no capital expenditure for the Economic Development Committee.
- 1.5 The main changes that have taken place between 1 July 2023 and 30 September 2023 for each committee is as follows:
- (a) Corporate Policy and Resources
 - i) Benwell 1 Land & Building –£622,900 overspend. (Jun: £622,900 overspend) **Therefore, no overall change from last quarter.**

2. Key issues

- 2.1 The Capital Monitoring report covers the cumulative forecast Capital expenditure to complete the projects as at 30 September 2023, against the cumulative Council approved Capital 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 were monitoring a gradual decline in the Public Works Loan Board interest rates; however, recent global events have seen a reverse to that trend, with Officers monitoring the situation closely.

- 2.4 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.
- 2.5 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.
- 2.6 As the leisure centre projects nears completion Officers in consultation with the Council's Treasury Management advisors are reviewing the funding options, ranging from obtaining 100% PWLB funding, to selling the council's short-term investments and refinancing the leisure centre when PWLB interest rates fall below 3%.
- 2.7 Alongside this work, officers will continue to closely monitor all these risks.
- 2.8 For the quarter ended 30 September 2023 the approved Capital Budgets were £101.3m (after suspended assets have been removed) (Jun: £360.8m), The latest forecast outturn position is £99.2m (after suspended assets have been removed) (Jun: £357.4m), giving a projected aggregate (£2.1m) (after the suspended assets have been removed) (Jun: (£3.4m) underspend restated) as per Appendix A below.
- 2.9 The projected aggregate over/underspend by Committee as per Appendix B is as follows:
- (a) Administrative – projected (£22.2k) underspend (Jun: (£22.2k) underspend). **No change since last quarter.**
 - (b) Community Wellbeing & Housing – projected £nil over/underspend (Jun: £nil over/underspend restated). **No change from last quarter.**
 - (c) Environment & Sustainability – projected £104k overspend (Jun: £104k overspend) **No change from last quarter.**
 - (d) Corporate Policy & Resources Committee – projected (£2.3m) underspend (after suspended assets have been removed) (Jun: (£3.5m) underspend restated).
 - (e) Neighbourhood Services & Enforcement – £nil over/underspend (Jun: £nil over/underspend – restated) **No change since last quarter.**
- 2.10 **Capitalisation of borrowing costs**
- 2.11 Whilst the Council considers its medium to long term options for its Direct Affordable Housing Strategy, which is being developed to build the affordable housing needed in the Borough through joint ventures, rather than direct development, the Council continues to capitalise its borrowing costs, design costs the have been incurred and continue to be incurred.

3. Variance analysis

- 3.1 Officers 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 (Jun: (£22k) underspend). **No change since last quarter.**
- 3.3 Community Wellbeing & Housing – £nil over/underspend (Jun: £nil over/underspend - restated). **No change from last quarter.**
- 3.4 Environment & Sustainability – £104k overspend (Jun: £104k overspend), **no change from last quarter.**
- 3.5 Corporate Policy & Resources – (£2.3m) underspend (after suspended assets have been removed) (Jun: (£3.5m) underspend restated).
- (a) Benwell House Phase 1 Development costs – Underspend (£2.6m) (Jun: (£2.6m) underspend). **No change from last quarter.**
 - (b) Benwell House Phase 1 land costs - £422k overspend, (Jun: £422k overspend restated, please refer to 1.3 (b) (ii) above. **No change from last quarter.**
 - (c) Former Decathlon unit – £nil under/overspend. (Jun: (£2.0m) underspend). **No change from last quarter.**
 - (d) Harper House – (£61k) underspend (Jun: (£61k) underspend) Contract now finalised. **No change from last quarter.**
 - (e) Tothill MSCP – **Suspended**
 - (f) Victory Place – **Suspended**
 - (g) Whitehouse Residential – **Suspended**
 - (h) West Wing - £70k overspend (Jun: £70k overspend) **No change from last quarter.**
 - (i) 91/93 High Street – **Suspended**
- 3.6 Neighbourhood Services & Enforcement - Over/underspend £nil (Jun: 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.
- 4.3 By funding the Capital Projects using a mixed portfolio of loans to minimise interest charges and capital repayments, the Treasury Management Team has saved the Council over £160m over the term of the loans (Source Arlingclose presentation to councillors 17 January 2024).

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 September 2023.

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

Appendix C – Summary of assets & funding removed from the Capital Monitoring Report.