

Report to Cabinet

Report reference: C/024/2005-06.

Date of meeting: 11 July 2005.



**Epping Forest
District Council**

Portfolio: Finance and Performance Management.

Subject: Capital Programme – Capital Outturn 2004/05 and Revised 4-year Forecast.

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Recommendations:

- (1) That the capital outturn for 2004/05 be noted;**
- (2) That the latest four-year forecast of Capital Receipts be noted;**
- (3) That, as set out in the report, the carry forwards from 2004/05 to 2005/06 be approved;**
- (4) That the revised HRA Capital Programme be approved;**
- (5) That, as set out in paragraph 38 of the report, the areas of expenditure to be funded from the transitional capital receipts generated in 2005/06 be noted;**
- (6) That expenditure of £6,872,000 on affordable housing in 2005/06 be approved; and**
- (7) That increases in HRA Revenue Contributions to Capital Outlay of £900,000 in 2004/05 and £600,000 in both 2005/06 and 2006/07 be approved.**

Introduction:

1. This report sets out the 2004/05 capital outturn, in terms of expenditure and financing. It also shows the forecast capital programme for 2005/06 to 2008/09.
2. The Council's five year Capital Programme was approved in total at Cabinet on 15 February 2005 and details of individual schemes and funding plans were last presented to Cabinet on 15 November 2004.
3. In addition to reporting the outturn figures, this report has been prepared to update Members on the latest position with regard to the sources of capital funding available, the revised HRA capital programme and the use of transitional capital receipts for specified areas of housing expenditure.

Capital Expenditure:

4. Appendix 1 summarises the 2004/05 capital outturn together with its financing. The appendix identifies a net underspend of £1,691,000, some of which has been established as genuine savings. However, the majority represents slippage and expenditure has therefore currently been re-phased into 2005/06. The main areas of slippage relate to ICT, Loughton Leisure Centre, traffic schemes and Housing projects. Appendices 2 and 3 provide the individual project details.

Finance & Performance Management:

5. Since the Capital Programme was last approved, two claims have been made on the General Capital Contingency. These were to finance essential asbestos removal works of £6,000 at the Civic Offices and emergency feasibility works of £3,000 on the flooding at Alfred Road. The former sum of £6,000 was approved as a virement to the Civic Office Works budget at Cabinet on 25 April 2005. Both sums serve to reduce the contingency in 2005/06 bringing the allocation forward to 2004/05.
6. A further sum of £10,000 has been requested as a virement to complete the drainage works at Alfred Road. This sum has been taken out of the Contingency pending approval.

Corporate Support Services & IT:

7. Capital expenditure on ICT projects was underspent in 2004/05 by £595,000. This was due largely to slippage on the IEG programme, in particular on the Customer Contact Centre. The work carried out to date has focused on systems, which will feed into the Customer Contact Centre, rather than on the centre itself. There have also been delays on the implementation of the new Planning System, the Civic Offices Computer Suite no.2 and General IT. The work to be undertaken in all these areas has been committed and the full underspend has been shown as being carried forward to 2005/06 to finance these commitments, pending approval.
8. With regard to the Civic Office Works, supplementary capital estimates of £20,000 and £100,000 were approved for the removal of asbestos insulation board and reinstatement works during 2005/06 on 25 April 2005 and 6 June 2005 respectively. In addition to this, a report in October 2004 outlined the need to undertake capital works totaling £240,000 between 2006/07 and 2008/09. All these sums are included in the Capital Programme presented with this report.

Leisure:

9. As Members are aware, the dispute relating to the Loughton Leisure Centre is proceeding to Mediation, and this will take place on 4 and 5 July 2005 at a venue in London. The latest position, based on signed contract certificates, is that the £736,000 budget for 2004/05 was underspent by £579,000. It is recommended that this sum be rolled forward in total to cover the ongoing costs of consultants, design division fees and potentially to allow for a final settlement on the contract.
10. Two other schemes within the Leisure capital programme were also underspent; these being on the Improvement Works at North Weald Airfield (financed by the Rondeau Market) and the River Bank Strengthening Schemes. It is recommended that both sums of £39,000 and £11,000, respectively, be carried forward to pay for the outstanding works.
11. Cabinet also approved a supplementary capital estimate of £40,000 on 6 June 2005 to fund improved security arrangements at North Weald Airfield to be carried out in 2005/06.

Environmental Protection:

12. Works on Bobbingworth Tip are now well under way by means of a partnership arrangement with Cleanaway – Hugh Pearl (Land Drainage) Ltd. Although the work is progressing well and works to the value of £95,000 were completed by 31 March 2005, there was an underspend of £37,000 which, it is suggested, should be carried forward into 2005/06.

13. Expenditure on compensation payments relating to the Smarts Lane Discontinuance Order was also underspent by £6,000 and it is considered prudent to carry this forward until all settlements are finalised.
14. A new budget of £1,240,000 has been included in the Programme for Environmental Protection Equipment to cover the cost of wheeled bins, bin lifts and recycling boxes.

Civil Engineering & Maintenance:

15. Town Centre Enhancement Schemes were underspent last year by £31,000 overall. All payments in respect of the Buckhurst Hill TCE have now been made and the small underspend on this scheme can be used to offset the small overspend on the Design Reviews. This enables the full £31,000 underspend on the Loughton High Road scheme to be carried forward and added to the £786,000 original estimate for 2005/06 giving a total of £817,000, pending Cabinet approval. The £264,000 supplementary approved at Cabinet on 14 March 2005 has been placed in the 2006/07 forecast. This brings the total revised estimate for the whole scheme to £1,100,000, including the £19,000 spent in 2004/05. With regard to the Loughton Broadway TCE, a total scheme estimate of £2.5 million was approved by Cabinet on 6 June 2005 (representing an increase of £2.4 million on the previously approved budget) and this has been included in Appendix 2.
16. In addition to the capital budget outlined above, there are three further sources of money which are available to support the Loughton High Road TCE scheme, namely:
 - (a) £100,000 section 106 agreement with Marks & Spencers;
 - (b) £5,000 section 106 agreement with Browns of Loughton; and
 - (c) a contribution, yet to be determined, from ECC highways.

At this stage it is suggested that these moneys be held 'in reserve' to either offset the overall cost of the scheme if it completes within budget or to reduce or eliminate any overspend should that situation arise.

17. With regard to the other capital schemes within the Civil Engineering & Maintenance Portfolio, there were underspends on Traffic Calming Schemes (£72,000); Housing Estate Car Parking (£21,000); Flood Alleviation Schemes (£1,000); and Grounds Maintenance Plant and Equipment (£18,000). It is recommended that all these underspends are carried forward to 2005/06.

Housing General Fund:

18. Although it had been thought that the two Social Housing grant schemes at Ongar Campus and the Epping Forest Women's Refuge were to be facilitated through the Council, it is now the case that they are being financed directly by the Housing Corporation. They have therefore been withdrawn from the Programme.
19. The budget in respect of the Social Housing Grant (SHG) contribution to affordable housing remains unchanged with a total of £1 million being financed by the Council and £52,000 from a private developer. Members deferred a report to Cabinet on 25 April 2005 which suggested allocating the SHG to Estuary Housing Association in order to maximise the amount of housing to be provided on the eight Council sites which have planning permission and have been agreed for development. An updated version of this report is included on this agenda.
20. An estimate of £10,000 has been included to cover the cost of drainage works at Alfred Road in 2005/06, pending approval of a virement from the Capital Contingency. The feasibility works of £3,000 were also taken from the Capital Contingency and

brought forward to 2004/05.

Housing Revenue Account (HRA):

21. Appendix 3 details the actual spend on the HRA Capital Programme in 2004/05 and it provides forecasts for the next 4 years from 2005/06 to 2008/09. The total capital spend last financial year was £9,194,000 which represents an overspend of £27,000 on the revised estimate of £9,167,000.
22. Some schemes within the Programme were overspent and others generated savings. The net overspend of £376,000 represents an additional cost to be absorbed in 2004/05. This sum was offset to a large extent by slippage on other schemes. Overall, slippage resulted in a total underspend of £460,000 which, in itself, was offset to some extent by bringing forward work on other schemes to the value of £111,000. By taking these three figures it is possible to explain the breakdown of the £27,000 overspend given in paragraph 21 (i.e. £376,000 - £460,000 + £111,000). Details of the main underspends, overspends and slippage are given in the paragraphs below.
23. There was an overspend of £77,000 on the Hemnall House refurbishment project, which was as a direct result of the additional work needed following the discovery of asbestos in the walls, as reported to the Housing Portfolio Holder on 1 March 2004.
24. There was an overspend of £94,000 on the Norway House refurbishment programme, which was due in the main to the inclusion of additional re-roofing works. A virement of £83,000 from the re-roofing capital programme was agreed by the Cabinet on 5 January 2004 to contribute towards this additional work.
25. With regard to small capital repairs, there has been an overspend of £224,000 in 2004/05. These works represent larger day-to-day responsive repairs and the volume of works which fall within this definition has increased significantly this year. It is therefore suggested that the budget for small capital repairs be increased in future years by £150,000 to £400,000 to cover the anticipated continuation of higher levels of expenditure. This will produce an equivalent reduction in the Housing Repairs Fund.
26. The budget for disabled adaptations was overspent by £109,000 due to increased demand for works as assessed by Essex County Council Social Services. This sum could be reduced from the 2005/06 budget but it is suggested that it is written off in 2004/05 and, in fact, increased by £150,000 in order to reduce the backlog of work. A report will follow in the future as part of the housing services best value review, which will look at alternative ways of managing the budget with a view to providing a more cost effective service.
27. The remaining overspends amounted to £74,000, mainly to the door entry installations, the lift installation at Buckhurst Court, and feasibility works. Offsetting the above were savings amounting to £119,000 on other projects such as gas repairs, drainage works and asbestos removal.
28. The most significant area of slippage was on the kitchen, bathroom and heating programmes. There were variations between the allocated funds and the actual expenditure on the kitchen and bathroom renewal programme, heating installation programme and re-wiring programmes. This was due in part to the outcome of the decent homes surveys that were undertaken, which meant more money needed to be directed towards re-wiring rather than new bathrooms. Combined, there was an underspend of £196,000 across all four categories, and this has been carried forward and added to the rewire programme in 2005/6 as shown in Appendix 3, pending Member approval. The aim is to help meet the decent homes standards.

29. There was also net slippage of £177,000 within the non-cost reflective repairs work. This resulted in underspends on off-street parking schemes and the environmental works being carried out on HRA shops and housing estates. It is recommended that this slippage is carried forward to 2005/06.
30. The remaining slippage amounted to £87,000 which resulted in underspends on the budgets for Springfields, communal TV upgrades, communal water tanks and other repairs and maintenance. The appropriate sum for each scheme has been carried forward on Appendix 3, pending approval. The projects on which £111,000 was brought forward from 2005/06 to 2004/05 included roofing works, energy efficiency works, and the Broadway balcony replacement scheme.
31. In addition to making the amendments relating to the carry forwards, the HRA Capital Programme presented at Appendix 3 has been updated for the next four years to match the HRA Business Plan. Compared with the Programme presented in November 2004, there has been a net increase in the planned expenditure of £993,000 between 2005/06 and 2008/09. The revisions involve the re-phasing of some roofing and double-glazing contracts as well as making a number of additions and reductions.
32. The additions total £4,386,000 over the 4 year period including budgets for the Wickfield stock transfer (£1,200,000), kitchen and bathroom replacements (£1,130,000), heating and rewiring contracts (£1,038,000), small capital repairs (£600,000), TV Upgrades (£176,000), and disabled adaptations (£150,000).
33. The reductions total £3,393,000 including miscellaneous structural works (£2,809,000), double-glazing contracts (£100,000), kitchen and bathroom replacements (£100,000), non-cost reflective repairs (£74,000) and other repairs (£60,000).
34. Members are requested to approve the revised HRA Capital Programme as presented and the carry forwards from 2004/05 to 2005/06 as detailed.

Capital Resources:

35. The main change in the estimated resources available to finance the capital programme relates to the anticipated level of capital receipts. Receipts generated from the sale of Council Houses in 2004/05 were £1.3 million lower than anticipated with 61 sales at an average discounted value of £89,700. The estimate of £7 million reported in November had assumed 80 sales at an average value of £87,500. It is difficult to estimate the number and value of future sales, however in the light of this reduction it is now thought that the forecast of receipts should be reduced and therefore it has been based on sales of 50 in 2005/06 reducing to 45 from 2007/08 onwards.
36. As Members are aware, from 1 April 2004, section 11 of the Local Government Act 2003 provided the power for the Secretary of State to require all or part of a housing capital receipt to be pooled. In 2004/05 this meant that Epping Forest was required to pool receipts to the value of £4,260,000. However, as a debt free authority, the Council was able to benefit from a reduction of £3,195,000 by way transitional relief. The net payment to the Government Pool was therefore £1,065,000; this being £221,000 lower than expected due to the reduced number of Council House Sales. The revised estimates for the net payments likely in 2005/06 and 2006/07 are £1,560,000 and £2,264,000 respectively.
37. The Council has made use of £3,195,000 of its entitlement to transitional relief in 2004/05 funding £20,000 of Disabled Facilities Grants (DFG) expenditure and £2,175,000 of HRA schemes. The remaining £1 million has been committed to finance the Social Housing Grant contributions towards affordable housing as agreed at Cabinet on 6 June 2005.

38. Members will recall that it is a general requirement that monies generated in a given year are 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 2005/06, it is suggested that transitional capital receipts are used to finance the following areas of expenditure:
- Contributions to Affordable Housing (General Fund);
 - Disabled Facilities Grants;
 - Double Glazing;
 - Kitchen Renewals;
 - Heating Replacement;
 - Disabled Adaptations;
 - Bathroom Renewals;
 - Roofing;
 - Structural Schemes;
 - Water Replacements; and
 - Door Entry Systems.
39. The Capital Accounting Regulations also require that non right to buy HRA capital receipts be pooled at the rate of 50%. However, the pooling rate is reduced to zero provided the proceeds are spent on affordable housing. Members are therefore asked to approve the total sum of £6,872,000 estimated to be spent on affordable housing within the HRA in 2005/06.
40. The new regulations do not require other, non-housing capital receipts to be pooled. In 2005/06 the Council received a total of £5.6 million non-housing capital receipts including £2.3 million from the Kier Group in respect of the Langston Road Lorry Site and £3.3 million from Marks and Spencers for the sale of the Lamb's Garage Site at Loughton. The sale of the Merlin Road Site at North Weald Airfield is in the final stages of negotiation and potential proceeds from this sale have been excluded from the forecasts of available capital funding in line with the Council's adopted practice.
41. Regulation 33 under Part 8 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 allows debt free authorities to treat capital receipts, which had been previously set aside, as usable up to the amount by which their credit ceiling was negative on 31 March 2004. This Council has taken advantage of this regulation and effectively released the maximum sum allowable of £2,970,000 from set aside capital receipts into usable capital receipts as a one off adjustment in 2004/05.
42. Appendix 4(a) summarises the Council's actual capital receipts position for 2004/05 and forecast over the next 4 years. The total amount of funding available in the form of transitional relief is estimated to be £5.5 million between 2004/05 and 2005/06; a reduction of £1.5 million on the sum previously calculated. The estimated use of usable capital receipts has been updated and there has been an increase of £5.3 million in the amount committed to new and enhanced General Fund capital schemes between 2005/06 and 2008/09. The balance at the end of the period (31 March 2009) is now estimated to be £13.6 million, which is £3 million lower than that reported in November 2004.
43. The expanded HRA capital programme has been financed by increasing the use of both Revenue Contributions to Capital Outlay (RCCO) and the Major Repairs Reserve (MRR). RCCO has been increased by £900,000 in 2004/05 and £600,000 in both 2005/06 and 2006/07, pending Cabinet approval. The estimated use of MRR has increased by £685,000 between 2004/05 and 2008/09 since last reported, giving an estimated balance of £2.2 million as at 31 March 2009.

Other options considered and rejected:

44. The Council could retain the same level of HRA capital expenditure as agreed in November 2004, or an amount lower than that suggested and reduce the amount of RCCO proposed to be used to finance the increase. However, one of the largest increase relates to the cost of transferring Wickfields, which has already been approved, and the other increases are required in order to meet the decent homes standards and the backlog of disabled adaptations.
45. Another source of funding which could be used to finance the enhanced HRA capital programme is 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.
46. It may be decided that the areas of expenditure identified in paragraph 38 above are not considered suitable for financing from the transitional relief. In this case, alternative areas of housing expenditure would have to be identified and committed to as soon as possible in order to avoid unspent monies having to be repaid to Central Government.

Statement in support of recommended action:

47. The actions recommended are intended to make the best use of the capital resources currently and forecast to become available for capital schemes to 2008/09.

Consultation undertaken:

48. Consultation on the HRA programme was undertaken with the Tenants and Leaseholders Federation and the Head of Housing. The other Heads of Service were consulted on the General Fund programme as appropriate.

Resource Implications:

Budget Provision: The revised Housing and Non Housing Capital Programmes represent increases of £1.355 million and £5.701 million between 2005/06 and 2008/09 respectively, compared to the programmes approved in February 2005. The increases on Housing arise from: £349,000 carried forwards from 2004/05, £993,000 net additions as detailed in paragraphs 32 and 33; a supplementary estimate of £3,000 for DLO vehicles; and a virement of £10,000 for the Alfred Road drainage works. The increases on the General Fund arise from: £1,407,000 carry forwards from 2004/05; £2,664,000; supplementary estimates for Town Centre Enhancements; £1,240,000 for environmental protection equipment; £40,000 for improved security at North Weald Airfield; £360,000 for Civic Office works; and a reduction of £10,000 in respect of the virement for the Alfred Road drainage works. All increases included in the Programme are deemed to be affordable in accordance with current projections as demonstrated by: appendix 4(a) which shows an estimated balance of £13.6 million Usable Capital Receipts as at 31 March 2009; and appendix 4(b) which shows an estimated balance of £2.2 million on the Major Repairs Reserves at 31 March 2009.

Personnel: Nil.

Land: Nil.

Community Plan/BVPP reference: N/A.

Relevant statutory powers: N/A.

Background Papers: Reference has been made to the Local Government Act 2003 (for England and Wales) and the Regulations.

Environmental/Human Rights/Crime and Disorder Act: Nil

Key Decision Reference: Nil

