

**TITLE OF REPORT: Capital Programme and Prudential Indicators 2020/21 – First Quarter Review**

**REPORT OF: Darren Collins, Strategic Director, Resources & Digital**

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**Purpose of the Report**

1. This report sets out the latest position on the 2020/21 Capital Programme and Prudential Indicators at the end of the first quarter to 30 June 2020. 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. The report requests that Cabinet recommends to Council that it agrees the revised capital budget and its financing.

**Background**

2. The original budget for the capital programme for 2020/21, as agreed by Council on 25 February 2020, totalled £110.475m. The first quarter review now projects the year-end expenditure to be £96.792m, £76.266m General Fund and £20.526m HRA.
3. The proposed reduction in the capital programme at the first quarter comprises of the following movements:

	<b>£m</b>
Slippage of planned capital expenditure from 2019/20	14.057
Additional capital expenditure	10.193
Reduced Project Cost	(16.380)
Re-profiling of capital expenditure to future years	(21.553)
<b>Total Variance</b>	<b>(13.683)</b>

4. A total of £14.057m of slippage has been identified on several key schemes which have been carried forward into 2020/21 with resources from the 2019/20 financial year.
5. The proposed £10.193m increase includes the re-profiling of allocations to reflect the final funding settlement for investment in the Council's schools and highways infrastructure. The Council has also received notification of additional external funding to support capital investment including £1.2m to increase the housing stocks in the borough. Also included are several additional schemes, which it is proposed are added to the programme to support business critical activity and recovery timelines. Appendix 6 details all additional schemes and the investment requirement in 2020/21 – 2024/25.

6. Planned investment has been re-profiled to future financial years on several schemes, amounting to a reduction of £21.553m. This reduction has been contributed to by the impact of COVID-19 and schemes which have slipped include the following:
- £10.1m in year reduction due to reprofiling of the Clasper Housing Development, whilst work continues to assess financial viability and alternate delivery options.
  - £3.8m reduction due to reprofiling of Eastwood/ Riverside, the progression of which has been delayed due to COVID-19.
  - £3.5m reduction due to reprofiling of West Askew Rd, delays incurred on the development of the infrastructure on the site.

## Proposal

7. The report identifies planned capital expenditure of £94.341m for the 2020/21 financial year. The expected resources required to fund the Capital Programme are as follows:

	<b>£m</b>
Prudential Borrowing	41.534
Projected Capital Receipts	1.000
Capital Grants and Contributions	33.732
Major Repairs Reserve (HRA)	18.026
Right to Buy Receipts (HRA)	2.500
<b>Total Capital Programme</b>	<b><u>96.792</u></b>

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 2020/21 were agreed at Council on 25 February 2020 and borrowing and investment levels have remained within these limits.
9. The Prudential Code sets out a range of Prudential Indicators that were agreed by the Council on 22 February 2018. Performance against the indicators for 2020/21 is set out in Appendix 5.

## Recommendations

10. It is requested that Cabinet recommends to Council that;
- all variations to the 2020/21 Capital Programme as detailed in Appendix 2 are agreed as the revised programme,
  - the financing of the revised programme is agreed,
  - and that Council notes that Cabinet confirms 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 2020/21 have been breached.

For the following reasons:

- To ensure the optimum use of the Council's capital resources in 2020/21

- (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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## 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 2020/21, as agreed by Council on 25 February 2020, totalled £110.475m. Details of potential future capital schemes for the 2020/21 to 2024/25 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.

### Existing Scheme Review

3. All existing schemes have been reviewed to ensure they remain high priority and are contributing to the Council's corporate strategic approach and continue to support the MTFS. Where schemes continue to meet the criteria, they have been included in the Capital Programme 2020/21 – 2024/25.
4. There are several schemes which are currently within the capital programme which due to the increased financial pressures the Council faces due to COVID-19 are paused and/or require further review to ensure financial viability. The detail of these schemes can be seen below;
  - Spec Office 2 – the business case for this will need to be revisited prior to entering into the next stage of design, this will include working with third part property experts to quantify demand for office space post COVID-19, a further update to Cabinet will follow;
  - High Street South – following work undertaken by the Councils acting agents, Sanderson & Weatherall the anticipated budget requirement to cover the costs of acquisition and compensation has significantly increased. As a consequence of COVID-19 demolition and associated demolition activity has continued but further acquisitions have been paused to allow for review. In addition, an external consultant (IDP) has been procured to, in part consider options for the area, informed by market intelligence and financial assumptions. A Cabinet report on the proposed options to progress the project will follow;
  - Leisure Projects - these projects have been paused pending the outcomes of both the Asset Review and the Commissioning / Decommissioning review; and
  - Gateshead International Stadium – scheme has been paused to enable the review of the restrictions which would be put into place for major events due to COVID-19 and whether this would increase the costs of the scheme.

5. All variations in the programme during the first quarter are detailed in Appendix 2, appendix 3 summarises the original budget and actual year end payments by corporate priority. The budget, projected year end payments and comments on the progress of each scheme are detailed in Appendix 4.

### **Potential Additional Schemes**

6. Along with the review of existing schemes several additional projects have been proposed which support the Councils emerging priorities post COVID-19. The following additional projects are recommended for inclusion within the capital programme:
  - Investment of £2.9m to support the Councils commitment to new ways of working, which will support the priority areas such as Climate Change, Digitalisation and Delivery in Localities;
  - Investment of over £15m to expand the Gateshead District Energy scheme to Freight Depot housing development as well as a 6MV mine water energy centre at Shearlegs Rd Depot;
  - Investment in Schools of c.£0.4m, which will enable the replacement of windows within Kells Lane Primary School;
  - Investment of £0.2m to support the continuation of Community Hubs and the Asset Review;
  - Investment of £2.1m to improve the pedestrian areas around the Gateshead Quays area, including widening footpaths and other crowd control measures; and
  - Investment of c.£3m to support the local economy including investment to support the redevelopment of Hillgate Quay.
7. This additional investment totals £24.2m over five years with £2.5m of this required in 2020/21, which is deemed to be affordable within the financial constraints of the capital programme.

### **Capital Resources Available**

8. The Council continues to maximise the use of external funding where possible, including the following grants:
  - £24.0m of DfT Transport grant funding over the next five years to improve the Council's transport infrastructure in accordance with the principles set out in the Council's Highways Asset Management Plan;
  - An estimated £14.7m of externally funded investment in the Council's Schools, helping to address both condition and capacity issues as part of the School Condition and Basic Need programmes;
  - Over £6.1m of Homes England funding to support housing developments across Gateshead, including Clasper Village and various Joint Venture sites including Exemplar Neighbourhood.

9. Emerging funding opportunities have increased in recent months and examples of emerging funding are:

- Green Homes Grant Scheme Funding;
- Additional Funding Allocations for Schools;
- On – Street Residential ChargePoint Scheme;
- Move on Fund;
- Local Full Fibre Networks Challenge Fund;
- Next Steps Accommodation Programme;
- Culture Recovery Fund; and
- Shared Ownership and Affordable Homes Programme.

Work is ongoing to maximise grant funding in the context of Council priority outcomes.

### **Consultation**

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

### **Alternative Options**

11. The proposed financing arrangements are the best available in order to ensure the optimum use of the Council's capital resources in 2020/21.

### **Implications of Recommended Option**

12. Resources:

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

13. **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.

14. **Equality and Diversity Implications** - There are no equality and diversity implications arising from this report.

**15. Crime and Disorder Implications** – There are no direct crime and disorder implications arising from this report.

**16. Health Implications** - There are no health implications arising from this report.

**17. Climate Emergency and Sustainability Implications** - The works will help to make the environment more attractive and reduce health and safety hazards.

**18. Human Rights Implications** - There are no direct human rights implications arising from this report.

**19. Ward Implications** - Capital schemes will provide improvements in wards across the borough.

## **20. Background Information**

- i. Report for Cabinet, 25 February 2020 (Council 27 February 2019) - Capital Programme 2020/21 to 2024/25.