Meeting:	**EXECUTIVE**	**Agenda Item:**
Portfolio Area:	Resources	
Date:	**20 November 2019**	

QUARTER 2 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 £1.5M be approved as summarised in table one, para 4.1.1.

2.2 The General Fund net increase of capital expenditure of £2.1M in 2020/21, also as summarised in table one, para 4.1.1, be approved.

2.3 That Members approve the net increase of £130K in the capital expenditure for 2019/20 Housing Revenue Account, as summarised in table three, para 4.3.4.

2.4 That Members approve the net increase of £262K 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 pre-approved budgets were:

- General Fund £33.0M
- Housing Revenue Account £33.7M

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 £31.5M, a reduction of £1.5M mainly due to reprofilng 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		
Cavendish Depot - Renovation/Yard Drainage	(90,000)	90,000
Vehicle/Plant Replacement Programme	(330,000)	330,000
IT General (IT)	37,190	532,530
Bus Interchange (GD3)	(1,000,000)	1,000,000
Public Sector Hub	(200,000)	200,000
MSCP	25,000	(25,000)
Total Slippage	**(1,557,810)**	**2,127,530**
Virements Between Projects		
Waste and Recycling System	30,000	
New CRM Technology	(30,000)	
Arts and Leisure Centre - Pipework	111,000	
Arts and Leisure Centre - Improvements	(111,000)	
BTC Roof	15,000	
Deferred Works Reserve	(15,000)	
Total Virements Between Projects	**0**	**0**
Increases/(Decreases) to 2019/20 Budget		
Vehicle/Plant Replacement Programme	55,720	
Replacement HR & Payroll System	(3,430)	
New Intranet	19,090	
Bandley Hill - Replace Hall Floor Covering	(12,500)	
St Nicholas Boiler Upgrade	24,700	
The Oval Replace Windows	(4,000)	
Canterbury Way Demolition	13,000	
King George V - Electrical Mains Intake & Supply Head	(1,140)	
Preparation Works to Units 1,4,5 of the former QD Building	(22,110)	
Garage Site Assembly	(30,000)	
Total Increases/(Decreases) to 2019/20 Budget	**39,330**	**0**
Total Change in Working Budget and Projected Budgets	**(1,518,480)**	**2,127,530**

4.1.2 **Slippage/Acceleration:**

- **Cavendish Depot** slippage of £90K to 2020/21, leaving £10K for preliminary work in 2019/20. A temporary solution is currently in place for the drainage work required at Cavendish Depot, and the drainage repair works are scheduled to take place after other works have been completed to the site.

- The **Vehicle/Plant Replacement Programme** slippage of £330K is due to the lead time of approximately 28-30 working weeks from receipt of order for two refuse freighters to collect green waste.
- The reported figures reflect the **ICT and Digital Strategy** Report that was approved by Executive in October, which included acceleration of project spend over the multi-year programme.
- The reprofiling of the **Bus Interchange** and **Public Sector Hub** schemes reflects the latest forecasts of timing from officers. Work is continuing to progress the financing for the Bus Interchange (as detailed in paragraph 4.2.3).
- **Multi Storey Car Parks** £25K has been brought forward from 2020/21 for remedial structural works to save future costs.

4.1.3 **Virements between projects**

- An additional £30K has been identified from the Connected To Our Customers (CTOC) New CRM Technology budget, to enable the implementation of the **Waste and Recycling System**.
- The planned expenditure on the **Pipework at the Stevenage Arts and Leisure Centre** is expected to be £111K and this urgent work is now underway (update from the Quarter 1). This can be funded from the £111K budget provision that had previously been made available for the **Lift at Stevenage Arts and Leisure Centre**. There is a new service contract in place for the lift, and the replacement is not expected to take place for two to three years.
- There have been ongoing issues with leaks in the **BTC roof**. It is proposed to install new plant away from the roof (the plant is programmed for renewal) that will then allow for an easier and more effective roof repair. £15K has been requested to appoint a specialist consultant to carry out a feasibility study and provide a specification for the service plant. The next phase to be carried out (in April 2020) would be the installation of the new plant away from the roof followed by the reroofing.

4.1.4 **Increases/Reductions in Expenditure:**

- 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 £39K in 2019/20 (in table one).

4.1.5 **Other Updates**:

- The budget for **Grants to Registered Provides** includes a contingent amount for Registered Provider schemes if the opportunity arises. Any such grants would be funded 100% from 1.4.1 receipts. Housing Development colleagues continue to liaise with RSL's over opportunities and are currently following a lead that will result in the required amount of take up of grant and delivery of further affordable rented homes. 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. Given a lack of suitable properties within Stevenage, Counsel's opinion is being sought as to whether SBC can invest in properties outside of the geographical boundary, if they meet the Council's investment criteria. The recent rise in PWLB rates means that meeting the investment return has become more difficult.

- The costs for the Wholly Owned Housing Development Company (WOC) as previously agreed by Executive are £700K in 2019/20 and £1.6M in 2020/21. The WOC business plan is currently being revised in light of the recent 1% PWLB rate increase (as detailed in paragraph 4.2.2), and costs are expected to slip. Future capital strategy reports will update Members further.

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)**	**Q1 Revised Position**	**Q2 Revised Position**	**Variance**
	£'s	**£'s**	**£'s**
Total 2019/20 Capital Receipts Estimate	(4,016,598)	(2,902,028)	1,114,570
Total 2020/21 Capital Receipts Estimate	(5,949,600)	(7,252,800)	(1,303,200)
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	(26,768,000)	(26,768,000)	0
Major Capital Receipts Programme	**(41,749,238)**	**(41,937,868)**	**(188,630)**

- The reduction in 2019/20 forecasts, is primarily due to sites on which marketing has commenced but are unlikely to sell in 2019/20. This has been partially offset by additional minor land sales and the disposal of the loading shovel which has been replaced.
- The increase in the 2020/21 forecasts relate to the sites slipped from 2019/20.

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. The formula for calculating PWLB rates was revised by HM Treasury on 9th October, increasing borrowing rates by 1% for all new long term loans. The explanation for this change is that "Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.". The formula for Premature Repayment Rates has not been adjusted.

4.2.3 Included in the capital strategy is the new bus station, which is presently situated in the centre of the SG1 redevelopment area. £9.6M of GD3 funding earmarked for the relocation and redevelopment of the bus station has been approved by the LEP but this cannot be drawn down by SBC yet. A contract to spend is needed by February 2020 in order to meet the LEP spending guidelines, otherwise a review will be required of alternative options.

4.2.4 A budget of £6.5M (£5M construction costs and £1.5M for fees and contingency) has been allocated for the new bus station scheme if SBC have to fund the project, which would be 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 £33.8M (as detailed in Appendix B) an increase of £0.1M 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			
IT General (IT)	41,940	262,290	Reprofiling (ICT Strategy)
Total Slippage	**41,940**	**262,290**	
Increases to 2019/20 Budget			
Disabled Adaptations	85,800		HHIA grant received
New Intranet	8,802		pressure identified
Total increases to 2019/20 Budget	**94,602**	**0**	
Decreases to 2019/20 Budget			
Online Tenants Self-Service	(4,600)		Telephony & GDPR solutions under budget
Replacement HR & Payroll System	(1,889)		no further costs
Total Decreases to 2019/20 Budget	**(6,489)**	**0**	
Total Change in Working Budget and Projected Budgets	**130,053**	**262,290**	

Budget updates:

4.3.2 **IT/Digital**

- **Infrastructure Investment Programme** – As per paragraph 4.1.2, officers produced an **ICT and Digital Strategy** Report that was approved by Executive in October, which included rephasing of projects over the multi-year programme. This has resulted in an increase in the 2019/20 HRA budget of £42K, and £262K in 2020/21.

- Additional "one off" disabled facility grant (DFG) was received in 2018/19 (£86K) and it has been confirmed that this grant can be used for HRA properties. The main DFG grant has met all current and anticipated requests for home improvements through the Hertfordshire Homes Improvement, therefore, officers propose that his grant allocation is applied to HRA disabled adaptations budget, increasing the budget by £86K in 2019/20.

Other Updates:

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

4.3.4 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 399 to date, against an in year target of 385 to date and 750 in total for 2019/20.

4.3.5 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 4.1.5 in return for nomination rights so that 1.4.1 receipts can be utilised wherever possible.

4.3.6 The revised programme as outlined in Appendix B now forecasts that there is a need to return receipts in quarter 3 and quarter 4 (£936K 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 22 RTB sales by the end of the second quarter (11 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:

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 Projection Update	45,500	869,380	360,637	2,977,042	863,248	5,115,808

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. As per paragraph 4.2.2, the formula for calculating PWLB rates was revised by HM Treasury on 9th October, increasing borrowing rates by 1% for all new long term loans. This change is being incorporated into the updated HRA Business Plan.

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