

Recommendations from the Governance and Audit Committee in respect of the Capital Programme

(a) Recommendation from the Governance and Audit Committee meeting of 6 September 2022

327. Capital Outturn 2021/2022

The Committee considered a report requesting that it reviews the progress on the Capital Programme, and reviews the 'red, amber, green' rating for each scheme, as rated by the relevant project manager.

Paul Cook, Head of Finance, introduced the report and assisted the Committee in its deliberations. The report detailed the Council's capital outturn for the previous financial year, and touched on inflationary issues which would be addressed when the Capital Programme was reset for the financial year 2023/2024 onwards. Some schemes may not be overly affected by inflation, for example schemes brought forward by the Council's wholly owned commercial companies or where funding had been sourced by a cash limited government grant. There was, however, still a risk which would be picked up during monitoring, and reported to Cabinet. Actual expenditure in 2021/2022 was lower than planned, due both to the Coronavirus pandemic and delays to advances to the housing company due to the proposed introduction of minimum revenue provision (MRP). The Committee heard that MRP meant that for any Council borrowing there needed to be minimum revenue provision made from the revenue account which was repaying the principal of the loan over the asset life. Local authorities had not been making MRP for advances to housing companies that they owned because when a development was completed the entire loan would be repaid from the proceeds. It had been suggested by central government that this may not be an appropriate practice, and that Council's should be making MRP on advances to companies that they owned. It was pointed out via a consultation that having to provide MRP would adversely affect the business models of local authority housing companies, and government subsequently confirmed that councils did not need to make MRP on advances to their housing companies.

Councillor Sunnucks attended the meeting, and, with the permission of the Chair, addressed the Committee. He welcomed the assurances which had been given by the Leader of the Council an inclusive approach would be taken to addressing financial issues. It was of fundamental importance that a forum existed where Councillors took a part in considering the Council's accounts. He noted that the Council had massively underspent on the Capital Programme in the previous financial year, which meant that future spending on schemes would now be carried out in a higher cost environment. The viability of some of the schemes should be re-considered in the light of this, for example the purchase and rental of open market

housing. Would higher interest rates affect the amount of compulsory sales of houses at discounted prices?

Councillor Smith explained to the Committee that council house funding was a byzantine procedure. The government allowed councils to keep a portion of the proceeds which they made from the sale of housing, but only if this money was spent within the correct amount of time, otherwise it had to be returned to the Treasury. He agreed that the Council may struggle to afford some schemes in the Capital Programme if inflation was at 10%, and this was a serious problem which needed to be considered.

In discussion, the Committee supported the idea that Cabinet reviewed the Capital Programme, and considered that the budget workshops which were open to all Councillors were a positive step in facilitating all-party engagement and involvement in financial matters.

At the request of a Committee member, Paul Cook confirmed that the difference between the capital and revenue accounts, by explaining that revenue constituted the Council's year to year running costs such as salaries, whereas capital was long term investment in assets such as land or buildings. Although it was possible to transform revenue income into capital assets, it was not possible to use capital assets to fund the Council's revenue expenditure.

Paul Cook offered the Committee assurance that when the Capital Programme was reset each year, the Council was required to set out a Capital Strategy, which ensured that proposed schemes were considered to be affordable and which was supported by detailed calculations. As the request of a Committee Member, an explanation of the overspend associated with the Mercury Theatre project was offered. The overall cost of the project was significantly higher than the direct provision in the capital programme because external funding had been obtained, so although there had been a large percentage variation in terms of the input from the Council, in terms of the overall project this was not a high variation.

The Committee considered the merits of suggesting to Cabinet that it considered listing the relative priority of items in the Capital Programme, so that in times of hardship and financial difficulty, there would be a level of guidance as to which capital projects were delayed and which were completed within the available budget. It was accepted that there was an inherent difficulty with determining priorities in this way over a four year Strategic Plan, when priorities would naturally change over this period. Although considering MRP was not a requirement, the Committee wondered whether this should form part of the risk rating process for capital schemes as a matter of good practice.

Dan Gascoyne, Deputy Chief Executive, attended the meeting and advised the Committee that when the Capital Programme was reset as part of the budget setting process, this had set out the Capital Strategy which articulated the relationship to the Strategic Plan in areas such as sustainability; both affordability and financial sustainability, together with other considerations such as environmental impacts.

RECOMMENDED TO CABINET that the Capital Programme be reviewed in the light of inflationary impacts.

RESOLVED that:-

- (a) Progress on the Capital Programme as set out in the report had been reviewed
- (b) The 'Red, Amber, Green rating for each scheme as rated by the relevant project manager had been reviewed.

(b) Recommendation from the Governance and Audit Committee meeting of 18 October 2022

333. Capital Monitoring Report Quarter 1 and 2

The Committee considered a report setting out the Council's Capital Programme against budget for quarter 2 financial year 2022/23.

Paul Cook, Head of Finance, introduced the report and assisted the Committee in its deliberations. The Committee heard that updated figures had been published as a supplementary agenda item to take account of Housing Revenue Account (HRA) items which had not been included in the initial report, and this updated information had been circulated to the Committee ahead of the meeting. It was important that the Council was seen to be maintaining the discipline of regularly monitoring the Capital Programme.

Overall, 33% of the budget had been spent for the planned programme for 22/23, which represented an improvement on the previous years spend at this time but was still lower than desired. Additional costs had been added to some of the schemes, and an appendix to the report contained the 'red, amber, green' (RAG) ratings of each of the schemes, together with explanations and comments on the red rated schemes. The Committee would receive an update on the spending up to quarter three of the financial year at its meeting in January 2023.

The Committee considered that the changing circumstances of an inflationary environment meant that the Capital Programme warranted particularly careful attention. It was suggested that, given the current difficulties which were caused by the rising costs of capital investment and resourcing issues which had arisen since items were added to the Programme, Cabinet should consider reviewing each item on the Programme to determine whether or not it was appropriate that it continue, or be modified.

Colchester Borough Council (the Council) had recently undergone a Peer Review Challenge, and it was noted that the reviewers had comments on the delivery of the Council's Capital Programme and suggested that improvements be made. Paul Cook noted that there had been difficulty over the preceding financial years with

spending the planned Programme. The Council was successful in drawing in internal funding, and was able to deliver parts of the Programme for little cost to residents as a result of this. The Programme was ambitious, with many of the projects important to the delivery of the Council's Strategic Plan, however, improvements in the process could be made, and careful consideration would be given to this in future. As part of the established budget process the Capital Programme would be considered in its entirety when it was reset for 2023/2024, and as a matter of course each scheme in the Programme was carefully considered at every stage.

Councillor Cory, Portfolio Holder for Finance, attended the meeting remotely, and with the permission of the Chair, addressed the Committee. He offered the Committee assurance that when he had been the Leader of the Council, some of the current difficulties caused by material and labour shortages had been foreseen. He considered that the Council's Capital Programme was particularly ambitious, and wondered whether consideration needed to be given to both the principle and practical elements of this. The comments made by the peer review team and the Committee were welcomed, and Cllr Cory looked forward to drawing on the technical expertise contained within the Committee as the Capital Programme continued to be reviewed. A Committee member supported the suggestion that Cabinet needed to review the Programme as a matter of urgency, however, a balance had to be struck so that projects which were ready to commence were not unduly delayed by such a review.

The RAG rating methodology of schemes on the Programme was considered by the Committee, and it was suggested that a more objective method of rating the schemes with clear evidence, as a percentage of progress against budget and timescales etc, may be beneficial to the Committee when considering the Programme in the future.

A Committee member wondered whether the culture within the Council, which had to be bureaucratic by its nature, could be proving to be an obstacle in delivering some of the Capital Programme, suggesting that project managers who drove projects forward should be supported fully. It was noted that the Council was engaged in purchasing housing stock to use for social housing, however, borrowing rates were at 5.5% while income generated by the housing sat at 1%, leading to a net loss from this activity, could this be re-considered? The Committee was reminded that the provision of social housing was not a direct profit making activity, but was designed to provide a service for the people of Colchester, and potentially avoid additional costs that were associated with homelessness and other social issues.

Councillor King, Leader of the Council, attended the meeting and with the Chair's permission addressed the Committee. He appreciated the comments which had been made, and acknowledged that the Council had not been spending money at the rate which had been forecast, which was a problem. He considered, however, that the Council's project managers had performed very well in delivering projects in difficult circumstances, although it was recognised that additional resource was required in this area. The Committee was assured that the items in the Capital

Programme would be reviewed in great detail, and that challenge from the peer review, Members and Officers was welcomed.

A Committee member wondered what metrics would be used to rate each item in the Capital Programme, as they considered it was sometimes hard to evaluate the relative merits of individual schemes. How would the schemes be compared and contrasted in order to be able to document their individual benefits? Councillor King considered that cross-party involvement would be important when considering the Programme, when challenging and testing where the Council's strategic priorities lay. Projects that were underway would be delivered to the best ability of the Council, and Councillor King was keen to assess any contingency plans which were in place for the remainder of the Programme. Councillor Cory offered assurance to the Committee that each time a capital project was embarked upon, it was supported by a business case containing principles, outline and costs, before a much more detailed business case was developed which would contain contingency plans in a lot of detail. He did, however, support the suggestion which had been made of an objective benefits analysis of items in the Programme which would assist in determining which projects may take precedence over others, and resolved to consider this further with Councillor King outside this meeting.

The Chair of the Committee reminded it that at its previous meeting, a recommendation had been made to Cabinet that the Capital Project be reviewed in the light of inflationary pressures, however, he now considered that the position had become much more serious. The Council was now facing the problems of significant increases in borrowing costs, significant long-standing inflation, and constraints in supplies of materials and workforce. The Capital Programme needed to be reviewed in the light of those factors, and each project needed to be checked to see whether it was still viable and desirable, given the strategic objectives of the Council and the social benefits it would deliver. The Committee offered its support to this suggestion and considered that a suitable recommendation should be made to Cabinet.

RECOMMENDED TO CABINET: that the viability of every scheme on the Capital Programme be carefully reviewed to determine whether or not it should proceed, or be deferred, in the light of:

- significant increases in borrowing costs,
- significant long standing rates of inflation, and
- the difficulties which were being experienced in obtaining both materials and the skilled workforce necessary to deliver projects,

to ensure that a Capital Programme is delivered which meets the needs of the people of Colchester.

RESOLVED that:- (a) Progress on the Capital Programme, together with the budget forecast, as set out in the report had been reviewed, (b) The 'Red, Amber, Green' rating for each scheme as rated by the relevant project manager had been reviewed.