

TITLE OF REPORT: Capital Programme and Prudential Indicators 2022/23
– 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 2022/23 Capital Programme and Prudential Indicators at the end of the second quarter to 30 September 2022. 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 2022/23, as agreed by Council on 24 February 2022, totalled £146.7m. At the first quarter review, this reduced to £103.2m and at the second quarter review expenditure is now projected to be £85.4m, £65.0m General Fund and £20.4m Housing Revenue Account (HRA) by year end.
3. The proposed reduction in the capital programme at the second quarter comprises of the following movements:

	£m
Increased borrowing/external funding/contributions	6.420
Reduced Project Costs	(2.160)
Re-profiling of capital expenditure to future years	(22.115)
Total Variance	(17.855)

4. The proposed £6.4m increase includes the re-profiling of allocations to reflect the final contract termination for the Green Homes Chopwell scheme, increased civil engineering costs on the Gateshead District Energy Network Solar Panels project, the addition of several Decent Homes projects, increased costs on the Gateshead International Stadium project and delays on the Social Care Mosaic system.
5. The Gateshead International Stadium Floodlighting Project was included in the Capital Programme with a budget of £0.500m at Q1 and was approved by Cabinet on the 19th July 2022. Following return of tenders, an additional budget of £0.135m, has been approved under an urgent decision dated 18th October 2022 in accordance with Part 2 General Delegation to Managers 4(e) of the

Constitution. Cabinet is asked to note the additional budget of £0.135m for this project. The additional budget will enable the required improvements to the lighting levels ensuring that the athletics and football activities can continue at the site. The tender costs were time limited and, due to the current market volatility and uncertainty, there was a significant risk of further cost increases had the urgent decision not been undertaken.

6. The Strategic Director, Economy, Innovation and Growth (in consultation with the Service Director of Corporate Services and Governance and the Strategic Director, Resources and Digital) approved the contract award for the floodlighting works using the delegated decision approved by Cabinet on the 19 July 2022 and the Strategic Director, Resources and Digital approved the additional budget using the urgent decision dated 18th October 2022.
7. The proposed reduction of £2.16m includes a reduction on the Baltic Quarter Enabling Infrastructure project due to better than expected ground conditions resulting in a reduction in the total cost of the project.
8. Planned investment has been re-profiled to future financial years on several schemes, amounting to a reduction of £22.1m in 2022/23. The schemes which have slipped include the following:
 - £5.4m of primarily Environment Agency funding towards Flood Alleviation works has been re-profiled to future years due to reduced expertise within the council to programme the required works.
 - £4m of funding for Estate regeneration and major investments within the HRA due to a delay in housing demolitions.
 - £3.2m of funding for the Sister Winifred Laver Promoting Independence Centre, works have been delayed due to the discovery of abnormal material and supply delays. A revised project schedule estimates a completion in May 2023.
 - £2.1m of funding for the Blaydon West Primary School New Build. Initial surveys have commenced, however, main ground works are not expected to take place until 2023.
 - £1.0m of funding for the Technology Plan Infrastructure due to supply chain issues of essential equipment.

Proposal

9. The report identifies planned capital expenditure of £85.392m for the 2022/23 financial year. The expected resources required to fund the Capital Programme are as follows:

	£m
Prudential Borrowing	50.902
Projected Capital Receipts	0.750
Capital Grants and Contributions	13.378
Major Repairs Reserve (HRA)	16.600
Capital Grants and Contributions (HRA)	0.758
Right to Buy Receipts (HRA)	3.004
Total Capital Programme	85.392

9. 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 2022/23 were agreed at Council on 24 February 2022 and borrowing and investment levels have remained within these limits. Performance against the indicators for 2022/23 is set out in Appendix 5.

Recommendations

10. It is recommended that
- (i) Cabinet recommend to Council that all variations to the 2022/23 Capital Programme as detailed in Appendix 2 are agreed.
 - (ii) Cabinet recommend to Council the financing of the revised programme set out in this report.
 - (iii) Cabinet confirm to Council that capital expenditure and financing requirements have been revised in line with the amended budget and none of the approved Prudential Indicators set for 2022/23 have been breached.
 - (iv) Cabinet to note the urgent decision in relation to the Gateshead International Stadium Floodlighting Project.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2022/23.
- (ii) To accommodate changes to the Council's in-year capital expenditure plans.
- (iii) To ensure performance has been assessed against the approved Prudential Limits.

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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 2022/23, as agreed by Council on 24 February 2022, totalled £146.7m. Details of potential future capital schemes for the 2022/23 to 2026/27 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 was £103.2m at the end of the first quarter and this is reduced to £85.5m at the end of the second quarter.
4. The £17.855m reduction is due to 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 actual expenditure to 30 September payments by Corporate Priority. The budget, projected year end expenditure and comments on the variances 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 24 February 2022. Performance against the indicators for 2022/23 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 2022/23.

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 climate emergency and 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 schemes will provide improvements in wards across the borough

Background Information

17. Report for Cabinet, 22 February 2022 (Council 24 February 2022) - Capital Programme 2022/23 to 2026/27.
18. Report for Cabinet 19 July 2022 (Council 21 July 2022) Capital Programme and Prudential Indicators 2022/23 – First Quarter Review