

CABINET

8 MARCH 2022

CAPITAL BUDGET MONITORING REPORT ROUND 3 2021/22

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council
Report from: Phil Watts, Chief Finance Officer
Author: Katey Durkin, Head of Finance Strategy

Summary

This report presents the results of the third round of the Council's capital budget monitoring process for 2021/22.

1. Budget and Policy Framework

1.1. Cabinet is responsible for ensuring that capital expenditure remains within the budget approved by Council. Additional schemes (capital additions) or movements in budgets between schemes (virements) are required. Virements below £150,000 can be approved by Directors under delegated authority. Virements between £150,000 and £1million can be approved by Cabinet and those in excess of £1million are a matter for Council.

1.2. The Chief Finance Officer has delegated authority to approve in year additions to the capital programme, in consultation with the Finance Portfolio Holder, subject to the following criteria:

- funding coming from external sources,
- no financial contribution coming from the Council,
- funding being ringfenced for specific purposes.

Any additions made under delegated authority are reported through the next budget monitoring report.

2. Background

2.1. The approved capital programme for 2021/22 as at the round three is £477.169million. This report consolidates the third round of capital budget forecasts for 2021/22. Appendix 1 provides details of budget manager's forecasts for each scheme and updates of the current progress. Where schemes are projected to complete later than the current financial year, a forecast of the anticipated spend profile is given. Each scheme is given a progress rating based upon both the time expected to complete and the cost against that originally anticipated/budgeted for.

3. Summary Capital Programme Position and Funding 2021/22

3.1. Table 1 below summarises the capital programme and Round Three forecast position. Table 2 details how the approved programme will be funded.

Table 1: Monitoring Summary

Directorate	Current Budget	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25+ Forecast	Forecast (Under)/overspend
	£000s	£000s	£000s	£000s	£000s	£000s
Children and Adults (including Public Health)	30,524	7,876	19,068	1,150	0	(2,431)
Regeneration, Culture and Environment	420,222	80,611	103,580	64,879	171,350	197
Housing Revenue Account	21,656	13,054	8,602	0	0	0
Business Support Department	4,404	1,420	2,675	275	0	(34)
Members Priorities	363	3	320	40	0	0
Total	477,169	102,964	134,245	66,344	171,350	(2,266)

Table 2: Capital Funding Summary

Funding Source	Total	C&A (inc. Public Health)	RCE	HRA	BSD	Member Priorities
	£000s	£000s	£000s	£000s	£000s	£000s
Prudential Borrowing	100,037	22,690	64,528	12,572	247	0
Borrowing in lieu of Capital Receipts	112,193	0	112,193	0	0	0
Borrowing in lieu of Future Business Rates	36,533	0	36,533	0	0	0
Borrowing in lieu of Future Section 106 Contributions	1,585	1,585	0	0	0	0
Capital Receipts	7,699	623	2,591	0	4,122	363
Capital Grants	205,393	2,440	202,952	0	2	0
RTB Receipts	45	0	0	45	0	0
Developer Contributions	4,584	3,185	1,399	0	0	0
Revenue / Reserves	9,100	0	27	9,039	34	0
Total	477,169	30,523	420,223	21,656	4,404	363

4. Children & Adults including Public Health

4.1. Table 1 above shows a forecast underspend of £2.431million, however the Capital and Revenue Budget 2022/23 report to Council 24 February 2022 recommends that the balance of the SEND school scheme of £2.468million be removed from the capital programme. This will be effected in the budget before the financial year-end. With this approval, forecast position in respect of the C&A Directorate would be a pressure of £38,000.

4.2. The following additions have been made since round 2:

Cost Centre	Service	Budget Approved (£'000)	Funding Source	Approved by
9X495 – Brompton-Westbrook Expansion Final Phase	Basic Needs	9	Section 106 Contributions	Chief Finance Officer in consultation with the Finance Portfolio Holder 19/10/2021
9X585 – Wayfield Primary Expansion	Basic Needs	321	Section 106 Contributions	Cabinet 19/10/2021 and Chief Finance Officer in consultation with the Finance Portfolio Holder 10/11/2021

4.3. Basic Needs – besides the new additions set out above, the remainder of the Basic Needs programme is forecast to overspend by £31,000. This net figure includes projected overspends driven by increased costs due to covid-19 relating to the Bulge class schemes at:

- Thomas Aveling (£18,000),
- Greenacre (£42,000), and
- Victory Academy (£26,000).

These overspends are partially mitigated by forecast underspends on the Hundred of Hoo Primary Expansion Phase 2 (£5,000), the Rainham Mark Expansion (£3,000) and the Halling Primary Phase 2 (£32,000) and the Rainham Girls Bulge (£6,000). These schemes are all complete with no further spend anticipated so Cabinet is asked to recommend to Council that these schemes be removed from the capital programme. The schemes within the Basic Needs area are all currently funded from a mixture of section 106 Contributions and prudential borrowing. Officers are working to find the additional funding required by using a 'swap' mechanism between section 106 developer contributions and Basic Needs Grant. This exercise has yet to be concluded, but it is anticipated it will resolve the remaining variances on the Basic Need programme by the year end.

4.4. Children's Improvement Programme – this scheme is forecast to budget, however the 2022/23 Capital and Revenue Budget report to Council on 24 February proposes that the schemes within the capital programme funded through the Flexible Use of Capital Receipts to be removed from the capital programme and instead reflected in the 2021/22 revenue budget. Subject to

approval at Full Council on 24 February this change will be effected before the financial year-end.

- 4.5. Children’s Social Care and Social Care – both the Children’s Assessment Unit scheme and the Integrated Care Management System scheme are forecast to budget.
- 4.6. Commissioning – this service area is forecast to budget.
- 4.7. Condition Programme – this service area has forecast to budget, with an underspend on roofing offsetting an overspend on other condition programme works.
- 4.8. SEN Strategy – The SEN Strategy programme is forecast to underspend by £2.47m. The £2.468million budget for the SEN School will now not be required as the Department for Education will deliver the school. The Capital and Revenue Budget 2022/23 reported to Council 24 February 2022 recommends that the balance of this scheme be removed from the capital programme. There is also a projected underspend of £3,000 relating to Abbey Court Relocation & expansion where works have been completed and no further spend is required.

5. Regeneration, Culture & Environment

- 5.1. Table 1 above shows that Capital schemes in the Directorate are collectively forecast to overspend by £197,000. The following additions have been made since round 2:

Cost Centre	Service	Budget Approved (£'000)	Funding Source	Approved by
9L335 – Great Lines Footpath Improvements	Regeneration	29	S106 Developer Contributions	Chief Finance Officer in consultation with the Finance Portfolio Holder 10/11/2021
9L338 – Capstone Park S106 Improvements	Regeneration	99	S106 Developer Contributions	Chief Finance Officer in consultation with the Finance Portfolio Holder 19/01/2022

- 5.2. In addition to the above, the following virements have been approved since Round 2:

Source of Virement Cost Centre	Recipient Of Virement Cost Centre	Virement (£'000)	Funding Source	Approved by
9C301 – Members Priorities	9L336 – Members Priorities Platters Park	3	Capital Receipts	Leader of the Council 21/10/2021
9C301 – Members Priorities	9L337 – Members Priorities Rainham Signage	9	Capital Receipts	Leader of the Council 29/11/2021

- 5.3. Front Line Services –the service area forecast is an overspend of £236,000 relating to the Medway City Estate Connectivity Scheme due to increased materials costs and third-party delays. Cabinet are asked to add S106 funding of £236,000 and a virement of £118,000 from 9T989 Integrated Transport LPT3, which is forecast to underspend, to fund this overspend.
- 5.4. Housing Infrastructure Fund and Communications – this service area is forecast to budget.
- 5.5. Culture & Community – this service is projecting an overspend of £1,000 relating to the Wigmore Community Hub. Officers will need to look for a further source of funding for this projected variance against the approved budget.
- 5.6. Regeneration – this service area forecast is an underspend of £40,000 which relates the Pottery Road Recreation Site Improvements scheme. The works at this site are being managed directly by the Hoo Parish Council and section 106 monies have been paid directly to them as a source of funding. Therefore, the scheme is no longer required and Cabinet are asked to recommend to Council that this scheme be removed from the capital programme.
- 5.7. The 2022/23 Revenue and Capital Budget Report to Cabinet on 8 February 2022 also notes the inclusion of the Brook Theatre Refurbishment, with a total capital budget of £6.622million, funded from the Levelling Up Fund grant with £100,000 contribution from revenue. This scheme has been added to the programme under the Chief Finance Officer's delegated authority, however it is not reflected in the capital programme/monitoring appendix for this report as this addition was made after the budget monitoring had been completed.
6. Housing Revenue Account (HRA)
- 6.1. Capital schemes in the HRA are all forecast to budget

7. Business Support Department

- 7.1. Capital schemes in the Directorate are collectively forecasting an underspend of £34,000 as the Licensing Shared Service Setup scheme has been completed with an underspend. Cabinet are asked to recommend to Council the removal of this scheme from the Capital Programme.

8. Members Priorities

- 8.1. Members Priorities capital schemes are all forecast to budget.

9. Developer Contributions

- 9.1. Developer contributions (primarily relating to Section 106 Agreements) are included within the current Capital Programme as set out in table 3.

Table 3: Developer Contributions in the current Capital Programme

	Current Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	Forecast Under/ (over) spend
	£000s	£000s	£000s	£000s	£000s	£000s
<u>Capital Reserve Developer Contributions</u>						
S106 Highways & Transport Cap	392	327	66	0	0	0
S106 Education Cap	3,185	1,625	1,543	0	0	(17)
S106 Leisure/Heritage Cap	601	244	307	9	0	(40)
Developer Contributions from Capital Reserves	4,178	2,196	1,916	9	0	(57)
<u>Revenue Reserve Developer Contributions</u>						
S106 Public Realm Rev	406	23	124	100	159	0
Developer Contributions from Revenue Reserves	406	23	124	100	159	0

- 9.2. The projected underspend against the education developer contributions is as a result of schemes forecasting underspends within Basic Needs (Hundred of Hoo Primary Phase 2 £5,000)/(Rainham Mark Expansion £3,000)/(Rainham Girls Bulge (£6,000) and within SEN Strategy (Abbey Court Relocation & expansion £3,000).

- 9.3. The projected underspend against the leisure/heritage developer contributions relates to the forecast underspend for the Pottery Road Recreation Site Improvements (para 5.3 refers).

10. Conclusions

- 10.1. The third round of Capital Budget Monitoring for 2021/22 forecasts an underspend of £2.266m. These projected underspends within Children's & Adults (£2.430million) and Business Support Department (£34,000), partially offset by a projected overspend within Regeneration, Culture & Environment (£197,000).

11. Risk Management

Risk	Description	Action to avoid or mitigate risk	Risk rating
The Council overspends against the agreed budget.	Overspends would need to be funded from other sources; the Council's limited reserves or further borrowing, at further revenue cost.	The capital monitoring process is designed to identify and facilitate management action to mitigate the risk of overspending against the agreed budget.	A1
Capital receipts	The budget assumes a significant proportion of the Capital Programme is funded from capital receipts; if the Council does not achieve the required receipts, some elements of the programme may either need to be curtailed or refinanced.	Close monitoring of the programmes anticipated to deliver capital receipts, and careful management of the delivery of those schemes funded from receipts.	D2 (Low likelihood, major impact)
Deliverability of the Capital Programme	Macro-economic conditions, largely but not wholly resulting from the pandemic, have affected the cost and availability of both materials and labour.	Close monitoring of the programme and careful management of the delivery are supported by scrutiny from senior officers and Members.	B3
Medway Development Company activity	A reduction or slowing of the housing market	Skilled and experienced staff within the company and at the Council are	D2 (Low likelihood, major

Risk	Description	Action to avoid or mitigate risk	Risk rating
	could mean that MDC schemes planned may not generate the revenue income or the capital receipts assumed in the Council's budget.	focused on the production of high-quality businesses cases, leading to the selection and delivery of schemes that will perform well. Close monitoring of the programme and careful management of the delivery are supported by scrutiny from senior officers and Members.	impact)
Housing Infrastructure Fund	The delivery of the HIF scheme is funded by Homes England, however any overspend must be funded by the Council.	A dedicated team of skilled and experienced staff are focussed on the delivery of the HIF programme. Close monitoring of the programme and careful management of the delivery are supported by scrutiny from senior officers and Members.	C2 (Significant likelihood, major impact)

12. Financial Implications

12.1. The financial implications are set out in the body of the report.

13. Legal Implications

13.1. There are no direct legal implications to this report.

14. Recommendations

14.1. The Cabinet is asked to note the results of the third round of capital budget monitoring for 2021/22.

14.2. The Cabinet is asked to recommend to full Council the removal of the following completed schemes and unspent budget from the capital programme:

- 9X532 – Hundred of Hoo Primary Expansion Phase 2 (£5,000)
- 9X550 – Rainham Mark Expansion (£3,000)
- 9X554 – Halling Primary Phase 2 (£32,000)
- 9X567 – Rainham Girls Bulge (£6,000)
- 9X838 – Abbey Court Relocation & Expansion (£3,000)
- 9L286 – Pottery Road Recreation Site Improvements (£40,000)
- 9C714 – Licensing Shared Service Setup (£34,000)

14.3. The Cabinet is asked to recommend to full Council the addition of S106 funding of £235,272 and a virement from 9T989 Integrated Transport LPT3 of £117,681 to the 9T625 Medway City Estate Connectivity scheme to fund the overspend projected.

15. Suggested reasons for decision

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

Lead officer contact

Katey Durkin, Head of Finance Strategy, 01634 332355,
katey.durkin@medway.gov.uk

Appendices

Appendix 1 – 2021/22 Capital Budget Monitoring Round 3.

Background Papers

None