

# **Report to the Finance and Performance Management Scrutiny Panel**



**Date of meeting:** 19 June 2012

**Portfolio:** Finance and Technology

**Subject:** Provisional Capital Outturn 2011/12

**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 2011/12 be noted;
- (2) That retrospective approval for the over and underspends in 2011/12 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 2012/13 relating to schemes on which slippage has occurred is recommended to Cabinet; and
- (4) That retrospective approval for changes to the funding of the capital programme in 2011/12 is recommended to Cabinet.

## **Executive Summary:**

This report sets out the Council's capital programme for 2011/12, 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 Strategy, represent those adopted by Council on 14 February 2012.

Appendix 1 summarises the Council's overall capital expenditure in 2011/12, analysed by directorate, 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 2011/12 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 2011/12 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:**

More of the HRA capital expenditure in 2011/12 could have been financed from the use of usable capital receipts. This option was rejected because the Revenue Contributions to Capital Outlay (RCCO) level suggested in this report is affordable within the HRA, according to current predictions, and greater 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 2011/12 was that a total of £9,563,000 was spent on capital schemes, compared to a revised estimate of £12,329,000. This represents an underspend of £2,766,000 or 22% of the Council's revised capital budget. Expenditure on General Fund projects totalled £3,943,000, which was £1,360,000 or 26% less than anticipated, and expenditure on the Housing Revenue Account (HRA) totalled £5,620,000, which was £1,406,000 or 20% less than anticipated.
2. The majority of the underspends on General Fund schemes relate to slippage of expenditure in respect of work which has been delayed to the following financial year, although there are also savings on a few schemes. On the other hand, there are some projects which progressed ahead of expectations and another which is shown as an overspend, but actually relates to work which was re-classified as Capital having originally been classified as Revenue. The underspends on the HRA also relate mainly to areas of slippage, which are being addressed in the current financial year but there are also some savings, an overspend and a few schemes where work is ahead of schedule. Appendices 2 and 3 give details of the individual projects where slippage, savings, brought forwards and overspends have occurred.
3. The major scheme in the General Fund Capital Programme in 2011/12 was the refurbishment of Limes Farm Hall. Construction work commenced in March 2011 and, although there were delays due to steelwork fabrication and the installation of new electrical power cables, the works were completed early in 2012 and the hall opened for business on 20 February 2012. The project has been successful in centralising services into one building. The contract is seen as representing good value for money although there have been some additional costs and the full financial impact of the delays is not known at present. It is recommended that the £1,000 underspend is carried forward to 2012/13 pending the final account being agreed. Once settled, the final account and report will be presented to Cabinet when the overall cost of the project will be reassessed; it is possible that the final cost will be slightly higher than originally estimated.
4. There are three schemes which were underspent by more than £100,000 within the General Fund. The largest underspend of £495,000 relates to the new All Weather Pitch at Waltham Abbey. This project was delayed because of planning issues raised by the

Environment Agency. At their request, additional surveys have been undertaken and a decision regarding the outcome is expected during June 2012. If planning permission is subsequently granted, construction work will commence in July and it is anticipated that the pitch will take 16 weeks to complete. Members are requested to approve a carry forward to 2012/13 equivalent to the full underspend to allow for the delay. A re-evaluation of estimated costs will be undertaken and it may be necessary to request additional funding.

5. The 2011/12 Waste Management Vehicles and Equipment budget for the provision of the new food and recycling system was underspent by £192,000. Of this, £122,000 relates to the new bins and recycling containers for flats, schools, places of worship, village halls etc and £70,000 relates to the refuse freighters. The former resulted from a delay in finalising the contract to purchase the containers while the latter resulted from more competitive quotes than expected for the vehicles. The full underspend is requested for carry forward pending the purchase of a further 7 refuse freighters in 2012/13.
6. Finally, the Open Market Shared Ownership Scheme within the Housing General Fund capital programme was underspent by £174,000. The revised budget of £235,000 allowed for 4 of the 8 interest-free loans to be passed over to Broxbourne Housing Association to assist housing applicants to purchase low-cost homes on a shared-equity basis. However, completion was only achieved on one property by 31 March 2012. One more has subsequently completed and the others are in hand. A full carry forward is requested.
7. Savings were achieved on some projects within the General Fund Capital Programme, the largest two relate to the extension of the Loughton Leisure Centre and the feasibility works at Waltham Abbey Sports Centre. In both cases credits were granted as a result of negotiations in respect of the final settlements. The only area of work which shows an overspend is the Energy Efficiency Measures, but this actually relates to work which was considered to be more appropriately chargeable to Capital having originally been classified as Revenue. It therefore represents a switch of funding rather than an overspend within the Council's accounts overall.
8. The outturn on the HRA was 20% under the revised budget overall and Appendix 3 shows where savings were achieved and which areas of work experienced slippage. It also shows one overspend and areas of work where the programme is ahead of target.
9. The major scheme within the HRA over the last few years has been the substantial improvement works at Springfields, Waltham Abbey. The final account was agreed and reported to Cabinet in July 2011 and all capital fees have now been finalised. The scheme is now closed and a saving of £30,000 has been achieved on the revised budget. Other savings have been achieved on some heating installations, drainage works, structural work at Jessop Court, CCTV installations and some environmental improvements at Loughton Way and Pyrles Lane.
10. The area of work which has experienced the greatest volume of slippage within the HRA Capital Programme is the Small Capital Works, a substantial proportion of which relates to work on refurbishing void properties. This is difficult to forecast due to nature of the work being demand led. Although workload in this area generally increases during the winter months, the increase in 2011/12 was significantly lower than usual, resulting in the large underspend of £449,000 reported. It is considered prudent to carry this sum forward to 2012/13 pending review during the 2012/13.
11. Significant slippage was also experienced on the kitchen and bathroom replacement

programme during 2011/12. This primarily occurred because 50 of the planned 2011/12 kitchen replacements had to be placed on hold pending Housing Management approval. In addition to this, preparations to replace 275 kitchens at Limes Farm, requiring resident liaison, commenced in 2011/12 but the work has slipped into 2012/13. A carry forward of the full £420,000 underspend is requested to carry out the 50 properties put on hold in 2011/12 and, at the same time, fulfil the dedicated Limes Farm project within the 2012/13 kitchen replacement programme.

12. A third area of slippage relates to plans for potential development in Pyrles Lane for which a supplementary estimate of £239,000 was approved by Cabinet in September 2011. It is anticipated that this will take place in 2012/13.
13. The final category where slippage exceeds £100,000 is the heating and rewiring capital works. Although expenditure on new heating upgrades was generally on target during the year, expenditure on electrical upgrades and rewiring works associated with the heating upgrades was underspent. The main reason for this was that the majority of the properties included in the 2011/12 programme are situated on the Ninefields Estate and only required minor electrical upgrade works rather than full rewires due to their newer age and generally good condition. However, the properties on the 2012/13 programme are mainly older and it is anticipated that the number of full rewires will be much higher and therefore more costly. In addition to this, a new programme of electrical testing on the Landlords electrical supplies has commenced in all Council owned and managed blocks of flats. A carry forward of £119,000 is requested to cover the anticipated increased costs of the 2012/13 rewiring programme as well as the new initiative relating to flats.
14. Members are requested to approve the savings, overspend, carry forwards and brought forwards referred to above on the schemes identified in appendices 2 and 3. The total carry forward requested is £1,368,000 on the General Fund and £1,429,000 on the HRA. Members are also requested to retrospectively approve the brought forwards of £45,000 and £103,000 on the General Fund and HRA respectively.

## **Funding**

15. When financing the capital programme government grants and private funding for specific schemes are applied initially. Appendix 1 identifies all the grants used in 2011/12 and it compares the actual sums used with the amounts estimated in the revised capital programme. In 2011/12, the total sum of grants applied was £974,000, which was £97,000 lower than expected. This was partly due to expenditure on Disabled Facilities Grants being underspent and also due to slippage on the Open Market Shared Ownership scheme which is being financed from the Section 106 contribution from McCarthy and Stone. Countering this, to some extent, was the funding received from leaseholders for work carried out on leasehold flats in 2011/12, which was £135,000 higher than expected. The unused elements of Government grants and private contributions will be carried forward to finance the appropriate schemes in the future.
16. The situation with regard to capital receipts in 2011/12 proved to be better than had been anticipated, as shown in appendix 4. Income from council house sales was higher than expected with 7 houses being sold. On the other hand, the use of capital receipts was £1,031,000 lower than expected primarily due to the reduced expenditure on General Fund schemes. The effect of these two variations on the Capital Receipts Reserve is that the balance as at 31 March 2012 ended up £1,229,000 higher than expected at £15,841,000.
17. With regard to the use of revenue contributions to capital outlay, the HRA contribution of

£2,050,000 was in line with the revised budget and the underspend of expenditure on HRA capital schemes was taken into account by reducing the use of resources from the Major Repairs Reserve. Usage of this reserve was £1,629,000 less than estimated and, as a result, the balance as at 31 March 2012 increased to £8,241,000.

### **Resource Implications:**

The 2011/12 General Fund Outturn totalled £3,943,000 which represents underspends of £1,360,000 on the revised budget. This comprises of savings of £56,000, an overspend/switched funding of £19,000, slippage of £1,368,000, and brought forward expenditure of £45,000.

The 2011/12 HRA Capital Outturn was £5,620,000 which represents an overall underspend of £1,406,000 on the revised budget. This includes savings of £89,000, an overspend of £9,000, slippage of £1,429,000 and brought forward expenditure of £103,000.

### **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 Finance and Performance Management Scrutiny Panel 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 Housing on the HRA programme.

### **Background Papers:**

The capital programme approved at Cabinet 30 January 2012 and working papers filed for External Audit purposes.

**Impact Assessments:**

Risk Management:

The changes to the proposed funding of the capital expenditure are intended to reduce the financial risks faced by the Council.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process? N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group? N/A