

Meeting: EXECUTIVE

Agenda Item:

Portfolio Area: Resources

Date: 11 JULY 2019



2018/19 CAPITAL EXPENDITURE OUTTURN KEY DECISION

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1. PURPOSE

- 1.1 To update Members on the outturn position on the 2018/19 capital programme including the resources used to fund the capital expenditure.
- 1.2 To update Members on the Council's Capital Strategy and any changes to the 2019/20 and future year's capital programme.
- 1.3 To update Members on the actual 2018/19 Minimum Revenue Provision (MRP) and the MRP for 2019/20.
- 1.4 To update Members on the resources available to fund the Capital Strategy.
- 1.5 To approve any additions to the disposal programme.

2. RECOMMENDATIONS

- 2.1 That the 2018/19 General Fund capital expenditure outturn of £8,057,387 be noted, (subject to the completion of the 2018/19 external audit of accounts).
- 2.2 That the 2018/19 HRA capital expenditure outturn of £22,365,948 be noted (subject to the completion of the 2018/19 external audit of accounts).
- 2.3 That the funding applied to the 2018/19 General Fund capital programme be approved as summarised in paragraph 4.2.4.
- 2.4 That the funding applied to the 2018/19 HRA capital programme be approved as summarised in paragraph 4.5.1.

- 2.5 That the 2019/20 General Fund capital programme net changes of £934,040 reduction be approved comprising of £3,252,450 slippage from 2018/19 (as detailed in para 4.3.8), £4,905,630 re-profiled into 2020/21, £60,610 minor budget changes reduction and £779,750 funding for additional expenditure (as detailed in Appendix A to this report).
- 2.6 That the 2019/20 HRA capital programme net changes of £15,084,628 comprising £736,700 slippage from 2018/19 and £15,821,328 re-profiled into 2020/21 be approved as summarised in paragraph 4.6.1 and detailed in Appendix B to this report.
- 2.7 That the urgent schemes requiring funding detailed in paragraph 4.3.3 be approved.
- 2.8 That Executive recommend to Council the approval of budget of £591,600 for to Registered Provider grants as per paragraph 4.3.4.

3. BACKGROUND

- 3.1 The 2018/19 capital programme was last approved by Members at the March Executive as part of the 3rd quarter monitoring report. At March Executive the 2018/19 revised General Fund capital programme was projected to be £11,614,750 and the 2018/19 revised HRA capital programme was projected to be £22,616,760 a total of £34,231,510.
- 3.2 The Accounts and Audit Regulations as amended on 1 April 2015 include a requirement to publish the Statement of Accounts before the 31 May and complete the external audit report by the end of July. The Council's external auditors have notified the Council that they are unable to meet the end of July deadline for completing of the audit. Consequently the 2018/19 audited accounts will be presented and approved by Members (Audit and Statement of Accounts Committee) on 26 September. The financial figures for the General Fund and HRA contained within this report are subject to external audit and may change.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2018/19 GENERAL FUND CAPITAL PROGRAMME

- 4.1.1 The actual outturn for General Fund capital expenditure was £3,557,363 lower than that estimated in the March 2019 Executive. The main reasons for this being:
- Acquisition of a property as part of SG1 land assembly was due to complete in March but is now expected to complete in the summer of 2019 and is the main element of the Regeneration slippage of £2.8Million.
 - The major fleet replacement programme for the Stevenage Direct Services (SDS) teams continues. Some vehicles have been procured at lower price than budgeted resulting in a saving of £123K, the remaining budget of £116.5K is requested to be slipped for vehicle deliveries in 2019/20 (total SDS slippage is £201,600).
 - Housing & Investment (General Fund assets) underspent by £126K, most of which was on two projects – Works to Cavendish Offices in preparation of the

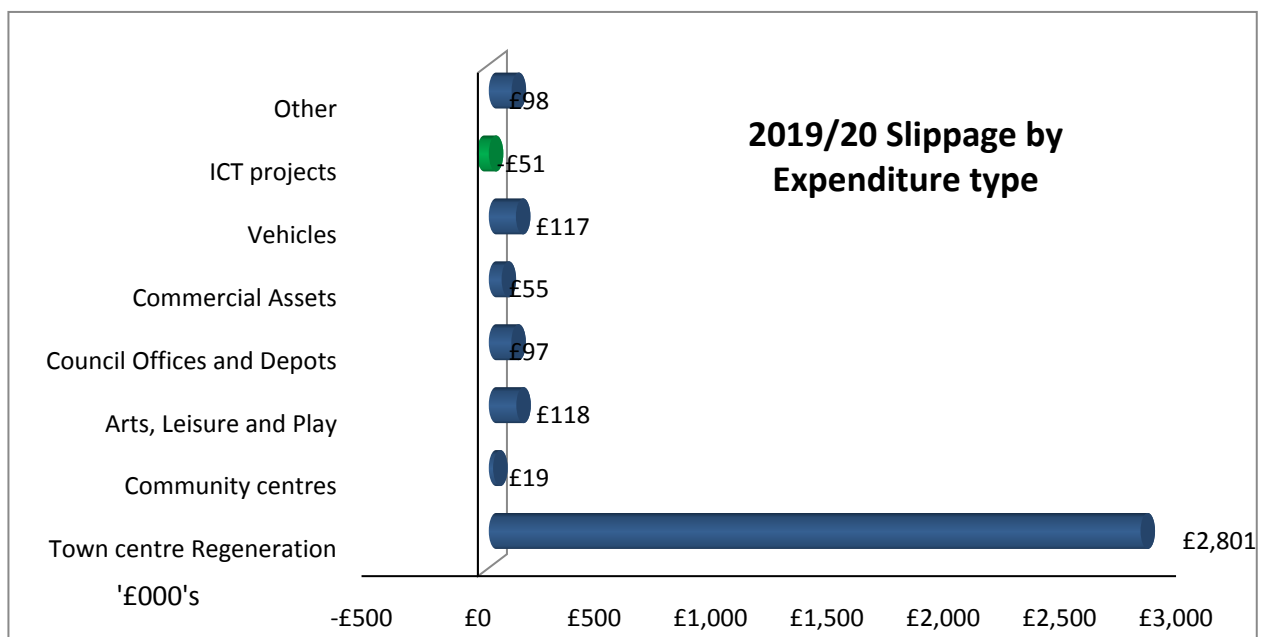
relocation of the CCTV control room and works to the fascia of Town Chambers in the town centre. Both these projects have progressed in the 1st quarter of 2019/20.

- Other variances totalling £390k form the balance of the remaining underspend.

4.1.2 A number of ICT projects have been progressed ahead of schedule and budget identified for 2019/20 has been brought forward to cover the £51K overspend in 2018/19. The net slippage on General Fund capital projects was £3,252,450. Slippage by Business Unit is summarised in the table below and in more detail in Appendix A to this report.

General Fund - Schemes	Q3 Revised Budget	2018-19 Actuals	(Under) / Overspend	Slippage to 2019-20
Stevenage Direct Services	2,296,160	1,982,847	(313,313)	201,600
Housing Development	1,095,790	1,076,003	(19,787)	0
Finance and Estates	83,360	53,320	(30,040)	17,200
Corporate projects, Customer Service & Technology	292,730	344,386	51,656	(51,670)
Housing and Investment (General Fund Assets)	642,600	516,327	(126,273)	143,620
Regeneration	6,113,410	3,312,776	(2,800,634)	2,800,630
Communities and Neighbourhoods	193,220	113,344	(79,876)	62,130
Planning and Regulatory	877,480	658,383	(219,097)	78,940
Deferred Works	20,000	0	(20,000)	0
TOTAL	11,614,750	8,057,386	(3,557,364)	3,252,450

4.1.3 The General Fund slippage can further be summarised by spend type in the following chart. Out of total expenditure, slipped into 2019/20, 93% relates to Town Centre regeneration (as detailed in para 4.1.1).



4.2 2018/19 GENERAL FUND CAPITAL RESOURCES

4.2.1 The actual General Fund capital receipts realised in 2018/19 were £696,175 compared to budgeted receipts of £576,800 an increase of £119,375, mainly due to additional small land sales. The projected receipts for 2019/20 are anticipated to be £90,572 lower than in the last reported figures. This is mainly due to one garage site being under review.

4.2.2 The Council has a statutory requirement to make a General Fund Minimum Revenue Provision (MRP) to reflect the cost of borrowing over the life of the assets funded through borrowing. The Council's MRP policy is approved with the Treasury Management strategy in February and is applicable regardless of whether physical borrowing has taken place. The MRP charge to the General Fund calculated for 2018/19 was £661,090, below the forecast of £736,090 due to the borrowing identified for the property portfolio. This was not taken as no suitable sites were identified for purchase. The MRP can be broken down as follows:

- £335,000 related to regeneration assets
- £35,000 to investment properties
- £291,090 to general borrowing (2011/12-2013/14)

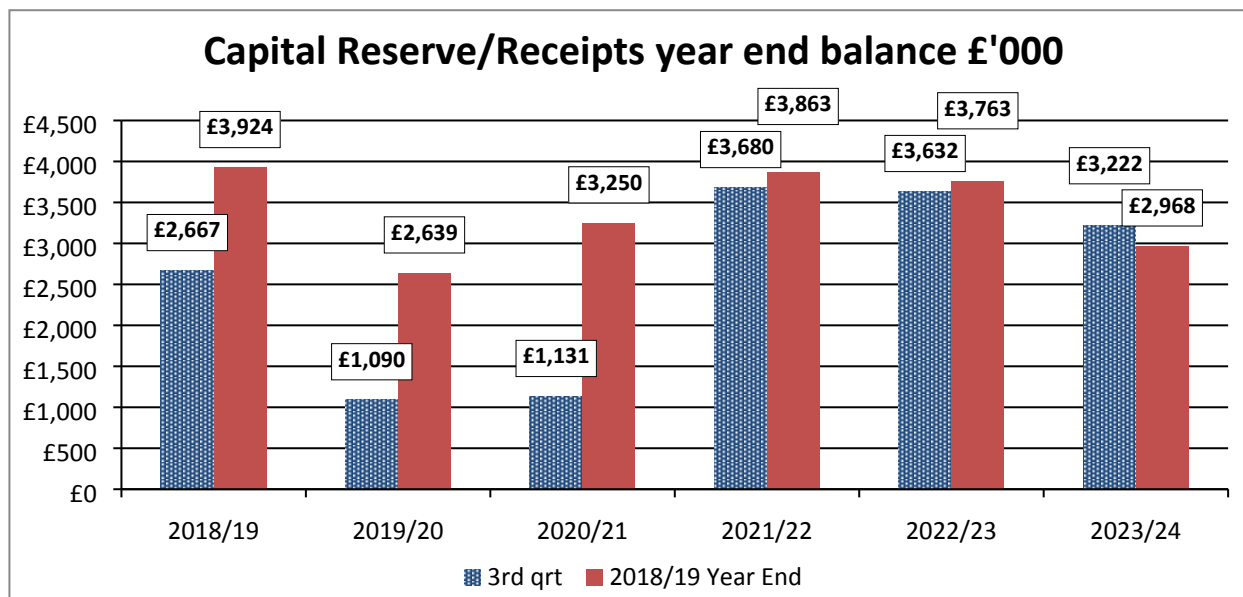
4.2.3 The capital programme also uses grants and contributions from Government and third parties such as developers in the form of S106 agreements. Most of this income is linked to specific projects and cannot support an unrelated scheme in the capital programme. The current capital strategy contains S106 monies that have been earmarked to support current and future capital schemes.

4.2.4 The resources used and available to fund future capital expenditure are summarised in the following table:

General Fund Resources	Brought forward	Received in Year £	Used in Year £	Available to Fund Future Year Expenditure £
Usable Capital Receipts	(5,319,964)	(696,175)	2,685,667	(3,330,472)
Usable Capital Receipts ring fenced for Regeneration	0	(1,726,306)	0	(1,726,306)
Usable Capital receipts - GF LA share allocation	0	(357,496)	357,066	(430)
One for One Receipts- contribution from HRA		(714,932)	714,932	
Section 106 Receipts	(607,678)	(110,332)	34,889	(683,121)
Grant and Other Contributions General Fund	(1,730,482)	(3,038,541)	3,097,264	(1,671,759)
Capital reserve	0	(998,000)	404,000	(594,000)
RCCO		(608,451)	608,451	0
Short term Prudential borrowing		(155,118)	155,118	0
Total	(7,658,124)	(8,405,350)	8,057,387	(8,006,088)

Numbers in brackets () =available funds/funds received in year, Positive numbers = spent in year

4.2.5 At the end of 2019/20 available capital resources were projected to be £1Million, subject to land receipts being received as forecast. Since 3rd quarter projected available resources to fund the capital programme has been updated as shown in the chart below.



4.2.6 Due to slippage of regeneration schemes and the need to comply with the LEP's spending deadlines, LEP funding is being used first with the use of SBC resources rephrased to later years. There remains a funding risk to the General Fund programme and Officers advise schemes remain on hold pending the capital receipt being received.

4.3 GENERAL FUND CAPITAL EXPENDITURE 2019/20

4.3.1 Members approved the 2019/20 General Fund capital programme totalling £35,232,640 at the March Executive. This report identifies a net decrease in the budget of £934,040 to £34,298,600 following a timing review of delivery of schemes as detailed in Appendix A.

4.3.2 **Slippage** - The 2019/20 programme has decreased by £934,040 (net) mainly due to the slippage from 2018/19 of £3,252,450 (See table under 4.1.2 and chart under 4.1.3), and further slippage from 2019/20 to future years. £3.0m of the slippage into 2020/21 is on the Kenilworth Housing Development, and £1.8m on Town Centre Regeneration. The Kenilworth scheme is now ready to be procured and a separate report is presented to this Executive detailing the delivery timetable and procurement of the scheme.

4.3.3 The 2019/20 capital programme included a number of schemes that were put on hold until suitable funding was identified. These schemes and any emerging urgent need are monitored and considered by the Assets and Capital board. This review has identified two new schemes that officers now recommend for inclusion in the 2019/20 programme:

New capital schemes in 2019/20, funded from the deferred works budget and revenue contributions and third party contributions are proposed as detailed below:

1. Refurbishment of the **ramp from the town centre to the Leisure Centre** and the **ramp from Argyle Way to the station** (£20,000 Leisure Centre and £25,000 railway station). This is needed and outside the budget process because the defect to the surfaces became apparent after the 2019/20 budget process. The proposal is to rectify these defects during the summer season. Works will include both resurfacing with a resin bound aggregate and repainting of the railings. These works can be funded from the Insurance Reserve (£45,000).
2. Recent issues with the **lift at Stevenage Leisure Centre** identified that the lift is coming to the end of its useful life and will need to be replaced and has had a number of breakdowns. An estimated price for replacement has been received, plus there will be a further cost while the lift is out of use for up to 12 weeks. A budget of £111K in 2019/20 has been included in this capital update and is recommended for approval.

4.3.4 Officers are recommending an increase in **grants to registered housing providers** (£591,600) in 2019/20. This expenditure is fully funded from one for one right to buy receipts. Due to the re-phasing of eligible 1-4-1 expenditure (see paragraph 4.6.2) there is a risk that eligible expenditure will not be incurred in time resulting in the return of 1-4-1 receipts. By increasing grants to registered providers this risk is mitigated as well as gaining nomination rights. This is above the limit (£250,000) delegated to Executive and a recommendation to Council to approve this budget is required.

4.3.5 **Update on schemes that were put on hold until suitable funding was identified.**

1. **Shephalbury Park** £50,000 for health and safety related works to footway and road surfaces. Following a condition survey of parks and open spaces officers have identified works at Shephalbury Park that are high priority and require immediate attention. Recommend funding 50% from Insurance Reserve and 50% from third party contributions (S106 monies).
2. **Springfield House Wall.** Since the early initial inspection when it was considered necessary to carry out essential repair works on the wall, and a budget of £20K was allocated in 2018/19 for these works, a full survey has been undertaken. The survey has identified significant issues and the wall needs to be rebuilt. Total costs are £52,150 to complete the works, increasing the approved budget by a further £32K. Assets & Capital Board are investigating other options but in the event the cost cannot be reduced the budget increase is recommended to allow the works to be completed.

4.3.6 **New capital schemes** currently not included in the strategy and pending further investigation. An issue has been identified at Stevenage Leisure Centre as part of a recent stock condition survey:

1. Members were advised in the 3rd Quarter capital report that pipework at the Stevenage Arts and Leisure Centre may need to be replaced. Consultants were appointed and have advised that the whole building needs to be surveyed (estimated cost of £50K) and a specification produced for the replacement of all pipework. This is now not required and a phased plan of replacement is feasible. The cost of phase one urgent works are estimated at £70k for 2019/20. In terms of phasing the programme of works, this will

deal with any risk areas over up to five years. The next capital strategy will update Members with the budget requirement and outcome of the review.

4.3.7 **Boiler Update.** The following boilers have been repaired / replaced and are now fully operational:

The Oval
 Springfield House
 Shephall (boiler failed earlier than anticipated and scheme brought forward)
 Timebridge
 Bedwell (repairs)
 St Nicholas (repairs)
 There are further works to boilers planned in the current capital strategy.

4.3.8 The changes to the 2019/20 budget are summarised by service areas in the table below:

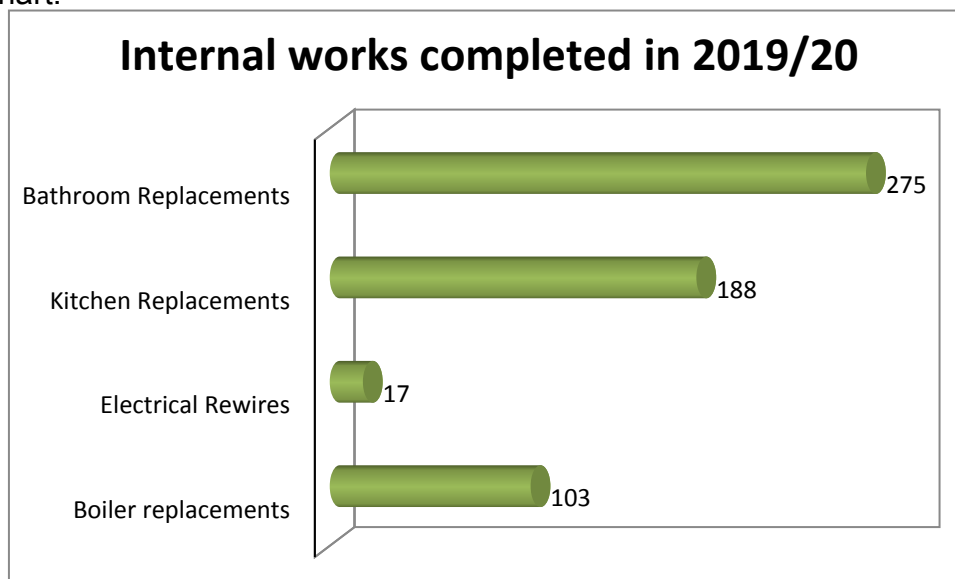
General Fund - Schemes budget changes and impact on 2019/20	Q3 Approved working budget	Spend re-profiled from 2018/19	New Funding recommended by Asset & Capital Board	Other net 2019/20 Budget changes	Spend re-profiled to/from future years	Total 19/20 Budget
Stevenage Direct Services	4,364,690	201,600		(57,000)		4,509,290
Housing Development	3,895,330	0	591,600		(3,004,740)	1,482,190
Finance and Estates	13,786,170	17,200				13,803,370
Corporate projects, Customer Service & Technology	1,003,510	(51,670)			(170,300)	781,540
Housing and Investment (General Fund Assets)	394,550	143,620	32,150	(8,910)	45,000	606,410
Regeneration	11,086,270	2,800,630			(1,775,590)	12,111,310
Communities and Neighbourhoods	112,000	62,130	111,000			285,130
Planning and Regulatory	560,520	78,940	45,000	5,300		689,760
Deferred Works	29,600					29,600
TOTAL GENERAL FUND IMPACTS 2019/20	35,232,640	3,252,450	779,750	(60,610)	(4,905,630)	34,298,600

4.4 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

4.4.1 The actual outturn for 2018/19 HRA capital spend was £250,812 lower than that estimated in the 3rd Quarter report. The main reason for this is lower spend on the existing housing stock, offset by Housing development schemes progressing ahead of schedule. The following table identifies the areas of underspend, overspend and slippage.

Housing Revenue Account	Q3 Approved Budget	Actuals 2018/19	(Underspend)/overspend	Slippage to 2019-20
	£	£	£	£
Major Works	14,589,680	13,784,198	(805,482)	805,480
New Build and Housing acquisitions	6,914,130	7,383,136	469,006	0
Special Projects & Equipment	784,570	732,365	(52,205)	53,940
IT Including Digital Agenda	328,380	466,249	137,869	(122,720)
TOTAL	22,616,760	22,365,948	(250,812)	736,700

4.4.2 In 2018/19 the **major works programme** has delivered 95 roof replacements, 381 window replacements, 374 door replacements and 131 insulation improvements such as external wall insulation, cavity wall insulation and loft insulation. Further capital improvement works were carried out internally to properties as shown in the following chart:



4.4.3 The number of properties where works have been carried out to bring the property up to the decent homes standard (the standard by which each element i.e. kitchen, bathroom, electrics, windows, roof etc. whose condition is measured) in 2018/19 was 702 which brought down the non-decent properties number to 1,971 against the target of 1,976.

4.4.4 **New build and acquisitions programme:** In 2018/19 schemes at Ditchmore Lane and March Hare/Gresley Way have continued on site. Enabling work has been commissioned on Kenilworth redevelopment and the acquisitions programme was redesigned to deliver more family sized accommodation that has the capacity to meet the needs of those requiring adapted properties.

4.4.5 The overspend on the **ICT budget** predominantly relates to works on the Northgate system originally planned for 2019/20 but which have been brought forward (£123K budget).

4.5 HOUSING REVENUE ACCOUNT CAPITAL RESOURCES

4.5.1 The capital resources available to support the future capital programme (as at 31 March 2019) is £21.052Million. The resources are summarised in the following table:

Housing Revenue Account Resources	Brought Forward	Received in Year	Used in Year	Available to Fund Future Year Expenditure
	£	£	£	£
Major Repairs Reserve (Depreciation)	(9,264,380)	(12,779,598)	11,124,186	(10,919,793)
Usable Capital Receipts	0	(822,528)	696,056	(126,472)
One for One Receipts for HRA, General Fund and 141 repayment	(10,101,670)	(2,929,737)	3,025,347	(10,006,060)
S20 and Other contributions	0	(677)	677	0
Revenue contributions	0	(6,770,206)	6,770,206	(0)
Borrowing	0	(1,810,558)	1,810,558	0
TOTAL	(19,366,050)	(25,113,305)	23,427,030	(21,052,326)

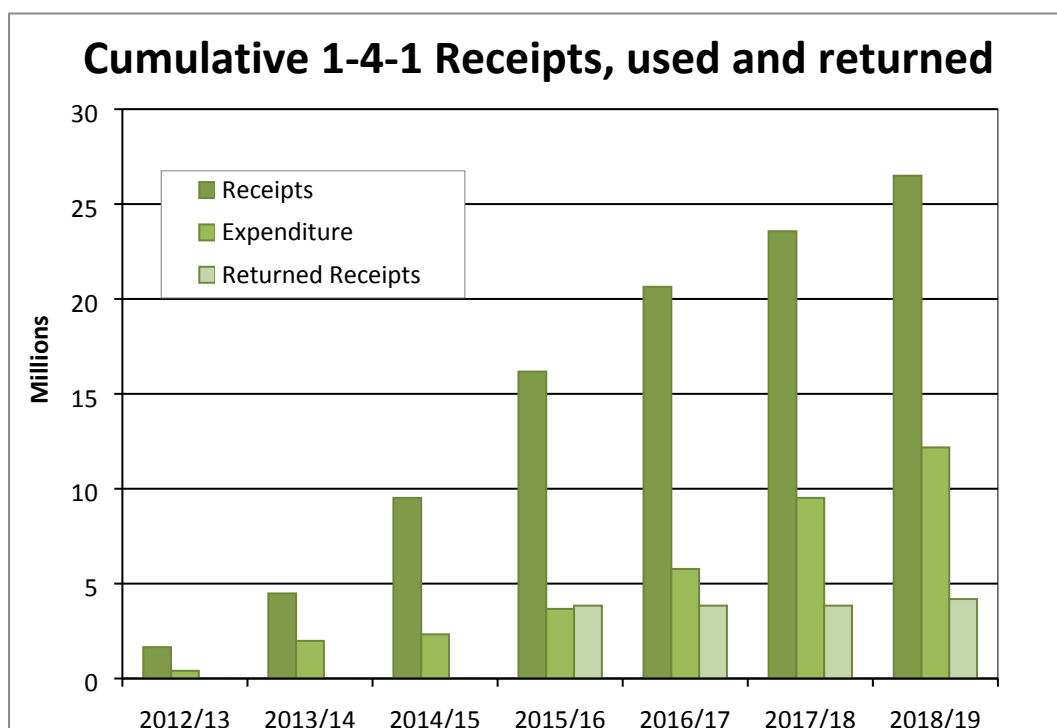
Numbers in brackets () =available funds/funds received in year, Positive numbers = spent in year

4.5.2 There were 32 homes sold under Right to Buy (RTB) during 2018/19, one being exempt from pooling (a property built under the housing development programme). The resulting 2018/19 HRA net capital receipt was £4.109Million, and the allocation of this receipt including the pooling payment to the government is shown in the table below.

Housing Revenue Account - 2018/19 Right to buy sales		
	£	£
Sale Proceeds 32 sales		4,909,722
RTB discounts repaid in year (subject to pooling)		104,191
Total Gross proceeds		5,013,913
less admin fee		(40,300)
Less pooling payment to Government		(864,541)
Net proceeds		4,109,072
Net proceeds allocated as follows:		
Local Authority share	357,497	
1 for 1 receipts	2,929,048	
One New Build property sold (exempt from pooling)	126,471	
Debt receipts	696,056	
		4,109,072

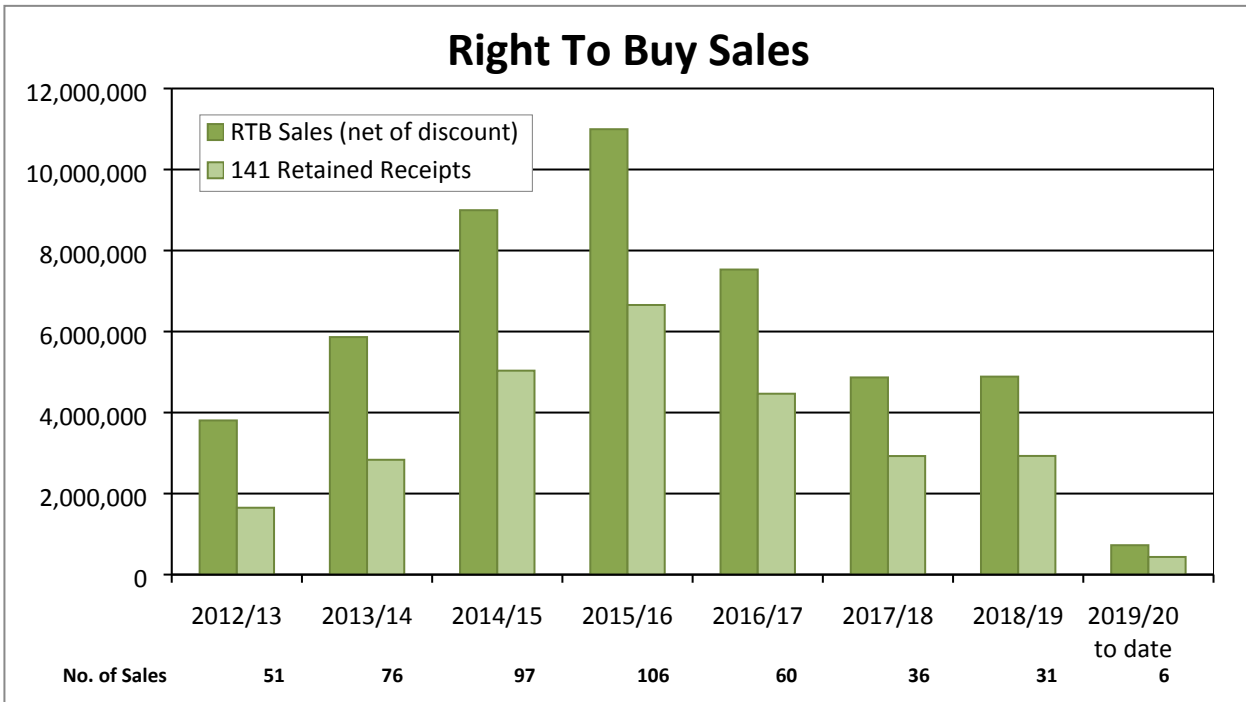
4.5.3 The HRA RTB receipts used in year to finance the capital works and grant aid registered housing providers was £2.679Million leaving a balance of £10Million of 1-4-1 receipt available to fund 30% of future new build schemes such as Kenilworth. Debt receipt in year totalled £696K, all of which was used in financing elements of the HRA 2018/19 capital programme.

4.5.4 There is a three year deadline to spend the receipts and in 2018/19 £346K was returned. Despite consultation on relaxing the rules, no further announcements have been made by government. Due to the lead times for these new build schemes which include finding suitable residential development sites, grant of planning permission, procurement and build, achieving the three year deadline has become more challenging. Officers have reviewed the projected spend and the opportunities to support local social housing providers in return for nomination rights so that one for one receipts can be utilised wherever possible. The chart below shows the actual cumulative one for one receipt received, used and already returned receipts to the government.



4.5.5 Following the reprofiling of 1-4-1 eligible housing projects there was a possibility that 1-4-1 receipts would need to be returned in 2019/20. To mitigate this risk officers are working with local housing partners with a view to grant aid schemes in return for nomination rights and the General Fund capital programme has been increased by £591,600 to reflect this. If there is any slippage there may still be a risk.

4.5.6 Right to buy sales have fallen from the peak of 106 sales in 2015/16 to 31 sales in 2018/19 as shown in the chart below (six further RTB sales have been completed as at 19th June this year).



4.6 HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE 2019/20

4.6.1 Members approved the 2019/20 Housing Revenue Account capital programme totalling £48,827,618 at the March Executive. This report identifies a net decrease in the budget by £15,084,628 to £33,724,990. The changes to the 2019/20 budget are summarised in the table below:

Housing Revenue Account - Scheme budget changes and impact on 2019/20	Q3 Approved working budget	Spend re-profiled from 2018/19	Other net 2019/20 Budget changes	Spend re-profiled to future years	Total 19/20 Budget
Major Works	20,248,610	805,480	78,940		21,133,030
New Build and Housing acquisitions	27,188,698	0		(15,475,008)	11,713,690
Special Projects & Equipment	180,000	53,940	(78,940)		155,000
IT Including Digital Agenda	1,210,310	(122,720)		(346,320)	741,270
TOTAL HOUSING REVENUE ACCOUNT IMPACTS 2019/20	48,827,618	736,700	0	(15,821,328)	33,742,990

4.6.2 As mentioned in paragraph 4.4.4 the Kenilworth redevelopment scheme is progressing and procurement options will be presented to this Executive. The budget profile has been revised with a large part of the delivery expected in 2020/21. This scheme is part funded by ring fenced 1-4-1 receipts (para 4.5.3 and 4.5.4) and any slippage on spend may exceed the three year deadline and require a return of these receipts. To mitigate this risk Officers have identified grant opportunities to registered

housing providers in 2019/20 and this has been included in the General Fund capital update to this Executive (para 4.3.4).

4.7 Property Appropriations between General Fund and HRA

- 4.7.1 Assets may be transferred between General Fund and Housing Revenue Account when they are no longer required for the purpose for which they were previously held, in order to allow the most appropriate use of these assets. For example a former underused General Fund asset could be redeveloped for new HRA properties. However in doing so no capital receipt is gained for the Council. The value of the land swap is recognised in the capital financing requirement (CFR) for each fund (ie the level of indebtedness of each fund), while overall the Council's CFR remains unchanged.
- 4.7.2 An appropriation from the General Fund to the HRA results in;
- i) an increase in the HRA's CFR (before the lifting of the debt cap this would have reduced the headroom of available borrowing)
 - ii) a decrease in the General Fund's CFR
 - iii) the loss of a capital receipt and/or rental for the asset transferred to the HRA.
- 4.7.3 Appropriation between the funds needs Member approval. No such approvals are sought in this report, however there is a recommendation to do so in the reports on the Kenilworth and North Road schemes presented to this Executive.
- 4.7.4 Update on previously approved appropriations. The Executive previously agreed appropriations in 2017 between the General Fund and the HRA:
- | | |
|-----------------|----------|
| 29 Shephall Way | £247,500 |
| Symonds Green | £444,553 |
- The Shephall Way appropriation took place in 2017/18, and the respective CFRs were updated accordingly. The Symonds Green scheme is progressing and this appropriation will take place in 2019/20.

5. IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is financial in nature and consequently financial implications are included in the above.

5.2 Legal Implications

- 5.2.1 None identified at this time.

5.3 Policy Implications

- 5.3.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across Council services and the overall Capital Strategy.

5.4 Equality and Diversity Implications

5.4.1 This report is of a technical nature reflecting the projected spend for the General Fund and HRA capital programme.

5.5 Risk Implications

5.5.1 The significant risks associated with the capital strategy are largely inherent within this report.

5.5.2 If the HRA procurement of contracts is delayed it could lead to works not being completed to the current profile.

5.5.3 A significant risk exists that works deferred due to lack of funding become urgent in year, requiring completion on grounds of health and safety. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum, and these schemes are monitored by Assets and Capital Board.

5.5.4 There is a risk in achieving the level of qualifying HRA spend to fully utilise retained one for one receipts. Should qualifying schemes slip or new schemes fail to be developed the three year deadline for spending these receipts will not be met and will have to be returned to the Government plus interest (base rate plus 4%). Should the new schemes and/or purchases slip or fail to be delivered there is a risk that one for one receipts will have to be returned and interest payments made.

5.5.5 There are risks around achieving the level of disposals budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates. The level of receipts for the General Fund is a significant source of funding for its capital programme. The Council manages this risk by reviewing and updating the Strategy quarterly, including resources where a sale is likely to complete. This will enable action to be taken where a receipt looks doubtful.

BACKGROUND DOCUMENTS BD1 - Capital Strategy Update January 2019 (Executive)
BD2 - Capital Strategy February 2019 (Council)
BD3 - Capital Strategy March 2019 (Executive)

APPENDIX A - General Fund Capital Programme
B - HRA Capital Programme