

**TITLE OF REPORT: Capital Programme and Prudential Indicators 2021/22
– Second Quarter Review****REPORT OF: Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1. This report sets out the latest position on the 2021/22 Capital Programme and Prudential Indicators at the end of the second quarter to 30 September 2021. The report assesses reasons for the variances from the approved programme and details the proposed financing of the capital programme. In addition, the report considers the impact of CIPFA's Prudential Code on the capital programme and the monitoring of performance against the statutory Prudential Indicators.

Background

2. The original budget for the capital programme for 2021/22, as agreed by Council on 25 February 2021, totalled £142.9m, which was revised to £137.7m at the first quarter review. At the second quarter review it is proposed that the capital programme is decreased by £12.6m to a projected outturn of £125.1m, £100.2m General Fund and £24.9m HRA.
3. The proposed reduction in the capital programme at the second quarter comprises of the following movements:

| | £m |
|---|-----------------|
| Additional capital expenditure | 9.783 |
| Reduction of planned expenditure | (1.775) |
| Re-profiling of capital expenditure to future years | (20.575) |
| Total Variance | (12.567) |

4. A total of £9.8m has been identified on key schemes as cost increases or additional funding has become available including:
 - £2.6m on Green Homes Chopwell due to progression on the scheme and sign up of homes to receive solid wall insulation.
 - £2.6m on Gateshead Quays due to cost increases on the scheme and proposed commencement of enabling works in November.
 - £1.3m on Integrated Transport, Local Transport Plan as a result of additional funding for Air Quality and Active Travel.
 - £1.1m on Riverview due to contractors achieving key delivery milestones in year.
 - £0.8m on HRA Fire Safety Work and Compliance due to increased fire safety work expected to be completed during the year.

5. The proposed reduction of £1.8m includes:
- £0.15m Replacement of Fleet and Horticulture Equipment where spend has been reduced due to delays in shipment of vehicles and general uncertainty in the automotive industry.
 - £1.1m Quays Pedestrian Improvements, where the scheme was originally match funding for the Transforming cities bid however alternative match funding has been secured
6. Planned investment has been re-profiled to future financial years on several schemes, amounting to a reduction of £20.6m in 2021/22, the schemes which have slipped include the following:
- £5.3m Clasper House Building Scheme. The scheme has been temporarily paused whilst work is ongoing to evaluate viability and identify a preferred delivery option.
 - £1.9m Baltic Quarter Enabling Infrastructure which has been reprofiled due to delays in appointing the Earthworks contractor. Works are expected to be completed by December 2022.
 - £1.9m Blaydon West Primary which has been adjusted due to delays on choosing a suitable site however procurement of a contractor is now progressing.
 - £1.3m Gateshead DES -Solar PV, council borrowing reprofiled to future years, grant funding is to be spent by March 2022.
 - £1.2m Transforming Cities which has been reprofiled due to delays in submitting bids to the Transforming cities fund.
 - £1.1m Gateshead International Stadium Investment which has been paused pending the outcome of the Public Health and Wellbeing review, due to be completed in March 2022.
 - £1.1m Technology Plan: Infrastructure which has been reprofiled due changes in the ways of working and different demand requirements.

Proposal

7. The report identifies planned capital expenditure of £125.1m for the 2021/22 financial year. The expected resources required to fund the Capital Programme are as follows:

| | £m |
|--|-----------------------|
| Prudential Borrowing | 61.747 |
| Projected Capital Receipts | 0.750 |
| Capital Grants and Contributions | 37.780 |
| Major Repairs Reserve (HRA) | 20.939 |
| Capital Grants and Contributions (HRA) | 1.454 |
| Right to Buy Receipts (HRA) | 2.500 |
| Total Capital Programme | <u>125.170</u> |

8. CIPFA's Prudential Code advises the regular monitoring of performance against the prudential indicators which regulate borrowing and investment. Targets and limits for the prudential indicators for 2021/22 were agreed at Council on 25 February 2021 and borrowing and investment levels have remained within these limits. Performance against the indicators for 2021/22 is set out in Appendix 5.

Recommendations

9. It is recommended that

- (i) Cabinet recommends to Council the revision to the capital programme.
- (ii) Cabinet recommends to Council the financing of the revised programme.
- (iii) Cabinet confirms to Council that the capital expenditure and capital financing requirement indicators have been revised in line with the revised budget and that none of the approved Prudential Indicators set for 2021/22 have been breached.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2021/22
- (ii) To accommodate changes to the Council's in-year capital expenditure plans.
- (iii) To ensure performance has been assessed against approved Prudential Limits.

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APPENDIX 1

Policy Context

1. The proposals within this report are consistent with the objectives contained within the Council's corporate Capital Strategy and will contribute to achieving the objectives set out by the Council's Thrive Agenda. The financial implications of the capital programme are incorporated within the Council's Medium Term Financial Strategy (MTFS).

Background

2. The original budget for the capital programme for 2021/22, as agreed by Council on 25 February 2021, totalled £142.9m. Details of potential future capital schemes for the 2021/22 to 2025/26 Capital Programme were considered alongside the schemes within the existing programme. The capital and revenue implications of each proposed scheme were considered to ensure that they were affordable and could be accommodated within the level of revenue support available within the MTFS.
3. The projected year-end expenditure is £125.1m at the end of the second quarter.
4. The £12.6m reduction from quarter one is due to a combination of additional capital expenditure and re-profiling of existing schemes to future years. All variations in the programme during the second quarter are detailed in Appendix 2.
5. Appendix 3 summarises the original budget and forecasted year end positions by Corporate Priority. The budget, projected year end positions and comments on the progress of each scheme are detailed in Appendix 4.
6. The prudential code sets out a range of Prudential Indicators that were agreed by Council on the 25 February 2021. Performance against the indicators for 2021/22 is set out in Appendix 5.

Consultation

7. The Leader of the Council has been consulted on this report.

Alternative Options

8. The proposed financing arrangements are the best available in order to ensure the optimum use of the Council's capital resources in 2021/22.

Implications of Recommended Option

9. **Resources:**
 - a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that the financial implications are as set out in the report.

- b) **Human Resources Implications** – There are no human resources implications arising from this report.
 - c) **Property Implications** - There are no direct property implications arising from this report. Capital investment optimises the use of property assets to support the delivery of corporate priorities. The property implications of individual schemes will be considered and reported separately.
10. **Risk Management Implication** - Risks are assessed as part of the process of monitoring the programme and in respect of treasury management. The Cabinet will continue to receive quarterly reports for recommendation of any issues to Council, together with any necessary action to ensure expenditure is managed within available resources.
 11. **Equality and Diversity Implications** - There are no equality and diversity implications arising from this report.
 12. **Crime and Disorder Implications** – There are no direct crime and disorder implications arising from this report.
 13. **Health Implications** – There are no health implications arising from this report.
 14. **Climate Emergency and Sustainability Implications** - The sustainability implications are considered as part of developing and implementing individual capital projects. Planned investment within the capital programme is expected to result in improvements throughout the Borough.
 15. **Human Rights Implications** - There are no direct human rights implications arising from this report.
 16. **Ward Implications** - Capital scheme investment will improve wards across the borough.

Background Information

17. Report for Cabinet, 23 February 2021 (Council 25 February 2021) – Capital Programme 2021/22 to 2025/26.

Report for Cabinet 20 July 2021 (Council 22 July 2021) – Capital Programme and Prudential Indicators 2021/22 First Quarter Review.