

Capital Financial Performance Report Quarter One 2022/23

Committee considering report:	Executive
Date of Committee:	22 September 2022
Portfolio Member:	Councillor Ross Mackinnon
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	EX4248

1 Purpose of the Report

The financial performance report provided to Members reports on the forecast under or over spends against the Council's approved capital budget. This report presents the forecast outturn position for financial year 2022/23 as at Quarter One.

2 Recommendations

- 2.1 That the Executive approve the proposed reprofiling of £4.2 million of future expenditure from 2022/23 into financial year 2023/24.
- 2.2 That the Executive note the report

3 Implications and Impact Assessment

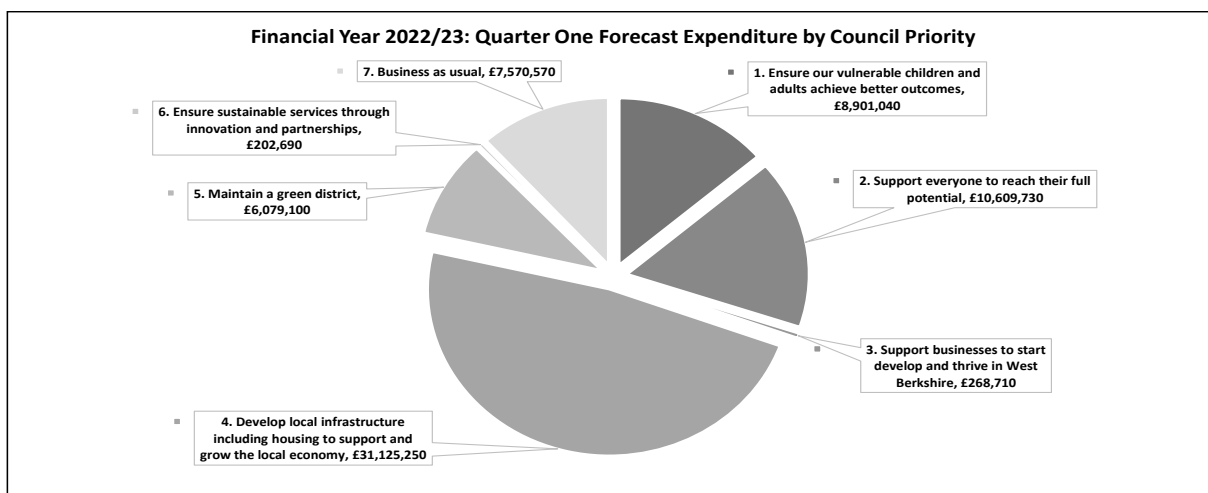
Implication	Commentary
Financial:	At the end of Quarter One, expenditure of £64.8 million has been forecast against a revised budget of £75.8 million, an overall forecast underspend of £11 million. £4.2 million of future expenditure is proposed to be reprofiled into financial year 2023/24.
Human Resource:	Not applicable
Legal:	Not applicable
Risk Management:	A key ongoing risk is the potential impact of engaged suppliers to default on contractual obligations through financial

	difficulties. Budget Managers and Capital Strategy Group are closely monitoring these risks to highlight projects with potential suppliers of concern and where there is an ongoing risk of default and/or the potential to retender agreed contracts at potentially higher cost.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		

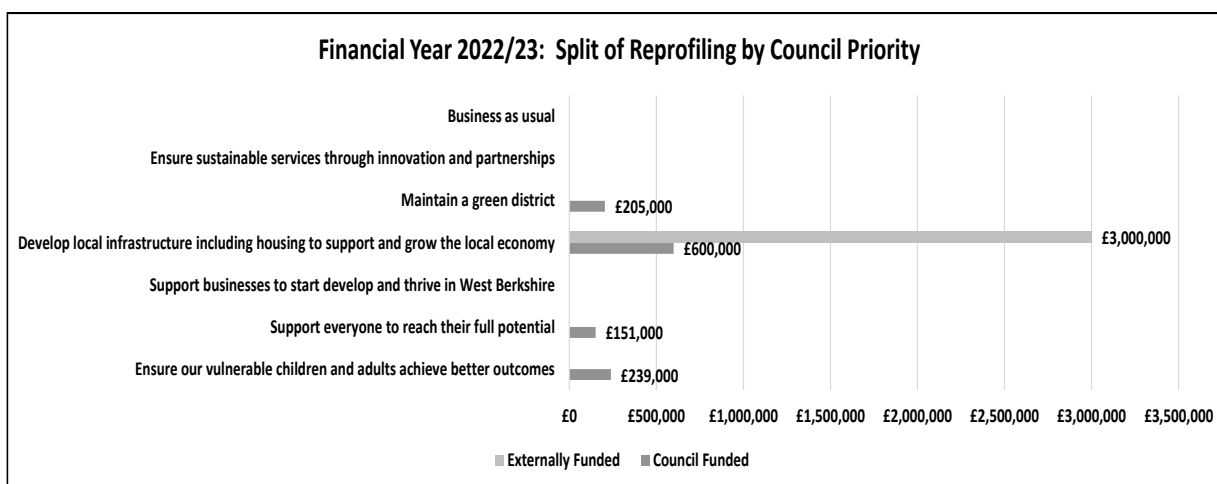
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	<p>Joseph Holmes, Executive Director for Resources, s151 Officer</p> <p>Capital Strategy Group (CSG)</p> <p>The report was taken to Overview and Scrutiny Management Commission (OSMC) on 6 September 2022 – comments below:</p> <ul style="list-style-type: none"> • OSMC asked if capital projects would be delayed due to inflationary pressures and increased borrowing costs. It was noted that there would be a comprehensive update when the Capital Strategy was reviewed in March. • It was noted that many capital projects had already been procured, but inflation would have a more significant impact on future schemes. • Concern was expressed that project scopes may be scaled back, which would lead to reduced benefits being delivered and could potentially prove more costly in the long-term. • Members noted the disappointing income from solar schemes due to delivery being behind schedule and sought assurance that this situation would improve in coming quarters 			

4 Executive Summary

- 4.1 The capital programme enables delivery of key Council schemes focused on supporting the approved Capital and Council Strategies. At Quarter One expenditure of £64.8 million is forecast to be incurred in delivering against the approved capital programme in financial year 2022/23. The forecast expenditure of £64.8 million against an approved budget of £75.8 million, generates a forecast underspent at the yearend of £11.0 million.
- 4.2 £9.0 million of expenditure was reprofiled from financial year 2021/22 into 2022/23, which equates to a 13.8% increase on the approved 2022/23 capital programme of £65.6 million. The quarter one forecast proposes a total programme (i.e. approved programme plus slippage from 2021/22), delivery of 85.5% in financial year 2022/23. Forecast expenditure against the capital programme is aligned to the approved Council Strategy. The graphic below shows the forecast expenditure in year based on Council priority.



4.3 £4.2 million of future planned expenditure is proposed to be reprofiled into financial year 2023/24, a detailed breakdown of proposed reprofiling is included in Appendix B. £1.2 million of Council funded expenditure (i.e. financed through external borrowing) and £3 million of externally funded expenditure is proposed to be reprofiled into financial year 2023/24. The proposed reprofiling is broken down as follows:



4.4 In respect of financing the capital programme, as at 30th June 2022, the Council’s total level of long term borrowing to fund capital spend stood at £191.2 million. During financial year 2021/22 a strategy of not undertaking long term borrowing in respect of Public Works and Loan Board (PWLB) financing was pursued, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low has continued in the first quarter of 2022/23. Principal repayments of £4.3 million are due by the 31st March 2023 which will reduce the total level of long term borrowing to £186.9 million at the 31st March 2023 if no further long term borrowing is taken out during the current financial year.

4.5 In respect of the economic outlook, the Bank of England Monetary Policy Committee has approved a series of stepped increase in Base Rate in 2022, which stands at 1.75% at the time of writing this report with anticipated further increases potentially reaching 3% within the current financial year. Appendix C details the interest rate forecasts as

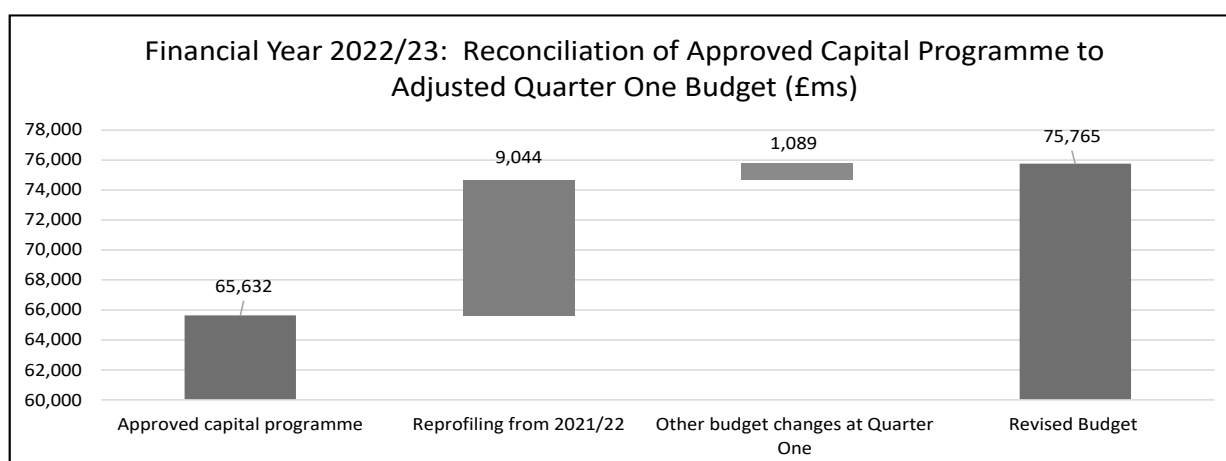
supplied by the Council’s external treasury advisors Arlingclose. In a rising interest environment, the Council will face risks of increased cost on any new external borrowing undertaken to support delivery of planned capital works, in addition to general cost inflationary pressures. The capital programme approved by Council Committee in March 2022 was set with the expectation to undertake £14.5 million of new long term borrowing alongside £8.1 million of short term borrowing during 2022/23; officers are seeking to mitigate the use of additional long term borrowing during this financial year.

4.6 In respect of developments to regulations and restrictions relating to Local Government capital financing, a ‘capital finance risk management’ clause has been included within the Levelling Up and Regeneration Bill included within the Queens’ Speech laid before Parliament on 11 May. The clause provides the Secretary of State with new powers to intervene in individual councils in order to “reduce or mitigate financial risk”, i.e. the Secretary of State may direct a local authority to set borrowing limits or require a council to “divest itself of a specified asset”. Furthermore, in May 2022 the Treasury issued updated guidance on Public Works and Loan Board (PWLB) lending to say that the PWLB will not typically advance new loans if there is a “more than negligible risk” that a new loan will not be repaid without future government support. The capital financing position of the Council’s approved capital programme for 2022/23 will be monitored by Treasury Management Group during 2022/23.

5 Supporting Information

Introduction

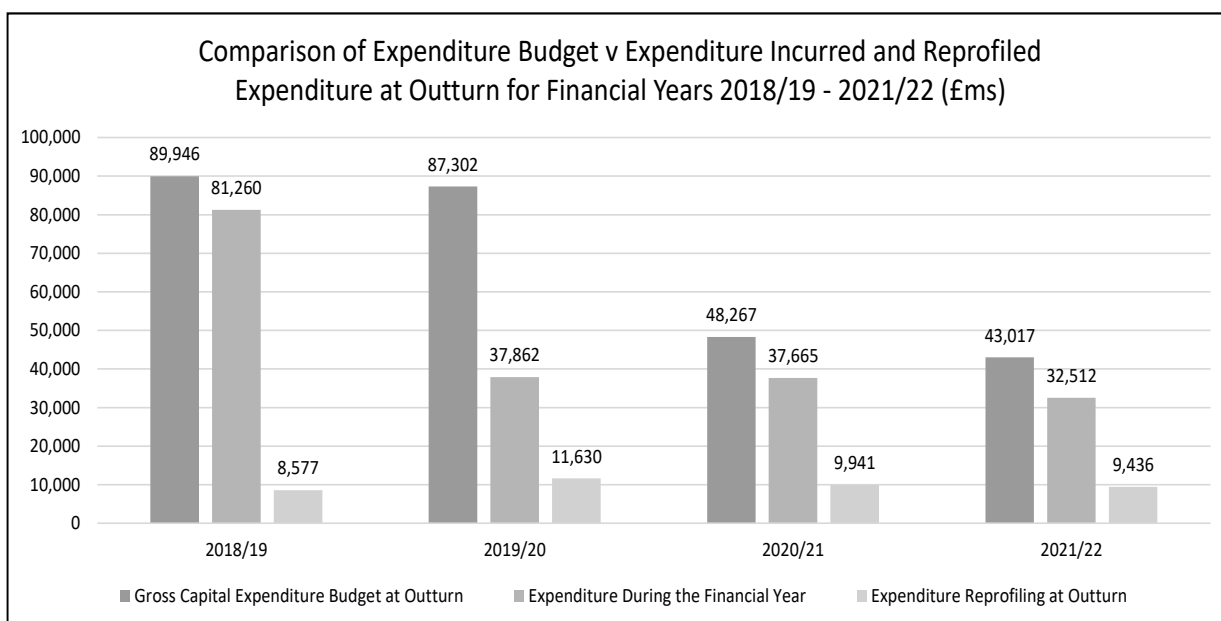
5.1 The 2022/23 capital programme was agreed by Council in March 2022 with a gross expenditure budget of £65.6 million split between externally funded expenditure of £28.7 million and £36.9 million of Council funded expenditure (i.e. application of capital receipts and external borrowing). The repayment of principal sums and interest on loans used to fund capital expenditure are met from the revenue budget for capital financing and risk management. Included within the capital programme for 2022/23 is £20.3 million of expenditure reprofiled from the 2021/22 approved capital programme. At outturn (financial year 2021/22) a further £9 million of planned expenditure was approved for reprofiling into financial year 2022/23 in addition to the approved 2022/23 capital programme. At Quarter One financial year 2022/23 gross planned expenditure on the capital programme is £75.7 million. The graphic below details the changes from the approved programme to Quarter One.



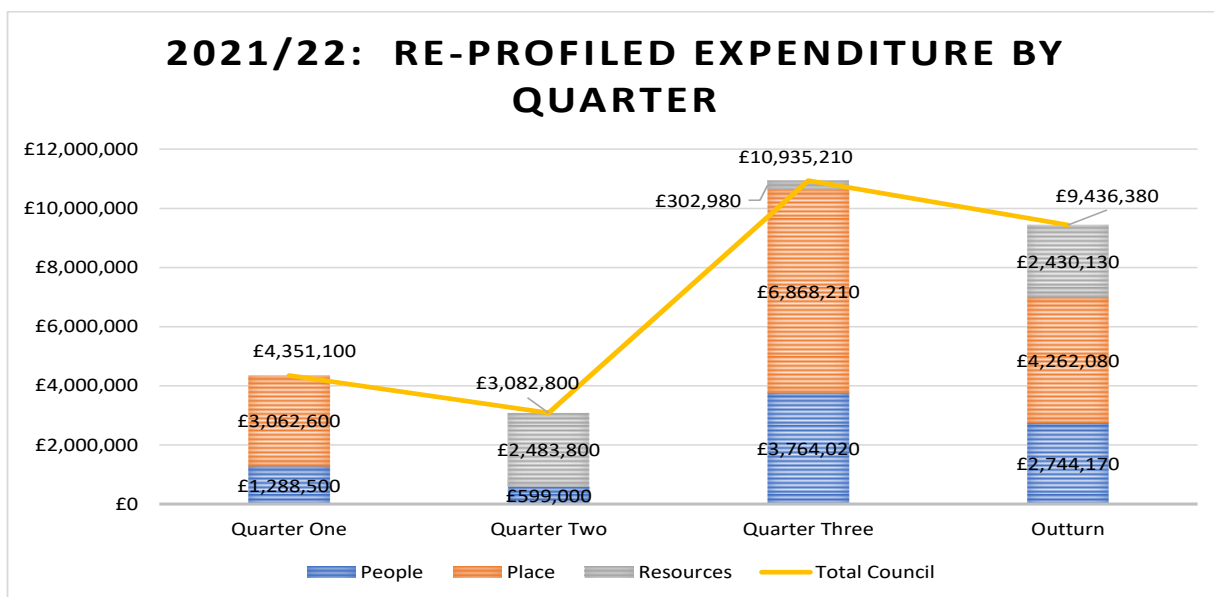
5.2 During the financial year budget changes may occur, mainly as a result of budgets brought forward from prior financial years, additional grants, s106 and CIL allocations received in year and expenditure re-profiled in future financial years. Changes of less than £250k can be approved by the s151 Officer in conjunction with the portfolio holder, all other changes must be approved by Capital Strategy Group (CSG) and reported to Executive as set out in the Council’s Financial Regulations. As part of the budget monitoring process, the forecast year end position of the capital projects is reviewed and proposals for unutilised budgets to be re-profiled into subsequent financial years is reviewed by Capital Strategy Group (CSG). Appendix A provides a breakdown of budget changes as at the 2022/23 year end.

Background

5.3 As part of the annual budget build cycle future expenditure identified in a financial year that is unlikely to be incurred is reprofiled into the subsequent financial years capital programme. Reprofiled is undertaken up to an including Quarter Three annually. At outturn annually further previously unidentified sums are reprofiled, often termed slippage into the subsequent financial year. The graphic below shows the capital programme budget at outturn compared to expenditure incurred and sums reprofiled/slipped at outturn for the previous four financial years.



5.4 In respect of the reprofiling of planned expenditure from 2021/22 to 2022/23, the graphic below details reprofiling undertaken throughout 2021/22 on a directorate basis, including reprofiling undertaken at outturn.



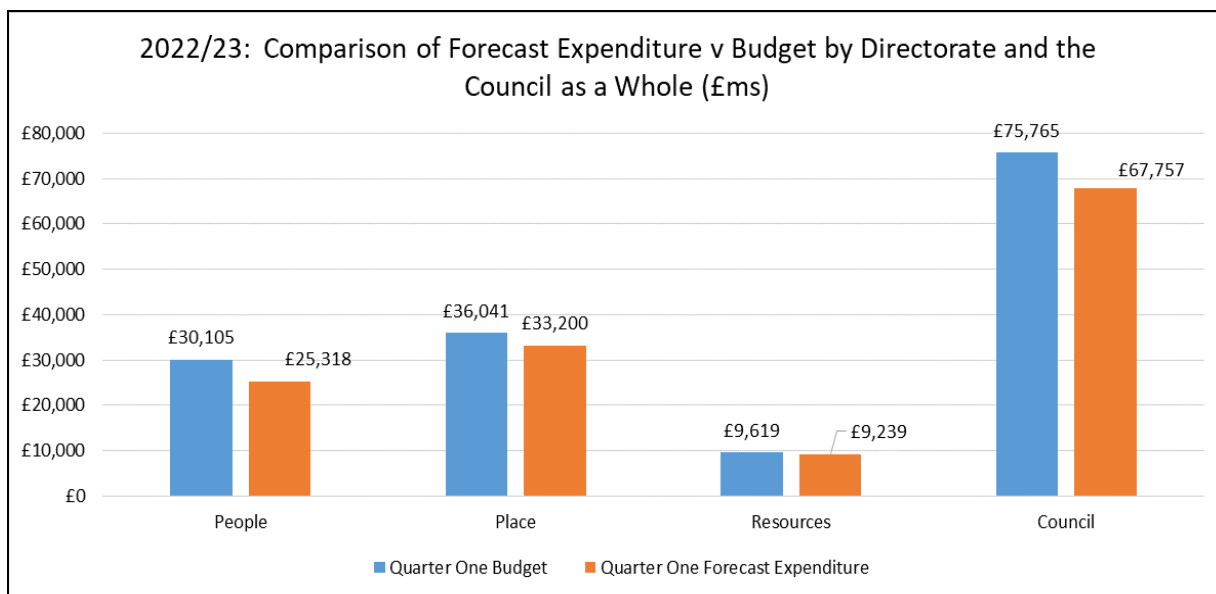
5.5 The table below details the major projects with planned expenditure reprofiled from 2021/22 into 2022/23. £6.9 million of reprofiling was directly attributable to major projects, with the balance of reprofiling spread across smaller budgets.

Service	Project Title	Reprofiled at	Quarter One	Forecast	Variance
		Outturn 2021/22	Budget 2022/23	Expenditure	(underspend)/over spend against budget
		£	£	£	£
Adult Social Care	Care Director V6 Upgrade	566,960	566,960	566,960	0
Adult Social Care	Occupational Therapy Equipment	206,000	1,390,520	1,390,520	0
Education Services	Speenhamland 2FTE Project	273,000	429,610	298,400	-131,210
Education Services	Parsons Down Rationalisation Project	406,000	585,680	445,630	-140,050
Communities & Wellbeing	Expansion of Berkshire Records Office	188,000	1,447,450	1,447,450	0
Communities & Wellbeing	Hungerford Modular Exercise Studio	151,000	290,830	290,830	0
Development & Regulation	Disabled Facilities Grant	648,000	2,334,860	2,334,860	0
Development & Regulation	Four Houses Corner	518,000	2,017,910	2,017,910	0
Environment	Newbury Train Station Redevelopment	1,350,000	5,555,500	2,555,500	-3,000,000
Environment	Renewable Energy Provision	299,000	2,949,200	2,949,200	0
Environment	Active Travel Infrastructure	208,000	982,520	982,520	0
Environment	Transport Services Fleet Upgrade	196,000	335,830	318,650	-17,180
ICT	Full Fibre to Schools Upgrade	1,347,090	1,347,090	1,347,090	0
Finance & Property	Building Maintenance	205,000	593,230	593,230	0
Finance & Property	Landlord Refits - Commercial Properties	180,000	969,920	969,920	0
Finance & Property	Rationalisation of Corporate Offices	118,000	908,780	908,780	0
Strategy & Governance	Digitisation Infrastructure	80,300	180,300	180,300	0

5.6 The Newbury Train Station Redevelopment forecast underspend of £3 million is proposed as reprofiling at Quarter One 2022/23 into financial year 2023/24. In respect of this project the delays in project completion are due to external parties, further detail is provided in section 5.12 (a).

Financial Year 2022/23 Forecasting as at Quarter One

5.7 Total forecast expenditure against the approved capital programme of £75.8 million for financial year 2022/23 amounts to £64.8 million. The graph below details the forecast expenditure outturn position by directorate and the Council as a whole.



The People Directorate

5.8 The directorate is forecasting total expenditure of £25.3 million against a budget of £30.1 million.

People Directorate	Quarter One Budget	Quarter One Forecast Expenditure	Forecast (Under)/Over spend at Quarter One
Adult Social Care	£3,808,020	£3,866,280	£58,260
Childrens and Family Services	£30,000	£30,000	£
Education	£14,506,170	£10,012,470	(£4,493,700)
Communities & Wellbeing	£11,760,470	£11,409,470	(£351,000)
Total Directorate	£30,104,660	£25,318,220	(£4,786,440)

5.9 The forecast position is driven by the Education Service with underspends against the following key projects:

- (a) Downlands Sport Centre Replacement & Extension (forecast £2.1 million underspend), has been delayed by three months due to issues in establishing an agreed drainage scheme with planning. A revised drainage scheme has now been submitted.
- (b) SEMH/ASD Secondary Resourced Provision (forecast £660k underspend), phase 1 (demolition) is now complete, phase 2 (MUGA and car park) are scheduled to complete in August. Stage 1 of the tender process for stage 4 of the project s programmed for September with a final project completion anticipated in 2023.
- (c) Education Services: i-college Project (forecast £406k underspend), due to delays appointing a contractor and accessing the site. Further delays to

the project are dependent on preliminary works being completed prior to planning permission expiring.

- (d) Education Services: The Education Planned Maintenance Programme. (forecast £280k underspend), delays in survey returns has compromised overall project delivery.

5.10 The forecast underspend within the Communities & Wellbeing service relates to the refurbishment of both Kennet and Northcroft Leisure Centres. The forecast underspend of £351k is combined across both projects and is the result of delays in a new leisure management contract being awarded, which is scheduled for March 2023.

The Place Directorate

5.11 The directorate is forecasting total expenditure of £30.2 million against a budget of £36.0 million.

Place Directorate	Quarter One Budget	Quarter One Forecast Expenditure	Forecast (Under)/Over spend at Quarter One
Development & Regulation	£6,232,210	£6,232,210	£
Environment	£29,808,630	£23,967,680	(£5,840,950)
Directorate Totals	£36,040,840	£30,199,890	(£5,840,950)

5.12 The forecast position is driven by the Environment Service and relates to three main projects:

- (a) Newbury rail Station Improvements (forecast £3 million underspend), the project is jointly funded with external parties, various stages of the project are dependent on other parties completing works.
- (b) Theale Station Improvements (forecast £1.4 million underspend), the project now has a revised completion date of October 2023. This is a complex project involving a number of organisations seeking to deliver some significant infrastructure at the station and over the rail track. The team are currently awaiting the spend profile from Great Western Railways. Network Rail have appointed a contractor to deliver the AfA footbridge and lift (expected installation Dec 2022-Jan 2023).
- (c) Robin Hood Roundabout and A4 improvements (forecast £1.5 million underspend), there is a further risk of this project being delayed, which is dependent on consultation responses.

The Resources Directorate

5.13 The directorate is forecasting total expenditure of £9.2 million against a budget of £9.6 million.

Directorate	Quarter One Budget	Quarter One Forecast Expenditure	Forecast (Under)/Over spend at Quarter One
ICT	£4,604,220	£4,599,620	(£4,600)
Finance and Property	£4,433,820	£4,358,110	(£75,710)
Strategy and Governance	£581,250	£281,250	(£300,000)
Directorate Totals	£9,619,290	£9,238,980	(£380,310)

5.14 The main the contributing factor to the directorate forecast position is the Education Management Information System project (forecast £250k underspend). The project is currently delayed due to the supplier withdrawing from the project.

Capital Financing

5.15 The Prudential Code requires authorities to look at capital and investment plans in light of overall organisation strategy and resources to ensure that decisions are made with sufficient regard to the long term financing implications and risks to the Council. To demonstrate that local authorities have fulfilled these objectives, the code sets out a number of indicators, the code does not include suggested indicative limits or ratios. Local Authorities are to set their own limits and ratios, subject to controls under section 4 of the Local Government Act 2003. The Council's capital programme is a key driver of the treasury management activity.

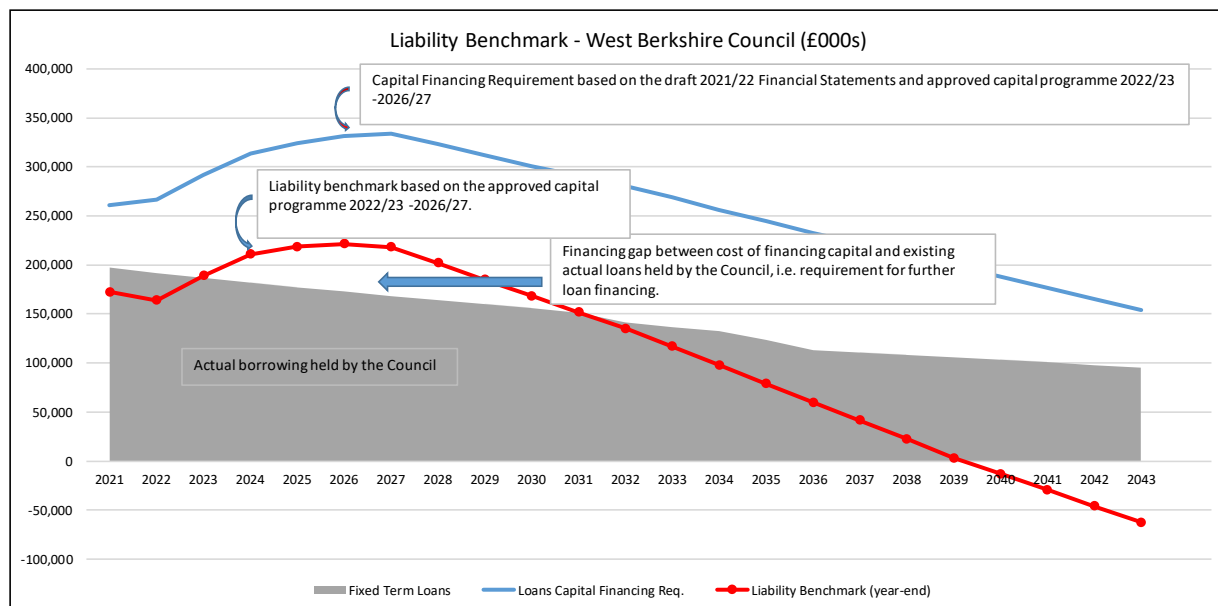
5.16 A key indicator is the Council's Operational Boundary for debt which was approved at Council on 3rd March 2022, at £350.7 million for financial year 2022/23. As well as the level of borrowing needed to fund capital expenditure, the Operational Boundary also allows for debt embedded in the Waste PFI contract and any temporary borrowing which is required for cash flow purposes during the year (up to a maximum of £20 million at any one time).

5.17 As at 30th June 2022, the Council's total level of long term borrowing to fund capital spend stood at £191.2 million. During financial year 2021/22 a strategy of not undertaking long term borrowing in respect of Public Works and Loan Board (PWLB) financing was pursued, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low has continued in the first quarter of 2022/23. Principal repayments of £4.3 million are due by the 31st March 2023 which will reduce the total level of long term borrowing to £186.9 million at the 31st March 2023 if no further long term borrowing is taken out during the current financial year.

5.18 In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB), lending facility and CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR (the underlying need to

borrow for capital purposes is measured by the Capital Financing Requirement (CFR)), unless directly and primarily related to the functions of the authority.

5.19 The 2022/23 capital programme is forecast (based on the approved 2022/23 -2026/27 Capital Strategy), expected to increase the Council’s CFR by £23 million to £291.9 million by 31.3.2023 based on the Council’s draft 2021/22 financial statements and the approved capital programme.

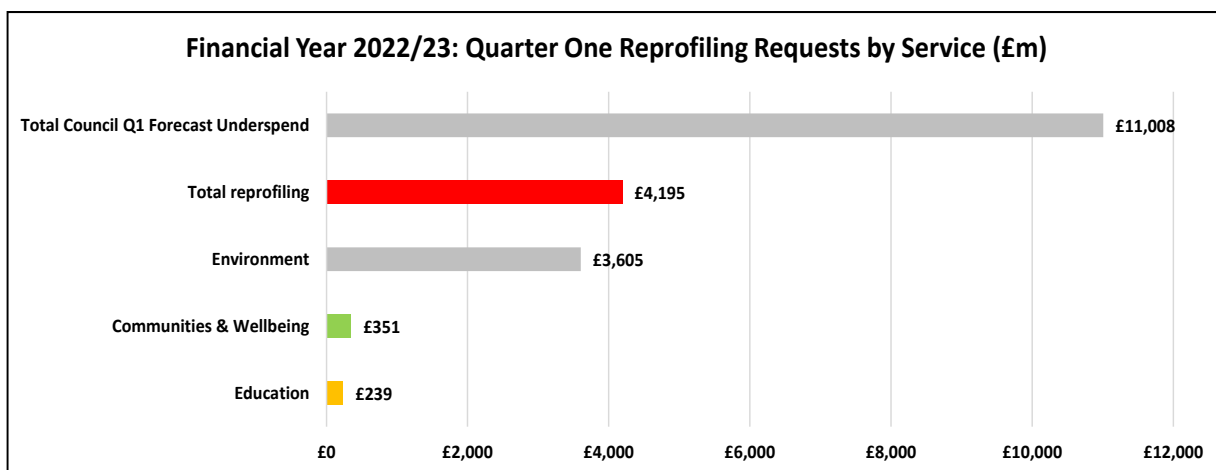


5.20 In respect of existing commercial investments under the new enhanced rules Councils are not required to disinvest (i.e. sell assets); however, Councils with existing commercial investments who expect to need to borrow should review the options for exiting these investments. Included within proposed capital expenditure to be funded by external borrowing in financial year 2022/23 is £969k of planned expenditure (forecast to be fully spent by 31.3.2023) on refit costs for commercial properties.

Proposals

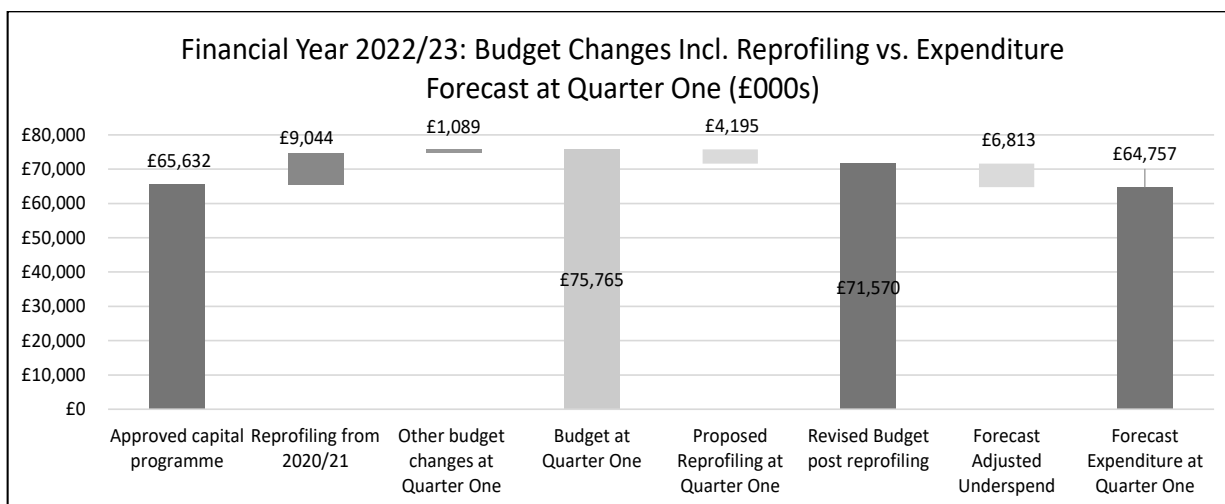
5.21 As part of the Quarter One budget monitoring review, expenditure has been identified as unlikely to be incurred in the current financial year and is requested to be reprofiled into subsequent financial years. £4.2 million of proposed reprofiling has been identified across the Education, Communities & Wellbeing and Environment capital programmes, Appendix B provides a breakdown of project expenditure identified for reprofiling.

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5.22 The funding of the proposed reprofiling is split between £1.2 million of Council funding (i.e. expenditure funded through external borrowing) and £3 million of external funding (i.e. external grants, s106 and Cil). Post reprofiling the adjusted forecast 31.3.2023 outturn position for the capital programme is £6.8 million.

Directorate	Approved Programme (Including Slippage)	Quarter One Budget	Quarter One Forecast Expenditure	Forecast (Under)/Over spend at Quarter One	Proposed Expenditure Re-profiling	Forecast (Under)/Over spend adjusted for Re-Profiling
People	£29,760,970	£30,104,660	£25,318,220	(£4,786,440)	£590,000	(£4,196,440)
Place	£35,951,080	£36,040,840	£30,199,890	(£5,840,950)	£3,605,000	(£2,235,950)
Resources	£8,963,890	£9,619,290	£9,238,980	(£380,310)	£	(£380,310)
Chief Executive	£	£	£	£	£	£
Total Council	£74,675,940	£75,764,790	£64,757,090	(£11,007,700)	£4,195,000	(£6,812,700)

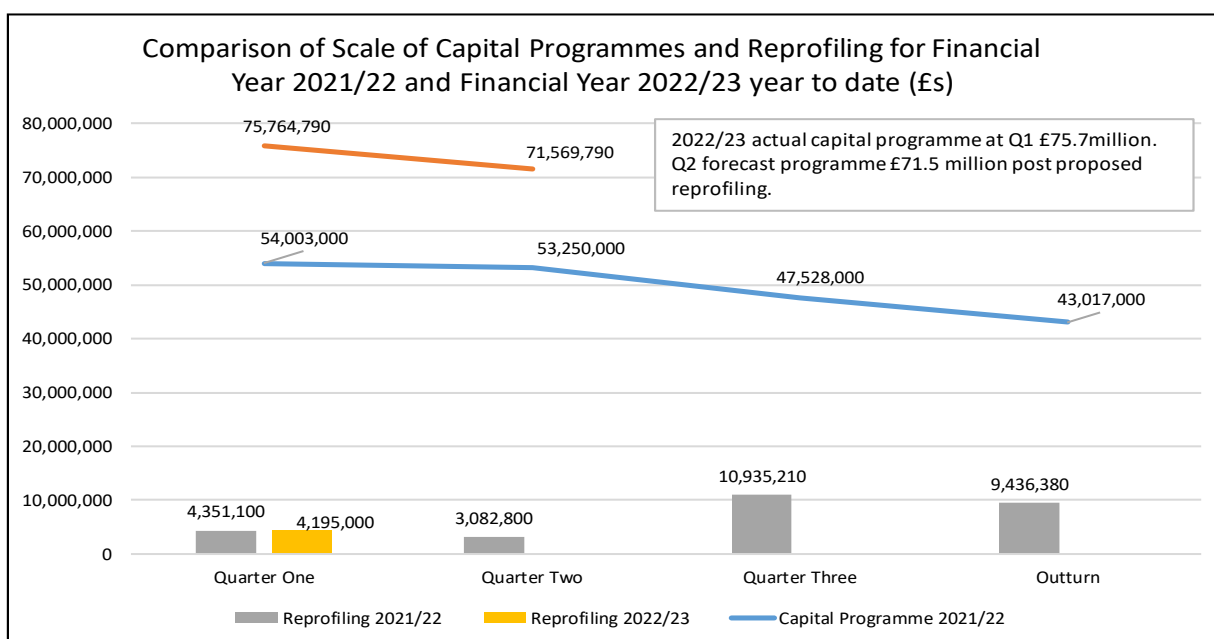


6 Other options considered

Not applicable.

7 Conclusion

- 7.1 In respect of the full programme at Quarter One there is a forecast underspend of £11 million with a proposal to reprofiled £4.2 million of future expenditure into financial year 2023/24.
- 7.2 The programme is subject to a number of financial risks. Current construction inflation forecasts for 2022 indicate that a reasonable estimate would be 8 – 10%. The impact is that current contracts are subject to a reduction in scope to deliver within agreed financial terms and tender cost for new projects subject to significant increases. The scale of the programme itself is also dependant on sufficient resourcing both internally and externally being available to support delivery. During financial year 2021/22 in total £27.8 million of expenditure was reprofiled into 2022/23 (including £9 million reprofiled at outturn), which equated to 58% of the original 2021/22 capital programme. The graphic below shows a comparison in scale of capital programme and the level of reprofiling at Quarter One for financial years 2021/22 and 2022/23.



- 7.3 The financial position and risks associated with delivery of the capital programme will be monitored throughout the financial year by Capital Strategy Group. As part of the 2023/24 and ten year capital programme budget build process, expenditure identified as unlikely to occur in 2022/23 will be reprofiled into later financial years.

8 Appendices

Appendix A – Budget Changes as at Quarter One

Appendix B – Re-profiling Proposal

Appendix C – Arlingclose Future Rate Forecasts

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

Officer details:

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Budget Changes: As at Quarter One Financial Year 2021/22

Service Area	Original Gross Expenditure Budget 2022/23	Budget Agreed by CSG to be Re-profiled from 2021/22	Other Changes to 2021/22 Budget	Revised Budget for 2022/23	Explanation of Other Agreed Changes
PEOPLE DIRECTORATE					
Adult Social Care	3,022,170	785,850		3,808,020	
Children & Family Services	20,000	10,000		30,000	
Education	13,023,530	1,138,950	343,690	14,506,170	£8,530 Salary Adjustment required as per agreement at CSG to balance estimates approved in March 2022 £293,690 Additional Budget Approved for SEMH Project at CSG £50,000 approved by CSG for Kennet School PDR Unit Remodelling Works £45,340 Salary transferred from Property Budget - Correction of post location approved by JH on 30/05/22
Communities & Wellbeing	11,104,120	656,350		11,760,470	
Total for People Directorate	27,169,820	2,591,150	343,690	30,104,660	
PLACE DIRECTORATE					
Development & Regulation	4,978,720	1,253,490		6,232,210	
Environment	26,744,120	2,974,750	89,760	29,808,630	£186,300 Increased budget approved for Separate Food Waste Collection Project (£96,540) Salary Adjustment required as per agreement at CSG to balance estimates approved in March 2022
Total for Place Directorate	31,722,840	4,228,240	89,760	36,040,840	
RESOURCES DIRECTORATE					
ICT	3,178,760	1,425,460		4,604,220	

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Finance & Property	3,114,120	694,300	625,400	4,433,820	£691,130 - Timelord 2 Capital Funding - Budget amended to reflect the Executive paper from 2021-22
Strategy & Governance	446,000	105,250	30,000	581,250	£30,000 for Youth Participation Project approved at CSG
Total for Resources Directorate	6,738,880	2,225,010	655,400	9,619,290	
CHIEF EXECUTIVE					
Chief Executive	0	0	0	0	
Total Capital Budget	65,631,540	9,044,400	1,088,850	75,764,790	

Proposed Re-profiling at Quarter One

Service	Project Title	Expenditure Budget	Expenditure at Q1	Underspend at Quarter 1	Re-profiling Request	Externally Funded Re-profiling	Council Funded Value
Education	SEMH/ASD Resourced Provision - Secondary	3,125,060	2,464,660	(660,400)	239,000		(239,000)
		3,125,060	2,464,660	(660,400)	239,000	0	(239,000)
Communities & Wellbeing	Refurbishment of Northcroft Leisure Centre preliminary works	151,000	0	(151,000)	151,000		(151,000)
Communities & Wellbeing	Refurbishment of Kennet Leisure Centre	200,000	0	(200,000)	200,000		(200,000)
	Wellbeing Total	351,000	0	(351,000)	351,000	0	(351,000)
Environment	Newbury Rail Station Road Improvements	5,555,500	2,555,500	(3,000,000)	3,000,000	(3,000,000)	
Environment	Theale Station Improvements	1989290	500000	(1,489,290)	400,000		(400,000)
Environment	Natural Carbon Reduction Measures	1225000	500000	(725,000)	205,000		(205,000)
	Total	8,769,790	3,555,500	(5,214,290)	3,605,000	(3,000,000)	(605,000)
		12,245,850	6,020,160	(6,225,690)	4,195,000	(3,000,000)	(1,195,000)

Arlingclose Future Rate Forecasts

