

CABINET

4 FEBRUARY 2020

CAPITAL BUDGET MONITORING – ROUND 3 2019/20

Portfolio Holder: Councillor Alan Jarrett, Leader
Report from: Phil Watts, Chief Finance Officer
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Summary

This report presents the results of the third 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.
- 1.2 This report has been circulated separately to the main agenda as it was necessary to undertake further consultation with the Leader and Portfolio Holders on the action proposed to mitigate the overspends reported. Therefore, the Cabinet is asked to accept this report as urgent to enable consideration of the matter at the earliest opportunity; the next scheduled Cabinet meeting is due to take place on 3 March 2020 and that would not give sufficient time for any remaining issues to be addressed.

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 to the report provides details of the forecast position for every scheme in the programme.

3. Round 1 Forecast Position

- 3.1 Table 1 overleaf 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 Over/(under) spend £000s
Children and Adults (including Public Health)	33,101	8,721	1,492	0	0	(22,888)
Regeneration, Culture, Environment and Transformation	71,052	33,284	23,496	5,603	9,859	1,190
Housing Revenue Account	11,270	9,290	1,981	0	0	0
Business Support Department	180,079	46,433	62,006	49,772	19,045	(2,825)
Members Priorities	366	326	0	0	0	(40)
Total	295,867	98,054	88,974	55,375	28,904	(24,563)

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	58,175	0
Borrowing in lieu of Capital Receipts	125,426	0	4,749	0	120,677	0
Capital Receipts	4,343	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	5,116	1,415	0	0	0
Revenue / Reserves	7,439	19	1	6,557	8,862	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 are included in a report to the January meeting of Full Council, and therefore the programme has not yet been amended.

- 3.4 Discussions are progressing with the Department for Education (DfE) to explore an opportunity to relocate and expand the Inspire Free School on the Cornwallis site. As a free school, this would be funded by the DfE, meaning that the remaining budget in our capital programme would not be needed for this purpose. £1.5 million of the budget has already been vired under Director delegated authority and in line with Cabinet approvals (decision no. 137/2019 refers) to fund bulge classes and a further £1.5 million virement is awaiting Full Council approval. The remaining £21.2 million is available for reallocation.

- 3.5 Mercury abatement works to the Medway Crematorium overspent by £76,000 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 Full Council will be asked on 23 January to increase the budget, funded by prudential borrowing. The programme has not been amended pending the outcome of the Full Council meeting.
- 3.6 As previously reported work on Medway Tunnel is forecast at £672,000. At present there is no budget or funding for this work and discussions with the Department for Transport appear to have reached an impasse. Furthermore, the revenue sources that had been identified as a potential backstop have now been used as part of the management action to address the current forecast overspend. It is therefore proposed fund the Medway Tunnel pressure from capital receipts and Cabinet are asked to recommend to Full Council that this sum be added to the Capital Programme.
- 3.7 Works to play schemes at Kings Firth and Capstone Country Park are projected to overspend by £24,000, however appropriate Section 106 funding has been identified, and as such Cabinet are asked to recommend to Full Council that this funding be added to the Capital Programme.
- 3.8 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 in delays and additional works, resulting in an overspend of £397,000. 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. At the meeting on 23 January Full Council are being asked to approve an increase the budget to include this funding.
- 3.9 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 £23,000. It has not been possible to identify additional funding or a suitable virement, and Full Council are being asked at the 23 January meeting to increase the budget, funded from borrowing.
- 3.10 Medway Development Company (MDC) development schemes at Wiffens Avenue, White Road and Chatham Waterfront are funded from borrowing. The latest forecasts show an aggregate underspend of £1.435 million which will result in a lower borrowing requirement.
- 3.11 As previously reported a change in the funding arrangements of the Gun Wharf Salix Scheme result in a forecast underspend of £47,000.
- 3.12 The final cost for the purchase of the Head Lease of the Pentagon Centre left a surplus of £7.695 million compared to budget. In August 2019 £3.0 million was vired to facilitate the compulsory purchase of Mountbatten House leaving a remaining surplus of £4.965 million. Cabinet are asked to recommend to Full Council that the surplus is vired for future capital works at the Pentagon.
- 3.13 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. At the 23 January meeting Full Council will be requested to increase the budget for this scheme.

- 3.14 Britton Farm Residential is forecast to spend £6.330 million from a budget of £6.831 million. The saving will result in a lower borrowing requirement.
- 3.15 The members priority scheme for St Mary's Amateur Boxing Club is reported as an underspend pending planning permission and remaining funding.

4. Conclusions

- 4.1 The third round of capital budget monitoring for 2019/20 forecasts an underspend of £24.563million including £21.2million in respect of the SEN School budget. Management is working on addressing the issues outlined above.

5. Financial, Risk Management and Legal implications

- 5.1 The financial implications are set out in the body of the report. 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 Cabinet are asked to note the results of the second round of capital budget monitoring for 2019/20.
- 6.2 Cabinet are asked to recommend to Full Council that the forecast underspend on the purchase of the Pentagon Shopping Centre is vired to a new capital scheme for future capital works at the Pentagon.
- 6.3 Cabinet are asked to recommend to Full Council that funding from capital receipts be added to the Capital Programme to fund the pressure on Medway Tunnel.
- 6.4 Cabinet are asked to recommend to Full Council that Section 106 funding identified be added to the Capital Programme to fund the overspend on Play Scheme Refurbishment.

7. Suggested reasons for decisions

- 7.1 Cabinet has the responsibility to ensure effective budgetary control to contain expenditure within the approved limits set by Council.

Lead officer contact

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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>