Part I
Release to Press

Meeting:	**EXECUTIVE**	**Agenda Item:**
Portfolio Area:	Resources	
Date:	**11 September 2019**	

QUARTER 1 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 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 £2.9m be approved as summarised in table one, para 4.1.1.

2.2 The General Fund net increase of capital expenditure of £646km in 2020/21 into future years, also as summarised in table one, para 4.1.1, be approved.

2.3 That Members note the net increase of £432k in the capital expenditure for 2019/20 Housing Revenue Account, as summarised in table three, para 4.3.4.

2.4 That Members note the net decrease of £1.4m in the capital expenditure for 2020/21 Housing Revenue Account, also as summarised in table three, para 4.3.4.

3 BACKGROUND

3.1 The 2019/20 capital programme was approved at the July Executive:

- General Fund £34.3m
- Housing Revenue Account £33.7m

3.2 Subsequently Council approved an increase of £1.5m, which includes £592k contingent amount for Registered Provider schemes if an opportunity arose, funded 100% from 1.4.1 receipts, as detailed in 4.1.3 and 4.3.6. This brings the current General Fund working budget to £35.8m.

3.3 The 2019/20 HRA budget has been reduced to reflect the spend (£469K) ahead of schedule incurred in 2018/19 on housing development schemes.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2019/20 General Fund Capital Programme

4.1.1 The updated projected spend for 2019/20 General Fund capital programme (as detailed in Appendix A) is £31.4m, a reduction of £2.9m mainly due to reprofilng of schemes as shown in table one:

Table One: 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		
Garages	(1,700,000)	1,700,000
Replacement JCB loading shovel	170,000	(165,000)
Kenilworth Development (reprofiled to 21/22 & 22/23)	(330,590)	(4,393,650)
Harmonising Infrastructure Technology (for shared service)	10,460	
Infrastructure Investment	83,010	
Town Centre Regeneration (GD1) (b/fwd from 21/22 – LEP funding)	1,138,840	1,305,000
Bus Interchange (GD3)	(1,500,000)	1,500,000
Public Sector Hub	(700,000)	700,000
Total Slippage	**(2,828,280)**	**646,350**
Increases/(Decreases) to 2019/20 Budget		
Pin Green - Recover Flat Roof	(14,000)	
King George V - Electrical Mains Intake & Supply Head	(6,000)	
Works to Town Square	(27,500)	
Bandley Hill Play Centre - Treehouse	(100)	
Total Increases/(Decreases) to 2019/20 Budget	**(47,600)**	**0**
Total Change in Working Budget and Projected Budgets	**(2,875,880)**	**646,350**

4.1.2 **Slippage:**

- **Garage** slippage of £1.7m is due to refurbishment works being reprofiled to be included within the scope of the Major Refurbishment Contract (MRC). This also incorporates the completion of stock condition surveys for the garages included in years one, two and three of the programme. Delivery through the MRC enables economies of scale and the alignment of both work programmes with the intention of minimising disruption for residents.

- A replacement **loading shovel** that was scheduled for replacement in 2020/21 was damaged by fire and has been written off by the insurers. A hire unit is currently being used so that operations can continue. The service seek approval to bring forward the 2020/21 budget into 2019/20 and procure a permanent replacement, so as to minimise rental charges. The cost is partly offset by the scrap value received of £21k.

- The **Kenilworth** Housing Development budgets have slipped from 2019/20 and 2021/22 into 2022/23. Following on from the July Executive, which confirmed the proposed procurement and delivery route for the Kenilworth Close development, the capital expenditure has been remodelled to reflect the proposed share of development costs and indicative delivery timings in relation to the site. In the meantime work continues on site to demolish the existing buildings in preparation for the development.

- Officers are developing an **ICT Strategy**, which is anticipated to be taken to October Executive, which will include some work on rephasing of projects over the multi year programme. This has resulted in an increase in the General Fund 2019/20 IT Infrastructure budgets of £93k. (This will impact both the General Fund and the HRA Para 4.3.3.)

- The reprofiling of the **Town Centre regeneration** schemes reflects the timing of when LEP GD1 funding needs to be utilised by, and continuing work to progress the Bus Interchange (as detailed in paragraph 4.2.3).

4.1.3 **Reductions in Expenditure:**

- A number of other schemes have cost less than had been forecast, and the underspends have been incorporated into this report (in table one).

4.1.4 **Other Updates**:

- The budget for **Grants to Registered Provides** was increased by £1.5m following recommendation by Executive to Council. £591.6k has been identified with the residual amount available should an opportunity arise. The approval included a contingent amount for Registered Provider schemes if an opportunity arose. Any such grants would be funded 100% from 1.4.1 receipts. No reduction is reported at this time, but future capital strategy reports will update Members further.

- **Commercial Property**
  Members approved a £15m investment to acquire a commercial property portfolio to support the Financial Security work stream. To date £1.75m has been spent. Currently there is one potential acquisition that is being

considered to determine if it meet the Council's investment criteria. The aim is still to pursue this strategy subject to suitable sites being available, however this is unlikely to fully spent in 2019/20.

- **Lift at Stevenage Arts and Leisure Centre** (update from the Quarter 4)
  Discussions have continued regarding the lift at Stevenage Arts and Leisure Centre, and whether it needs to be replaced or can be maintained using the current contract. It is recommended to leave the £111k budget previously approved in place for now. The next capital strategy will update Members further.

- **Pipework at the Stevenage Arts and Leisure Centre** (update from the Quarter 4)
  The pipework in Stevenage Arts & Leisure Centre is old and some areas are creating operational problems that need to be addressed. The immediate phase of works is to install a water conditioning system and replace pipework in key areas of the building. Given the age of the pipework it will be necessary to survey all of the pipework in the building and potentially replace any other areas of pipework that are identified as needing replacement. The next capital strategy will update Members further.

- **Springfield House Wall**
  Following investigations tenders were sought for the rebuilding of the unsafe wall and these works are now due to commence 2nd September 2019 completing in 4-6 weeks thereafter. It is anticipated that the approved budget of £52k will be sufficient to complete these works.

- **Boiler Update**
  Subsequent to the boiler being fixed at St Nicholas community centre, the hot water cylinder failed in June and July of this year causing a lack of hot water to the centre. Repairs have been undertaken by our compliance contractor and hot water has been restored. Improvement works to the convector heaters and boiler controls at the Oval community centre have been recently completed.

- **Town Centre Fountain Pump Room**
  No capital spend has been incurred to date, and costs have been funded from within revenue budgets. However further works may be capitalised, but currently there are no capital budgets identified.

4.2 Capital Resources General Fund

4.2.1 Projected capital receipts from disposals for the current and future years have been reviewed. Forecast receipts have been adjusted accordingly and shown in table two:

Table Two; 2019/20 Disposal Schedule (General Fund)	**Q4 Working Budget**	**Q1 Revised Position**	**Variance**
	£'s	**£'s**	**£'s**
Total 2019/20 Capital Receipts Estimate	(4,097,428)	(4,016,598)	**80,830**
Total 2020/21 Capital Receipts Estimate	(9,979,200)	(9,381,600)	**597,600**
Total 2021/22 Capital Receipts Estimate	(3,771,840)	(3,771,840)	**0**
Total 2022/23 Capital Receipts Estimate	(1,243,200)	(1,243,200)	**0**
Total 2023/24 Capital Receipts Estimate	(34,112,000)	(34,112,000)	**0**
Major Capital Receipts Programme	**(53,203,668)**	**(52,525,238)**	**678,430**

- The reduction in 2019/20 forecasts, is based on marketing that has or is about to commence on a number of sites and progress on other sites. Market reports and land valuations are awaited on the other sites to inform pricing, so values have been risk-adjusted (downwards £81K) due to uncertainty as to the timing of these receipts being received in 2019/20.
- The reduction in the 2020/21 forecasts includes approximately £497K relating to garage site disposals. These site disposals part fund the garage improvement programme and officers recommend that the corresponding element of the garage programme is not released until the sales are secured.

4.2.2 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. While cash balances are high internal borrowing will be used.

4.2.3 Included in the regeneration programme in the capital strategy is the bus station, which is presently situated in the centre of the SG1 redevelopment area. The £8Million of GD3 funding earmarked for the relocation and redevelopment of the bus station has been approved but not released by the LEP. A budget of £6.5Million (£5million construction costs and £1.5Million for fees and contingency) has been allocated for the scheme. If SBC have to fund the project, it is likely to impact on the current capital programme and revenue budget of the General Fund in the form of borrowing costs. The capital strategy to the February Council set out the possible impacts of having to fund the bus station relocation from SBC resources.

4.3 2019/20 Housing Revenue Account Capital Programme

4.3.1 The updated projection for 2019/20 Housing Revenue Account capital programme is £33.7m (as detailed in Appendix B) an increase of £0.4M as summarised in the 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			
New Build Programme	123,000	(1,424,800)	Rephasing of Housing Development budgets
IT General (IT)	309,100		Rephasing of projects over 5 year programme
Total Slippage	**432,100**	**(1,424,800)**	
Decreases to 2019/20 Budget			
Total Change in Working Budget and Projected Budgets	**432,100**	**(1,424,800)**	

Budget updates:

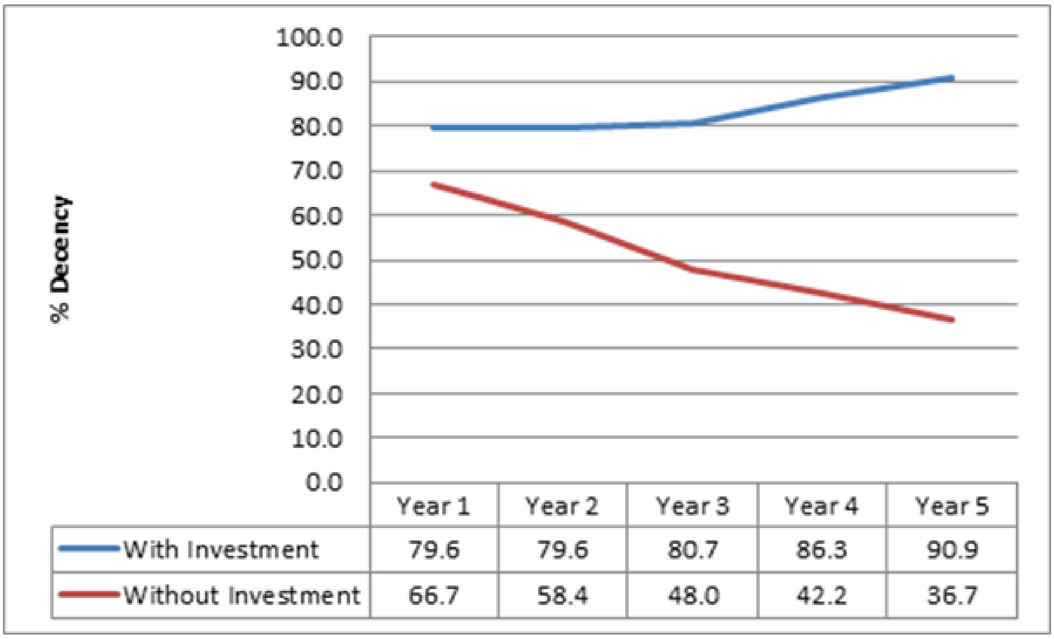
4.3.2 New Build (Housing Development) projected budgets have been updated to reflect the latest information on a site-by-site basis, increasing the cost in 2019/20 budgets by £123k. Following on from the July Executive, which confirmed the proposed procurement and delivery route for the Kenilworth Close development, the capital expenditure has been remodelled to reflect the proposed share of development costs and indicative delivery timings in relation to the site. In the meantime work continues on site to demolish the existing buildings in preparation for the development. The costs and profile of this development will be updated in the next capital strategy, following approval of the revised HRA Business Plan.

4.3.3 **IT/Digital Infrastructure Investment Programme** – As per paragraph 4.1.2, officers are developing an ICT Strategy, to be presented to the Executive in October. This will include work on rephasing of projects over the multi-year programme. This has resulted in an increase in the 2019/20 HRA budget of £309k (includes ICT infrastructure specific to HRA where costs cannot be shared with the General Fund).

Other Updates:

4.3.5 The **HRA Business Plan** will be updated in the HRA MTFS report to the October Executive. Any recommendations will be incorporated into future capital monitoring reports.

4.3.6 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 2018/19 was 702 which brought down the non-decent properties number to 1,971 against the target of 1,976. Forecasts trend is expected to be the same, as shown in graph below.



	Year 1	Year 2	Year 3	Year 4	Year 5
With Investment	79.6	79.6	80.7	86.3	90.9
Without Investment	66.7	58.4	48.0	42.2	36.7

4.3.7 The HRA Right to Buy (RTB) receipts includes a one for one (1.4.1) balance of £10.0m, 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 as per paragraph 3.2 in return for nomination rights so that 1.4.1 receipts can be utilised wherever possible.

4.3.8 The revised programme as outlined in Appendix B now forecasts that there is a need to return receipts in quarter 3 and quarter 4 (£681k plus interest). Options are being explored by the Housing Development team to be able to find a scheme in partnership with a registered social landlord in order to be able to mitigate this risk, but these are at an early stage.

4.4 Capital Resources Housing Revenue Account

4.4.1 The HRA had nine RTB sales in the first quarter (six RTB sales in the same quarter last year). As at 22 August 2019, 11 more RTB sales had been completed bringing the total to 20 to date (ten RTB sales in total up to the end of August 2018). 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:

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 Projection Update	45,500	869,380	360,637	2,977,042	863,248	**5,115,808**
Budget Projection (2019/20 Capital Strategy)	45,500		360,637			**406,137**
Variance	0	869,380	0	2,977,042	863,248	4,709,671

4.4.2 A full update of capital resources available to the HRA will be included in the updated HRA Business Plan.

4.4.3 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.

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 The decent homes programme is led by condition surveys of the stock and not prioritised by group. The capital changes identified in this report are not expected to impact on any groups covered by statutory equalities duties.

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.

5.5.5 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.

5.5.6 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.

5.5.7 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.

5.5.8 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.

BACKGROUND PAPERS

- BD1 – General Fund Capital Strategy
- BD2 – Housing Revenue Account Capital Strategy