

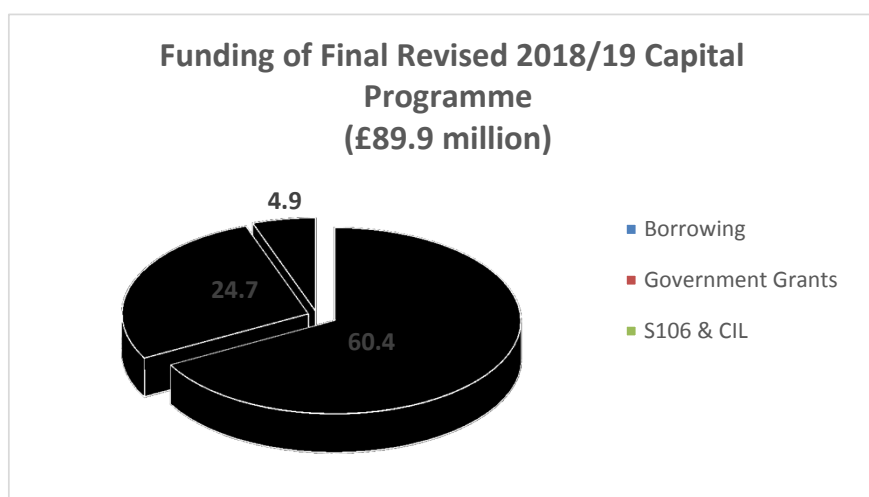
Capital Programme Financial Performance Report: Provisional Outturn 2018/19 - Supporting Information

1. Introduction

- 1.1 The financial performance reports provided to Members throughout the financial year report the under or over spend against the Council's approved capital budget. This report presents the provisional capital outturn for the Council in respect of financial year 2018/19. It should be noted that these figures are provisional and may change as a result of External Audit.
- 1.2 A capital budget for 2018/19 of £72.8million was set by Council in March 2018 with funding of £25.5million from external grants, £4.5million section 106 contributions and Community Infrastructure Levy and with £42.8million planned to be funded from borrowing. During the year budget changes have occurred, mainly as a result of budgets brought forward from the previous financial year, additional grants and section 106 allocations received in year and spend re-profiled into 2019/20.
- 1.3 The repayment of principal and interest on loans which are used to fund capital spending are met from the revenue budget for capital financing and risk management. Actual spend on this budget is reported in the Revenue Outturn Report.

2. Changes to the 2018/19 Capital Budget

- 2.1 During the year budget changes may occur, mainly as a result of budgets brought forward from the previous financial year, additional grants and section 106 allocations received in year and spend re-profiled into 2019/20. Allocations of additional funding of less than £50k can be approved by the Finance Manager and the relevant Head of Service and other budget changes must be approved by Capital Strategy Group (CSG) as set in the Council's Financial Regulations. The revised budget at year end is £89.9 million.



3. Provisional Capital Outturn 2018/19

Directorate Summary	Current Budget	Quarter Three		Outturn		Change from Quarter Three Forecast	Amount proposed to be Re-profiled to 2019/20
		Forecast Spend in Year	Forecast (under)/Over Spend	Total Spend in Year	(Under)/Over Spend		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Communities	11,148	10,967	0	10,316	(832)	(832)	896
Economy & Environment	27,542	26,924	0	20,116	(7,426)	(7,426)	7,202
Resources	51,256	49,671	(3,078)	50,828	(428)	2,650	479
Totals	89,946	87,562	(3,078)	81,260	(8,686)	(5,608)	8,577

- 3.1 Total capital expenditure in 2018/19 was £81.3 million against the £89.9 million budget, an overall underspend of £8.7 million or 9.7 %. The final underspend was £5.6 million higher than the forecast at Quarter Three of £3.1million. Capital Strategy Group on the 9th May has reviewed the outturn in detail and proposes that £8.6 million should be carried forward into 2019/20 to enable the continuation of schemes already underway and to help fund emerging pressures in the capital programme.

4. Communities Directorate Outturn

Communities	Current Budget	Quarter Three		Outturn		Change from Quarter Three Forecast	Amount proposed to be Re-profiled to 2019/20
		Forecast Spend in Year	Forecast (under)/Over Spend	Total Spend in Year	(Under)/Over Spend		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care	1,636	1,539	0	1,791	155	155	(90)
Children & Family Services	120	113	0	148	28	28	(6)
Education Services	9,392	9,315	0	8,377	(1,015)	(1,015)	992
Totals	11,148	10,967	0	10,316	(832)	(832)	896

- 4.1 The capital outturn for the Communities directorate is £10.3 million, an under spend of £832k or 7.5% of the revised capital budget.
- 4.2 The capital budget for Adult Social Care was overspent by £155k. This is primarily the result of an overspend of £138k on Occupational Therapy Equipment and capitalisation of occupational therapist posts at Quarter Three.
- 4.3 The capital budget for Children and Family Services was overspent by £28k. This includes of which £6k related to the higher than expected cost of works to a foster carer's home, which is proposed to be offset against the 2019/20 budget. The budget for refurbishment of West Point House was also overspent by £22k.
- 4.4 The capital budget for Education Services was underspent by £1million. This was mainly because the main contractor for the new Highwood Copse Primary School went into administration which has temporarily halted spend. It is proposed that £992k should be re-profiled to 2019/20 to enable the completion of schemes already underway and to help meet emerging pressures, including the cost of retendering the Highwood Copse scheme.

5. Economy and Environment Directorate Outturn

Economy & Environment	Current Budget	Quarter Three		Outturn		Change from Quarter Three Forecast	Amount proposed to be Re-profiled to 2019/20
		Forecast Spend in Year	Forecast (under)/Over Spend	Total Spend in Year	(Under)/Over Spend		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Development & Planning	3,878	3,664	0	3,056	(822)	(822)	612
Public Protection & Culture	887	887	0	658	(229)	(229)	216
Transport & Countryside	22,777	22,373	0	16,402	(6,375)	(6,375)	6,374
Totals	27,542	26,924	0	20,116	(7,426)	(7,426)	7,202

- 5.1 The capital outturn for the Economy and Environment Directorate was £20.1million, an under spend of £7.4million or 27% of the revised budget.
- 5.2 The Development and Planning capital budget of £3.8million was £822k underspent at the year end. The main factors contributing to the yearend position are:
- (1) £532k underspend against the program for the purchase and refurbishment of new temporary accommodation. It is proposed that the unspent balance be carried forward into 2019/20 to fund the purchase three more properties.
 - (2) £168k underspend against the program for the redevelopment of the Four Houses Corner due to delays in removing tenants from the site. It is proposed that the unspent balance be carried forward into 2019/20 to enable completion of the project.
 - (3) Both the demand led Disabled Facilities Grant (DFG) and discretionary Home Repair Assistant Grants were underspent by £176k and £33k respectively.
 - (4) The new Transport Planning Model was overspent by £88k due to higher than estimated costs relating to the specific model for Thatcham. The overspend on the transport model will be expected to be met in 2019/20 from additional funding from the Local Enterprise Partnership (LEP), section 106 contributions and allocation of the Local Transport Planning Grant are expected to cover off the expenditure.
- 5.3 The total proposed slippage for Development and Planning is £612k to enable the completion of the Four Houses Corner and Temporary Accommodation projects less the overspend on the Transport Planning model which will be funded from grants and contributions to be applied in 2019/20.
- 5.4 The Public Protection and Culture capital budget of £887k was underspent by £229k at the year end. The budget for the Carbon Management Plan, was underspent by £89k, as the team's resources for the year were focussed on preparing for the major solar panel project planned for 2019/20, which meant that no other projects could be delivered in 2018/19. The budgets, for maintenance of Leisure Centres, Shaw House, the Museum and Libraries was underspent by £107k because of delays to a number of projects within these programmes. It is proposed that £216k should be re-profiled to 2019/20 to enable the completion of culture and leisure maintenance projects together and to make provision for future carbon management/energy efficiency projects.

5.5 The Transport and Countryside capital budget of 22.7million was underspent by £6.4million. At Quarter Three, the service was expecting to be on budget. However an additional £1.9 million additional funds for highways maintenance was allocated in December by the Department of Transport for highways maintenance and it was not clear until part way through month 10 that it would not be possible to plan and complete works using this funding before the end of the financial year. In addition £1.9 million was expected to be paid to the developer of the Kings Road Link site before the 31st March, but the developer is still not in a position to claim this funding. The Sandleford access scheme was also underspent by £897k as a result of delays to the Highwood Copse Primary school. The main other main contributing factors to the year end position were:

- (1) £850k on flood defence schemes in Thatcham, Lambourn and Purley which are in progress, but payments to the contractor will be made slightly later than expected in 2019/20.
- (2) £287k for widening of the A4 at Calcot, because compensation payments have not yet been agreed.
- (3) £226k for NCN422 Cycle Route improvements, part of which has been postponed to tie in with other schemes in order to minimise disruption.

5.6 It is proposed that the full £6.4 million underspend should be re-profiled to 2019/20 to enable the completion of these schemes.

6. Resources Directorate Outturn

Resources	Current Budget	Quarter Three Outturn				Change from Quarter Three Forecast	Amount proposed to be Re-profiled to 2019/20
		Forecast Spend in Year	Forecast (under)/Over Spend	Total Spend in Year	(Under)/Over Spend		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Finance & Property	48,924	47,356	39	48,777	(147)	(186)	165
Customer Services & ICT	1,858	1,863	(3,095)	1,775	(83)	3,012	82
Human Resources	61	39	(22)	0	(61)	(39)	61
Legal Services	43	43	0	34	(9)	(9)	0
Chief Executive	110	110	0	161	51	51	0
Strategic Support	260	260	0	80	(180)	(180)	171
Totals	51,256	49,671	(3,078)	50,828	(428)	2,650	479

6.1 The capital outturn for the Resources Directorate was £50.8 million, an under spend of £428k or 0.8% of the revised budget.

6.2 The Finance and Property capital budget of £48.8million was underspent by £147k. This consists of underspends of £165k relating to delays to building maintenance projects, including the upgrade of the heating/cooling system in the Market Street Office, will which is now planned to be completed in 2019. It is proposed that this sum should be re-profiled into 2019/20 to enable completion of these projects. There was also a net overspend of £18k relating to refurbishment of the Berkshire Records Office which will be offset by contributions due from the other Berkshire Unitary authorities in 2019/20.

6.3 The Finance and Property Service budget included £47.2 million to support the corporate Property Investment Strategy. Appendix D provides an update on the

Property Investment Portfolio. Council had previously agreed that the Strategy overseeing this area of investment should be reviewed on an annual basis. However, given the political and economic uncertainty at present, it is proposed that it is not prudent to review the full strategy until such time as there is more clarity in the investment market.

- 6.4 The capital budget for ICT was underspent by £83k including £45k for Members' ICT because of resourcing issues within the service and problems with supply of PCs; and £37k for implementation of Voice over IP telephone systems which has been delayed until 2019/20. It is proposed to re-profile the full amount of £83k to 2019/20.
- 6.5 The budget for the new HR/payroll system was underspent by £61k because of additional work required on the expansion of Myview, which meant that completion of this module has now also been delayed to 2019/20, together with the leave management and expenses models, as reported at Quarter Three. It is proposed that the full amount of £61k is re-profiled to enable the completion of this project.
- 6.6 The total cost of legal services input to capital schemes in 2018/19 was £122k, which was significantly higher than the budget of £43k set at the start of the year for legal costs of capital schemes. However the majority of this cost related to the purchase of commercial property and temporary accommodation and acquisition of land for the new Theale Primary School and was charged to the capital budgets for those schemes. The general budget for legal costs of other schemes was therefore underspent by £9k.
- 6.7 The capital budget for the Chief Executive was overspent by £51k because of higher than expected legal costs associated with the redevelopment of the London Road Industrial Estate.
- 6.8 The capital budget for Strategic Support was underspent by £180k. £171k of this consists of grants allocated by the members' bids panel in 2019 which have not yet been claimed by the recipients. It is proposed that this sum should be re-profiled to 2019/20 to cover the grant commitments, but it is not necessary to re-profile the remaining £9k of the strategic support budget.

7. Conclusion

- 7.1 Total capital expenditure in 2018/19 was £81.3 million against the £89.9 million budget, an overall underspend of £8.7 million or 9.7 %. Capital Strategy Group on the 9th May has reviewed the outturn in detail and proposed that £8.6 million is carried forward into 2019/20 to enable the continuation of schemes already underway and to help fund any emerging pressures in the capital programme.

8. Consultation and Engagement

- 8.1 John Ashworth – Corporate Director. Andy Walker – Head of Finance and Property

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input checked="" type="checkbox"/>

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim:

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:

☒ **MEC1 – Become an even more effective Council**

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Property Investment Performance March 2019

1. Introduction/Background

- 1.1 WBC adopted the Property Investment Strategy in May 2017 procured through HCA (now Homes England) and re-procured in October 2018 through Crown Commercial Services (CCS) because of the increase in budget to £100M. Montagu Evans was appointed as the Council's Property Consultant in August 2017.
- 1.2 Starting with an initial tranche of £50M of funds, this was increased to £100M in July 2018. Gross purchase costs up to 7th March 2019 were £62.28M.
- 1.3 The Portfolio is on target to provide the year end 2018/19 net income target of £750,000. There is a risk of not achieving the £1.5M target for 2019/20 because of inactivity in the investment market at this time.
- 1.4 To ensure that the commercial property portfolio is tightly aligned to WBC's investment objectives, there is a mechanism to review and revise the strategy every twelve months.
- 1.5 WBC requested its appointed property consultants, Montagu Evans (ME), to review and revise the existing strategy where appropriate, so as to ensure exposure to a wider range of suitable properties, whilst creating a defensive, balanced commercial property investment portfolio, from which to derive a long term, sustainable revenue stream.

Supporting Information

1.6 Investment Property Purchases up to 7th March 2019

Total Purchases £58.58M	Stamp Duty £3.21M	Purchase Costs £492K	Gross purchase Costs £62.28M	Net Income 2018/19 £750,000
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1.7 The modelling of the fund incorporates allowances for the repayments of our loans over 50 years (minimum revenue provision or MRP). The figures fluctuate according to the other costs which the fund incurs in particular years. MRP has been forecast to be £897,644 over the next 3 years:

(1)	2018/19	MRP 6.1% gross rent	£166,810
(2)	2019/20	MRP 10.1% gross rent	£278,606
(3)	2020/21	MRP 7.7% gross rent	£452,228

1.8 Risk funds are set aside to cover eventualities such as planned and unplanned maintenance of the properties, rental voids, loss of tenants and other events that may affect income from our properties.

1.9 Risk provision has been created by both a Risk and Maintenance fund. The provision fluctuates from year to year depending on the risks that need to be covered in a given year. For example, we need to provide adequate provision for risk when a lease comes to an end and there is a risk of a rental void period as well as refurbishment costs if a tenant moves out. The provision for risk and maintenance over the next 3 years is £2,090,342:

(1)	2018/19	34.64% gross rent	£953,531
(2)	2019/20	13.30% gross rent	£663,210
(3)	2020/21	8.10% gross rent	£473,601

1.10 To ensure that the commercial property portfolio is tightly aligned to WBC's investment objectives, there is a mechanism to review and revise the strategy every twelve months.

1.11 WBC requested its appointed property consultants, Montagu Evans (ME), to review and revise the existing strategy where appropriate, so as to ensure exposure to a wider range of suitable properties, whilst creating a defensive, balanced commercial property investment portfolio, from which to derive a long term, sustainable revenue stream.

1.12 The recommendation of our consultants is that the political and economic uncertainty at present, makes it imprudent to review the full strategy until such as time as there is more clarity in the investment market.

1.13 It is recommended that the Investment Strategy is not altered at this time but it is proposed that the next two Quarterly PIBs devote additional time to discussing and receiving advice around the Strategy when, it is hoped, there is more clarity around the form of Brexit which will in turn provide more clarity in the investment market.

2. Options for Consideration

2.1 The Portfolio is on target to provide the year end net income target of £750,000.

2.2 **Option 1** Given the political and economic uncertainty at present, it is not prudent to review the full strategy until such time as there is more clarity in the investment market.

2.3 **Option 2** In the light of current uncertainty, it was considered whether to cease all investment properties brought to the market. This was rejected because the current

strategy allows us to purchase good quality, low risk properties and should an opportunity arise, we would miss out.

- 2.4 **Option 3** It was also considered whether there could be opportunities to purchase properties at high yields in the current climate. This was rejected as it would contravene our strategy and be introduce too high a risk.

3. **Proposals**

- 3.1 WBC requested its appointed property consultants, Montagu Evans (ME), to review and revise the existing strategy where appropriate, so as to ensure exposure to a wider range of suitable properties, whilst creating a defensive, balanced commercial property investment portfolio, from which to derive a long term, sustainable revenue stream.

4. **Conclusion**

- 4.1 Given the political and economic uncertainty at present, it is our proposal that it is not prudent to review the full strategy until such time as there is more clarity in the investment market.