

# **Report to the Resources Select Committee**

**Date of meeting: 13 July 2017**



**Portfolio: Finance**

**Subject: Provisional Capital Outturn 2016/17**

**Responsible Officer: Teresa Brown (01992-564604)**

**Democratic Services Officer: Adrian Hendry (01992 564246).**

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## **Recommendations/Decisions Required:**

- (1) That the provisional outturn report for 2016/17 be noted;**
- (2) That retrospective approval for the over and underspends in 2016/17 on certain capital schemes as identified in the report is noted;**
- (3) That approval for the carry forward of unspent capital estimates into 2017/18 relating to schemes on which slippage has occurred is noted; and**
- (4) That approval of the funding proposals outlined in this report in respect of the capital programme in 2016/17 is noted.**

## **Executive Summary:**

This report sets out the Council's capital programme for 2016/17, 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 21 February 2017.

Appendix 1 summarises the Council's overall capital expenditure and funding in 2016/17. 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 2016/17 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 2016/17 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 choose. 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 has been agreed that 30% of the 'assumed debt' part of this element should be set aside to help finance the HRA housebuilding programme. The percentage applied to the housebuilding programme is seen as reasonable but could be amended.

## Report:

### Capital Expenditure

1. The Council's total investment on capital schemes and capital funded schemes in 2016/17 was £36,957,000 compared to a revised estimate of £43,077,000, representing an underspend of 14%. Appendix 1 summarises the position by Directorate for the General Fund, and shows the overall outturn position for the HRA. It also summarises the capital loans and revenue expenditure finance from capital under statute (REFCuS).
2. With regard to the General Fund projects, there was an overall underspend of £1,675,000 or 9%, details of which are shown on Appendix 2. The main variations are discussed below.

### Resources

3. Within the Resources Directorate, the largest underspend was on the planned maintenance programme as many of the schemes planned at the civic offices have been delayed awaiting the outcome of the Accommodation Review. Work was restricted to essential improvements only; this included new control panels which control the heating system, lead valley guttering, fire alarm system upgrade works and the installation of the LED lighting. Planned maintenance works on other buildings were progressed; this included the resurfacing of the rear access yard at the Limes Avenue shops in Chigwell and the installation of an electrical bypass panel at the Hillhouse shops in Waltham Abbey. However, the works planned at Town Mead Depot have not progressed to date. It is recommended that the full underspend of £318,000 is carried forward pending an assessment of requirements in the light of the Accommodation Review.
4. The Information and Communication Technology (ICT) Programme progressed very well in 2016/17 with many schemes completed successfully; including the expansion of mobile working and storage solutions, the enhancement of security systems, the installation of hardware for the BACS electronic banking system, and the introduction of the customer relationship management system prototype. While slippage has occurred on the cash receipting system and the gazetteer and planning system integration programmes, other projects were completed ahead of schedule. These included the installation of the Community Services on-line booking system, the replacement of thin client devices and the extension of the Council's back-up storage system. Overall, expenditure exceeded the budget by £31,000 and it recommended that this sum is brought forward from the 2017/18 allocation to cover this.
5. The project to install two cash kiosks at the civic centre in Epping was completed in 2016/17. However, the kiosks required additional software to be developed to create a seamless integration into the general ledger system. This resulted in an overspend of £8,000 for which retrospective approval is sought. The cash kiosk stolen from Waltham Abbey was replaced at the cost budgeted and it was fully funded from the insurance money received.
6. The Council's payroll system has been transferred from a Sage to an iTrent system. Epping is now working with Braintree and Colchester to scope and build the employee/manager self-serve, health and safety, recruitment and learning elements of the system. There was an underspend of £20,000 in 2016/17, which is requested to be carried forward at this stage pending the completion of the full roll-out.

7. A small overspend of £2,000 was incurred on the customer services programme, for which retrospective approval is sought.

## **Neighbourhoods**

8. Within the Neighbourhoods Directorate, the largest underspend relates the surrender of a lease to Glyn Hopkin Limited in respect of a motor car dealership located on the corner of Brooker Road and Cartersfield Road in Waltham Abbey. Approval was given for the Council to make a payment of £990,000 in consideration of this and immediately following completion, a new 25-year lease was entered into, delivering significant annual revenue benefit. As the negotiations were not finalised until April 2017, Members are requested to approve the carry forward of the £990,000 allocation.
9. Progress on the main works to construct a new shopping park at Langston Road has proceeded according to plan. The contractor McLaughlin and Harvey commenced works in September 2016 and have made good progress on the construction of the retail units. The units are on target to be ready for tenant fit-out towards the end of June 2017, with only minor cost variations. The revised budget and actual costs given in appendix 2 show the construction costs and fees in 2016/17 for the main contract only, and show that there was an underspend of £280,000 on the budget for the year. Approval is sought to carry this sum forward to 2017/18 in respect of the main construction works, representing a relatively minor adjustment to the budget profile. The Section 278 road improvement works, however, have been subject to delays from the outset and still represent the largest risk to the project. The revised budget and actual costs of the construction works and fees associated with the highways work are shown separately in appendix 3 as they are classified as revenue costs financed from capital under statute. The figures show an underspend of £1,060,000, which has resulted from delays primarily due to changing requirements from the Highways Authority. The main variations to the original design and programme have resulted from working restrictions in the carriageway, revised drainage requirements and the re-location of a high pressure gas main. These variations have led to additional costs, which are currently estimated at £817,000.
10. The purchase of the land owned by Essex County Council for the development at St John's Road has now been finalised, with a small saving of £1,000.
11. The construction of the new depot at Oakwood Hill was completed last summer and has been operational from September 2016. However, there have been a number of snagging disputes, as well as an ongoing issue in relation to the off-site monitoring of the alarm system. In addition, a further fire alarm system had to be installed to comply with DDA safety requirements and there are some outstanding highways works. This has resulted in an overspend of £206,000 as at 31 March 2017 for which retrospective approval is requested. A report will be submitted to Cabinet once the final account has been agreed and all costs have been finalised. A review is also being undertaken to maximise the occupancy of the building as part of the Council's wider review of accommodation.
12. Installation of the new pay and displays machines in the Council's car parks has now been completed and a saving of £10,000 was made. The LED lighting and associated electrical works are progressing well with installations in Traps Hill Car Park Loughton complete. A carry forward of £14,000 is requested to allow for lighting at subsequent car parks to be improved during 2017/18 in line with the planned schedule. The £75,000 budget allocated from the Invest to Save Fund, for the purchase and set up costs in

respect of the ICT infrastructure needed for the delivery of the off-street enforcement operations was not fully spent; £45,000 is requested to be carried forward to 2017/18 for this scheme as well.

13. The grounds maintenance plant and equipment budget was fully spent this year. It is usual practice, however, to enhance this budget to allow for the sale proceeds of sold vehicles to be used towards financing new vehicles. In 2016/17 an additional £9,000 was received, above that already taken into account at revised budget stage. Having adjusted for this, Members are requested to approve a carry forward of £6,000 into 2017/18.
14. A sum of £12,000 was included in the capital programme to extend a vehicle compound at North Weald Airfield to increase rental income by £4,000 per year. However, work has been delayed due to planning permission considerations and Members are asked to approve a carry forward of the full sum. On the other hand, a new vehicle was purchased for the airfield at a cost of £30,000, which was financed from direct revenue savings. As a result there was no impact on the Council's overall finances in 2016/17, however, savings will accrue in the future in relation to reduced maintenance costs on the new vehicle over the old.

## **Communities**

15. The largest General Fund capital project undertaken within the Communities Directorate in recent years was the impressive extension and refurbishment of the Council's museum. Although the new facility has been open to the public since March 2016, a number of outstanding works and improvements were carried out in 2016/17. These, combined with an agreed uplift in the architect's fees, have led to an overspend of £32,000. All works are now complete and retrospective approval of this sum is sought.
16. A budget of £321,000 was set aside for the provision of additional off-street parking schemes on housing land. These schemes are joint-funded between the General Fund and the HRA, depending on the split between sold properties and Council properties. Work on the schemes planned for 2016/17 have been hindered, primarily at Torrington Drive where delays were experienced during the consultation exercise and during health and safety investigations. There has also been an ongoing dispute with Essex Highways. These delays have resulted in a large underspend of £310,000 and it is recommended that the full sum is carried forward to continue the programme in 2017/18.
17. The majority of the CCTV upgrades were completed on time and on budget as per the 2016/17 programme, although there were some small adjustments. These included completing a full upgrade and refurbishment of the Roundhills system ahead of schedule and installing 2 additional cameras at the Hemnall Street offices and Oakwood Hill depot. The latter were funded from direct revenue savings of £3,000. In addition, the car park CCTV installation project has progressed well and an additional site at Lower Queens Road car park was added to the planned programme. Members are requested to recommend the approval of a brought forward sum of £10,000 from the 2017/18 allocation.

## Housing Revenue Account (HRA)

18. The approved HRA capital budget for 2016/17 was increased compared to previous years to provide for the Council's housebuilding programme. A revised budget of £20,563,000 was approved but expenditure during the year totaled £17,363,000, representing an underspend of £3,200,000 or 16%.
19. 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 £1,462,000 was on the Council's new housebuilding programme. This was due to problems experienced at the Burton Road site, Phase 2, when trial excavations revealed contaminated ground below the garages and the forecourt slabs. The additional work required was estimated to increase costs by around £500,000 and delayed the works by about 14 weeks. The impact on the 2016/17 outturn was an underspend of £2,025,000 in respect of phase 2. This is off-set to some extent by relatively small variations, totaling £334,000 to anticipated profiling in respect of phases 1 & 2 and the development at Barnfields, Roydon. It was further off-set as a result of costs incurred on preliminary works relating to phases 4 to 6, for which budgets had been removed from the capital programme when the moratorium on these phases was put in place. The moratorium has subsequently been lifted. Members are requested to recommend the approval of a retrospective overspend of £227,000 in respect of phases 4 to 6 and a net carry forward of £1,689,000 in respect of the other phases.
20. The second largest underspend of £769,000 was experienced on the heating, rewiring and water tank works on existing properties. Within this sum, there were savings of £27,000 on mechanical ventilation and heat recovery installations, as the milder winter temperatures generated fewer condensation issues, and there were further savings of £43,000 on water tank replacements. The majority of the underspend, however, related to slippage on the gas boiler replacement programme, primarily in the sheltered units, for which a carry forward of £741,000 is sought to complete these works.
21. There were three areas where expenditure was higher than estimated; these being disabled adaptations, fencing (within the garage and environmental improvements category) and housing conversions. Overspends in these areas were £113,000, £25,000 and £23,000 respectively and are recommended for retrospective approval. Disabled adaptations showed the largest differential, as it did in 2015/16, resulting from the rising demands of an aging population combined with an increased number of extensions provided for people with disabilities.
22. All other areas of expenditure experienced underspends to a greater or lesser extent and details of each category can be seen in Appendix 3. Additional savings, from those identified in paragraph 20 above, of £397,000 have been identified to reflect the reduced workload anticipated in future years, given Members' decision to move from modern to decent homes standards. It is recommended that £858,000 of the underspends be carried forward in order to complete outstanding works in 2017/18, with a view to identifying further savings at revised estimate stage.
23. Capital expenditure work on leaseholder properties in 2016/17 was £156,000 but there was a negative adjustment of £143,000 relating to previous financial years. Although the budget in Appendix 3 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. In order to negate the effect of these costs within each category, the appropriate adjustments are given in the final column.

## **Capital Loans**

24. The only loans advanced in 2016/17 were those made to individuals to improve private housing stock. Actual loans were slightly lower than anticipated by £4,000 and Members are asked to recommend this for carry forward to 2017/18.

## **Revenue Expenditure Financed from Capital under Statute (REFCuS)**

25. The Council has the authority to use capital funds to finance certain items of revenue expenditure, known as REFCuS. Expenditure falling within this section is of a capital nature but serves to increase the value of assets not owned by the Council.
26. The largest budget in this section is for the Section 278 highways works required to enable the new shopping park at Langston Road to proceed. The revised budget and actual costs for the construction costs and fees of the retail park in 2016/17 are given in Appendix 2 and progress on this and the related section 278 works is given in paragraph 8. Members are asked to recommend that the slippage of £1,060,000 highlighted above be carried forward to 2017/18.
27. The gas replacement programme of works undertaken at Ninefields and other council flats has now been completed, with a saving of £19,000.
28. Disabled Facility Grants (DFGs) given for adaptations to private properties have risen sharply in recent years. Given the rising demand for DFGs and the increase in Central Government support to finance these grants, it is recommended that the £3,000 overspend is absorbed within the 2016/17 outturn and not deducted from future approved budgets.
29. Expenditure on leasehold flats, sold under Right to Buy legislation where the Council is the freeholder, was lower than anticipated in 2016/17 by £19,000 and it is recommended that no adjustment is made to the 2017/18 allocation due to the reimbursable nature of this budget.
30. Finally, it is recommended that the £3,000 underspend on the Loughton Broadway parking review be carried forward to 2017/18.

## **Expenditure Summary**

31. Members are requested to recommend to Cabinet the approval of the budget overspends, savings, carry forwards and brought forwards referred to above on the schemes identified in Appendices 2 and 3. Overspends totaled £248,000 on the General Fund and £388,000 on the HRA, while there were savings of £11,000 on the General Fund and £467,000 on the HRA. In terms of slippage, carry forwards are recommended for totals of £1,995,000, £3,288,000, £4,000 and £1,063,000 for the General Fund, HRA, loans and REFCuS respectively; and brought forwards are recommended for totals of £41,000 and £5,000 for the General Fund and HRA respectively. Other variations total £42,000 on the General Fund, which represent additional expenditure funded from external and direct revenue sources. The other variations of £162,000 on the HRA are offset by an equivalent sum on REFCuS.

## Funding

32. 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 2016/17 HRA house building programme.
33. 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. Cabinet made a decision to use part of this sum for the new housebuilding programme, based on 30% of the 'assumed' debt of Council dwellings, calculated when the new self-financing regime was introduced in April 2012.
34. Appendix 1 identifies the sources of funding used to finance the 2016/17 capital programme and it compares the actual sums used with the amounts estimated in the revised capital programme. In total, grants of £1,799,000 were used last year compared to an estimated sum of £1,466,000, representing an increase of £333,000. This resulted primarily from the increase in private funding made available by more section 106 monies having been received for funding the new housebuilding programme.
35. The generation of capital receipts was £1,041,000 higher in 2016/17 than had been anticipated, as shown in Appendix 4. This was due to more council houses being sold than expected, following a dip in 2015/16 and the steep rise of 2014/15 when the level of maximum allowable discount under the Right to Buy (RTB) scheme was raised significantly. A total of 46 properties were sold in 2016/17 compared to 20 in 2015/16. The Council retained more of the RTB capital receipts than expected as a result of the decision to lift the moratorium on phases 4 to 6 of the housebuilding programme. As a result of these factors, plus the decision to partially fund investment in the new shopping park from HRA capital receipts, the total use of capital receipts was £6,635,000 higher than estimated. As a consequence the year-end balance on the Capital Receipts Reserve was reduced to zero as at 31 March 2017.
36. External borrowing has been avoided in 2016/17, partly by means of the internal borrowing of HRA capital receipts by the General Fund referred to above, and partly by utilising other General Fund reserves of £9,300,000. The latter is shown as unfunded capital expenditure in Appendix 1. However, the Council will need to borrow externally in 2017/18 to be able to fund its General Fund capital programme.
37. With regard to the use of direct revenue funding, the HRA contribution of £5,477,000 was higher than the revised budget by £110,000. However, the use of funds from the Major Repairs Reserve was £3,104,000 lower than estimated reflecting the underspend on HRA capital schemes. The impact of this, combined with an increase in the Major Repairs Allowance transfer, is that the balance on the Major Repairs Reserve is £3,561,000 higher than expected at £12,704,000 as at 31 March 2017.



### **Resource Implications:**

The 2016/17 Provisional Capital Outturn totalled £17,077,000 for General Fund assets, which represents an overall underspend of £1,675,000 on the revised budget. This comprises of overspends of £248,000; savings of £11,000; slippage of £1,989,000; brought forwards of £31,000; and other overspends of £46,000 funded from revenue and external sources.

The 2016/17 HRA Provisional Capital Outturn was £17,363,000, which represents an overall underspend of £3,200,000 on the revised budget. This includes overspends of £388,000; savings of £467,000; slippage of £3,288,000; brought forwards of £5,000; and other overspends of £162,000 offset by an equivalent underspend on REFCuS.

Provisional Outturn figures on Capital Loans totalled £76,000, which represents an underspend of £4,000, all of which is slippage.

Revenue Expenditure Charged to Capital under Statute (REFCuS) totalled £2,441,000. This represents an overall budget underspend of £1,241,000 including an overspend of £3,000; a saving of £19,000; slippage of £1,063,000; and other underspends of £162,000 offset by an equivalent overspend on the HRA.

### **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 approved at Cabinet in February 2017 and working papers filed for External Audit purposes.

## Due Regard Record

Name of policy or activity: Capital Outturn

<b>Date / Name</b>	<b>Summary of equality analysis</b>
June 2017	This report represents a financial summary of expenditure within the Council's Capital Programme in 2016/17, 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.