

**REPORT TO:** CABINET

**DATE:** 14 SEPTEMBER 2017

**TITLE:** CAPITAL PROGRAMMES, QUARTER 1  
FINANCE REPORT 2017/18

**PORTFOLIO HOLDERS:** COUNCILLOR MIKE DANVERS,  
PORTFOLIO HOLDER FOR RESOURCES

COUNCILLOR MARK WILKINSON,  
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**LEAD OFFICERS:** CORPORATE MANAGEMENT TEAM  
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**This is not a Key Decision**

**It is on the Forward Plan as Decision number I007284**

**This decision is not subject to Call-in procedures for the following reasons:**

The recommendations are within the scope of the budget which has been approved by Full Council.

**This decision will affect no ward specifically.**

**RECOMMENDED that:**

- A** Progress is noted in the delivery of the Council's Housing and Non-Housing Capital Programmes as at Quarter 1 as follows:
- (i) Housing Capital Programme – forecast outturn of £22,601,000 (original estimate £18,530,000).
  - (ii) Non-Housing Capital Programme – a forecast outturn of £7,591,000 (original estimate £5,425,000).
- B** Approval is given for a revised Housing Capital Programme for 2017/18 outlined in paragraphs 20 and 21 realigned to accommodate revised Housing Asset Management priorities.
- C** Approval for new business cases in respect of the Non Housing Capital Programme:
- (i) To install new air conditioning (£12,000) at Mead Park Depot as part of the Health and Safety works agreed with HTS Ltd and funded from the contribution from Kier Harlow following the end of the Kier Harlow Contract. (Annex A14).

- (ii) A supplementary estimate of £100,000 in respect of the Hummingbird Pub (approved by Cabinet on 20 July 2017).

## **REASON FOR DECISION**

- A** To ensure that Cabinet reviews performance against the Council's approved 2017/18 Housing and Non-Housing Capital Programmes.

## **BACKGROUND**

1. This report on the Capital Programme forms part of the suite of budget monitoring reports provided to ensure close supervision over financial position throughout the year.
2. In February 2017, Full Council approved a Housing Capital Programme for 2017/18 totalling £18,530,000 and a Non-Housing Capital Programme totalling £5,425,000.
3. Carryovers were approved at Cabinet in June 2017 for the Housing Capital Programme of £2,855,000 and Non Housing Capital Programme of £2,068,000. Year-end adjustments result in a Non-Housing Capital budget of £7,486,000.

## **HOUSING CAPITAL PROGRAMME**

### **Asset Management Priorities**

4. In 2013, the Council commenced an ambitious five year Housing Investment Programme (HIP) designed to bring all of Council owned housing up to the Government's Decent Homes Standard by 2015. This was achieved however, the current HIP ceases this year and there is a requirement to review this year's programme in line with changes to national policy imperatives and local priorities.
5. The Modern Homes Programme has reached to date over 8,000 homes with 46,000 improvements illustrating the ambition and scale of delivery, transforming council housing in Harlow. The Council has continued to use data gathered through the 2012 Stock Condition Survey to establish annual programmes of internal and external work to its housing stock in order to maintain compliance with the Government's Decent Homes Standard and tackle local priorities.
6. These priorities had included the replacement of kitchens, bathrooms installation of energy efficiency schemes, replacement electrical wiring replacement district heating, and implementation of external works. There is a robust inspection and performance management framework established

which ensures that predetermined standards are met, contractors meet performance standards, and value for money can be demonstrated.

7. A revised HIP programme for 2017/18 is necessary due to changes in national fire regulation priorities, and the increased costs and scope of heating replacement programmes.

### **Fire Safety and Regulation**

8. The tragic Grenfell Tower fire in North Kensington on 14 June 2017 has focussed national attention on fire safety and regulation in tower blocks. A public inquiry has commenced which will consider the cause of the fire; the design, construction and refurbishment of Grenfell Tower; and the scope and adequacy of the relevant regulations relating to high-rise buildings. An initial report is expected around Easter 2018.
9. A review of the Council's tower block fire risk assessments confirms that all are inherently safe from fire, although the outcome of the Inquiry may require additional work to mitigate heightened concern.
10. Officers, however, have taken the opportunity to review the fire safety risk assessments short, medium and long term priorities and re-align them to national imperatives and associated asset management priorities. Bringing forward fire risk assessment priorities included improved signage, a change of bin storage locations, installing enhanced access arrangements at Spring Hills Tower, fire safety door replacement, enhanced emergency lighting with costs estimated at £1 million, giving an increased budget requirement of £2.8 million. It is recommended, that funding for this work will be from revenue balances held in the Housing Revenue Account.

### **Heating Systems Replacement**

11. The Council's District Heating Replacement Programme commenced in 2016/17, and will affect 590 individual properties. The first phase (year one) dealt with four schemes at Tanys Dell, Risdens, Rosemary Close and Commonfields/Halling Hill. This was to prepare for the changes in Heat Network (Metering and Billing) Regulations, which required that individual charging and billing for heating and hot water was based on actual usage.
12. Following on from this, there is a requirement to replace associated pipe work which has meant a revised specification is required to include the replacement of the district heating pipe work at Tanys Dell, due to poor condition and vulnerability to water escape and leaks. An extra £560,000 is necessary for these works and is included in the revised Capital programme.
13. Elsewhere on the agenda is a recommendation to approve a contract for HTS

(Property and Environment) Ltd to deliver the replacement of the four District Heating Schemes in 2017/18. These include Fenner Brockway House, Latton House, Sumners Farm Close and The Wayre. The original programme of installation of these new boilers will now be delayed until after the winter season. The sum of £1.412 million will therefore be carried forward to the 2018/19 financial year to reflect the revised implementation. This is to ensure residents are not inconvenienced. It is expected the remaining phases of the District/Communal Heating System Replacement Programme will be completed by 2020/21.

14. Other residents heating system changes recommended for 2017/18 include the early replacement of the Council's Tower Block 'warm air' heating systems. Willowfield Tower, Nicholls Tower, Moor Tower, Edmunds Tower and Stort Tower have these types of heating systems.
15. These were due to be replaced in 2019/20. However, following repair analysis it has become apparent these systems are starting to fail earlier than expected. Due to their early failure and the increasing obsolescence of replacements, an urgent programme is required to install new gas 'wet' system boilers and heating systems to these five blocks. Officers are also recommending with this removal, the decommissioning of the associated air ducts. This is to ensure they are appropriately sealed and made safe in accordance with expert advice the Council has received. In order to commence the replacement programme in 2017/18, an estimated £1.8 million is required phased over two financial years (£1,261,750 in 2017/18, £540,750 in 2018/19). The work will involve consultation with tenants and leaseholders with completion of the project forecasted over a period of seven to nine months. It is expected this work will be delivered within existing procurement arrangements.
16. The revision of the Housing Capital Programme for 2017/18 will require a revised associated estimate of the likely income expected to be collected from leaseholders. This is reported in the Housing Revenue Account with any fluctuation in income from the original plan either increasing or decreasing the available working balance. This will be reported on a regular basis to Cabinet.

## **Housing ICT**

17. Each year the Cabinet approves a programme of IT enhancements as part of housing capital programme. This work includes the upgrades required for the Orchard Housing Management system, enhancements to the Keystone Asset Management systems, as well as the development of appropriate interfaces with partners such as HTS (Property and Environment) Ltd, in order to drive efficiency and increase functionality. It is expected £191,500 will be spent from an allocated budget of £554,300.

18. Officers are advising that the revision of the Housing Capital Programme is necessary due to the issues above. The outcome of the interim public inquiry report of the Grenfell Tower fire is likely to have important implications for all landlords across the country. The Council has a legal requirement to prevent a deficit on the account, and maintains a Minimum Working Balance, which may be breached in times of special need. In creating this budget Officers will look at what scope exists to re-profile the remainder of the Housing Capital Programme.
19. The Housing Capital Programme in 2017/18 will continue to deliver the investment priorities for the Council's housing assets outlined in the approved Housing Revenue Account (HRA) Business Plan 2016-2046. The Council will continue to monitor contract performance and delivery making adjustments to the programme as the year progresses.

**HOUSING CAPITAL PROGRAMME: PROPOSED REVISED ESTIMATE  
2017/18**

20. Table 1 below provides a summary of the proposed revised Housing Capital Programme. It includes carry forwards from 2016/17 and is the latest projection of expenditure to 31 March 2018.

**Table 1 - Housing Capital Programme as at Quarter 1**

<b>2017-18 Budget Stage</b>	<b>£000s</b>	<b>Date Approved</b>
Original Budget	18,530	2 Feb 17
Carryovers from 2016/17	2,855	20 July 17
	21,385	
Revised Budgets Quarter 1	1,216	Table 2
Projected Outturn Quarter 1	22,601	

21. Table 2 overleaf provides a more detailed view of the Housing Capital Programme now proposed. As a result of the current forecast it is expected that Direct Revenue Financing required from the HRA will be £10,166,000 and this is driving the variations in the HRA budget.

**Table 2 - Housing Capital Programme 2017/18**

	Original Budget	Original Budget (incl. carry overs)	Net Spend to 2.7.17	Revised Estimate / Projected Outturn	Variance: Original Budget (inc Carry Overs) to Revised Estimate	Details in report
	£'000	£'000	£'000	£'000	£000	
<b>Expenditure</b>						
Internal Works	4,995	4,630	325	4,630	0	
Windows & Doors	700	1,300	0	1,300	0	
Damp & Structural Works	0	50	26	150	100	
External Works	6,850	8,868	187	8,868	0	
Other Works (Asbestos)	1,069	1,069	94	1,135	66	
Electrical	1,300	1,328	46	1,328	0	
Upgrades & Fire Safety						
Fire Safety & Regulation – SE Ducts removal	0	0	0	1,262	1,262	Para 14 & 15
Fire Safety & Regulation – Other work	0	0	0	1,000	1,000	Para 10
Energy Efficiency	2,080	2,250	2	1,439	(-)811	Para 11, 12 & 24
Disabled Adaptations	900	900	9	900	0	
Surveyors Fees	436	436	109	397	(-)39	
Housing IT Development	200	554	0	191	0	Para 17
<b>TOTAL EXPENDITURE</b>	<b>18,530</b>	<b>21,385</b>	<b>798</b>	<b>22,601</b>	<b>1,216</b>	
<b>Financed by:</b>						
Capital Receipts: Right to Buy	(-)1,466	(-)1,466		(-)1,466	0	
Major Repairs Reserve	(-)10,928	(-)10,928		(-)10,928	0	
Grant income in respect of Tanys Dell pipework	0	0		(-)41	(-)41	
Direct Revenue Contribution	(-)6,136	(-)8,991		(-)10,166	(-)1,175	
<b>TOTAL FINANCING</b>	<b>(-)18,530</b>	<b>(-)21,385</b>		<b>(-)22,601</b>	<b>(-)1,216</b>	

22. The projected outturn of £22.601 million takes account of the proposed

revised budgets and includes carryovers of £2.855 million in particular:

- a) Carryover totalling £1.5 million identified in respect of external works arising from significant outside contractor performance and delivery issues, leading to delays in work commencement and completion during 2016-17. External works and the leasehold income that will be raised from this work in 2017/18 will be subject to review as part of the re-profiling of planned works.
  - b) A carryover of internal budget of £204,000 to extend two temporary accommodation properties. The work will provide an additional two units and accommodate eight people.
  - c) Carryovers to accommodate electrical upgrades and Fire Risk Compliance schemes totalling £628,000 and Fuel Poverty schemes (£150,000). All of which are expected to complete in 2017/18. In addition, budgets to enable fire safety works to tower blocks of £2.5 million are proposed.
  - d) A carryover in the Housing IT budget of £355,000 to support the enhanced repairs reporting functionality and the introduction of a Digital Tenancy Service.
23. From 1 February 2017, HTS (Property and Environment) Ltd were contracted to undertake a range of housing related works including compliance, energy and efficiency, windows and doors, garage and disabled facility works to council dwellings. The total annual contract value for 2017/18 is £5.8 million.
24. The work programme for 2017/18 has been realigned to their mobilisation plans and expected delivery times on the first of a three year programme. This particularly affects energy efficiency/communal boilers. It is therefore proposed that £1.412 million from the energy efficiency budget be deferred to 2018/19. Details of the budget and proposed changes are detailed below. The revised contract value in the first year is amended to £4.388 million.

**Table 3 - HTS (Property & Environment) Ltd Work Packages 2017/18**

<b>Works Packages</b>	<b>Work Content</b>	<b>Original contract £'000</b>	<b>Revised Estimate £'000</b>
Compliance		700	700
Contingency		300	300
Energy & Efficiency	Communal boilers	1,912	500
Fuel Poverty		188	188
Windows & Doors		1,300	1,300
Related Assets	Garage Improvement Programme	285	285

Disabled Adaptation Works	Various major and minor adaptations	900	900
Non-Housing Capital Programme: Garages	Value net of fees	215	215
<b>Total</b>		<b>5,800</b>	<b>4,388</b>

25. Energy Efficiency work has, however, increased for pipe work to be completed at Tanys Dell. This is funded in part by a grant of £41,000. The total proposed energy efficiency budget is £1.439 million against an original estimate of £2.250 million.
26. The Housing Capital Programme has delivered 47,341 new components such as windows, doors, kitchens, bathrooms and boilers in dwellings between 1 April 2013 and 31 March 2017, with a further 5,439 planned by 31 March 2018.
27. The Council only pays for completed work when it is signed off by an independent clerk of works. There is a time lag due to the necessary requirement that works can only be invoiced once they are satisfactorily completed and all associated paperwork/certification such as gas, electric, asbestos etc. compiled and formally handed over. The Council is committed to prompt payment once these processes have been completed.
28. The original estimate approved by Council on 2 February 2017 assumes 60 Right to Buy (RTB) sales in 2017/18. 17 RTB disposals were completed by 2 July 2017.
29. At 31 March 2017 there was a nil balance on the Major Repairs Reserve (MRR). Under proper accounting practice, the charge to the HRA for depreciation is projected to be £10.928 million in 2017/18. At year end this is transferred to the MRR which, in turn, is utilised to support the Housing Capital Programme for an equivalent sum.

### Non-Housing Capital Programme

30. On 2 February 2017, Full Council approved a Non-Housing Capital Programme of £5,425,000. More detail is provided in Table 5 below:

**Table 4 - Non Housing Capital Programme as at Quarter 1**

<b>2017-18 Budget Stage</b>	<b>£000s</b>	<b>Date Approved</b>
Original budget	5,425	2 Feb 17
Carryovers from 2016/17	2,058	20 Jul 2017
Adjustments	(-3)	
Approved budget	7,486	
Supplementary budget	100	20 July 2017

	7,586	
<b>Projected Outturn</b>	<b>7,591</b>	
<b>Variance to budget</b>	<b>5</b>	

31. Further details of expenditure relating to projects are contained within Annex A to this report, together with financing implications related to these.
32. It is not anticipated that any capital receipts from asset disposals will be achieved in 2017/18 due to the timescales involved in achieving the planned disposal. (Original estimate: £624,000).
33. Disabled Facilities Grants for 2017/18 from the Department of Communities and Local Government (CLG) total £677,000. However, the grant received in 2016/17 was underspent by £119,000. Officers will determine, in consultation with the County Council whether the additional funding can be applied to wider welfare and discretionary services.
34. Estimated internal borrowing in 2017/18 is £3,751,000 (Original estimate £1,602,000). The increase is due to the carryover of schemes from 2016/17 totalling £2.058 million, of which £638,000 is funded from grants or reserves and the loss of income from asset disposals.
35. Details of the Non-Housing Capital Programme expenditure and financing are given in Table 5 below.

**Table 5 - Non-Housing Capital Programme 2017/18**

	<b>Original Budget (inc carryovers</b>	<b>Projected Outturn</b>	<b>Variance: Projected Outturn to Original Budget</b>	<b>Details in report or Annex A</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	
<b>Expenditure:</b>				
Governance	67	67	0	A6
Finance	406	406	0	A5
Community Wellbeing	1,388	1,392	5	A7-A10
Place Services	3,308	3,408	100	A11-16
Place Services (Town Park HLF)	64	64	0	
GF Garages	254	254	0	
Prentice Place	2,000	2,000	0	A17
<b>Total expenditure</b>	<b>7,486</b>	<b>7,591</b>	<b>105</b>	

<b>Financed by:</b>			
Capital Receipts - Right To Buy	(-)207	(-)207	0
Asset Disposals	(-)624	0	624
Earmarked Resources	(-)280	(-)205	75
Direct Revenue Contribution	(-)723	(-)736	(-)13
Disabled Facilities Grant- Strategic Housing	(-)677	(-)677	0
Renovation Loans etc.	(-)5	(-)15	(-)10
Prentice Place capital receipt	(-)2,000	(-)2,000	0
Prudential Borrowing	(-)2,970	(-)3,751	(-)781
<b>Total Financing:</b>	<b>(-)7,486</b>	<b>(-)7,591</b>	<b>(-)105</b>

Para 33

<b>Impact of Prudential Borrowing</b>	<b>£000s</b>
Borrowing to support Non Housing Capital Programme as at 31 March 2017	<b>5,668</b>
New borrowing to finance shortfall in Non-Housing Capital Programme, 2017/18	<b>3,751</b>
<b>Borrowing to support Non Housing Capital Programme as at 31 March 2018</b>	<b>9,419</b>

## Risk and Opportunities

36. The national concern about fire safety and regulation in tower blocks in the wake of the Grenfell Tower fire. The outcomes from the Inquiry are likely to have far reaching consequences, with a potential requirement to totally recast the Housing Capital Programme of works for 2018/19.
37. Key risks in the delivery of the five year Housing Investment Programme are the performance of contractors, and the Council's capacity to deliver a housing capital programme revised in light of changing priorities and funding available from the HRA. The Council's management of the appointed contractor for these works has been subject to an internal audit which reported a 'Substantial Assurance' outcome in December 2016.
38. Housing capital funding is affected by reducing rents until 2020.
39. Key risks in the Non-Housing Capital Programme are centred on the outcome of the stock condition surveys and reviews including the result of the local plan review and the implications for future capital budgets.
40. An additional risk in the Non-Housing Capital Programme is the cost of

removing asbestos as works are undertaken.

## **IMPLICATIONS**

### **Place (includes Sustainability)**

As contained in the body of the report.

Author: **Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

As contained in the body of the report.

Author: **Simon Freeman, Head of Finance**

### **Housing**

As contained in the body of the report.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

### **Governance (includes HR)**

None specific.

Author: **Brian Keane, Head of Governance**

## **Background Papers**

None.

## **Glossary of terms/abbreviations used**

CLG – Department of Communities and Local Government

NHCP – Non-Housing Capital Programme

HRA – Housing Revenue Account

JVCo – Joint Venture Company (i.e. the arrangement the Council has with Kier Harlow Ltd)

LBC – Latton Bush Centre

HCA – Homes and Communities Association

HTS – Harlow Trading Services (Property and Environment) Ltd

EPC – Energy Performance Certificate

## **Appendices**

Annex A – Capital Programmes Period 3 Finance Report, 2017/18