

## **BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE**

**31 MARCH 2022**

### **CAPITAL BUDGET MONITORING REPORT ROUND 3 2021/22**

Report from: Phil Watts, Chief Operating Officer  
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#### **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 are 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 Operating 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 managers 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 £000s	2021/22 Forecast £000s	2022/23 Forecast £000s	2023/24 Forecast £000s	2024/25+ Forecast £000s	Forecast (Under)/overspend £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
<b>Total</b>	<b>477,169</b>	<b>102,964</b>	<b>134,245</b>	<b>66,344</b>	<b>171,350</b>	<b>(2,266)</b>

**Table 2: Capital Funding Summary**

Funding Source	Total £000s	C&A (inc. Public Health) £000s	RCE £000s	HRA £000s	BSD £000s	Member Priorities £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
<b>Total</b>	<b>477,169</b>	<b>30,523</b>	<b>420,223</b>	<b>21,656</b>	<b>4,404</b>	<b>363</b>

#### 4. Children & Adults including Public Health

4.1. Table 1 above shows a forecast underspend of £2.431million, however in approving the Capital and Revenue Budget 2022/23 report on 24 February 2022, Full Council approved the removal of the balance of the SEND school scheme of £2.468million from the capital programme. This will be affected in the budget before the financial year-end. With this approval, forecast position in respect of the C&A Directorate is 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 on 8 March 2022, the Cabinet agreed to recommend to Council in April that these schemes will 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 in approving the 2022/23 Capital and Revenue Budget report on 24 February, Full Council agreed that the schemes within the capital programme funded through the Flexible Use of Capital Receipts will be removed from the

capital programme and instead reflected in the 2021/22 revenue budget, and this change will be affected 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. In approving the Capital and Revenue Budget 2022/23 report on 24 February 2022, Full Council agreed that the balance of this scheme will be removed from the capital programme. There is also a projected underspend of £3,000 relating to Abbey Court relocation and 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:

<b>Cost Centre</b>	<b>Service</b>	<b>Budget Approved (£'000)</b>	<b>Funding Source</b>	<b>Approved by</b>
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. On 8 March 2022 the Cabinet agreed add S106 funding of £236,000 to fund this overspend (decision 43/2022 refers).
- 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 on 8 March 2022 the Cabinet agreed to recommend to Council in April that this scheme be removed from the capital programme (decision 42/2022 refers).
- 5.7. The 2022/23 Revenue and Capital Budget Report to Cabinet on 8 February 2022 also noted 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 Operating 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. On 8 March 2022 the Cabinet agreed to recommend to Council in April that this scheme be removed from the Capital Programme (decision 42/2022 refers).

## 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)
<b>Developer Contributions from Capital Reserves</b>	<b>4,178</b>	<b>2,196</b>	<b>1,916</b>	<b>9</b>	<b>0</b>	<b>(57)</b>
<u>Revenue Reserve Developer Contributions</u>						
S106 Public Realm Rev	406	23	124	100	159	0
<b>Developer Contributions from Revenue Reserves</b>	<b>406</b>	<b>23</b>	<b>124</b>	<b>100</b>	<b>159</b>	<b>0</b>

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 5.6 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
<b>The Council overspends against the agreed budget.</b>	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
<b>Capital receipts</b>	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)
<b>Deliverability of the Capital Programme</b>	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
<b>Medway Development Company activity</b>	A reduction or slowing of the housing market could mean that MDC schemes planned may not generate the	Skilled and experienced staff within the company and at the Council are focused on the production of high-quality businesses cases, leading to the selection and delivery of	D2 (Low likelihood, major impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
	revenue income or the capital receipts assumed in the Council's budget.	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.	
<b>Housing Infrastructure Fund</b>	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 Committee is asked to note the results of the third round of capital budget monitoring for 2021/22.

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### Appendices

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

### Background Papers

None