

Meeting: EXECUTIVE

Agenda Item:

Portfolio Area: Resources

Date: 11 March 2020

QUARTER 3 MONITORING REPORT (CAPITAL) - GENERAL FUND AND HOUSING REVENUE ACCOUNT

KEY DECISION



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1 PURPOSE

- 1.1 To provide Members with an update on the Council's 2019/20 and 2020/21 capital programme.
- 1.2 To seek approval for the revisions to the General Fund and Housing Revenue Account capital programme.

2 RECOMMENDATIONS

- 2.1 That the 2019/20 General Fund capital programme net decrease in expenditure of £15.5Million be approved as summarised in table one, para 4.1.1.
- 2.2 The General Fund net increase of capital expenditure of £15.8Million in 2020/21, also as summarised in table one, para 4.1.1, be approved.
- 2.3 That Members approve the net decrease of £3.6Million in the capital expenditure for 2019/20 Housing Revenue Account, as summarised in table three, para 4.3.1.
- 2.4 That Members approve the net increase of £4.0Million in the capital expenditure for 2020/21 Housing Revenue Account, also as summarised in table three, para 4.3.1.

3 BACKGROUND

- 3.1 The latest 2019/20 capital programme was approved at Council on 26 February 2020. The 2019/20 programme totals for each fund are and have

been revised for budgets approved for the North Road redevelopment as approved at Council (May 2019) and as annotated in Appendix A and B:

- General Fund £32,865,140
- Housing Revenue Account £33,563,500

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2019/20 GENERAL FUND CAPITAL PROGRAMME SUMMARY

4.1.1 The updated projected spend for 2019/20 General Fund capital programme (as detailed in Appendix A) is £17.3Million, a reduction of £15.5Million mainly due to reprofiling of schemes as shown in table one:

Table one: Changes to General Fund Capital Budget		
Capital Programme Change to 2019/20 Working Budget & 2020/21 Projected Budget	Increase (Decrease) to 2019/20 Working Budget £	Increase (Decrease) to 2020/21 Projected Budget £
Slippage/Acceleration		
Stevenage Direct Services – Note1	(638,500)	638,500
Housing Development Schemes (Joint GF/HRA) – Note 2	(59,060)	59,060
Garage Site Assembly - Note 3	(85,000)	85,000
Investment Property - Note 4	(13,244,050)	13,244,050
IDOX Property Management Software- Note 5	(17,200)	17,200
North Road Housing Development scheme – Note 6	(1,581,370)	1,581,370
Infrastructure Investment – Note 7	(32,480)	32,330
Corporate Web design – Note 7	(1,070)	1,070
New CRM Technology – Note 7	(15,370)	15,370
Pin Green Play Centre Equipment – Note 7	(35,000)	35,000
Residential Parking – Note 7	(23,160)	23,160
Hardstands – Note 7	(20,000)	20,000
Town Centre Ramps Improvements – Note 7	(15,000)	15,000
FVP Aqua Park – Note 7	(11,760)	11,760
BTC Roof – Note 7	(10,500)	10,500
Cycleway installations – Note 7	(10,000)	10,000
Total Slippage/Acceleration	(15,799,520)	15,799,370
Increases/(Decreases) to Budgets		
Building Conversion into New Homes - Ditchmore Lane – Note 8	258,000	
Cavendish - Fire Alarm Upgrade – Note 9	16,440	
Replacement Shops Van – Note 9		(30,000)
Grants To Registered Providers – Note 9	(600)	
Infrastructure Investment – Note 9	11,060	
Parking Enforcement - Old Town Permits – Note 9	(12,000)	
Total Increases/(Decreases) to Budgets	272,900	(30,000)
Total Change in Working Budget and Projected Budgets	(15,526,620)	15,769,370

4.2 Slippage/Acceleration Notes for table one:

- 4.2.1 **Note 1:** a number of capital projects within Stevenage Direct Services are forecast to underspend in 2019/20. The £638K includes
- £503K for replacement vehicles. The vehicles are still in procurement or have a delivery date in 2020/21
 - £80K for the new Waste & Recycling IT system (Bartec), the timing of which has slipped due to the delay in agreeing some additional costs
 - £30K for litter bins
 - £25k for Hertford Road Play Area
- 4.2.2 **Note 2:** The Kenilworth development scheme has been reprofiled since the report approved by Executive on 22 January 2020, and £59K has slipped from 2019/20 to 2020/21.
- 4.2.3 **Note 3:** £85K of the rolling Garage Site Assembly programme has slipped into 2020/21 however only £60K of this may be required.
- 4.2.4 **Note 4: Commercial Property**
The budget for Investment in Commercial Property has been slipped into 2020/21. As detailed in the Final Capital Strategy 2019/20-2024/25 report, there have been no new purchases in 2019/20. A number of properties have been assessed but did not meet the target return or did not have a strong enough covenant.
- 4.2.5 The lack of investment purchases have been exacerbated by a number of issues including:
- The staffing capacity in the Estates section which although has been restructured is not fully staffed yet and have needed to focus on regeneration activities.
 - Increase in PWLB rates available to Local Authorities by 1% has impacted target return. To date one property has been purchased and has made a net return of £49,000 for the General Fund in 2019/20.
 - The lack of suitable property investments currently available.
- 4.2.6 Action taken to mitigate the impact on the General Fund are:
- The CFO has sought counsel's opinion on investing in property inside and outside the Stevenage boundary in pursuant of supporting the financial provision of the Council's services.
 - Review of the Strategy to revise the scope of investments. The Council's Property Investment Strategy will be reviewed to potentially include purchases outside the Stevenage Boundary and Local Plan economic area.
- 4.2.7 **Note 5:** A further new IT system, Idox Property Management Software, has also slipped into 2020/21, as has spend on the IT and Digital programmes totalling £49K, the majority due to agreeing specification for IT hardware for members.

4.2.8 **Note 6:** There is estimated to be slippage totalling £1.6Million on the North Road Housing Development scheme.

4.2.8 **Note 7:** There is estimated to be further slippage totalling £125K on other projects.

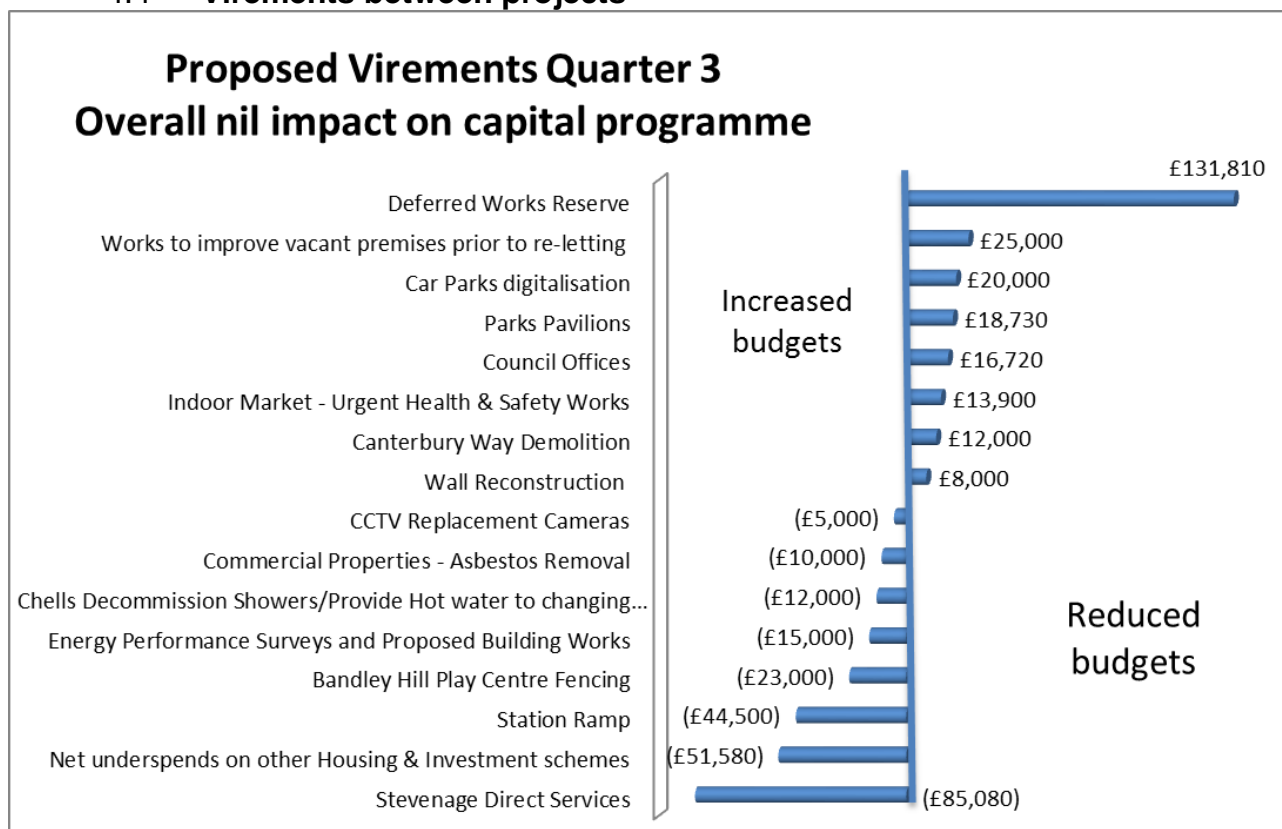
- £35K for Pin Green Play Centre requires a detailed specification of works before procurement can take place.
- Leisure Centre ramp will be completed by the end of 2019/20, but £15K for the Argyle Way ramp will slip due to the application for match funding from ThamesLink Rail.
- Plant work has been completed at Fairland Valley Aqua Park, but the £12K for resurfacing will slip into 2020/21.
- Cycleway Installation is subject to a grant bid from the Arts Council which is still in the pipeline resulting in the slippage of the £10K to be funded by SBC.

4.3. **Increases/Reductions in Expenditure Notes for table one:**

4.3.1 **Note 8:** The Ditchmore Lane housing development scheme expenditure and financing have been revised as the project nears completion and offers have been received.

4.3.2 **Note 9:** A number of other schemes have costs which have varied from previous forecasts, and the over/(under)spends have been incorporated into this report, with a net increase of £15K in 2019/20 and decrease of £30K in 2020/21 (details in table one).

4.4 **Virements between projects**



4.4.1 A number of schemes have been forecast to underspend, returning £158K to the Deferred Works Reserve, including:

- £85K from Stevenage Direct Services of which £59K relates to Green Space Access Infrastructure, £9K due to a lower than forecast costs of works and £50K which had been on hold.
- £96K relates to Housing Investment, including £44.5K due to work on the station ramp costing less than initially forecast.
- £28K relates to Communities & Neighbourhoods including £23K for Bandle Hill Play Centre Fencing which was subject to a revised bid submitted for 2020/21.
- £25K relates to Estates as funding has been found elsewhere for Energy Performance Surveys and Asbestos Removal at Commercial Properties.
- There will be an underspend of £12K on Chells changing room works, due to the decision to cancel hot water works and review works required pending the outcome of the Local Assets Review.

4.4.2 Two new urgent schemes are requested to be funded from the Deferred Works Reserve,

- £20K for Car Park Equipment Digitisation and
- £8K for an urgent wall reconstruction.

This would result in net funds returned to the Deferred Works Reserve of £132K.

4.4.3 The Estates Team request a budget allocation of £25K to ensure commercial vacant premises are in a lettable condition prior to marketing.

4.4.4 A budget increase of £12K is requested for additional costs relating to the demolition of the Canterbury Way pavilion.

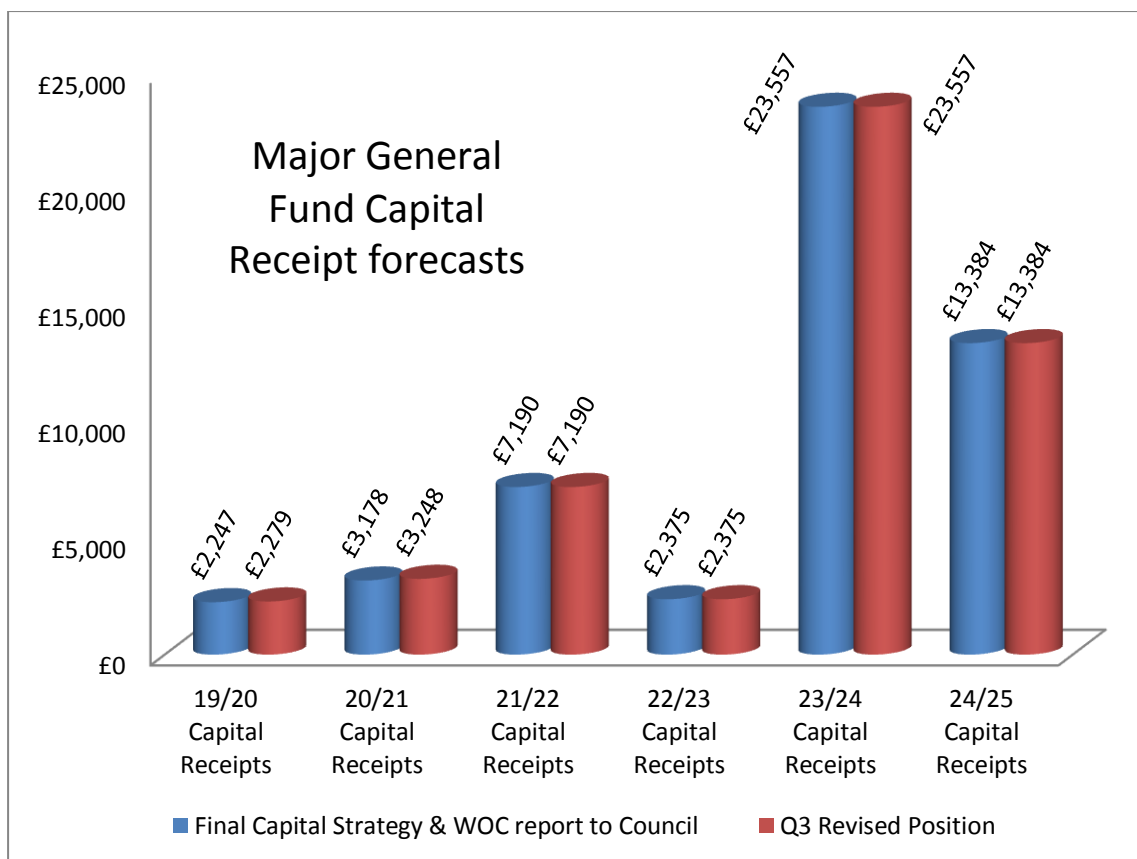
4.4.5 In addition there is a request to fund urgent Health & Safety works on Park Pavilions, Council Offices and the Indoor Market.

4.5 **Other Updates:**

4.5.1 This report includes the investment costs for the WOC of £700K in 2019/20 and £1.6Million in 2020/21, as per the original Wholly Owned Housing Development Company (WOC) business plan (Council 22 May 2019). The WOC business plan is currently being refreshed in light of the 1% PWLB rate increase, and the programme may to slip. Future capital strategy reports will update Members further.

4.6 **Capital Resources General Fund**

4.6.1 Projected capital receipts from disposals for the current and future years have been reviewed. Forecast receipts have been adjusted accordingly and shown in the following chart:



Note: Capital receipts shown in 23/24 and 24/25 match fund known expenditure on the Civic Hub and Kenilworth scheme

- The increase in 2019/20 forecasts is due to a higher sale price and an additional sale as part of the Garages Programme.
- The increase in 2020/21 forecasts is due to higher than previously forecast receipts for Ditchmore Lane, Land at Elliot Road and the Garages Programme.

4.6.2 Prudential borrowing that is required to support the Capital programme will be a treasury management decision as to when the external borrowing is actually taken. As per the Treasury Management Strategy, while cash balances are high and rates for borrowing are significantly higher than interest earned on balances, internal borrowing will be used.

4.6.3 Included in the capital strategy is budget for the new bus interchange, which will deliver a high-quality transport hub connecting rail, bus and pedestrian/cyclists, whilst also facilitating the develop of the new Garden Square. There is £9.6Million of GD3 funding earmarked for the relocation and redevelopment of the bus station approved by the LEP but cannot currently be drawn down by SBC. Work continues to demonstrate that the requirements to release the funding have been met. Members should note that procurement has started for the relocation to meet the timetable for SG1 town centre regeneration.

4.6.4 A budget of £6.5Million (£5Million construction costs and £1.5Million for fees and contingency) has been allocated for the new bus station scheme if SBC

has to fund the project. It will have a significant impact on the current capital programme and also the Council's General Fund in the form of additional borrowing costs. The capital strategy to the February Council reaffirmed the possible impacts of having to fund the bus station relocation from SBC resources.

4.7 2019/20 Housing Revenue Account Capital Programme

4.7.1 The latest HRA Business Plan was approved by Council in January 2020. The updated projection for 2019/20 Housing Revenue Account capital programme is £29.9Million (as detailed in Appendix B) a decrease of £3.6Million as summarised in table three:

Table three: Changes to Housing Revenue Account Capital Budget			
Capital Programme Change to 2019/20 Working Budget & 2020/21 Projected Budget	Increase (Decrease) to 2019/20 Working Budget £	Increase (Decrease) to 2020/21 Projected Budget £	Reason
Slippage			
Decent Homes - Internal & External Works	(900,000)	900,000	Two contracts being let, awards will take place in 19/20 but spend will take place in 20/21
Decent Homes - Flat Blocks	(800,000)	800,000	Consultation on contract slipped
Sprinkler Systems - Flat Blocks	(1,500,000)	1,500,000	Contract awarded but there will be slippage due to late start
New Build Programme including OMAs	(320,690)	320,690	
IT Infrastructure Investment	(49,900)	49,900	net movement across scheduled IT projects
Corporate Website - Redesign	(550)	550	minor reprofiling
New CRM Technology	(245,370)	245,370	developing plans to spend extra financing received on applications that will benefit the HRA
Housing All Under One Roof IT Programme	(135,970)	135,970	developing plans to spend extra financing received on applications that will benefit the HRA
Total Slippage	(3,952,480)	3,952,480	
Increases to Budgets			
Open Market Acquisitions	350,000		to mitigate risk of returning 1.4.1 receipts
March Hare in Burwell Road development	274,190		increased costs
Lease repurchase	13,070		additional costs

Table three: Changes to Housing Revenue Account Capital Budget			
Capital Programme Change to 2019/20 Working Budget & 2020/21 Projected Budget	Increase (Decrease) to 2019/20 Working Budget £	Increase (Decrease) to 2020/21 Projected Budget £	Reason
IT Infrastructure Investment		5,400	alteration to Office 365 capital/revenue split
IT Growth item		35,050	Growth in MTFS
New Intranet	3,500		pressure identified
Total increases to Budgets	640,760	40,450	
Decreases to 2019/20 & 2020/21 Budgets			
Gresley Way development	(78,770)		no further costs
Shephall Way development	(231,550)		reduced costs
Total Decreases to 2019/20 & 2020/21 Budgets	(310,320)	0	
Total Change in Working Budget and Projected Budgets	(3,622,040)	3,992,930	

4.8 Budget updates:

4.8.1 Housing Stock - A number of contracts have been reprofiled and are as follows:

- Decent Homes – Internal & External Works. The original contract for these works ended earlier than planned, and as a result procurement commenced for two replacement contractors to deliver these works. This contract is due to be awarded in March 2020 and there is a forecast slippage of £900k.
- Decent Homes – Flat Blocks. Dates are now clearer for Member, Leaseholder and Tenant consultation for the Major Refurbishment Contract (MRC), resulting in budget rephasing of £800k from 2019/20 to 2020/21.
- Sprinkler System – Flat Blocks. The sprinkler contract had to be re-procured. The contract has been awarded and has commenced but there is likely to be a potential slippage of £1.5Million.

4.8.2 Housing Development

- The Kenilworth development scheme has been reprofiled since the report approved by Executive on 22 January 2020, with £731K more now anticipated to be spent in 2019/20.
- The North Road development scheme has projected slippage of £1.4Million from 2019/20 to 2020/21.
- There is also projected to be £481K of slippage on the Symonds Green development.
- Officers request that the budget for Open Market Acquisitions be increased by £350K to mitigate the risk of 1.4.1 receipts to be returned to government.

- There are also increased costs of £274K anticipated relating to the March Hare development and £13K for repurchase of a lease, but this will be offset by lower projected costs of £310K on the Gresley Way and Shephall Way developments.

4.8.3 **IT/Digital**

- Additional funds were allocated for IT/digital work of benefit to the HRA. Plans are being developed identifying appropriate applications, resulting in £381K slipping from 2019/20 to 2020/21.
- Slippage is also projected against IT Infrastructure Development of £50K.
- IT Infrastructure budgets have also been increased to match the Medium Term Financial Strategy (£35K) and for the HRA share of updated figures for the on-boarding of Office 365.

4.9 **Other Updates:**

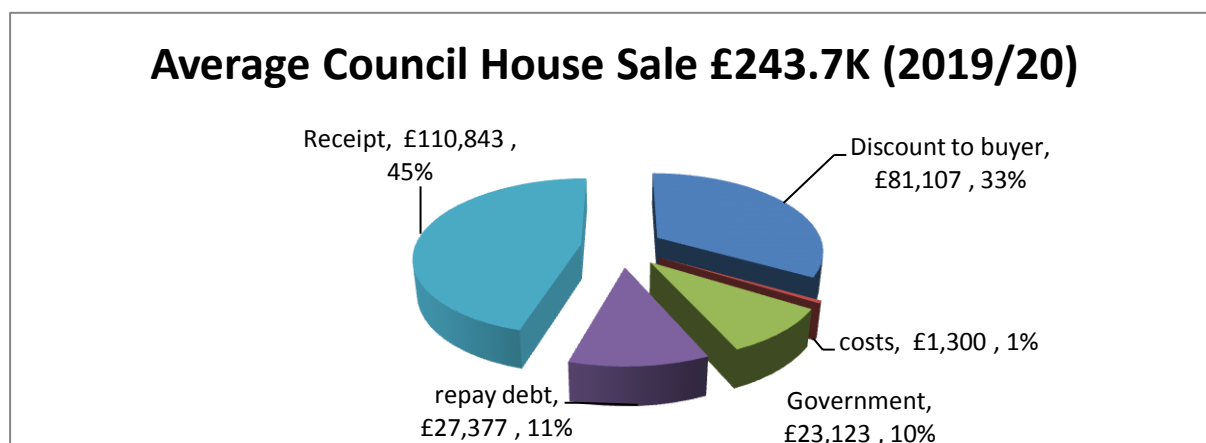
- 4.9.1 The **Decent Homes programme** forms a large part of the ongoing investment programme of the HRA. The number of properties where works have been carried out to bring the property up to the decent homes standard (the standard by which each element i.e. kitchen, bathroom, electrics, windows, roof etc. whose condition is measured) in 2019/20 is 491 to the end of December, against an in year target of 495 to the same period. The target for the year remains at 750 properties in total for 2019/20.
- 4.9.2 The HRA Right to Buy (RTB) receipts included a one for one (1.4.1) balance of £10.0Million on 1 April 2019, available to fund 30% of the future new build schemes. There is a three year deadline to spend these receipts, and if not spent the receipt must be returned to government plus interest (calculated at 4% above base rate). The phasing of RTB funded build schemes have been reviewed, along with the opportunities to support local social housing providers via Registered Provider grants so that 1.4.1 receipts can be utilised wherever possible.
- 4.9.3 The revised programme as outlined in Appendix B now forecasts that there is a need to return receipts in quarter 4 of 2019/20 (£372K plus interest) and quarter 1 of 2020/21 (£317K plus interest). As per para 4.8.2, the Housing Development team have requested an increase to the budget for Open Market Acquisitions to mitigate this risk. Options also continue to be explored by the team to be able to find a scheme in partnership with a registered social landlord in order to further mitigate this risk.
- 4.9.4 A further recommendation was added to the capital strategy report at the request of the January Executive to write to the Secretary of State to ask whether these receipts could be used for schemes such as Kenilworth. At the time of writing this report a letter was being drafted.

4.10 **Capital Resources Housing Revenue Account**

4.10.1 The HRA had 28 RTB sales by the end of the third quarter (18 RTB sales by the same point last year). The forecast for the year remains unchanged at 35 sales although there is a risk that sales may be higher. Gross and net sale proceeds and average discount given is shown in the following table:

Table four: RTB Receipts 2019/20						
RTB Receipts	RTB Admin	Allowable Debt	LA Assumed Income	New Build Receipts	Payment to Government	Total RTB Receipts
	£	£	£	£	£	£
2018/19 Actual	40,300	696,056	357,497	3,055,519	864,541	5,013,913
2019/20 Quarter 1 Actual	11,700	223,555	90,159	765,525	215,812	1,306,751
2019/20 Quarter 2 Actual	16,900	415,143	90,159	1,616,032	215,812	2,354,046
2019/20 Quarter 3 Actual	7,800	127,852	90,159	571,166	215,812	1,012,790
2019/20 Projection Update	45,500	958,188	360,637	3,690,903	863,248	5,918,476

4.10.2 The average cost of building a new council home is £165,000. As per the chart below, the amount allowed by legislation to apply to a new council home from the average receipt of £243,750 is £59,159 which is not sufficient to build a replacement.



4.10.3 The updated HRA Business Plan revised the approach to borrowing in light of the lifting of the HRA borrowing cap by the Chancellor. The approach taken is based on the HRA's need to borrow and affordability. As such the revenue contribution to capital originally identified to fund the HRA capital programme for 2019/20 and beyond has been replaced with new borrowing.

4.10.4 Prudential borrowing identified for the sprinkler system for the flat blocks and the New Build Programme will be a treasury management decision as to when external borrowing is actually taken.

4.10.5 The majority of resources available at year end are restricted use 1-4-1 receipts (£9.2Million).

5 Implications

5.1 Financial Implications

5.1.1 This report is of a financial nature and financial implications are contained within the body of the report.

5.2 Legal Implications

5.2.1 None identified at this time.

5.3 Equalities and Diversity Implications

5.3.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

5.3.2 Schemes contained within the capital programme will have an EQIA particularly those relating to housing schemes.

5.4 Risk Implications

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

5.4.2 If the Housing & Investment team's procurement of HRA contracts is delayed it could lead to works not being completed to the current profile.

5.4.3 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.

5.4.4 There is a risk in achieving the level of qualifying HRA spend to fully utilise retained 1.4.1 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 1.4.1 receipts will have to be returned and interest payments made.

5.4.5 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.

- 5.4.6 The Capital programme is funded from a number of sources including capital receipts and borrowing. The timing and value of the capital receipt cannot be known with certainty.
- 5.4.7 When cash balances are above that required for the day to day running of the council the treasury management policy is to use internal borrowing. When actual borrowing is taken interest rates may be higher than those prevailing now. The Council manages this risk by reviewing and updating its cash flow forecast and Treasury Management strategy regularly.
- 5.4.8 If SBC have to fund the Bus Station project, there is likely to be an impact on the current capital programme and the General Fund in the form of borrowing costs. The Capital Strategy to February Council set out the possible impacts of having to fund all the possible impacts of having to fund the bus station from SBC resources.

5.5 Climate Change Implications

- 5.5.1 The council's buildings across the town do not meet the climate change agenda in terms of energy efficiency or divestment of use of fossil fuels and in their current condition they would undermine the Council's attempt to be carbon zero by 2030.
- 5.5.2 However, there is an opportunity with the local asset review agenda to have design principles built into renewed assets in terms of energy efficiency and sustainable energy sources. This should be a core principle of any future designs arising from the local asset reviews. There would be a further benefit of reduced energy costs.
- 5.5.3 The climate change agenda is far wider than just the buildings the Council uses, the Council are also examining the vehicle fleet the Council uses and consideration will be given to reducing the carbon impact of the fleet moving forward.

BACKGROUND PAPERS

- BD1 – FINAL CAPITAL STRATEGY 2019/20-2024/25

APPENDICES

- A – General Fund Capital Strategy
- B – HRA Capital Strategy