

This Report will be made public on 12 October 2022

Report Number **C/22/42**

To: Cabinet
Date: 20 October 2022
Status: Non-Key Decision
Head of Service: Charlotte Spendley – Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader and Portfolio Holder for Finance

SUBJECT: GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2022/23

SUMMARY: This monitoring report provides an initial projection of the current financial position for the General Fund capital programme profiled for 2022/23, based on expenditure to 31 August 2022, and identifies variances compared to the latest approved budget.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because it needs to be kept informed of the General Fund capital programme position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:

1. To receive and note report C/22/42.

1. INTRODUCTION AND BACKGROUND

- 1.1 As part of the council's normal budget monitoring process this report updates Cabinet on the current position for the General Fund capital programme profiled for 2022/23, based on expenditure to 31 August 2022, compared to the latest approved budget. Specifically, this report;-
- i) identifies variances on planned capital expenditure for 2022/23 and provides explanations for these differences, and
 - ii) considers the impact any changes to the overall capital programme will have on the financing resources required to fund it.
- 1.2 Cabinet is reminded that Full Council approves a rolling five year General Fund Medium Term Capital Programme (MTCP) annually as part of the overall budget process. This monitoring report considers the latest projected expenditure for 2022/23 against the profiled budget for the year.
- 1.3 Full Council approved the current General Fund Medium Term Capital Programme (MTCP) for the rolling five year period to 31 March 2027 on 10 February 2022 (minute 57/21-22 refers). The latest approved budget for 2022/23 includes £8.115m of planned capital expenditure reprofiled from 2021/22 due to slippage on schemes and is consistent with the position previously reported to Cabinet on 16 June 2022 in the General Fund Capital Programme Provisional Outturn 2021/22 report (minute 4 refers). Additionally, Full Council approved an update to the MTCP on 28 September 2022 (minute 37/22-23 refers) and this is also reflected in the latest approved budget for 2022/23.
- 1.4 The projections shown in the report are made at a relatively early stage in the financial year and will be subject to further change which will be reported to Cabinet as part of the on-going budget monitoring process.

2. CAPITAL PROGRAMME 2022/23 – PROJECTED OUTTURN

- 2.1 The latest projection for the total cost and funding of the General Fund capital programme for 2022/23 is £30,847,000, a decrease of £14,060,000 compared to the latest budget of £44,907,000. Full details are shown in Appendix 1 to this report and the following table summarises the position across the Service Units and also outlines the impact on the capital resources required to fund the programme:

General Fund Capital Programme Q2 2022/23	Latest Budget 2022/23	Projection 2022/23	Variance Budget to Projection
	£'000	£'000	£'000
Service Units			
Operations	24,204	16,443	(7,761)
Corporate Services	3,364	2,094	(1,270)
Housing	1,555	1,555	-
Governance, Law & Regulatory Services	9	9	-
Economic Development	867	867	-
Place	14,908	9,879	(5,029)
Total Capital Expenditure	44,907	30,847	(14,060)
Capital Funding			
Capital Grants	(6,267)	(5,867)	400
External Contributions	(1,376)	(1,376)	-
Capital Receipts	(6,132)	(5,187)	945
Revenue	(2,545)	(2,514)	31
Borrowing	(28,587)	(15,903)	12,684
Total Funding	(44,907)	(30,847)	14,060

2.2 The following table summarises the main reasons for the net reduction in the projected outturn compared to the latest budget:

Variances – 2022/23 Latest Budget to Q2 Projected Outturn			
1	Reprofiling between 2022/23 and 2023/24	£'000	£'000
i)	Biggins Wood Site Land Remediation Works	(536)	
ii)	Ship Street Site Folkestone	(45)	
iii)	Princes Parade Leisure Centre	(5,860)	
iv)	Electric Vehicle Chargepoints	(40)	
v)	East Cliff Landfill Protection (FPPG Charity)	(1,200)	
vi)	The Stade Rental Huts	(100)	
vii)	Otterpool Park	(5,029)	
viii)	Oportunitas Funding	(1,270)	
			(14,080)
2	Overspends		
i)	Lifeline Capitalisation	20	
			20
	Total change in overall capital programme for 2022/23		(14,060)

2.3 As the variance analysis in the table above shows, there is a significant projected reprofiling of budgets from 2022/23 to 2023/24 and beyond. Notably, £5.86m of planned expenditure for the Princes Parade Leisure

Scheme is to be reprofiled over the planned construction period to the summer of 2024. Similarly, just over £5m of expenditure to deliver Otterpool Park is expected to be reprofiled to 2023/24 or beyond. There is now an anticipated delay of at least 9 months, until September 2023, for the completion of phase two of the Royal Victoria Hospital site development which Oportunitas Limited are acquiring from the developer. The Oportunitas Board has yet to consider the impact this will have to its business plan and it will be separately reported to Cabinet in due course. Typically property related capital schemes are more difficult to project accurately in terms of the timing of expenditure due to external factors such as planning, legal and procurement. However, it is important to remember that the council controls its capital expenditure against the sums approved within the MTCP rather than the profiled amounts for each year.

- 2.4 A review of the impact of cost inflation for the General Fund capital programme in 2022/23 has been undertaken as part of the monitoring exercise. In summary, inflation is not expected to have a material impact on delivering the planned expenditure within budget for the year. However, the risk of cost inflation is being closely monitored and will be considered as part of the budget process by Cabinet through the Medium Term Financial Strategy later this autumn and the update to the MTCP to 2027/28 in January 2023.

3. IMPACT OF PROGRAMME CAPITAL FUNDING RESOURCES

- 3.1 One of the key principles underlying the council's Medium Term Financial Strategy is the capital programme is funded from available or realised capital resources and that new borrowing should only be used where it is prudent and affordable. The only exception to this is where a scheme is subject to grant funding or external contributions in which case no commitment is made against these until the funding is confirmed. The 2022/23 projected outturn for the General Fund capital programme conforms to this key principle.

- 3.2 As summarised in section 2 of this report, the council's projected capital expenditure for 2022/23 requires a significant level of borrowing to support it. The capital schemes in 2022/23 planned to be supported by borrowing are:

	£'000
i) Princes Parade Leisure Centre	4,690
ii) Coast Drive Seafront Development	883
iii) Coastal Park Toilet and Concession	147
iv) Otterpool Park	8,847
v) Veolia Waste Contract	29
vi) Oportunitas Phase 2 funding	1,200
vii) Temporary Accommodation	107
Total	15,903

- 3.3 The borrowing required is consistent with the council's approved Capital Strategy for 2022/23.
- 3.4 The latest position regarding the council's available capital receipts to fund capital expenditure is shown in the following table:

Capital Receipts Position Statement	£'000
Total receipts in hand at 31 August 2022	10,027
Less:	
Committed towards General Fund capital expenditure	(5,609)
Committed towards HRA capital expenditure	(3,727)
Ring-fenced for specific purposes	(78)
Contingency for urgent or unforeseen capital expenditure	(500)
Balance available to support new GF capital expenditure	113

- 3.5 Full Council approved the Flexible Use of Capital Receipts Strategy 2022/23 on 27 July 2022 (minute 24 refers). In line with this, £0.549m of capital receipts is projected to be applied towards qualifying capital expenditure in year and this is included within the £5.187m shown under paragraph 2.1 above. The difference of £0.422m between the £5.187m and the £5.609m shown above relates to expenditure in periods after 2022/23.

4. CONCLUSIONS

- 4.1 The projected outturn shown for the General Fund capital programme for 2022/23 reflects the position based on actual expenditure and forecasts at 31 August 2022. The projected outturn will be reviewed, updated and reported to Cabinet as part of the budget monitoring process for 2022/23. Although there is projected significant reprofiling in capital schemes in the MTCP, at this stage there is no material increase in forecast cost to the overall programme.

5 RISK MANAGEMENT ISSUES

- 5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	Capital receipts required have already been realised for the majority of the programme. Schemes subject to future capital resources will only commence once these are realised.

			Schemes supported by grant funding will only commence once fully approved and committed by the relevant body. Prudential borrowing is only used for capital schemes expected to generate a net revenue benefit and/or future capital receipts
Cost of new projects may exceed the estimate.	High	Medium	Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively. Cost inflation risk has been identified in the report and the position is being closely monitored as part of the council's budget process.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report.

6.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services. There are no further comments to add.

6.3 Communication Officer's Comments (KA)

There is likely to be media interest in the timeline of the Royal Victoria Hospital site development and the comms team will prepare a response accordingly.

6.4 Diversities and Equalities Implications

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

6.5 Climate Change Implications (AT) [Pilot reporting period]

There are no climate change implications arising directly from this report. The report is a monitoring report that provides an initial position against the latest approved budget. It updates Cabinet on this position following decisions taken at Cabinet and Full Council. Climate change implications of the various projects referenced in the report will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making process.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lee Walker, Group Accountant

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:

Appendix 1 – General Fund Capital Programme 2022/23 Projected Outturn