Corporate Policy & Resources Committee

3 June 2024

Title	*2023-24 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 Addressing Housing Need Resilience Environment Service Delivery
Recommendations	**Committee is asked to note:** 1. **The £1,608k projected underspend against its Estimated Capital Programme for 2023-24, as at 31 March 2024.** See Appendix A and B below. **2. Recommend to Council that the Capital Projects totalling £2,990k are removed from the 2024-25 Estimate Capital Programme.** See appendix C below.

1. Summary of the report

What is the situation	Why we want to do something
• The Committee is asked to note the 2023-24 Capital Outturn and the projected (£1,608k) underspend, against budget, as set out in Appendix A • The details (under)/overspends are shown by capital project in Appendix B below and summarised in section 1.8 below. • A number of Council approved capital projects have not been started and the Committee is asked to confirm the removal of £2,990k,	• At the end of the financial year, the Committee will note the Capital Monitoring Report, based on the Council approved 2023-24 Estimated Capital Programme.

noting that Council will have to formally approve the removal of these project. • By removing these projects, the Councils Corporate Finance Requirement will be reduced and so will the requirement to borrow, see section 1.9 below	
This is what we want to do about it	**These are the next steps**
• Review the report and appendices attached. • Question Budget Managers, Chief Accountant and Chair about any issues you may have.	• To note the report • Recommend to Council the removal of schemes totalling £2.99m as per Appendix C

1.1 On 16 October 2023, Council approved the suspension of the Council's Direct Delivery of Affordable Housing Projects, which reduced the 2023-24 to 2026-27 Estimated Capital Programme by a net £283.4m.

1.2 This report seeks to update Councillors on the performance of the Council's approved capital projects against the approved Capital Programme budget, as at 31 March 2024. And the projected underspend of (£1,608k).

1.3 The Capital Monitoring report covers the cumulative actual expenditure to date, taking into account a number of projects take more than one financial year to complete, against the cumulative Council approved Capital Programme budget and compares this against the latest forecast outturn from Officers.

1.4 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.

1.5 A number of the construction projects have taken longer than the twelve months post completion to finalise the invoicing for each development, due to protracted negotiations with the main contractor.

1.6 **Appendix A** below provides an aggregate summary breakdown of the projects by Committee, showing the following:

(a) £42,052k - Actual expenditure in the year

(b) £86,065k - Cumulative expenditure to date

(c) £96,989k - Approved Budget

(d) £95,380k - Projected Outturn

(e) (£1,608k) - Variance between Approved Budget and Projected Outturn

1.7 **Appendix B** below, provides the information in 1.3 above, by individual project, by Committee.

1.8 The significant variances that make up the net (£1,608k) underspend are as follows:

(a) (£54k) Waste Vehicles underspend, as a result of an insurance payment of £45k received.

(b) £103k overspend on the Laleham Park Upgrade following demolition based on the current plan, which requires committee approval before being finalised.

(c) (£2,011k) underspend on Benwell 1 Construction phase which is the result the final contract negotiations.

(d) £422k overspend on Benwell 1 acquisition costs as advised to Council in year of acquisition, several years ago.

(e) £300k overspend on White House homelessness facility because of additional works required to adapt the property for disability access.

(f) (£170k) deferment of the ICT network infrastructure project

(g) £102k overspend on West Wing because of additional work required to comply with building control requests, additional work for disability adaptation and installation of an arc-control system.

(h) (£261k) underspend on Harper House because of robust negotiations on the final account.

(i) (£22k) underspend on SharePoint redesign and relaunch because of efficiency savings.

1.9 Please note that the following projects with a cumulative budget of £17,502k have been completed in 2023-24 and will be removed from the 2024-25 to 2027-28 Capital Programme:

(a) West Wing

(b) White House

(c) Harper House

(d) Food Waste Vehicles

(e) Waste Cleaning Vehicles

(f) Spelride Bus

(g) Laleham Nursery Portacabins

1.10 **Appendix C** below provides a list of £2,990k capital projects that will be removed from the Estimate 2024-25 to 2027-28 Capital Programme, once the Committee has made their recommendation.

1.11 The adjustments in 1.6 and 1.7 above, will reduce the 2024-25 to 2027-28 Estimate Capital Programme by £20,4926k. Once the Benwell 1 final contract has been agreed, a further £20,684k will be removed from the Capital Programme. This will reduce the Council’s Capital Financing Requirement (CFR) and need to borrow moving forward.

2. Key issues

2.1 Capitalised Revenue Cost – Development Properties

2.2 Council will need to make some important strategic decisions over the coming months on the future direction of the Council's direct development affordable housing projects.

2.3 Should there be any further delays to getting the Council's development projects into the planning process or granting planning permission or failure to sign contracts with counterparties, Officers, in consultation with our External Auditors, will have to assess whether it is still appropriate under the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code, to continue to capitalise, salaries, interest and fees against these capital projects. If some of those costs were to be treated as abortive, they would need to be charged to Revenue Budget, which based on the latest Medium Term Financial Plan, would create a significant issue for the Council and would potentially require some use of reserves.

2.4 The Capitalised Revenue costs movement for housing/regeneration sites by project, excluding the initial purchase price and minimum revenue payment (MRP) from 31 March 2023 to 2024 is shown in the table below:

Scheme	Total	Adjusted
Thameside House	4,725,872	4,725,872
Oast House	25,511,176	5,329,135
Ashford MSCP	407,602	407,602
Victory Place	3,986,933	3,986,933
White House Resi	754,421	654,421
91-93 High Street	117,372	117,372
Tothill MSCP	352,182	352,182
Benwell II	410,797	310,797

2.5 The difference between the two years is £2,899k and a significant sum, £1,750k the majority of which was approved Development Subcommittee expenditure spent on design and consultant's fees for Victory Place Thameside House, and Oast House (the latter two were withdrawn before being considered by the Planning Committee).

2.6 Council funds these development projects via short term borrowings, typically from other local authorities. The interest is capitalised against each project, in accordance with the CIPFA Prudential Code.

2.7 When each project is completed, in most cases Officers obtain long term fixed rate interest loans from the Public Works Loan Board (PWLB) to significantly reduce the Council's exposure to risk of future interest rate rises.

2.8 At present the PWLB long term interest rates are more than 5.0% and on a par with the inter Local Authority Rates the Council incurs to fund these projects on an annual basis.

2.9 If all the development properties were deemed not to be progressing under the terms of the Prudential Code, £15.9m will be charged to the revenue budget, creating a substantial deficit, which Council will have to resolve, by a number of options, which are not mutually exclusive and would need to be assessed on a project by project basis:

(a) Reducing discretionary services

(b) Increasing Council Tax – should an increase beyond £5 or 3% be required, then it will be necessary to hold a referendum.

(c) Remove the height restrictions from the Council's development properties to maximise rental rents and reinstate £70m over 50 years, i.e., £1.25m positive cashflow to the Council.

(d) Form one or more Joint Ventures to get the properties built.

(e) Selling our housing/regeneration development sites at this current time, is may make the matter worse, because the current market value is below the cost price and therefore it will crystalise losses into the Council's Revenue Budget, which will need to be covered by further drastic action, as mentioned above. Whilst on some sites there are opportunities now which are currently being explored for other it would be more preferrable to wait until some stability returns to the property market and property valuation are more than the aggregate capital cost on our development projects.

(f) Limited use of useable reserves to offset impact on Revenue Budget

2.10 Officers will be modelling these scenarios for Council as part of the Medium-Term Financial Plan (MTFP)/Outline Budget and highlighting the impact on the Revenue Budget and the residents of the Borough, in the light of the continued delays imposed by Council generally and obtaining planning permission specifically, so that councillors are fully aware of the challenges, risks and financial implications of their decision making.

2.11 **Financial implications**

2.12 Other than the items mentioned above.

2.13 For many of the smaller capital projects, especially those which will not generate revenue income streams or revenue savings, officers will fund the project from the annual Revenue Contribution to Capital, existing capital grants, capital receipts or short-term lease/HP agreements, rather than long term loans.

2.14 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.

3. Risk considerations.

3.1 The significant risks for our capital programme continue to be the delay in commencing our development projects.

3.2 These delays are seeing construction costs rise rapidly, as the construction industry experiences significant inflationary increases in building material and labour costs, which in turn is creating shortage of both in the marketplace, adding to lead times and driving financing costs upwards.

3.3 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.

3.4 The development restrictions place on Thameside House in its current format, make it financially unviable, and council will either have to change the design or link the project with another one, such as, the Tothill Development to mitigate the risks to the Council.

4. Procurement considerations

4.1 In accordance with the Council's Contract Standing Orders, the Corporate Procurement team provides support in tendering for projects with a value of £40k or over. This includes major capital (and revenue) projects, such as development scheme projects.

4.2 Corporate Procurement plays a vital role in ensuring that tenders are conducted compliantly and under a process designed to achieve optimal whole life value for money.

5. Legal considerations

5.1 None.

6. Other considerations

6.1 None

7. Equality and Diversity

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

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

8. Sustainability/Climate Change Implications

8.1 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.

9. Timetable for implementation

9.1 Once this report is approved by the Committee the 2024-25 to 2027-28 Estimated Capital Programme will be updated and sent to the Committee for noting.

10. Contact

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

Background papers: Suspension of the Direct Affordable Housing Projects Report discussed at the Council meeting on 16 October 2023.

Appendices

Appendix A – Summary Capital Monitoring Report by Committee as at 31 March 2024.

Appendix B – Detailed Capital Monitoring Report by Committee as at 31 March 2024.

Appendix C – Capital projects being removed from the 2024-25 Estimated Capital Programme