

Report to the Finance and Performance Management Scrutiny Panel



Date of meeting: 17 June 2008

Responsible Officer: Teresa Brown (01992-564604)

Democratic Services Officer: Adrian Hendry (01992 564246)

Subject: Capital Outturn 2007/08 and Use of Transitional Relief in 2008/09

Recommendations/Decisions Required:

- 1. That the provisional capital outturn for 2007/08 be noted;**
- 2. That retrospective approval for the over and underspends in 2007/08 on certain capital schemes as identified in the report is recommended to Cabinet;**
- 3. That approval for the carry forward of unspent capital estimates into 2008/09 relating to schemes on which slippage has occurred is recommended to Cabinet;**
- 4. That retrospective approval for the bringing forward of estimates from 2008/09 into 2007/08 in respect of schemes which have progressed more rapidly than expected is recommended to Cabinet;**
- 5. That approval for the virement of a £20,000 saving to the General IT budget, to be carried forward to 2008/09, is recommended to Cabinet;**
- 6. That approval for the virement equivalent to the remaining net savings of £350,000 to the General Capital Contingency is recommended to Cabinet which, together with the sum unallocated in 2007/08, is recommended for carried forward to 2008/09;**
- 7. That the previous approvals to use the unapplied balance of transitional capital receipts for financing contributions to affordable housing schemes be noted.**

Executive Summary:

This report sets out the Council's capital programme for 2007/08, in terms of expenditure and financing, and compares the actual outturn figures with the revised estimates. The revised estimates represent those agreed at Cabinet on 4 February 2008, which were based on the Capital Strategy adopted by Council on 18 December 2007.

Appendix 1 summarises the Council's overall capital expenditure in 2007/08, analysed by portfolio, while appendices 2 and 3 identify the expenditure on individual schemes. Variations from revised estimates are shown in the third column of each appendix and these are identified as savings, overspends, carry forwards or brought forwards on a scheme-by-scheme basis in appendices 2 and 3. 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 2007/08 is also given in appendix 1, detailing the use of government grants, private funding, capital receipts and revenue contributions to capital outlay. The generation and use of capital receipts and Major Repairs Fund resources in 2007/08 are detailed in appendix 4.

The report also identifies the proposed use of the transitional capital receipts that remain unused as at 31 March 2008.

Reasons for Proposed Decision:

The action recommended is intended to make the best use of the Council's capital resources that are available to finance the Capital Programme in 2007/08.

Other Options for Action:

The HRA capital expenditure in 2007/08 could have been financed partly from the use of usable capital receipts. This option was rejected because the RCCO level suggested in this report is affordable within the HRA, according to current predictions, and any use of usable capital receipts for HRA purposes would have the effect of reducing scarce capital resources available for the General Fund.

Report:

Capital Expenditure

1. The overall position in 2007/08 was that a total of £10,597,000 was spent on capital schemes, compared to a revised estimate of £12,324,000. This represents an underspend of £1,727,000 or 14% on the Council's revised capital budget. The underspend was greater on General Fund schemes than Housing Revenue Account (HRA) schemes. Expenditure on General Fund projects totaled £4,949,000, which was £1,236,000 or 20% less than anticipated, whilst expenditure on the HRA totaled £5,648,000, which was £491,000 or 8% less than anticipated.
2. There were some underspends experienced in 2007/08 which have been identified as savings. This was primarily on private sector housing grants where there were underspends of £186,000 and £154,000 on Disabled Facilities Grants and other private sector grants respectively. The Director of Housing has advised that both sums can be taken as savings and this report recommends that the saving is transferred into the General Capital Contingency.
3. There were two schemes within the non-housing programme on which savings were also identified. These include £20,000 relating to the creation of a second computer suite at the Civic Offices which is now complete; and £15,000 set aside to finance the costs associated with the sale of land at Merlin Road but Cabinet has agreed to put this on hold for the time being. It is proposed that the £20,000 saving from the computer suite be returned to the General IT budget from which a top up was vired last year and the £15,000 Merlin Road allocation be returned to the Capital Contingency.
4. These savings were counterbalanced to a small extent by an overspend of £5,000 on the car park upgrade at Queen's Road, Buckhurst Hill. It is suggested that this sum be taken from the Capital Contingency. Together with the savings identified above, this generates a net saving of £350,000. Members are requested to consider using this to increase the General Capital Contingency to a total of £531,000. It is suggested that this amount be carried forward into 2008/09 to be used as a first call for new capital bids. There was also a small overspend of £6,000 on an HRA scheme at Hemnall Street. The scheme involved major conversions works which were completed just

over three years ago but an outstanding claim was finally resolved in April which was slightly higher than anticipated.

5. The majority of the underspends on the General Fund and HRA schemes relate to slippage of expenditure and it is proposed that this is re-phased into 2008/09. Appendices 2 and 3 give details of the individual projects where slippage has occurred. The main areas of slippage on the General Fund included: the contribution to Estuary Housing Association for affordable housing; the purchase of 8/8a Sun Street in Waltham Abbey under a compulsory purchase order; the Youth Sports Facilities programme, Civic Office works and ICT projects. Within the HRA the main areas of slippage were roofing, kitchen replacements and environmental improvements to shops. It is requested that the capital allocations for all the schemes identified in the appendices receive retrospective approval to be carried forward to 2008/09.
6. It is also requested that the underspend on Phase 2 of the town centre enhancement works at Loughton High Road be carried forward despite the scheme having been completed, pending finalisation of scheme costs when a report will be presented to Cabinet. This brings the total sum requested for carry forward to £2,209,000; £1,572,000 in respect of the General Fund and £637,000 in respect of the HRA.
7. There were also several General Fund and HRA schemes, which progressed more rapidly than anticipated. These included the works being undertaken at Bobbingworth Tip; the Loughton Broadway town centre enhancement works; the parking and traffic schemes; and the contribution to London & Quadrant Housing Association for affordable housing. The overspend on the flood alleviation schemes resulted from the fact that a higher than expected proportion of the works undertaken were of a capital nature. A report on the progress of these works will be presented to Cabinet as appropriate. Within the HRA the projects ahead of target were the major improvement works at Springfields and, to a much smaller extent, the adaptations undertaken for people with disabilities in Council accommodation. A total sum of £846,000 to be brought forward from 2008/09 to 2007/08 is requested for retrospective approval from Members: £706,000 in respect of the General Fund and £140,000 in respect of the HRA.
8. Members are requested to approve the total carry forwards and brought forwards referred to above on the schemes identified in appendices 2 and 3; the total net carry forward requested is £1,363,000, £866,000 on the General Fund and £497,000 on the HRA.

Contributions to the Pension Fund

9. Capital contributions to the Pension Fund Reserve were initiated in 2003/04 to provide for future pension contributions and a transfer of £2,500,000 was made at that point from usable capital receipts. Since then capitalized costs totaling £2,378,000 have been charged to the reserve in line with the capitalisation directions received each year since 2005/06; the sum charged in respect of 2007/08 being £999,000. A further transfer of £2,500,000 was approved by Cabinet on 4 February 2008. This leaves a capital balance of £2,621,000 remaining on the Pension Fund Reserve to finance future increased contributions. These sums are not shown on the appendices.

Funding

10. When financing the capital programme, government grants and private funding that have been received to finance specific schemes, are applied initially. Appendix 1 identifies all the grants used in 2007/08 and it compares the actual sums used with the amounts estimated in the revised capital programme. Although the maximum

government grants allowable have been applied where appropriate, the actual sums are less than estimated in all cases except Disabled Facilities Grants (DFGs) where the upper limit was increased. The reduced level of grants applied reflect the reduced spending in areas attracting grants; the most notable being the Decent Homes Grant received from the DCLG. All unapplied grants can be legitimately carried forward and applied in future years, although there is some uncertainty regarding the unapplied DFGs and this is currently being investigated. Private financing in the form of contributions from leaseholders were also reduced as adjustments were required to sums estimated in respect of 2006/07 and work undertaken on leaseholders properties proved to be less than anticipated in 2007/08. In contrast to this, slightly more funding from other sources was used to enhance the contribution to London & Quadrant Housing Association for affordable housing by using the interest income which had accrued on the balance held in the accounts; this was approved by Cabinet in March 2008.

11. The situation with regard to capital receipts in 2007/08 proved to be marginally better overall than had been anticipated, as shown in appendix 4. Income from council house sales was slightly lower than expected as the number of houses sold was 28, fractionally less than expected, although this was compensated to some extent by slightly higher sale prices per property. The total income from HRA receipts was topped up by repayments of discounts, reduced administration costs and a small land sale. The General Fund capital receipts were in line with estimates with £6,050,000 received from the sale at the T11 site at Langston Road and £13,500 received in part exchange for a new tractor in the Grounds Maintenance Section. The Council's payment to the Government pool was slightly higher than expected. Although transitional relief is no longer granted, as explained in paragraph 13 below, £500,000 of the £1,000,000 balance brought forward from 2006/07 was applied to finance a large part of the contribution to London & Quadrant Housing Association for affordable housing. The actual use of other capital receipts on the General Fund capital programme was lower than predicted, primarily due to the underspend on this fund.
12. The total use of revenue contributions was lower than anticipated as the draw on the Major Repairs Reserve was reduced because of the underspend on the HRA .

Use of Transitional Relief in 2007/08

13. Members will recall that authorities which were debt-free on 31 March 2004, were granted transitional relief on a reducing percentage of capital receipts which are deemed "poolable" to a Central Government Pool since the scheme was introduced. This period of transitional relief has now come to an end. However, the Council still has a sum of £500,000 of transitional relief which has not been used to finance capital expenditure to date.
14. It has been a general requirement that transitional relief generated in a given year was spent in that year. However, providing Member approval is in existence highlighting the areas where the expenditure is to occur, then a commitment to spend the money is generated such that late expenditure due to slippage is also permissible. In previous years, approval was given for the use of the remaining £500,000 transitional relief to finance General Fund contributions to affordable housing schemes in partnership with housing associations and Members are asked to note this commitment.

Resource Implications:

The 2007/08 General Fund Outturn totaled £4,949,000 representing an underspend of £1,236,000. This comprised of savings of £375,000, an overspend of £5,000, carry forwards

of £1,572,000 and brought forwards of £706,000. It has been suggested that the net savings be vired to the General IT budget (£20,000) and the General Capital Contingency (£350,000) and carried forward to 2008/09.

The 2007/08 HRA Capital Outturn was £5,648,000 representing an overall underspend of £491,000. This included an overspend of £6,000, slippage of £637,000 and brought forward expenditure of £140,000.

Legal and Governance: The Council's capital accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Statement of Recommended Practice (SORP).

Safer, Cleaner and Greener Implications: The Council's Capital Strategy works to support a safer, greener and cleaner initiative; in excess of £2,000,000 was spent in 2007/08 on environmental protection.

Consultation Undertaken:

Progress on the capital programme is monitored regularly by the Finance and Performance Management Scrutiny Panel. 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 Housing on the HRA programme.

Background Papers: The capital programme approved at Cabinet 4 February 2008 and working papers filed for External Audit purposes.

Impact Assessment: There are no equality or risk management impacts.