

BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

28 NOVEMBER 2019

CAPITAL BUDGET MONITORING – ROUND 2 2019/20

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Summary

This report presents the results of the second round of the Council's capital budget monitoring for the financial year 2019/20.

1. Budget and Policy Framework

1.1 Cabinet are responsible for ensuring that income and expenditure remain within the budget approved by Council. Additions to the capital programme are a matter for Full Council.

2. Background

2.1 The approved capital programme for 2019/20 is £295.867 million. This report consolidates the second round of capital budget forecasts for 2019/20. Appendix 1 provides details of the forecast position for every scheme in the programme.

3. Round 1 Forecast Position

3.1 Table 1 summaries the capital programme and the latest forecast position.

Table 1: Monitoring Summary

Directorate	Current Budget £000s	2019/20 Forecast £000s	2020/21 Forecast £000s	2021/22 Forecast £000s	2022/23 Forecast £000s	Forecast Under/(over) spend £000s
Children and Adults (including Public Health)	33,101	6,725	26,379	0	0	3
Regeneration, Culture, Environment and Transformation	71,052	40,086	24,736	6,595	859	1,224
Housing Revenue Account	11,270	6,764	4,506	0	0	0
Business Support Department	180,079	18,071	99,176	42,396	17,301	(3,135)
Members Priorities	366	366	0	0	0	0
Total	295,867	72,012	154,797	48,991	18,160	(1,907)

3.2 Table 2 shows how the current capital programme is funded.

Table 2: Capital Funding Summary

Funding Source	Total £000s	C&A (inc. Public Health) £000s	RCET £000s	HRA £000s	BSD £000s	Member Priorities £000s
Prudential Borrowing	112,852	24,700	26,499	3,478	58175	0
Borrowing in lieu of Capital Receipts	125,426	0	4,749	0	120,677	0
Capital Receipts	4343	50	3,566	0	360	366
Capital Grants	38,042	3,216	34,822	0	5	0
RTB Receipts	1,235	0	0	1,235	0	0
S106 Contributions	6,531	5116	1415	0	0	0
Revenue / Reserves	7,439	19	1	6,557	8862	0
Total	295,867	33,101	71,052	11,270	180,079	366

3.3 The Round 1 capital monitoring report was considered by the Cabinet on 6 August 2019, and Cabinet made two recommendations to Full Council:

- that the S106 and revenue contribution identified to fund the overspend on the Family Hubs and Wellbeing Centre scheme is added to the capital programme, and
- that the capital programme is reduced by £1.339 million as the Medway Growth scheme will now not go ahead.

These recommendations will be made in a report to the January meeting of Full Council, and as such the programme has not yet been amended.

3.4 Value engineering and good project management has resulted in a reported underspend of £34,000 on Saxon Way Primary school. However at Cliffe Woods Primary the initial contractor pulled out leading to an overspend of £32,000.

3.5 Mercury abatement works to the Medway Crematorium overspent by £102,259 as additional concreting works were required to the base. It has not been possible to identify additional funding or a suitable virement, and as such Cabinet have agreed to recommend to Full Council to increase the budget, funded by prudential borrowing.

3.6 The Landscaping works to provide new public realm on Chatham Riverside through the Command of the Heights project have identified archaeological remains, which have caused delays and additional works, resulting in an overspend of £397,259. Further grant funding has been secured through the Heritage Lottery Fund to finance a significant element of this overspend; the work associated with the Casements. The balance will be secured from Great Lines Heritage Park Section 106 contributions and a contribution from the Greenspaces Development revenue budget. Cabinet have agreed to recommend to Full Council to increase the budget to include this funding.

3.7 Work on Medway Tunnel is forecast at £672,104. At present there is no budget or funding for this work. Discussions are in progress with the Department for Transport but if no further grant is secured Council funding will be required. The overall Highways programme may need to be reviewed with a view to identifying a suitable virement.

- 3.8 Delays in the delivery of the project to install the Rochester Station Totem resulted in additional costs including ground works and connection charges that were not budgeted, resulting in an overspend of £22,942. It has not been possible to identify additional funding or a suitable virement, and as such Cabinet have agreed to recommend to Full Council to increase the budget, funded from capital receipts.
- 3.9 A reduction in the number of units being delivered and a change in the form of the building at the Whiffens Avenue Medway Development Company (MDC) development are forecast to result in an underspend of £1.744 million. When the scheme is completed, the underspend will be transferred back to the Medway Development Company programme.
- 3.10 A change in the funding arrangements of the Gun Wharf Salix Scheme result in a forecast underspend of £48,000.
- 3.11 The Housing Service are proposing to expand the New Build Phase 4 scheme which is currently delivering 23 units at an approved cost of £3.287 million. The Initial feasibility work has identified four viable sites in Twydall, where resident engagement has taken place which will be fed into planning applications anticipated to be submitted by the end of 2019. The proposal would deliver a further 32 units in a mix of 2 bed houses at affordable rent and 1 bed bungalows at social rent. The proposal to expand the existing Phase 4 scheme would cost an additional £4.1 million and would be funded 70% from borrowing and 30% from Right to Buy capital receipts in line with the existing Phase 4 scheme. Cabinet have agreed to recommend to Full Council to increase the budget for this scheme.
- 3.12 If an HRA property is sold under the Right to Buy and is re-sold within 10 years the seller must first offer it to their old landlord, and if it is re-sold within 5 years a proportion of the discount awarded on the original sale must be repaid. The Council's Housing Service have identified opportunities to buy back HRA properties sold under the Right to Buy where an element of the discount would be repaid to the Council. In order to progress with these purchases, Cabinet have agreed to recommend to Full Council that £300,000 be added to the Capital Programme for an HRA Buy Back scheme, funded from HRA Reserves and Right to Buy receipts.
- 3.13 On 13 September 2019, the South East Local Enterprise Partnership (SELEP) Accountability Board agreed to the virement of £200,000 from the Strood Town Centre SELEP funded scheme in the Council's capital programme, to the Medway City Estate Connectivity SELEP funded scheme. As such Cabinet have agreed this virement.
- 3.14 The Capital Strategy considered by the Cabinet on 24 September 2019 set out the investment requirements to deliver the Council's corporate ICT strategy, noting that maintaining the data centre at Gun Wharf would require "*significant capital investment to upgrade the servers and other crucial hardware and infrastructure. There are a number of strands to this work and the total cost will be in the region of £2 million, some of which will need to be incurred this year*". Initial works are required to:
- Replace the Windows 2008 server and all databases running on Windows 2008 SQL servers, required to maintain access to central government and partners via the connection with the Public Service Network,
 - Replace file servers to leverage investment in Office 365, and
 - Replacements to ensure the Uninterruptable Power Supply remains operational.

Cabinet have agreed to recommend to Full Council the addition of £380,000 for these unavoidable works, to be funded from borrowing.

4. Conclusions

- 4.1 The second round of capital budget monitoring for 2019/20 forecasts an overspend of £1.907 million. Management is working on addressing the issues outlined above.

5. Financial, Risk Management and Legal implications

- 5.1 The implications for the capital programme are set out in the body of the report. The additional borrowing requested is estimated to increase the interest and financing costs by around £2,000 in the current financial year and £100,000 in future years. This is reflected in the Interest and Financing estimates within the MTFS.
- 5.2 There are no legal implications within this report. The Council's capital monitoring process is designed to help mitigate the risk of overspending against the agreed budget at year-end; this report sets out the areas of potential overspend forecast and the actions identified by management and Members to mitigate these.

6. Recommendations

- 6.1 The Committee is asked to note the results of the second round of capital budget monitoring for 2019/20.
- 6.2 The Committee is asked to note that the Cabinet has recommended the following to Full Council:
- a) that the capital programme is increased by £102,259 in respect of the additional cost identified for Mercury Abatement as set out in paragraph 3.5 above, funded from borrowing;
 - b) that the budget for Command of the Heights is increased by £397,259 reflecting additional resources as set out in paragraph 3.6 above;
 - c) that the capital programme be increased by £22,942 in respect of the additional costs on Rochester Station Totem as set out in paragraph 3.8 above, to be funded from capital receipts;
 - d) that the capital programme be increased by £4.1 million for the HRA new Build Phase IV as set out in paragraph 3.11 above, to be funded 70% from borrowing and 30% from 'Right to Buy' capital receipts in line with the existing scheme;
 - e) that the capital programme be increased by £300,000 to create the HRA Buy Back scheme, to be funded from HRA Reserves and Right to Buy receipts, as set out in paragraph 3.12 above, and;
 - f) that the Capital Programme be increased by £380,000 in respect of the ICT Data Centre works, to be funded from prudential borrowing as set out in paragraph 3.14 above
- 6.3 The Committee is asked to note that the Cabinet has agreed that £200,000 be vired from the Strood Town Centre SELEP funded scheme to the Medway City Estate Connectivity SELEP funded scheme, as set out in paragraph 3.13 above.

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Appendices

Appendix 1 – Capital Budget Monitoring

Background papers

Revenue budget approved by Council 21 February 2019:

<https://democracy.medway.gov.uk/mgAi.aspx?ID=20679#mgDocuments>