

**Meeting: EXECUTIVE**

**Agenda Item:**

Portfolio Area: Resources

**Date: 17 JULY 2017**



## **2016/17 CAPITAL EXPENDITURE OUTTURN KEY DECISION**

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### **1. PURPOSE**

- 1.1 To update Members on the outturn position on the 2016/17 capital programme including the resources used to fund that expenditure.
- 1.2 To update Members on the Council's Capital Strategy and any changes to the 2017/18 capital programme.
- 1.3 To update Members on the actual 2016/17 Minimum Revenue Provision (MRP) and the MRP for 2017/18.
- 1.4 To update Members on the resources available to fund the Capital Strategy.

### **2. RECOMMENDATIONS**

- 2.1 That the 2016/17 General Fund capital expenditure outturn of £4,829,306 be noted, (subject to the 2016/17 external audit of accounts).
- 2.2 That the 2016/17 HRA capital expenditure outturn of £19,402,180 be noted (subject to the 2016/17 external audit of accounts).
- 2.3 That the funding applied to the 2016/17 General Fund capital programme be approved as summarised in paragraph 4.2.4.
- 2.4 That the funding applied to the 2016/17 HRA capital programme be approved as summarised in paragraph 4.5.1.
- 2.5 That the 2017/18 General Fund capital programme net changes of £4,024,160 be approved as summarised in paragraph 4.3.7 including, the additional expenditure

above the amount delegated to the Executive for the reasons outlined in paragraph 4.3.6. This decision to be taken as a matter of urgency in accordance with the Budget & Policy Framework rules set out in the Constitution and with the agreement of the Chair of the Overview & Scrutiny Committee.

- 2.6 That the 2017/18 HRA capital programme total increase of £2,557,700 be approved as summarised in paragraph 4.6.1 and detailed in Appendix B to this report.

### 3. BACKGROUND

- 3.1 The 2016/17 capital programme was last approved by Members at the March Executive as part of the 3<sup>rd</sup> quarter monitoring report. At March Executive the 2016/17 revised General Fund capital programme was projected to be £6,957,730 and the 2016/17 revised HRA capital programme was projected to be £21,842,350 a total of £28,800,080.
- 3.2 The 2016/17 outturn position included in this report is subject to the Council's external auditors by 30 September 2017 and the accounts may change as a result of any audit findings. The audited accounts will be presented to the September Audit and Statement of Accounts Committees.

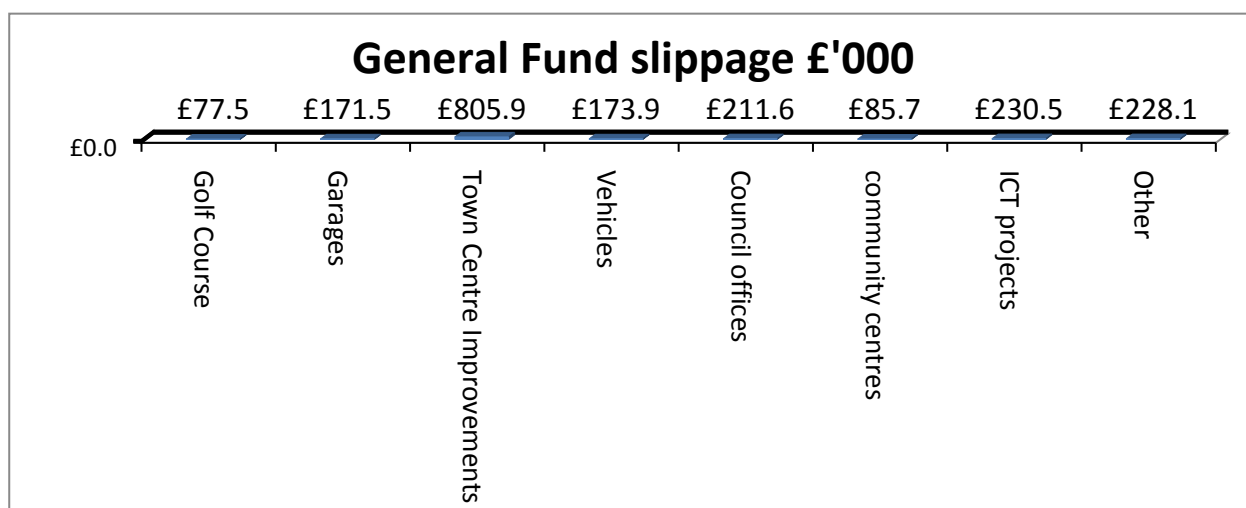
### 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

#### 4.1 2016/17 GENERAL FUND CAPITAL PROGRAMME

- 4.1.1 The actual outturn for General Fund capital spend was £2,128,424 lower than that estimated in the March 2017 Executive. The main reason for this is a timing difference whereby spend totalling £1,984,680 due to be spent in the final quarter of 2016/17 will now be spent in 2017/18. Appendix B shows the slippage by scheme which is summarised in the table below.

General Fund - Schemes	Q3 Revised Budget	2016-17 Actuals	(Under)/Overs pend	Slippage to 2017-18
Leisure & Community Services	405,770	271,056	(134,714)	103,420
Housing Services	753,460	592,379	(161,081)	0
Environment	2,815,380	2,223,587	(591,793)	544,424
Regeneration	1,926,200	1,160,613	(765,587)	860,276
Resources	1,056,920	581,671	(475,249)	476,560
<b>TOTAL</b>	<b>6,957,730</b>	<b>4,829,306</b>	<b>(2,128,424)</b>	<b>1,984,680</b>

- 4.1.2 The General Fund slippage is summarised by spend type in the following chart. Of the expenditure projected to be spent in 2017/18, 41% relates to Town Centre improvements that are currently underway in the Town.



4.1.3 In addition there is slippage on the garage improvement programme of £171,510. The work requires the recruitment of a programme manager, surveyors and disposal surveyor all of which have been difficult to recruit to. Officers are now looking at restructuring the work streams to help progress the project. This may have a knock on impact on the 2017/18 projected expenditure and some of the anticipated garages disposal sites are now projected to be realised in 2018/19.

4.1.4 The most significant under spend in 2016/17 was for disabled facilities and improvement grants. Both of these budgets are reactive; spend on the nature and speed of works coming forward is dependent on applications. Disabled Facilities grants are 100% funded from a ring fenced grant from the Better Care Fund. The 2017/18 grant allocation exceeds the 2017/18 original budget and the 2017/18 budget has been increased to reflect this. Consequently, the 2016/17 under spend has not been requested for carry forward.

## **4.2 2016/17 GENERAL FUND CAPITAL RESOURCES**

4.2.1 The actual General Fund capital receipts received in 2016/17 were £5,970,229 compared to budgeted receipts at £6,192,525 a reduction of £222,296. The projected receipts for 2017/18 are also projected to be £365,480 lower and the Estates team have been asked to identify potential alternative sites to ensure the financial security of the capital programme.

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 this way. The Council makes this payment one year in arrears for assets funded via borrowing in the previous years, regardless of whether physical borrowing has taken place. The MRP charge 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	Received in Year £	Used in Year £	Available to Fund Future Year Expenditure £
Usable Capital Receipts	(5,970,229)	134,929	(6,433,954)
Local Authority right to buy share	(350,019)	378,455	(939,071)
Section 106 Receipts	(333,246)	301,706	(344,011)
Grant and Other Contributions General Fund	(773,687)	935,478	(143,670)
Capital Allocated Reserve	(1,210,090)	2,377,438	0
<b>Total</b>	<b>(8,637,271)</b>	<b>4,128,007</b>	<b>(7,860,706)</b>

### 4.3 GENERAL FUND CAPITAL EXPENDITURE 2017/18

- 4.3.1 Members approved the 2017/18 General Fund capital programme at the March Executive. This report identifies an increase in the budget by £4,024,160 to £12,605,280.
- 4.3.2 **Slippage** - The 2017/18 programme has increased by £1,984,680 of scheme slippage from 2016/17, (paragraphs 4.1.2-4.1.4 refers).
- 4.3.3 **Increased expenditure**- The 2017/18 General Fund budget has also been **increased by £2,165,000** for expenditure on grants to Registered Housing Providers for housing nomination rights. The funding of this grant is from 'one for one' receipts retained from Right to Buys. These receipts are restricted in their use and must be used to provide additional social housing.
- 4.3.4 The Council predominately uses one for one receipts to fund its own new build programme, Members are aware that only a 30% contribution can be made to any one additional property AND the funds must be spent within three years. An alternative to handing the receipts back to the government with interest at 4% above the base rate is to grant the monies to housing associations for nomination rights. Previous capital reports identified that £1Million needed to be granted in this way to avoid handing back receipts. The latest projection is higher due to the re-profiling of capital schemes and the 2016/17 slippage. The total spend on the Council's own new build programme remains unchanged however, some spend is now projected to be in 2017/18 and 2018/19.
- 4.3.5 The revised use of one for one receipts by the Assistant Director (Housing Development) has meant that the projected £1.099Million return of receipts (in 2017/18 and 2018/19) to the government with an estimated interest of £100,000 has been avoided and additional nomination rights have been obtained.
- 4.3.6 The increase in the 2017/18 capital budget for Registered Providers (fully funded by the use of one for one receipts) of £2,165,000 is higher than the amount delegated to the Executive and would require approval at Council. The next Council meeting

is in October and after the grant is projected to be spent. The Leader, Executive, or an individual Member of the Executive may take a decision which is contrary to the Council's policy framework if the decision is a matter of urgency and it is not practical to convene a quorate meeting of the Council and the Chair of the Overview and Scrutiny Committee agrees that the decision is a matter of urgency. If a Council meeting cannot be convened it is recommended that the Executive approve the change to the budget.

4.3.7 The changes to the 2017/18 budget are summarised in the table below:

General Fund - Schemes budget changes and impact on 2017/18.	Spend re-profiled from 2016-17	Budget increases	Budget reductions	Use of 1.4.1 receipts to registered Providers	Spend re-profiled to 2018/19	Total
Leisure & Community Services	103,420	0	0	0	0	103,420
Housing Services	0	0	0	0	0	0
Disabled facilities grant	0	57,000	0	0	0	57,000
Grants to registered providers	0	0	0	2,165,000	0	2,165,000
Total Housing (General Fund)	0	57,000	0	2,165,000	0	2,222,000
Environment & Regeneration	1,404,700	4,910	(56,430)	0	(131,000)	1,222,180
Resources	476,560	0	0	0	0	476,560
<b>TOTAL GENERAL FUND IMPACTS 2017/18</b>	<b>1,984,680</b>	<b>61,910</b>	<b>(56,430)</b>	<b>2,165,000</b>	<b>(131,000)</b>	<b>4,024,160</b>

4.3.8 Capital Expenditure for disabled facilities grants has increased in 2017/18 as outlined in paragraph 4.1.4. The grant awarded has increased which has enabled the disabled adaptations policy to be amended to include discretionary grant awards where the recipient is unable to contribute or where the works exceed the £30,000 limit. The extra funding, which must be used to help people stay in their own homes, is funded in total from grant.

4.3.9 **Reductions in expenditure-** the reductions in projected spend relate to the timing and delivery of vehicles for Stevenage Direct Services.

4.3.10 The delivery of the capital programme is subject to focus and detailed review by senior Officers, through a new Assets and Capital Board. This is a priority area for improvement. Officers recognise that the delivery of capital projects against planned spend has been an area of challenge, resulting in some schemes being slipped or re-prioritised. The ability to complete approved capital schemes has in some cases been compromised by mobilisation of contracts, staffing constraints which can arise from recruitment difficulties and vacancies in key posts. A number of actions are underway to improve the delivery of the capital programme. This includes reviewing and focus on forecasting, budgeting and operational capacity to deliver the schemes and following the Senior Management Review, working to ensure sufficient capacity and capability is in place to deliver schemes. Officers are holding

regular capital and asset review meetings to ensure that any issues can be identified earlier and corrective action taken if needed.

4.3.11 For 2017/18, a detailed review is underway, with clinics set up to review the delivery plans for key areas of the capital programme – from building and asset projects, to technology investment, and fleet management. Assistant Directors have been tasked to review their service strategies and capital plans which, in some areas, is likely to impact on the current capital strategy. In particular reviews of the fleet and ICT strategies are due to be concluded shortly which inform the capital delivery plans for 2017/18. It is expected that the outcomes from these reviews and those mentioned in 4.3.10 will be incorporated into the 1<sup>st</sup> Quarter capital strategy update, which will be reported to Executive in September. In addition the capital bidding process for future years is being updated to ensure delivery is possible within available resources ahead of schemes being approved.

#### 4.4 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

4.4.1 The actual outturn for HRA capital spend was £19,402,180, £2,440,171 lower than that estimated in the March 2017 Executive. The main reason for this is slippage of £2,374,180 on schemes which were due to be spent in the final quarter and £1 Million related to an under spend on buy backs. The following table identifies the areas of slippage.

Housing Revenue Account	Q3 Approved Budget	Actuals 2016/17	(Underspend) / Overspend	Slippage to 2017-18
	£	£	£	£
New Build and Housing acquisitions	8,435,490	6,596,766	(1,838,724)	1,838,730
Major Works	12,855,790	12,483,868	(371,922)	371,920
Equipment and ICT	551,070	321,546	(229,524)	163,530
<b>TOTAL</b>	<b>21,842,350</b>	<b>19,402,180</b>	<b>(2,440,171)</b>	<b>2,374,180</b>

4.4.2 As part of the new build and acquisitions programme, five schemes were progressed in 2016/17: Archer Road, Vincent Court, Kilner Close, Twin Foxes and March Hare. In addition seven properties were bought on the open market and two buy backs were completed, providing 21 new homes in total.

4.4.3 The number of properties made decent in 2016/17 was 616 which exceeded the target of 610.

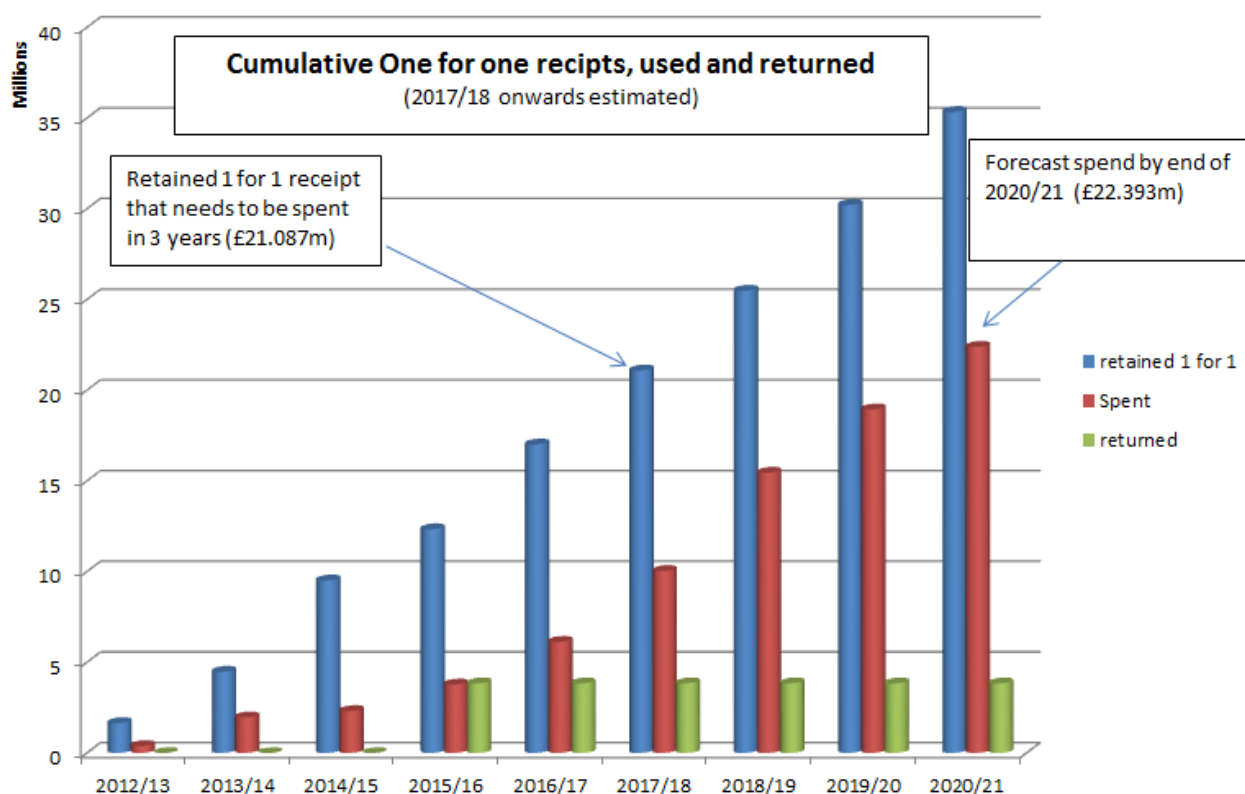
#### 4.5 HOUSING REVENUE ACCOUNT CAPITAL RESOURCES

4.5.1 The value of resources available, (including capital receipts) to support the future capital programme (as at 31 March 2017) is £22,652,248. 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)	(4,652,265)	(11,227,415)	11,371,903	(4,507,777)
Usable Capital Receipts	(6,762,767)	(763,435)	285,409	(7,240,793)
One for One Receipts	(8,538,692)	(4,348,876)	1,983,890	(10,903,677)
S20 Contributions	0	(17,160)	17,160	0
Other Contributions	(306,902)	(368,295)	675,197	0
<b>TOTAL</b>	<b>(20,260,626)</b>	<b>(16,725,182)</b>	<b>14,333,560</b>	<b>(22,652,248)</b>
Revenue contribution			5,068,620	
<b>TOTAL CAPITAL FINANCED</b>			<b>19,402,180</b>	

- 4.5.2 60 Right to Buy (RTB) sales were completed in 2016/17, (projected sales 61). The resulting HRA capital receipt was £7,516,084 (before the deduction of administration costs) (2015/16, £10,857,610 – 106 sales) of which £873,445 (2015/16, £879,807) was paid to the Government as ‘pooled’ HRA receipts and £4,348,876 was restricted use one for one receipts.
- 4.5.3 The HRA RTB receipts used in year were £2,269,299 leaving balances of £18,144,470 to fund the future years’ capital programme. However this includes, £10,903,677 of one for one receipts. 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 including finding suitable residential development sites, the grant of planning permission, procurement and build 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 (see also para 4.3.3). The revised programme as outlined in paragraph 4.3.7 now means no receipts are due to be handed back in 2017/18 and 2018/19. However this may change based on the number of receipts received during the year. The chart below shows the actual and estimated (cumulated) one for one receipts including returned receipts to the government.





- 4.5.5 In the first quarter of 2017/18, 13 Right to Buy sales were completed generating one for one receipts of £1,313,000. 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 £135,220 on a £1 Million receipt (assuming bank base rate remains unchanged at 0.25%)

#### 4.6 HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE 2017/18

- 4.6.1 The projected 2017/18 HRA capital programme is estimated to be £18,807,920 which is £2,526,300 lower than the approved 2017/18 working budget. The changes to the 2017/18 budget are summarised in the table below:

Housing Revenue Account - Budget changes and impact on 2017/18.	Approved budget (March Executive)	Spend re-profiled from 2016-17	Spend re-profiled to 2018/19 and beyond	Total
New Build Schemes	5,630,810	1,838,720	(3,558,810)	3,910,720
Other Major Works	14,452,090	371,920	(1,341,660)	13,482,350
HRA ICT and Equipment	1,251,320	163,530	0	1,414,850
<b>TOTAL HRA IMPACTS 2017/18</b>	<b>21,334,220</b>	<b>2,374,170</b>	<b>(2,735,470)</b>	<b>18,807,920</b>

## 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. 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 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 if the current unidentified programme (open market acquisitions and new schemes) slip by three months from December 2017, £158,000 would need to be repaid (as it exceeded 3 year timescale) in 2017/18 with associated interest costs estimated at £20,000 – the next repayment would be due in 2019/20 quarter 3.
- 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 2017 (Executive)

<http://www.stevenage.gov.uk/content/committees/160923/160931/160995/20170124-Item7.pdf>

BD2 - Capital Strategy February 2017 (Council)

<http://www.stevenage.gov.uk/content/committees/160923/160927/160991/20170228-Item5B.pdf>

BD3 - Capital Strategy March 2017 (Executive)

<http://www.stevenage.gov.uk/content/committees/160923/160931/160995/20170314-Item9with-Corrected-BDs.pdf>

## **APPENDIX**

A - General Fund Capital Programme

B - HRA Capital Programme