Stevenage BOROUGH COUNCIL

Part I – Release to Press

**Meeting:** **EXECUTIVE** **Agenda Item:**

Portfolio Area: Resources

**Date:** **11 JULY 2018**

Financial security

**2017/18 CAPITAL EXPENDITURE OUTTURN**
**KEY DECISION**


Author – Yamini Krishnan Ext 2752
Contributors- Lee Busby Ext 2730
Lead Officer – Clare Fletcher Ext 2933
Contact Officer – Clare Fletcher Ext 2933


## 1. PURPOSE

1.1 To update Members on the outturn position on the 2017/18 capital programme including the resources used to fund the total capital expenditure.

1.2 To update Members on the Council's Capital Strategy and any changes to the 2018/19 and future year's capital programme.

1.3 To update Members on the actual 2017/18 Minimum Revenue Provision (MRP) and the MRP for 2018/19.

1.4 To update Members on the resources available to fund the Capital Strategy.

1.5 To approve any appropriations between General Fund and Housing Revenue Account.

## 2. RECOMMENDATIONS

2.1 That the 2017/18 General Fund capital expenditure outturn of £9,013,305 be noted, (subject to the completion of the 2017/18 external audit of accounts).

2.2 That the 2017/18 HRA capital expenditure outturn of £17,022,272 be noted (subject to the completion of the 2017/18 external audit of accounts).

2.3 That the funding applied to the 2017/18 General Fund capital programme be approved as summarised in paragraph 4.2.4.

2.4 That the funding applied to the 2017/18 HRA capital programme be approved as summarised in paragraph 4.5.1.

2.5 That the 2018/19 General Fund capital programme net changes of £701,875 reduction and slippage from 2017/18 of £11,726,975 (£10.6M on two schemes as detailed in para 4.1.1) be approved as summarised in paragraph 4.3.4 and as detailed in Appendix A to this report.

2.6 That the 2018/19 HRA capital programme net changes of £568,020 slippage from 2017/18 and £8,694,850 re-profiled into 2019/20 be approved as summarised in paragraph 4.6.1 and detailed in Appendix B to this report.

2.7 The appropriation of 29 Shephall Way (valued at £247,500) in 2017/18 and Symonds Green (valued at £444,550) in 2018/19 from General Fund to Housing Revenue Account as detailed in Para 4.7.3 be approved.

## 3. BACKGROUND

3.1 The 2017/18 capital programme was last approved by Members at the March Executive as part of the 3rd quarter monitoring report. At March Executive the 2017/18 revised General Fund capital programme was projected to be £20,663,160 and the 2017/18 revised HRA capital programme was projected to be £17,525,250 a total of £38,188,410.

3.2 The 2017/18 outturn position included in this report is subject to external audit by 26 July 2018 and there may be changes as a result of any audit findings. The audited accounts will be presented to the Audit and Statement of Accounts Committees on the 26 July 2018.

## 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 2017/18 GENERAL FUND CAPITAL PROGRAMME

4.1.1 The actual outturn for General Fund capital expenditure was £11,649,855 lower than that estimated in the March 2018 Executive. The main reasons for this being:

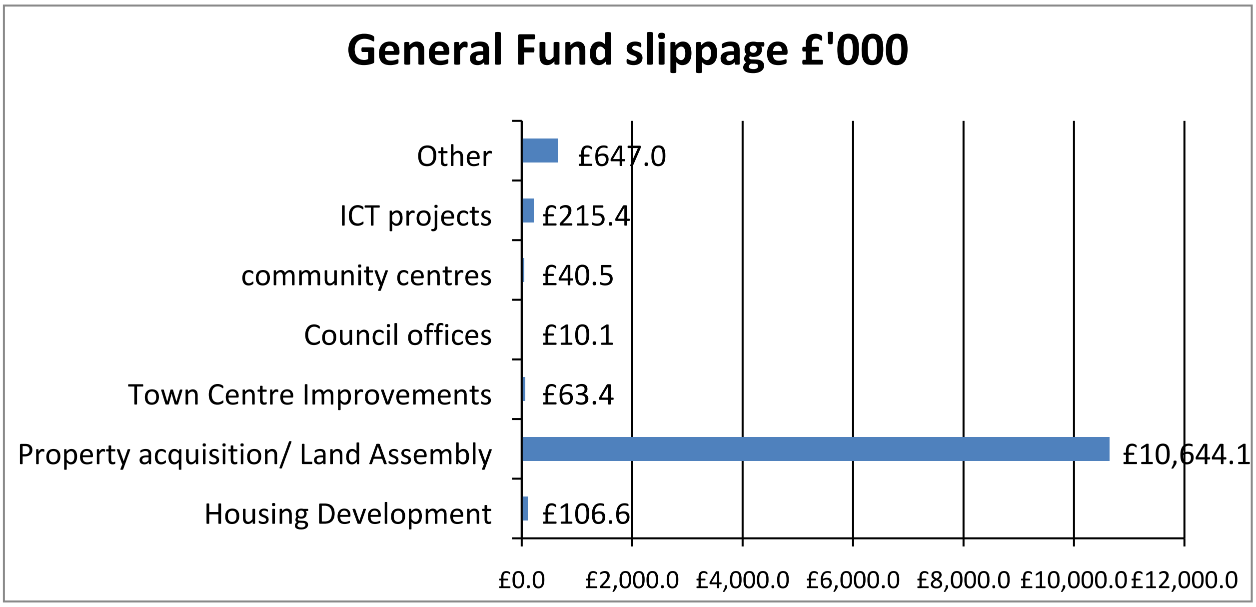
- Anticipated site assembly costs of £3M for SG1 did not materialise in 4th quarter, timing and site selection has been re-profiled to 2018/19.
- The approved fund for the commercial property portfolio of the Council's Financial Security priority, one site has been purchased, but another site was not pursued, as the change in the tenants at the site meant it no longer met the Council's criteria. This has resulted in a further slippage of £7.6M.

Appendix A shows slippage by scheme which is also summarised in the table below:

| General Fund - Schemes | Q3 Revised Budget £ | 2017-18 Actuals £ | (Under) / Overspend £ | Slippage to 2018-19 £ |
|---|---|---|---|---|
| Stevenage Direct Services | 1,451,860 | 1,382,246 | (69,614) | 67,575 |
| Housing Development | 2,512,230 | 2,405,610 | (106,620) | 106,620 |
| Finance and Estates | 10,149,040 | 2,117,544 | (8,031,496) | 8,044,270 |

| General Fund - Schemes | Q3 Revised Budget £ | 2017-18 Actuals £ | (Under) / Overspend £ | Slippage to 2018-19 £ |
|---|---|---|---|---|
| Corporate projects, Customer Service & Technology | 440,200 | 267,879 | (172,321) | 215,360 |
| Housing and Investment | 1,531,440 | 1,474,647 | (56,793) | 57,440 |
| Regeneration | 3,573,810 | 504,490 | (3,069,320) | 3,063,400 |
| Communities and Neighbourhoods | 213,270 | 180,523 | (32,747) | 40,510 |
| Planning and Regulatory | 791,310 | 680,366 | (110,944) | 131,800 |
| **TOTAL** | **20,663,160** | **9,013,305** | **(11,649,855)** | **11,726,975** |

4.1.2 The General Fund slippage is summarised by spend type in the following chart. Out of total expenditure, slipped into 2018/19, 91% relates to "Site Assembly" for regeneration and economic development purposes (as detailed in para 4.1.1).




## 4.2 2017/18 GENERAL FUND CAPITAL RESOURCES

4.2.1 The actual General Fund capital receipts realised in 2017/18 was £1,100,581 compared to budgeted receipts of £1,012,515 an increase of £88,066. The projected receipts for 2018/19 are anticipated to be £71,000 higher.

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 2017/18 remains unchanged at £654,370.

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 | (5,898,620) | (1,100,581) | 1,210,423 | (5,788,778) |
| Usable Capital receipts - GF LA share allocation | (939,071) | (353,531) | 1,292,602 | 0 |
| One for One Receipts-spent on General Fund schemes | | (2,405,610) | 2,405,610 | 0 |
| Section 106 Receipts | (262,485) | (338,841) | 8,542 | (592,784) |
| Grant and Other Contributions General Fund | (135,965) | (2,182,118) | 595,305 | (1,722,778) |
| Capital reserve (incl. New Homes Bonus) | | (1,715,921) | 1,715,921 | 0 |
| Revenue Contributions | | (28,952) | 28,952 | 0 |
| Prudential borrowing | | (1,755,950) | 1,755,950 | 0 |
| **Total** | **(7,236,141)** | **(9,881,504)** | **9,013,305** | **(8,104,340)** |

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

## 4.3 GENERAL FUND CAPITAL EXPENDITURE 2018/19

4.3.1 Members approved the 2018/19 General Fund capital programme totalling £21,780,410 at the March Executive. This report identifies an increase in the budget by £11,025,100 to £32,805,510, recommended for approval.

4.3.2 **Slippage -** The 2018/19 programme has increased by £11,025,100 (net) mainly due to slippage from 2017/18 of £11,726,975 (See table under 4.1.1 and chart under 4.1.2). A further slippage of £ 350,000 from 2018/19 to 2019/20 has been identified for Ditchmore Lane (Conversion of existing building to new homes). Having obtained the planning permission for all three dwellings at Ditchmore Lane, it is now possible to procure a contract to develop these properties to ensure Value for Money and also consistency in design and quality.

4.3.3 **Increase/virement in expenditure** funded from the deferred works budget and revenue contributions are proposed as detailed below:

- Boiler upgrade/replacement at Springfield House (£16,000) and Timebridge Community Centre (£98,000) recommend funding from “Deferred Works” budget.
- CCTV cameras en-route to Multi Storey Car Park (£10,000) recommend funding from “Deferred Works” budget.

- Purchase of new rowing and pedalo boats at Fairland Valley Park - £23,000 As part of the Financial Security option officers have worked with SLL looking at opportunities to increase usage of the Fairlands valley lake facilities. It has been proposed to introduce boats onto the lake on a "pay and play" basis this summer, including Sundays. SLL have costed the revenue implications for this and have sourced boats. Given the remaining length of the contract, it is recommended that SBC make the capital investment. This initial investment will be funded from revenue savings from the SLL contract in 2018/19.

4.3.4 The changes to the 2018/19 budget are summarised in the table below:

| General Fund - Schemes budget changes and impact on 2018/19 | Spend re-profiled from 2017/18 | Budget increases | Budget reductions | Spend re-profiled to 2019/20 | Total |
|---|---|---|---|---|---|
| Stevenage Direct Services | 67,575 | | (284,875) | | (217,300) |
| Housing Development | 106,620 | | | (350,000) | (243,380) |
| Housing and Investment (Boiler upgrade- Springfield & Timebridge) | 57,440 | 114,000 | | | 171,440 |
| Finance and Estates | 8,044,270 | | (124,000) | | 7,920,270 |
| Corporate Projects, Customer Service, IT | 215,360 | | | | 215,360 |
| Regeneration | 3,063,400 | | | | 3,063,400 |
| Community & Neighbourhoods | 40,510 | 23,000 | | | 63,510 |
| Planning and Regulatory(incl. Disabled facilities grant) | 131,800 | 10,000 | (90,000) | | 51,800 |
| **TOTAL GENERAL FUND IMPACTS 2018/19** | **11,726,975** | **147,000** | **(498,875)** | **(350,000)** | **11,025,100** |

4.3.5 **Decrease in expenditure**- The 2018/19 General Fund budget has decreased by £498,875 (net). Capital Expenditure for disabled facilities grants has decreased in 2018/19 by £90,000. One of the reasons for this is that from April 2018, Hertfordshire Home Improvement Agency (HIA) administers all new DFG applications on behalf of SBC. The revised budget reflects the commitments that are currently approved under existing grant applications. Any funding received during 2018/19 over and above the requirement will be passed to HIA to facilitate grant awards in Stevenage.

4.3.6 The capital programme for vehicles and plant replacement (Stevenage Direct Services SDS) budget has been reviewed and re profiled for the next four years which has resulted in a reduction of £284,875 in 2018/19. The overall savings identified over five years is £1,047,600. This is based on a review of the service requirement and specification changes to the vehicles, and not as a result of keeping vehicles for a longer period of time.

## 4.4 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

4.4.1 The actual outturn for 2017/18 HRA capital spend is £502,978 lower than that estimated at the March 2017 Executive. The main reason for this is slippage of £568,020 on certain Housing development schemes and IT spend which were due to be spent in the final quarter. The following table identifies the areas of slippage.

| Housing Revenue Account | Q3 Approved Budget | Actuals 2017/18 | (Underspend) / Overspend | Slippage to 2018-19 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| New Build and Housing acquisitions | 4,841,630 | 4,560,227 | (281,403) | 281,350 |
| Major Works | 12,132,350 | 12,178,736 | 46,386 | |
| Special Projects & Equipment | 173,740 | 47,853 | (125,887) | 129,570 |
| IT Including Digital Agenda | 377,530 | 235,456 | (142,074) | 157,100 |
| **TOTAL** | **17,525,250** | **17,022,272** | **(502,978)** | **568,020** |

4.4.2 In 2017/18 the Major works programme has delivered 420 roof replacements, 649 window replacements, 696 door replacements and 666 insulation improvements such as external wall insulation, cavity wall insulation and loft insulation. Further capital improvement works were carried out internally to properties including 203 boiler replacements, 39 electrical rewires, 81 kitchen replacements and 62 bathroom replacements.

4.4.3 Slippage from the ICT budget relates to various underspends with in IT budgets that are both corporate and HRA specific that are being consolidated and utilised to support delivery of new technologies such as Document Management, online services for tenants, and mobile working solutions within the Housing service. It will also be used to fund the HRA contribution to corporate schemes to improve the overall resilience and security of IT services.

4.4.4 As part of the new build and acquisitions programme, five schemes were progressed at the following sites in 2017/18: Archer Road, Vincent Court, Ditchmore Lane, Twin Foxes and March Hare. Of these, 22 homes at Archer Road, and four homes at Vincent Court were completed and delivered. In addition eight properties were bought on the open market providing 34 new homes in total.

4.4.3 The number of properties, where works have been carried out to the property 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 2017/18 was 660, which exceeded the target of 642.

## 4.5 HOUSING REVENUE ACCOUNT CAPITAL RESOURCES

4.5.1 The value of resources available, (including capital receipts) to support the future capital programme (as at 31 March 2018) is £19,366,740. 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)- includes refund of buyback previously taken from MRR | (4,507,777) | (11,696,665) | 6,940,063 | (9,264,379) |
| Usable Capital Receipts | (7,776,126) | (794,485) | 8,569,922 | (689) |
| One for One Receipts for HRA | (10,903,677) | (516,166) | 1,318,173 | (10,101,670) |
| S20 and Other contributions | | (52,439) | 52,439 | |
| Revenue contributions | | (60,230) | 60,230 | |
| S106 Contributions | (81,445) | | 81,445 | |
| **TOTAL** | **(23,269,025)** | **(13,119,985)** | **17,022,272** | **(19,366,738)** |

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

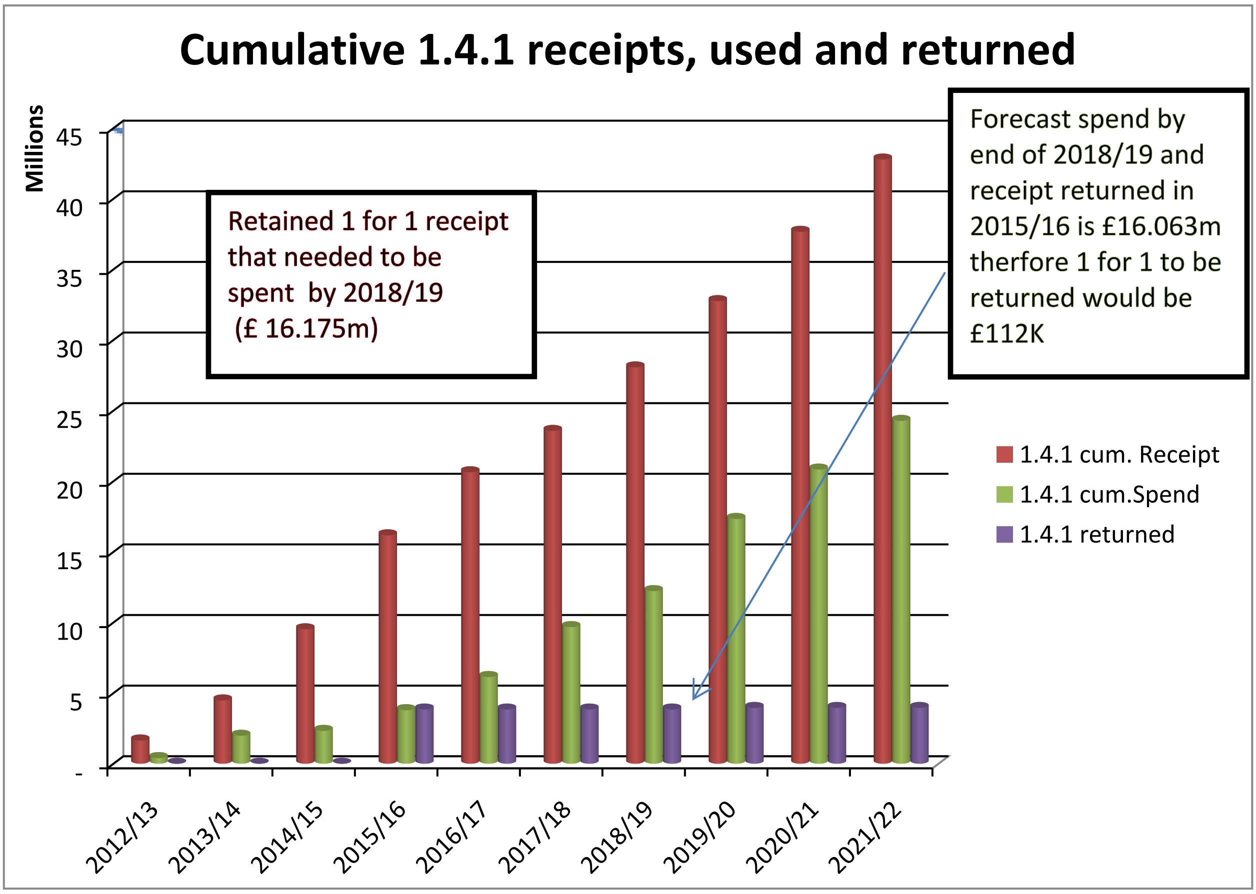
4.5.2 There were 37 homes sold under Right to Buy (RTB) during 2017/18, one exempt from pooling. The resulting HRA gross capital receipt was £4,903,902, and the allocation of this receipt including the pooling payment to the government is shown in the table below.

| Housing Revenue Account - 2017/18 Right to buy sales | | |
|---|---|---|
| | £ | £ |
| Sale Proceeds 37 sales | | 4,903,902 |
| RTB discounts repaid in year subject to pooling | | 93,831 |
| **Total Gross proceeds** | | **4,997,733** |
| less admin fee | | (46,800) |
| Less pooling payment to Government | | (860,534) |
| **Net proceeds** | | **4,090,399** |
| Net proceeds allocated as follows: | | |
| LA share | 353,531 | |
| 1 for 1 receipt | 2,947,855 | |
| One New Build property sold (exempt from pooling ) | 136,002 | |
| Debt receipts | 653,010 | |
| | | **4,090,399** |

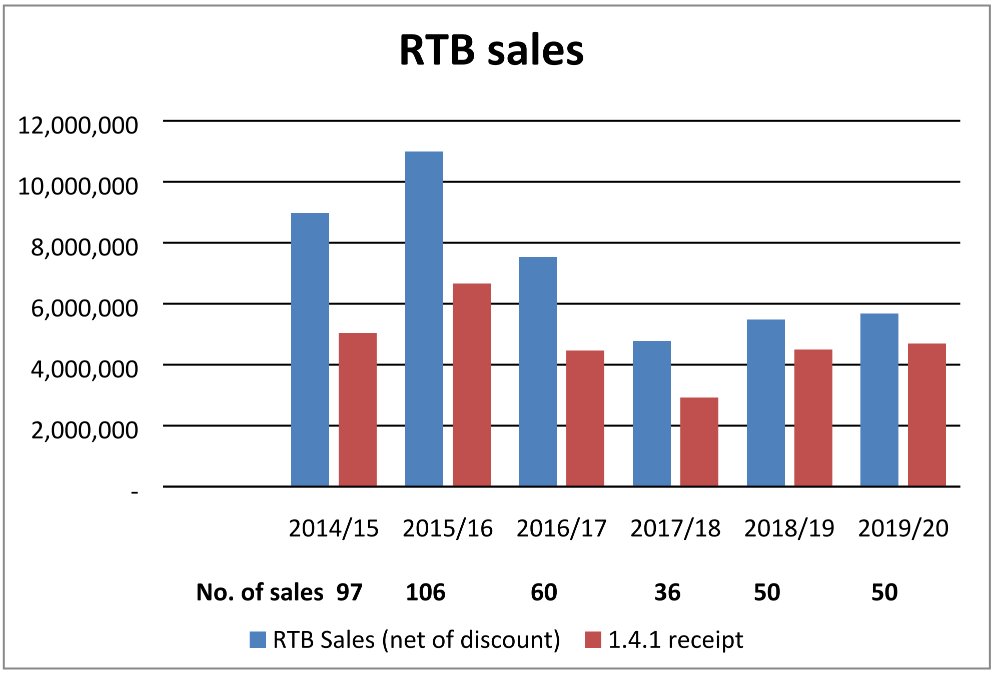
4.5.3 The HRA RTB receipts used in year to finance the capital works was £9,888,095 leaving a balance of £10,101,670 which is the balance of one for one receipt available to fund 30% of the future new build schemes. As Members are aware there is a three year deadline to spend these receipts and if un- spent the receipt must be returned to government plus interest (calculated at 4% above base rate).

4.5.4 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 is becoming 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 where ever possible. The revised programme as outlined in paragraph 4.6.1 now means that receipts (£112,000 plus interest) are forecast to be handed back in Quarter 4 of 2018/19. However this may change during the year if there are further changes in the spend profile. The officers will look to mitigate the risk/loss of handing any receipts back to the government.

The chart below shows the actual and estimated (cumulative) one for one receipt including returned receipts to the government.




*4.5.5* The trend on RTB sales have been showing signs of slowdown, which means that there is less 1.4.1 receipts now available for spend .As shown in the chart below, the RTB sales peaked during 2014/15 and 2015/16, which meant that the Council needed to spend a high proportion on eligible capital schemes from 1.4.1 receipts retained from these receipts in 2017/18 and 2018/19.




4.5.6 In the first quarter of 2018/19, eight Right to buy sales were completed generating one for one receipts of £1,046,400. Officers will continue to monitor these receipts considering development opportunities available and interest payments that may become due. Should a receipt be held for the three years and remain unspent the interest payment would be approximately £143,800 on a £1Million receipt (assuming bank base rate remains unchanged at 0.50%)

## 4.6 HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE 2018/19

4.6.1 Members approved the 2018/19 Housing Revenue Account capital programme totalling £31,354,630 at the March Executive. This report identifies a net decrease in the budget by £8,126,830 to £23,227,800. The changes to the 2018/19 budget are summarised in the table below:

| Housing Revenue Account - Budget changes and impact on 2018/19 | Approved budget (March Executive) | Slippage from 2017-18 | Spend re-profiled to 2019/20 and beyond | Total |
|---|---|---|---|---|
| New Build Schemes | 15,327,630 | 281,350 | (8,694,850) | 6,914,130 |
| Other Major Works | 14,419,530 | | | 14,419,530 |
| HRA ICT and Equipment | 1,607,470 | 286,670 | 0 | 1,894,140 |
| **TOTAL HRA IMPACTS 2017/18** | **31,354,630** | **568,020** | **(8,694,850)** | **23,227,800** |

4.6.2 The slippage of £8,694,850 is a result of the revised projections for planning and delivery works.

### 4.7 Property Appropriations between General Fund and HRA

4.7.1 Assets may be transferred between General Fund and Housing Revenue Account 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 and so a reduction in the headroom below the debt cap (effectively reducing the amount of new borrowing the HRA could take

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 and as such officers are seeking approval for the following assets to be transferred from GF to the HRA:

| Year | General Fund Asset | Reason | Approximate transfer value |
|---|---|---|---|
| 2017/18 | 29 Shephall Way (former Doctors' surgery became vacant when surgery relocated to new site | Redevelopment site for new HRA properties | £247,500 |
| 2018/19 | Symonds Green Annexe (vacant site and on General Fund disposal list) | Redevelopment site for new HRA properties | £444,550 |

## 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. However, it cannot be forecast fully.

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%). The current new build programme has a number of schemes where development sites have yet to be identified. In addition it includes sums set aside for open market acquisitions and buy backs which are dependent on suitable properties coming onto the market. 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. It is estimated that with the slippage already identified in this report (para 4.6.1 & 4.6.2) for the current programme (open market acquisitions and new schemes), £112,000 would need to be repaid (as it exceeded 3 year timescale) in Q4 2018/19 with associated interest costs estimated at £16,000 – the next repayment would be due in 2022/23 quarter 1.

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 2018 (Executive)
  https://democracy.stevenage.gov.uk/documents/s4795/20180123-Draft%20Capital%20Strategy.pdf

- BD2 - Capital Strategy February 2018 (Council)
  https://democracy.stevenage.gov.uk/documents/s5594/20180228-Item5A-General%20Fund_Council%20Tax.pdf

- BD3 - Capital Strategy March 2018 (Executive)
  https://democracy.stevenage.gov.uk/documents/s5980/CapitalReport.pdf

**APPENDIX**

A - General Fund Capital Programme

B - HRA Capital Programme