

Meeting: EXECUTIVE

Portfolio Area: Resources

Agenda Item:

6

Date: 13 SEPTEMBER 2016

2016/17 FIRST QUARTER CAPITAL STRATEGY UPDATE

KEY DECISION

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1. PURPOSE

- 1.1 To provide Members with an update on the Council's 2016/17 and 2017/18 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 2016/17 General Fund capital programme net decrease in expenditure of £842,630 be approved, as summarised in paragraph 4.1.2.
- 2.2 That the 2016/17 Housing Revenue Account capital programme net decrease in expenditure of £95,250 be approved, as summarised in paragraph 4.2.2.
- 2.3 That the 2017/18 General Fund capital programme increase in expenditure of £588,850 be approved, as summarised in paragraph 4.3.1.
- 2.4 That the 2017/18 Housing Revenue Account capital programme decrease in expenditure of £7,020,000 be approved, as summarised in paragraph 4.3.2.

3. BACKGROUND

- 3.1.1 The 2016/17 capital programme was last approved by Executive on the 12 July 2016:
 - General Fund £9,330,560
 - HRA £28,024,678

3.1.2 Since 12 July 2016 Executive the General Fund capital programme of £9,330,560 has increased by a total of £572,870 to £9,903,430, due to additional approvals as detailed below:

General Fund Approved Budget Changes	£	2016/17 £
Approved Budget 12 July 2016		9,330,560
Town centre parking proposals - approved Executive 12 July 2016 report "town centre electric car club and on street car parking proposals"	51,870	
Symonds Green community centre extension - approved Council 20 July 2016	485,000	
Additional garages expenditure for 2016/17 from a 10 year plan for the garages estates - approved Council 20 July 2016	36,000	
Total Increase to 2016/17 Budget		572,870
Revised Budget		9,903,430

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2016/17 General Fund Capital Programme

4.1.1 The latest projected expenditure for the 2016/17 General Fund capital programme is £9,060,800. A decrease of £842,630 in total due to:

- Slippage of £438,850 to 2017/18 (reducing spend in 2016/17)
- Capital expenditure reclassified as revenue £305,830 (reducing spend in 2016/17)
- Decreases to 2016/17 budgets of £132,500
- Increases to 2016/17 budgets of £34,550

4.1.2 The changes in the working budget are detailed in the following table and additional commentary on notable changes below:

Changes to General Fund capital budget				
General Fund capital programme change to 2016/17 working budget & 2017/18 projected budget	Approved working budget £	Increase/ (Decrease) to 2016/17 working budget £	Increase/ (Decrease) to 2017/18 budget £	Reason
Slippage				
Symonds Green community centre extension	485,000	(138,550)	138,550	Re-profiling of this scheme which was approved at Council 20 July 2016
Improvements to Forum Square	377,000	(227,000)	227,000	Specification of the scheme to be finalised

Changes to General Fund capital budget				
General Fund capital programme change to 2016/17 working budget & 2017/18 projected budget	Approved working budget £	Increase/ (Decrease) to 2016/17 working budget £	Increase/ (Decrease) to 2017/18 budget £	Reason
Gordon Craig roof panels	50,000	(50,000)	50,000	Works are no longer urgent following asbestos testing results (paragraph 4.1.6)
Asbestos surveyor for garages (one year contract)	40,000	(23,300)	23,300	Problems in recruiting to this one year post which is to survey the entire garage stock. This post will reduce the cost of ad hoc asbestos surveys by external surveyors required when works are done to any individual garage. Slippage requested as the works are still required
Total Slippage to 2017/18		(438,850)	438,850	
Virements Between Projects				
CCTV	26,530	9,760		Virement to fund additional servers required for the Control CCTV Room
Multi storey car park	107,500	(9,760)		
Total Virements Between Projects		0	0	
Capital Expenditure Reclassified as Revenue				
Town centre regeneration	284,700	(284,700)		Reduction in capital budget to fund the revenue element of Stevenage First scheme
Allotments - general	10,000	(10,000)		No capital spend for allotments has been identified for 2016/17.S106 funded of £10k is now to be spent on revenue maintenance
Town centre improvements (decluttering of street furniture)	4,520	(4,520)		Scheme has been completed below budget.
Other bins	27,000	(2,000)		Scheme has been completed below budget
Goals & sockets	4,610	(4,610)		Expenditure is now revenue as the actual cost of the works is less than £5k
Total Capital Expenditure Reclassified as Revenue		(305,830)		

Changes to General Fund capital budget				
General Fund capital programme change to 2016/17 working budget & 2017/18 projected budget	Approved working budget £	Increase/ (Decrease) to 2016/17 working budget £	Increase/ (Decrease) to 2017/18 budget £	Reason
Decreases to 2016/17 Budget				
Allotments - general	10,000	(10,000)		No capital spend for allotments has been identified for 2016/17
Daneshill, Cavendish & Swingate - replacement of building management system	157,500	(122,500)		A smaller scheme will be required (paragraph 4.1.5)
Total Decreases to 2015/16 Budget		(132,500)	0	
Increases to 2016/17 Budget				
On-line housing application form	0	3,250		General Fund share of On-line Housing System (paragraph 4.1.3)
Net overspend anticipated on various vehicles due to difference in budgets requested for vehicles and quotations	497,000	31,300		Higher expenditure than expected on replacement vehicles (paragraph 4.1.4)
Total Increases to 2016/17 Budget		34,550	0	
Total Change in Working Budget and Projected Budgets		(842,630)	438,850	

4.1.3 Online housing application form is a new ICT project for 2016/17 this is currently included in the approved Housing Revenue Account capital programme. This system is used for processing homelessness applications and is partly a General Fund cost. The General Fund share of this project is £3,250.

4.1.4 Within the approved 2016/17 capital programme are vehicle replacements including two refuse freighters. Based on changes in emissions standards and current technology it is anticipated that replacement costs will increase. Savings have been achieved on the procurement of two other vehicles. A net pressure of £31,300 has been recognised in the capital programme.

4.1.5 The approved 2016/17 capital strategy contained a growth bid of £157,500 for works to Daneshill House, Cavendish and Swingate building management system. This work has been reconsidered following the Future Town Future Council objectives and the cost benefits of a full replacement system will not be achieved over the shorter

time horizon. A smaller scheme (£35,000) is now proposed with the residual budget no longer required.

- 4.1.6 In July Executive approved urgent health and safety works of £50,000 to remove and replace an asbestos board in the Gordon Craig Theatre. At the time of the report asbestos testing had not been carried out. The Council arranged for testing of the theatre which found it to be clear of airborne asbestos. The works are still required to ensure the asbestos is secure but are no longer urgent and can now be undertaken in a more planned manner in July 2017. Slippage of £50,000 to 2017/18 is requested.
- 4.1.7 As at 31 July the total actual spend on the General Fund capital schemes was £1,190,898 which represents 13% of the projected outturn.

4.2 2016/17 HRA CAPITAL PROGRAMME

4.2.1 The Housing Revenue Account capital programme is now projected to be £27,929,430, which is £95,250 less than the approved 2016/17 working budget;

- Decreases to 2016/17 budgets of £110,250
- Increases to 2016/17 budget of £15,000

4.2.2 The proposed changes to the working budget are detailed in the table below:

Changes to HRA capital budget		
HRA capital programme change to 2016/17 working budget	Increase/ (Decrease) to 2016/17 working budget £	Reason
Virements Between Projects		
Contingent major repairs	(10,000)	Virement required for £10,000 - purchase of equipment and one off software license for HRA ICT project
Planned maintenance software	10,000	
Total Virements Between Projects	0	
Increases to 2016/17 Budget		
Pay to stay ICT project	15,000	New ICT project to implement the Government's new Pay to Stay scheme.
Total Increases to 2016/17 Budget	15,000	
Decreases to 2016/17 Budget		
Low start shared ownership	(107,000)	Purchases are sporadic and will be dealt with as they arise and funded from HRA acquisition budgets.
On-Line housing application form	(3,250)	Part of the cost has been financed from the General Fund (paragraph 4.1.4)
Total Decreases to 2016/17 Budget	(110,250)	
Total Change in Working Budget and Projected Budgets	(95,250)	

4.2.3 Capital expenditure for the Housing Revenue Account at the end of July 2016 was £6,504,342 representing 23% of the projected outturn.

4.2.4 Monthly corporate procurement meetings are held which track the tendering processes against projected spend. These meetings have identified slippage for future years in relation to the flat blocks contract (see paragraph 4.3.3 below). It is currently not anticipated that there will be any further significant slippage in the 2016/17 budget.

4.2.5 The number of properties made decent by the end of the 1st quarter was 106, the Council is on track to achieve its annual target of 610 properties made decent in the year. Decent Homes works completed to the end of June 2016 are shown in the following table:

Number of Properties with Decent Homes work completed 2016/17										
Month	Heating	Electrics	Kitchens	Bathrooms	Roofing	Loft Insulation	Windows	Doors	Other	Number of Properties
April	1	2	5	7	87	38	24	41	74	124
May	3		4	8	184	21	59	101	51	273
June	2	1	3	6	134	9	63	149	60	212
Total	6	3	12	21	405	68	146	291	185	609

4.3 CAPITAL PROGRAMME 2017/18 ONWARDS

GENERAL FUND CAPITAL PROGRAMME

4.3.1 The General Fund capital programme for 2017/18 (£4,631,000) was approved by Executive on 12 July 2016. Subsequently Council approved two further schemes which resulted in an increase of £692,930 to £5,323,930. After quarter one monitoring this report is now proposing a further increase of £588,850 to £5,912,780. The changes to the programme since 12 July 2016 are detailed in the table below:

General Fund Approved Budget Changes	£	£
Approved Budget 12 July 2016		4,631,000
Symonds Green community centre - capital works to the existing building are no longer required (Report: proposed extension to Symonds Green community centre)	(90,000)	
Garages Expenditure for 2017/18 (Report: a 10 year plan for the garages estates)	782,930	
Total Increase to 2017/18 Budget Approved by Council 20 July 2016		692,930
Revised Budget		5,323,930
Slippage from 2016/17	438,850	
A receipt of £500k is projected but requires some works before marketing - this cost is estimated to be £150k.	150,000	
Total Increase to 2017/18 Budget Quarter 1		588,850
Revised 2017/18 Budget		5,912,780

HRA CAPITAL PROGRAMME 2017/18 ONWARDS

4.3.2 The HRA capital programme for 2017/18 was reported to Executive 12 July 2016. The 2017/18 HRA programme is now projecting a decrease of £7,020,000 to £16,252,960, as is detailed in the table below:

Changes to HRA Capital Budget		
HRA capital programme change to 2017/18 working budget	Increase (Decrease) to 2017/18 working budget £	Reason
Slippage		
Decent Homes - flat blocks contract	(7,000,000)	Procurement of the flat blocks contract delayed (paragraph 4.3.3)
Total Slippage to 2018/19 & 2019/20	(7,000,000)	
Decrease to 2017/18 Budget		
Low start shared ownership	(20,000)	Low start shared ownership no longer has a budget and individual cases will be dealt with specifically
Total Decreases to 2017/18 Budget	(20,000)	
Total Change 2017/18 Budget	(7,020,000)	

4.3.3 The procurement of the Decent Homes flat blocks contract has been deferred to enable a review of the specification required in light of budget pressures faced by the HRA and to incorporate any recommendations from housing quality network report . This will determine the approach and standard of the works to be tendered. Slippage of £7Million from 2017/18 is requested; £3.5Million to 2018/19 and £3.5Million to 2019/20.

4.4 Capital Resources General Fund and HRA

4.4.1 **General Fund** - projected capital receipts for the current and following years have been reviewed and updated for the current disposals programme. While there is no guarantee that all of these receipts will be realised, they reduce the future need for the Council to borrow and/ or the need to utilise the Capital Reserve. Prudential Borrowing of £370,130 is required for 2017/18, see paragraph 4.5.1 below. The table below includes the forecast use of capital receipts for 2016/17 and 2017/18.

General Fund Capital Resources Applied to Finance Capital Programme			
	2015/16 Outturn Report £	September First Quarter 2016/17 Forecast £	Increase (Decrease) £
Capital Receipts			
2016/17	4,068,332	4,714,614	646,282
2017/18	2,705,000	3,739,650	1,034,650

General Fund Capital Resources Applied to Finance Capital Programme			
	2015/16 Outturn Report	September First Quarter 2016/17 Forecast	Increase (Decrease)
	£	£	£
Capital Reserve			
2016/17	2,282,348	1,932,348	-350,000
2017/18	1,115,000	765,000	-350,000
Prudential Borrowing			
2016/17			
2017/18		370,130	370,130
Other Capital resources			
2016/17	2,979,880	2,413,838	-566,042
2017/18	811,000	1,038,000	227,000
Total 2016/17	9,330,560	9,060,800	-269,760
Total 2017/18	4,631,000	5,912,780	1,281,780
Net overall decrease in resources over two years			1,012,020

4.4.2 **HRA** - had 12 Right to Buy (RTB) sales in the first quarter of 2016/17, compared to 18 for the first quarter of 2015/16. The forecast total for the year has been reduced from 100 to 50. There are currently 86 'live applications' for RTB's (as at 10 August 2016). The gross and net sale price to 31 July 2016 (14 sales) are shown in the table below, together with the average discount given.

RTB Sales				
RTB Sales	All Stock Sold	Average Gross price	Average Discount	Average Net Receipt
Year	No.	£	£	£
2015/16	106	180,163	73,570	102,647
2016/17 Quarter 1	12	185,000	73,100	111,900
2016/17 to 31 July 2016	14	191,071	73,786	117,286

4.4.3 RTB receipts retained by the Council are based on formulae and are categorised as follows:

- Local Authority Share - Intended to reflect the 25% share of receipts that the Council would have retained under the old capital receipts pooling system prior to self financing. This figure is capped and for 2016/17 the cap is £87,505 per quarter.
- Attributable Debt Costs - An amount equivalent to an assessment of the debt that could be supported by the net rent income of additional dwellings sold over and above those taken into account under the Council's self financing debt settlement.

- **New Build Provision** - this represents the remaining receipt once the other monies have been calculated. Only 30% of the expenditure on a scheme can be funded from New Build Provision receipts, with the Council having to provide the remaining 70%.

4.4.4 Total RTB receipts received April to June 2016 was £1,354,134. The Council has paid £217,787 to the Government leaving £1,136,347 of the receipts being retained by the Council. This is shown in the table below:

RTB Receipts 2016/17						
RTB Receipts	RTB Admin	Allowable Debt	LA Assumed Income	New Build Receipts	Payment to Government	Total RTB Receipts
	£	£	£	£	£	£
2015/16 Actual	137,800	2,975,224	346,542	6,655,499	878,189	10,993,254
2016/17 Quarter 1 Actual	15,600	264,401	87,505	768,841	217,787	1,354,134
2016/17 Projection Update	65,000	1,118,665	350,019	3,190,166	871,150	5,595,000
Budget Projection (2016/17 Capital Strategy)	130,000	2,645,198	350,019	7,193,633	871,150	11,190,000
Variance	(65,000)	(1,526,533)	0	(4,003,467)	0	(5,595,000)

4.5 Borrowing General Fund

4.5.1 The introduction of the Capital Reserve and the use of capital receipts reduces the in year need to borrow to fund the General Fund 5 Year Capital Strategy. There have been no changes in the forecast borrowing for 2016/17. However, Council on 20 July 2016 approved a 10 year plan for the garage estates which requires a total of £6,757,650 prudential borrowing over the period 2017/18 to 2020/21.

Borrowing Required for A 10 Year Plan for the Garages Estates					
	2017/18	2018/19	2019/20	2020/21	Total
	£	£	£	£	£
Prudential Borrowing Required Per Year	370,130	1,966,570	2,565,720	1,855,230	6,757,650

4.5.2 The following table shows the impact on the General Fund of the borrowing for the garages investment programme:

Forecast Impact on General Fund Revenue of Prudential Borrowing				
	2016/17	2017/18	2018/19	2019/20
	First	First	First	First
	Quarter	Quarter	Quarter	Quarter
	2016/17	2016/17	2016/17	2016/17
	Forecast	Forecast	Forecast	Forecast
Costs to General Fund of Borrowing	£000's	£000's	£000's	£000's
MRP on regeneration assets	335	335	335	335
MRP other general fund assets	319	319	291	252

Forecast Impact on General Fund Revenue of Prudential Borrowing				
	2016/17 First Quarter 2016/17 Forecast £000's	2017/18 First Quarter 2016/17 Forecast £000's	2018/19 First Quarter 2016/17 Forecast £000's	2019/20 First Quarter 2016/17 Forecast £000's
Costs to General Fund of Borrowing				
MRP on a 10 year plan for the garages estates			15	93
Total MRP	654	654	641	680
Interest on regeneration assets	71	65	36	23
Transfers to Capital Reserve - interest saved on borrowing not undertaken on other general fund assets	95	95	95	95
Interest on regeneration assets funded from surplus on regeneration assets	(71)	(65)	(36)	(36)
MRP on regeneration assets funded from surplus on regeneration assets	(335)	(335)	(335)	(335)
Net Impact on General Fund First Quarter 2016	414	414	401	427
Net Impact on General Fund Budget Setting February 2016	414	414	386	334
Net Increase in Cost to General Fund			15	93

4.5.3 The Council has a requirement to make a Minimum Revenue Provision (MRP) in the General Fund to reflect the repayment of the borrowing over the life of the assets which were purchased. The Council makes this payment one year in arrears, regardless of whether physical borrowing has taken place. The MRP (excluding regeneration assets) for 2016/17 as a result of the need to borrow in 2011/12 to 2014/15 is £318,570. In addition there is borrowing relating to regeneration assets (£8,376,465) giving rise to a total MRP for 2016/17 of £653,630.

4.5.4 The decision whether to borrow from the market or the Public Loans Works Board (PWLb) is a Treasury Management decision and will depend on cash balances held and interest rates pertaining at the time.

5. IMPLICATIONS

5.1 Financial Implications

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

5.1.2 The cumulative changes made to the original General Fund and Housing Revenue Account capital budgets remains within the £250,000 (increase) variation limit delegated to the Executive for each fund.

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 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.

5.5 Risk Implications

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

5.5.2 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. However, it cannot be forecast fully.

5.5.3 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 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 - General Fund Capital Strategy*

BD2 - Housing Revenue Account Capital Strategy*

BD3 – 2015/16 Capital Expenditure Outturn 2016

<http://www.stevenage.gov.uk/content/committees/160923/160931/160995/Executive-12-July-2016-Item9.pdf>

APPENDICES

None

* Where Links to Part 1 Background Documents are not shown above they may be viewed by using the following link to agendas for Executive meetings and then opening the agenda for 13 September 2016 - <http://www.stevenage.gov.uk/have-your-say/council-meetings/161153/>