

Meeting: EXECUTIVE

Portfolio Area: Resources

Agenda Item:

10

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**2016/17 SECOND 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 £909,100 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 £877,000 be approved, as summarised in paragraph 4.2.2.
- 2.3 That the 2017/18 General Fund capital programme increase in expenditure of £792,450, be approved, as summarised in paragraph 4.3.1.
- 2.4 That the 2017/18 Housing Revenue Account capital programme decrease in expenditure of £436,290 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 13 September 2016:

- General Fund £9,060,800
- HRA £27,929,430

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 £8,151,700. A decrease of £909,100 in total due to:

- Slippage of £812,450 to 2017/18 (reducing spend in 2016/17)
- Capital expenditure reclassified as revenue £5,000 (reducing spend in 2016/17)
- Decreases to 2016/17 budgets of £131,150
- Increases to 2016/17 budgets of £39,500

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			
GF Capital Programme Change to 2016/17 Working Budget & 2017/18 Projected Budget	Increase (Decrease) to 2016/17 Working Budget £	Increase (Decrease) to 2017/18 Budget £	Reason
Slippage			
Replacement of three refuse freighters	(530,000)	530,000	Procured but delivery due April/May 2017 (paragraph 4.1.6)
Symonds Green Community Centre Extension (approved total 2016/17 budget £346,450, after slippage £270,000 is to be spent in 2016/17)	(76,450)	76,450	Programme of works rescheduled.
Town Centre Toilets Works	(81,000)	81,000	The specification for the Town Centre toilets is still to be drawn up. Slippage requested as works are still required
Hertford Road Play Area (S106 Funded)	(25,000)	25,000	Delay in finalising lease from the developer due to condition of the site.
Swingate House heating	(100,000)	100,000	Works rescheduled to take place in April 2017 to minimise disruption to tenants.
Total Slippage to 2017/18	(812,450)	812,450	
Virements Between Projects			
Arts and Leisure Centre - Improvements	(9,000)		Virement to fund firework discharging machine (paragraph 4.1.4)
Firework discharging machine	9,000		
Arts and Leisure Centre - improvements	(5,800)		Virement to fund forecast overspend on Fitness Facility Redevelopment
Fitness Facility redevelopment	5,800		
Total Virements Between Projects	0	0	
Capital Expenditure Reclassified as Revenue			
Goals & sockets		(5,000)	This expenditure is now revenue as the actual cost of the works is below £5k
Ridlins track equipment	(5,000)	(5,000)	This expenditure is now revenue in nature
Total Capital Expenditure Reclassified as Revenue	(5,000)	(10,000)	

Changes to General Fund Capital Budget			
GF Capital Programme Change to 2016/17 Working Budget & 2017/18 Projected Budget	Increase (Decrease) to 2016/17 Working Budget £	Increase (Decrease) to 2017/18 Budget £	Reason
Decreases to Capital Budget			
Computer Aided Design (CAD) solution for property services	(2,800)		Actual capital cost lower than the budget.
Software Budget	(10,000)	(10,000)	Saving as budget no longer required for 2016/17 and for 2017/18
Arts and Leisure Centre - improvements	(87,320)		Saving on Arts and leisure centre improvements - the 2016/17 growth bid of £100k for works to stage is no longer required. The actual cost of the works is estimated to be £8k and is the responsibility of Stevenage Leisure Limited
Old Town War Memorial	(3,380)		Actual capital cost lower than the budget.
Energy conservation scheme	(26,000)		Saving to be given up on reduction of the scheme
Savings on procurement of various vehicles and plant	(1,650)		Actual capital cost lower than the budget.
Total Decreases to Capital Budget	(131,150)	(10,000)	
Increases to 2016/17 Budget			
Play area improvement programme	25,000		Grant funded additional works at Bedwell Park (paragraph 4.1.3)
Firework discharging machine	6,000		Virement of New Homes Bonus funding from 70th Celebration (paragraph 4.1.4)
Play centres	8,500		Additional works at Pin Green play centre (paragraph 4.1.5)
Total Increases to 2016/17 Budget	39,500	0	
Total Change in Working Budget and Projected Budgets	(909,100)	792,450	

- 4.1.3 An increase of £25,000 is requested for the play area improvement programme in 2016/17. The additional capital budget is for works to Bedwell Park where a memorial is to be made for Alderman Hilda Lawrence. The additional works are to be funded by a grant of £25,000 from the Stevenage Community Trust.
- 4.1.4 A firework firing machine has been purchased, at a cost of £15,000 in 2016/17. This has been funded by a virement of £9,000 from Arts and Leisure Centre improvements budget and £6,000 from the New Homes Bonus funding for the 70th Celebrations.
- 4.1.5 An increase of £8,500 is requested for the play centres for 2016/17. Children's Services have commissioned additional flooring works to be carried out to Pin Green Play Centre, to be funded with contributions received from Hertfordshire County Council.
- 4.1.6 Within the approved 2016/17 capital programme are vehicle replacements including three refuse freighters. These vehicles have recently been procured but take five to

six months due to the bespoke specifications for these specialist vehicles and delivery will not be until early in the 2017/18 financial year.

4.1.7 The approved 2016/17 capital strategy contained a growth bid of £30,000 for safety works to Fairlands Valley Park Campshill Bridge. The bid was based on an indicative quote which is now known to be insufficient. Current indications are that the works would cost between £50,000 and £60,000. Engineers are in the process of obtaining quotes for this scheme and an update will be provided once the actual cost of the works has been determined. This will be included in the next capital strategy report. There will be a joint contract for this and the Fairlands Valley Park balancing pond dredging.

4.1.8 As at 30 September 2016 the total actual spend on the General Fund capital schemes was £1,571,509 which represents 19% 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 **£27,052,430**, which is £877,000 less than the approved 2016/17 working budget due reprofiling of new build schemes.

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 £	Increase (Decrease) to 2017/18 Working Budget £	Reason
Slippage			
New Build Programme	(877,000)	877,000	New Build Programme has been profiled to match latest planned programme of works
Total Slippage to 2017/18	(877,000)	877,000	
Virements Between Projects			
Contingent major repairs	(50,000)		Virement required for £50,000 of unplanned emergency repairs to lifts
Lift Installation - inspection & remedial works	50,000		
Contingent major repairs	(8,000)		Virement required for £8,000 - purchase of equipment and one off software license for HRA ICT project
Planned maintenance software	8,000		
ICT Programme (Business Plan)	(18,000)		Virement required for £18,000 to fund "Equal Access for All" project which is to be implemented as part of Changing Channels project
Changing Channels - Payment Portal	18,000		
Total Virements Between Projects	0	0	
Total Change in Working Budget and Projected Budgets	(877,000)	877,000	

4.2.3 Capital expenditure for the Housing Revenue Account at the end of September 2016 was £10,620,459 representing 39% 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 lift installation and communal heating contracts (see paragraph 4.3.3 below). It is currently not anticipated that there will be any further significant slippage in the 2016/17 budget for existing stock.

4.2.5 The number of properties made decent by the end of the 2nd quarter was 243, the Council is on track to achieve its annual target of 468 properties made decent in the year. Decent Homes works completed to the end of September 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
July		1	4	2	138	5			32	257
August					116	13			33	119
September					215	7			118	221
Total	6	4	16	23	874	93	146	291	368	1,206

4.3 CAPITAL PROGRAMME 2017/18 ONWARDS

GENERAL FUND CAPITAL PROGRAMME

4.3.1 The General Fund capital programme of £5,912,780 for 2017/18 was approved by Executive on 13 September 2016. The changes proposed to the programme are detailed in the table at paragraph 4.1.2 have increased the working budget by £792,450 to £6,705,230 due to:

- £812,450 slippage of schemes due to be completed in 2016/17
- £10,000 capital expenditure reclassified as revenue
- £10,000 software budget no longer required.

HRA CAPITAL PROGRAMME 2017/18 ONWARDS

4.3.2 The HRA capital programme for 2017/18 was reported to Executive 13 September 2016. The 2017/18 HRA programme is now projecting a decrease of £436,290 to £15,816,670 due to the reprofiling of approved schemes, 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 £	Increase (Decrease) to 2018/19 Working Budget £	Increase (Decrease) to 2019/20 Working Budget £	Reason
Slippage				
New Build Programme	877,000			New Build Programme has been profiled to match latest planned programme of works (paragraph 4.2.2)
Communal Heating	(593,140)	593,140		Budget profiled to allow for Phase 1 and to evenly distribute between financial years (paragraph 4.3.3)
Lift Installation - inspection & remedial works	(720,150)	500,000	220,150	Budget profiled to allow for Phase 1 and to evenly distribute between financial years (paragraph 4.3.3)
Total Slippage	(436,290)	1,093,140	220,150	
Total Change in Working Budget and Projected Budgets	(436,290)	1,093,140	220,150	

4.3.3 The procurement of the lift installation and communal heating contracts is to be in two phases: phase 1 will procure a model scheme which will formulate a considered approach to future schemes that will inform phase 2. The budget for these capital schemes has been slippage to reflect the procurement process.

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 for the 10 year plan for the garage estates. 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			
	Approved Budget	Second Quarter 2016/17 Forecast	Increase (Decrease)
	£	£	£
Capital Receipts			
2016/17	4,714,614	3,791,014	(923,600)
2017/18	3,739,650	4,507,100	767,450
Capital Reserve			
2016/17	1,932,348	1,932,347	0
2017/18	765,000	765,000	
Prudential Borrowing			
2016/17			
2017/18	370,130	370,130	
Other Capital Resources			
2016/17	2,413,838	2,428,338	14,500
2017/18	1,038,000	1,063,000	25,000
Total 2016/17	9,060,800	8,151,700	(909,100)
Total 2017/18	5,912,780	6,705,230	792,450
Net overall decrease in resources over two years			(116,650)

4.4.2 **HRA** - had 14 **Right to Buy (RTB)** sales in the second quarter of 2016/17, compared to 26 for the second quarter of 2015/16. The forecast total for the year has been reduced from 100 to 50. There are currently 69 'live applications' for RTB's (as at 19 October 2016). The gross and net sale price to 10 October 2016 (29 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 Quarter 2	14	206,786	75,086	131,700
2016/17 to 10 October 2016	29	197,586	74,228	123,358

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 September 2016 was £3,197,934. The Council has paid £435,574 to the Government leaving £2,762,360 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	269,184	87,505	764,058	217,787	1,354,134
2016/17 Quarter 2 Actual	18,200	361,557	87,505	1,158,751	217,787	1,843,800
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)

*Note 2016/17 Quarter 1 Actual has been revised to reflect changed attributable debt

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.
- 4.5.2 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.
- 4.5.3 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 by the Council 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. 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 - General Fund Capital Strategy

BD2 - Housing Revenue Account Capital Strategy

BD3 – 2015/16 Capital Expenditure Outturn 2016