

Report to the Resource Select Committee

Report reference:

Date of meeting: 12 July 2016



Portfolio: Finance

Subject: Provisional Capital Outturn 2015/16

Responsible Officer: Teresa Brown (01992-564604)

Democratic Services Officer: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- (1) That the provisional outturn report for 2015/16 be noted;**
- (2) That this committee comment on the following recommendations to Cabinet from the Finance and Performance Management Cabinet Committee:**
 - a) Retrospective approval for the over and underspends in 2015/16 on certain capital schemes as identified in the report;**
 - b) Approval for the carry forward of unspent capital estimates into 2016/17 relating to schemes on which slippage has occurred;**
 - c) Approval of the funding proposals outlined in this report in respect of the capital programme in 2015/16;**
 - d) An in principle decision to meet a funding requirement for the purchase of street properties in 2016/17 from HRA underspends in 2015/16; and**
 - e) The amended position regarding the use of the attributable debt element of the retained capital receipts.**

Executive Summary:

This report sets out the Council's capital programme for 2015/16, in terms of expenditure and financing, and compares the provisional outturn figures with the revised estimates. The revised estimates, which were based on the Capital Programme, represent those adopted by the Council on 18 February 2016.

Appendix 1 summarises the Council's overall capital expenditure and funding in 2015/16. It shows the total amount of expenditure invested in Council-owned assets within the General Fund, analysed over the four directorates, and shows the sum invested in existing and new Housing Revenue Account (HRA) assets separately. Underneath this are the total sums advanced in the form of Capital Loans and the Revenue Expenditure Financed from Capital under Statute (REFCuS).

Information on individual projects or programmes is given on Appendix 2 for the General Fund Capital Programme and Appendix 3 for the HRA Capital Programme, Capital Loans and Revenue Expenditure Financed From Capital under Statute. Overspends and underspends are shown in the third column of each appendix and these are identified as budget overspends, savings, carry forwards or brought forwards on a project-by-project basis in columns four to six. In some instances, other changes are recommended; these are identified in column seven and explanations are given in the report. The carry forwards and brought forwards represent changes in the timing and phasing of schemes and the movement of estimates between financial years rather than amendments to total scheme estimates.

An analysis of the funds used to finance the Council's capital expenditure in 2015/16 is also given in Appendix 1, detailing the use of government grants, private funding, capital receipts and direct revenue funding. The generation and use of capital receipts and Major Repairs Fund resources in 2015/16 are detailed in Appendix 4.

Reasons for Proposed Decision:

The funding approvals requested are intended to make best use of the Council's capital resources that are available to finance the Capital Programme.

Other Options for Action:

The Council's current policy is to use all HRA capital receipts from the sale of assets, other than Right to Buy Council House sales, to fund the Council's house building programme. However, Members have the option to use these capital receipts for other HRA or General Fund schemes if they chose. This option has been rejected to date because, unless HRA receipts are applied to affordable housing schemes, 50% of each receipt would be subject to pooling i.e. the council would have to pay 50% of these receipts to central government.

The Council retains an element of the right to buy receipts classified as 'allowable' debt. It was originally agreed that 30% of this receipt should be set aside to help finance the HRA housebuilding programme, this represents a sum of £869,000 as at 31 March 2016. However, none of this sum has been utilised to date and an alternative option is recommended.

Report:

Capital Expenditure

1. The Council's total investment on capital schemes and capital funded schemes in 2015/16 was £37,298,000 compared to a revised estimate of £49,917,000, representing an underspend of 25%. The largest underspends were experienced on General Fund projects, details of which are shown on Appendix 2. In particular, there were large underspends on the planned developments at St John's Road, the Langston Road Retail Park and the Oakwood Hill Depot.

Resources

2. Within the Resources Directorate, there were two large underspends of £306,000 and £151,000 on the planned maintenance programme and the upgrade of the industrial units at Oakwood Hill respectively.

3. Of the 27 projects scheduled to be undertaken within the Council's planned maintenance programme, 14 were fully completed or nearly completed at a cost of £856,000. However, delays have been experienced on the remaining 10 schemes, most of which relate to the civic offices at Epping. It is recommended that the full £306,000 underspend is carried forward for these 10 projects, the largest of which relate to the refurbishment of 2 toilet areas in the civic offices as well as major improvements in electrical systems and energy efficiency works.

4. Work planned to upgrade the industrial units at Oakwood Hill relate to essential roofing improvements, which are required to meet current building regulation standards. Commencement has been delayed as a result of protracted negotiations with current tenants regarding the recovery of the costs of the works. The carry forward of the full £151,000 allocation to 2016/17 is recommended to fund the work, once a resolution has been agreed.

5. The Information and Communication Technology (ICT) Programme progressed very well and 15 schemes were completed successfully in 2015/16. Capital expenditure totalled £311,000, compared to a revised budget of £315,000. Included in the expenditure figure is a commitment of £25,000 to cover a one-off payment for a licence for the cashier's system, which had not been included within the capital budget and has been financed by direct revenue funding. It is recommended that retrospective approval is proposed to Cabinet for this licence. It is also requested that two unspent allocations, totalling £29,000, which were originally set aside for two other licences in 2015/16 are carried forward to 2016/17.

Neighbourhoods

6. Within the Neighbourhoods Directorate, the largest underspend relates to the St John's Road Development. This project has not progressed because the agreement to purchase the land owned by Essex County Council at St John's Road has not been finalised. However, negotiations are continuing in the hope that the scheme will progress later this year. As a consequence, the full £6,000,000 set aside for this scheme is recommended for carry forward to 2016/17.

7. Progress on the new Shopping Park at Langston Road has also been delayed, partly due to the need to re-tender the contract for the main construction works, and partly due to hold ups on the Section 278 highways work as a result of some very restrictive traffic management constraints imposed by Essex County Council after the tenders were submitted. Approval is sought to carry forward £2,076,000 to 2016/17 to continue the project.

8. Although the construction of the new depot at Oakwood Hill has progressed well since it started last September, some slippage has been experienced on this scheme too. A carry forward of £503,000 is therefore recommended to complete the scheme early in 2016/17.

9. Other smaller underspends within the Neighbourhoods Directorate are shown on Appendix 2. A total of £120,000 is requested to be carried forward in order to provide for refuse and recycling containers at new sites, improvements at the Council's car parks and the purchase of replacement vehicles for the grounds maintenance service. An adjustment of £5,000 has been made to the latter to allow for the sale proceeds of a sold vehicle to be used towards financing a new vehicle.

10. Furthermore, overspends of £6,000 and £5,000 were incurred on the development of the former Sir Winston Churchill pub site and the installation of a new property management system. A recommendation to retrospectively approve capital estimates to cover these sums is sought from Members as part of this report.

Communities

11. The major investment within the Communities Directorate has been the extension and refurbishment of the Council's museum. Practical completion of the building works was achieved in December 2015 and the new facility was opened to the public in March 2016. The flagship design with its innovative 'open storage display', the extended exhibition space and the community room are all very impressive and it is hoped the museum will draw visitors from further afield than the district itself. The cost of the project was higher than originally estimated and the budget has been increased to allow for this. It is considered prudent to carry forward the underspend of £20,000 to 2016/17.

12. The two other budgets within the Communities capital programme were set aside for the provision of additional off-street parking schemes on housing land and the installation of new and upgraded CCTV systems. The off-street parking schemes are joint-funded between the General Fund and the HRA, depending on the split between sold properties and Council properties. Although some schemes are progressing, there was an underspend of £13,000 on this budget and it is recommended that this sum is carried forward to 2016/17 to continue the improvements. With regard to the CCTV upgrade programme, the majority of the planned works were completed on schedule last year but two schemes are outstanding which will be completed this year. A carry forward of £9,000 underspend in respect of the 2 outstanding schemes is requested, having taken into account some unexpected expenditure on a security system at Town Mead depot. Retrospective approval for the latter is also recommended, this having been financed by £7,000 of direct revenue funding made available from other revenue savings.

Housing Revenue Account (HRA)

13. The approved HRA capital budget for 2015/16 was increased compared to previous years to provide for the Council's housebuilding programme. A revised budget of £17,349,000 was approved but expenditure during the year totaled £13,811,000, representing an underspend of £3,538,000 or 20%.

14. Appendix 3 shows how actual costs compared to revised budgets for each category of work within the HRA capital programme. It shows that the largest underspend of £1,123,000 was on kitchen and bathroom replacements. This was primarily due to much lower numbers of replacements being undertaken on void properties. This is because kitchens and bathrooms are only replaced if deemed necessary and, as many void properties have already had replacements under the planned programme, works on voids has reduced.

15. The second largest underspend was experienced on the new house building and conversions program. The Marden Close and Faversham Hall conversions were completed in November 2015 and all flats have been let. However, construction work has been delayed due to difficulties with the main contractor at the 4 sites within phase 1 of the new housebuilding programme and a carry forward of the full £1,069,000 underspend is sought to complete works at these sites.

16. There were two areas where expenditure was higher than estimated; these being structural schemes and disabled adaptations where expenditure was £140,000 and £20,000 overspent respectively. It is recommended that the budget from 2016/17 be brought forward to 2015/16 to cover this.

17. All other areas of expenditure experienced slippage to a greater or lesser extent and details of each category can be seen in Appendix 3. Capital expenditure work on leaseholder properties was actually £414,000, which was £212,000 over the budget of £200,000. Although the budget is shown as a single credit figure within the HRA capital programme, actual costs are identified to the type of work they relate to once the works are complete. This has the effect of exaggerating the underspends for each individual category in Appendix 3 but it does serve to reduce the overall underspend to £1,506,000 on HRA capital works, excluding the categories in paragraphs 14 and 15 above. It is recommended that this underspend is carried forward pending a re-assessment of the budget when it is reviewed in the autumn.

18. The report identifies significant underspends on HRA schemes and, as there is a funding requirement for the purchase of Street Properties scheme in 2016/17, it is proposed that an element, to be determined, of this carry forward be diverted to fund that element not covered by 1-4-1 receipts.

Capital Loans

19. With regard to the Capital Loans provided to third parties by the Council, these were more or less on target. The loan to the Council's waste management operator went ahead as planned and a monthly repayment schedule has been agreed.

20. Loans made under the Open Market Shared Ownership scheme were completed on budget and this scheme has now come to an end. However, the Council will receive payments in the future as the individuals, who benefited from this scheme, purchase further equity in their properties. Clearly, in a rising housing market, the Council potentially stands to benefit from increased house prices.

21. Although the total value of loans made to individuals to improve private housing stock was lower than anticipated, demand increased in 2015/16 to £119,000 compared to £65,000 the previous year. Given the upward trend, it is recommended that the £41,000 underspend is carried forward of to 2016/17.

Revenue Expenditure Financed from Capital under Statute (REFCuS)

22. The Council provides capital funds to finance certain items of revenue expenditure, known as REFCuS. To qualify such expenditure must be of a capital nature but serve to increase the value of assets not owned by the Council.

23. The largest budget in this section is for the Section 278 highways works required to enable the new Shopping Park at Langston Road to go ahead. Originally the budget for these

works was included within the capital allocation within the General Fund but actual costs have been identified separately. The budget allocation shown on Appendix 3 has been moved from the General Fund allocation shown in Appendix 2. The sum moved matches the costs incurred to date at this point pending a more detailed analysis, which will be presented as part of the Capital Review.

24. Likewise, the budget for the gas replacement scheme at Ninefields and other Council flats was not identified separately within the HRA capital programme previously and the adjustment made in this report from the HRA allocation in Appendix 3 matches the costs incurred to date.

25. Disabled Facility Grants (DFGs) given for adaptations to private properties have risen sharply in recent years, and last year Cabinet approved an increase of £120,000 to £500,000 per year. Given the rising demand for DFGs and the increase in Central Government support to finance these grants in 2016/17, it is recommended that the £15,000 overspend is absorbed within the 2015/16 outturn and not deducted from future approved budgets. This can be off-set against the £7,000 saving on other private sector housing grants, which have now come to an end.

26. Similarly, expenditure on leasehold flats, sold under Right to Buy legislation where the Council is the freeholder, was higher than anticipated in 2015/16 by £214,000 and again it is recommended that no reduction is made to the 2016/17 allocation due to the reimbursable nature of this budget.

27. Finally, it is recommended that the £83,000 underspend on the Buckhurst Hill parking review be carried forward to 2016/17 for the Loughton Broadway review.

Summary

28. In summary, it is recommended that Cabinet approves the budget overspends, savings, carry forwards and brought forwards referred to above on the schemes identified in Appendices 2 and 3. There was one General Fund budget saving of £7,000 on Revenue Expenditure Financed from Capital under Statute. There were two areas where spending was higher than estimated totaling £160,000 on the HRA, it is proposed these amounts be brought forward from 2016/17. The carry forwards requested total £9,227,000 on the General Fund; £3,698,000 on the HRA capital programme; £41,000 on Capital loans and £83,000 on REFCuS. Approval is also sought for other amendments of £37,000 on the General Fund and £229,000 on REFCuS, as identified in the report, all of which were funded from revenue or from external sources.

Funding

29. The funds available to finance the capital programme include Government grants, other public sector grants, private contributions to capital schemes, capital receipts and direct revenue funding from the General Fund and HRA. Initially any specific grants and private contributions made for particular projects are used to finance the appropriate projects, taking into account any restrictions with regard to usage and time scales. Other sources of capital finance, which carry restrictions, are also applied at the earliest opportunity in order to avoid losing potential funds. This includes the element of capital receipts generated from the sale of council houses, which is available solely for replacement affordable housing (often referred to as 1-4-1 receipts) and must be used within three years of receipt. As a consequence, the maximum sum allowable has been applied to the 2015/16 HRA house building programme in order to reduce the potential risk of handing any funds back to Central Government.

30. However, another element of capital receipts available for capital funding is known as

'attributable' or 'allowable' debt. The Council is free to use all, none or indeed a portion of this money to fund HRA expenditure. A previous decision to use 30% of this for housebuilding was passed on a recommendation from the Housebuilding Cabinet Committee. However, Cabinet may not have had the opportunity to fully consider other options at this time. The latest 30 year plan suggests an amount of £869,000 is available for replacement housing schemes. This sum is based on 30% of the allowable debt minus the 'assumed' debt of Council dwellings, which was calculated when the new self-financing regime was introduced in April 2012. An alternative approach is now recommended to use the assumed debt figure of £1,218,950 as a basis for ascertaining the amount to be used for housebuilding; this would make £366,000 available. Currently, none of these resources have been applied to the housebuilding programme as 1-4-1 capital receipts, capital grants and private contributions are applied in the first instance and these have been sufficient to cover all costs to date. This would liberate additional capital resources of £503,000 to be invested in General Fund schemes.

31. Appendix 1 identifies the sources of funding used to finance the 2015/16 capital programme and it compares the actual sums used with the amounts estimated in the revised capital programme. In total, grants of £3,725,000 were used last year compared to an estimated sum of £3,493,000, representing an increase of £232,000. This resulted primarily from the increase in private funding made available through the increased value of rechargeable capital works to HRA leasehold properties combined with increased section 106 monies received.

32. The generation of capital receipts proved to be lower in 2015/16 than had been anticipated, as shown in Appendix 4. This was partly due to less council houses being sold than expected, following the steep rise in 2014/15 when the level of maximum allowable discount under the Right to Buy scheme was raised significantly. A total of 20 properties were sold compared to 46 in 2014/15. On the other hand, there were some unexpected capital receipts received from a compensation payment, the sale of some vehicles and equipment and a lease premium. The use of capital receipts to finance expenditure was £2,672,000 higher than estimated and the year-end balance on the Capital Receipts Reserve has fallen to £3,790,000 as at 31 March 2016. All of this balance is set aside for the Council's housebuilding programme.

33. Due to all the capital receipts currently available to fund General Fund schemes having been fully utilised, internal borrowing has been made available from the HRA capital receipts balance set aside for the housebuilding programme, to support investment in the new Shopping Park. In total, the General Fund has borrowed around £4,000,000 from the HRA and will be required to pay interest on this sum for the duration of the loan. This internal borrowing has been made on a temporary basis only and future borrowing requirements will continue to be monitored closely.

34. With regard to the use of direct revenue funding, the HRA contribution of £4,900,000 was in line with the revised budget. However, the use of funds from the Major Repairs Reserve was £3,097,000 lower than estimated reflecting the underspend on HRA capital schemes. The impact of this, off-set to some extent by a reduction in the Major Repairs Allowance transfer, is that the balance on the Major Repairs Reserve is £2,896,000 higher than expected at £11,997,000 as at 31 March 2016.

Resource Implications:

The 2015/16 Provisional Capital Outturn totalled £16,829,000 for General Fund assets which represents an overall underspend of £9,179,000 on the revised budget. This comprises of overspends of £11,000; slippage of £9,227,000; and other overspends of £37,000 funded from revenue.

The 2015/16 HRA Provisional Capital Outturn was £13,811,000, which represents an overall

underspend of £3,538,000 on the revised budget. This includes brought forwards of £160,000; and slippage of £3,698,000.

Provisional Outturn figures on Capital Loans totalled £4,337,000, which represents an underspend of £41,000 all of which was slippage.

Revenue Expenditure Charged to Capital under Statute (REFCuS) totalled £2,321,000; this represents an overall budget overspend of £139,000 including a saving of £7,000; slippage of £83,000; and other overspends of £229,000 financed from external sources.

Legal and Governance Implications:

The Council's capital accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Code of Practice on Local Authority Accounting in the United Kingdom 2011.

Safer, Cleaner and Greener Implications:

The Council's Capital Strategy works to incorporate safer, greener and cleaner design concepts within all capital schemes. The capital programme also supports sustainable initiatives such as the new food and recycling system which was supported by the provision of new vehicles and equipment.

Consultation Undertaken:

Progress on the capital programme is monitored regularly by the Resources Select Committee and the Finance and Performance Management Cabinet Committee. Service Directors and spending control officers are also consulted throughout the year. In addition, consultation is undertaken with the Tenants and Leaseholders Federation and the Director of Communities on the HRA programme.

Background Papers:

The capital programme was approved at Cabinet in February 2016 and working papers filed for External Audit purposes. The recommendations in this report were approved by the Finance and Performance Management Cabinet Committee on 16 June 2016.

Due Regard Record

Name of policy or activity:

What this record is for: By law the Council must, in the course of its service delivery and decision making, think about and see if it can eliminate unlawful discrimination, advance equality of opportunity, and foster good relations. This active consideration is known as, 'paying due regard', and it must be recorded as evidence. We pay due regard by undertaking equality analysis and using what we learn through this analysis in our service delivery and decision making. The purpose of this form is as a log of evidence of due regard.

When do I use this record? Every time you complete equality analysis on a policy or activity this record must be updated. Due regard must be paid, and therefore equality analysis undertaken, at 'formative stages' of policies and activities including proposed changes to or withdrawal of services. This record must be included as an appendix to any report to decision making bodies. Agenda Planning Groups will not accept any report which does not include evidence of due regard being paid via completion of an Equality Analysis Report.

How do I use this record: When you next undertake equality analysis open a Due Regard Record. Use it to record a summary of your analysis, including the reason for the analysis, the evidence considered, what the evidence told you about the protected groups, and the key findings from the analysis. This will be key information from Steps 1-7 of the Equality Analysis process set out in the Toolkit, and your Equality Analysis Report. This Due Regard Record is Step 8 of that process.

Date / Name	Summary of equality analysis
May 2016	This report represents a financial summary of expenditure within the Council's Capital Programme in 2015/16, in addition to the associated funding for the year.
Teresa Brown Principal Accountant	At this stage the aims of the public sector equality duty will already have been taken into account when the individual schemes were originally approved. As this report does not represent a formative stage in the approval of capital projects, an equality analysis is not considered relevant in respect of this report.