

REPORT TO: CABINET

DATE: 13 SEPTEMBER 2018

TITLE: CAPITAL PROGRAMMES, QUARTER 1 FINANCE REPORT 2018/19

PORTFOLIO HOLDERS: COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

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This is not a Key Decision

It is on the Forward Plan as Decision Number I008565

The decision is not subject to Call-in Procedures for the following reason:

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 Cabinet:

A Notes the progress on the delivery of the Council's Housing and Non-Housing Capital Programmes as at Quarter 1 (1 July 2018) as follows:

- i) Housing Capital Programme –forecast outturn of £24,551,000 (original estimate £18,804,000).
- ii) Non- Housing Capital Programme – forecast outturn of £14,727,000 (original estimate £15,250,000).

B Approves:

- i) Additional expenditure of £11,000, from the Non-Housing Capital Programme, within the Town Park Inclusive Play scheme (approved in 2018/19) for a new footpath and footpath improvements. The additional expenditure is fully grant funded by the County Council.
- ii) A business case for the installation of new boilers and system controls at Abercrombie Playbarn, £25,000, funded from the approved Non-Housing Capital Contingency Budget.

- iii) A change to the business case to upgrade council websites (approved in February 2017). It is recognised that £40,000 of urgent works are required to upgrade the main Council website, to be funded in part from the approved budget of £20,000.
- iv) An additional £10,000 from the Contingency budget to support the installation of new boilers and system controls at 2 and 2A Wych Elm. The current approved budget in the capital programme for this work is £15,000.
- v) A revised current budget in the Non-Housing Capital Programme of £14,727,000 in line with the carryovers, adjustments and additional funding detailed in Table 4 of the report.

REASON FOR DECISION

- A** To ensure that Senior Management Board reviews performance against the Council's approved 2018/19 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 the financial position throughout the year.
2. In February 2018, Full Council approved a Housing Capital Programme for 2017/18 totalling £18,804,000 and a Non-Housing Capital Programme totalling £15,250,000, summarised in Table 2, Column 2 and Table 5, Column 2 respectively.
3. Carryovers requested for approval at Cabinet in July 2018 in the Housing Capital Programme of £5,187,000 and Non-Housing Capital Programme of £3,996,000.

ISSUES/PROPOSALS

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 and involved the establishment of internal and external works programmes.
5. The HIP programme for 2018/19 continues the work which commenced in 2017/18 but has been revised recognising changes required to National Fire Regulation priorities, increased costs and scope in delivering local priorities which includes district heating replacement programmes, energy efficiency

programmes, and council house building within the reducing resources available.

6. In 2017/18 a review of the Council's tower block fire risk assessments confirmed that all blocks were inherently safe. The budget for 2018/19 includes schemes which respond to the conclusions of the Hackitt Report and also provides funding for fire risk works as they are identified.
7. The budget for Fire Safety in Tower Blocks is £1,746,000. This will enable the Town's tower blocks to be surveyed to identify and ad-hoc fire stopping works required. It will also enable a pilot scheme to be undertaken at Willowfield Tower to install a pumping station. Due to the ad-hoc nature of the work being carried out, the budget may not outturn in full in 2018/19, requiring a possible carryover of part of the budget to 2019/20.
8. The tragic fire at Grenfell Tower in North Kensington in June 2017 focussed national attention on fire safety and regulation in tower blocks. The Public Inquiry is still in progress and is anticipated to report in 2018. Whilst the Hackitt Review into Building Regulations and Fire Safety was published in May 2018, the Government response is still awaited. This response will require analysis and a response from the Council.
9. The previous external works programme which was commenced in 2017 is due to be completed by October 2018. It is anticipated, however, that additional costs will be incurred due to the requirement to provide additional works under health and safety. This cost has not yet been quantified. The Council, as part of its revised HIP is in the process of procuring targeted external works to a number of estates in Harlow. This includes The Hides and The Hornbeams.
10. As part of the Council's desire to build new council houses, increase the number of bed spaces available for temporary accommodation, and ensure the units remain compliant, a programme of work is in hand to deliver up to 11 additional council housing units at Sumners Farm Close, Partridge Court, Hare Street Springs and Collins Meadow. The work will be funded from the HRA revenue contribution and from retained pooling receipts.
11. During 2018/19 planning for the further development of council housing is taking place with a view to new properties with three being built at The Readings and 16 at Bushey Croft from 2019/20.
12. The Council received a grant to tackle rough sleepers at Harlow. As part of the action plan, the refurbishment of 1 and 2 Bromley Cottages as 'move on' temporary accommodation in partnership with Streets2Homes is anticipated.

Heating Systems Replacement

13. The Council commenced a five year District Heating Replacement Programme in 2016/17. To date Sumners Farm Close and Fenner Brockway have been completed. It is programmed for further new schemes to be included in the

2018/19 programme at Morris House, Latton Hall Close, Tylney Croft, Latton House, The Wayre and Toddbrook.

14. In 2017/18 Cabinet approved a contract for HTS (Property and Environment) Ltd (HTS) to deliver the replacement of four District Heating Schemes. The original programme of installation was delayed until after the winter season and the budget of £1,412,000 carried forward to 2018/19. The anticipated outturn is £1,125,000 with the difference being used to support the electrical works under the Compliance budget. It is expected the remaining phases of the District/Communal Heating System Replacement Programme will be completed by 2020/21.
15. Alongside the Heating System Replacement Programme, urgent works were put in place to install new gas 'wet' system boilers and heating systems and to decommission the associated air ducts in tower blocks. This work affects five tower blocks (Stort, Moor, Edmund, Willowfield and Nicholls). The replacement programme commenced in 2017/18 and continues in 2018/19 with a budget of £1,053,000. The work affects 248 individual properties (140 tenanted, 108 leaseholders), and includes consultation with residents. Full completion of the project is currently forecasted for March 2019 and is being delivered within existing procurement arrangements.
16. On Cabinet 19 July 2018 approved a tender of £2,360,000 to enable the replacement of communal boilers during the summer months in Sheltered schemes, as part of the Heating System Replacement programme, (original budget £1,700,000).

Housing ICT

17. Each year Cabinet approves a programme of Housing IT enhancements as part of the wider housing capital programme. This has included replacement modules for Asset Management, Responsive Repairs, as well as upgrades and interfaces to and from the Orchard Housing Management system. The allocated budget is £463,000 plus a requested carryover of £153,000 focuses on improving and enhancing Homelessness Management together with customer access.

Housing Capital Programme 2018/19

18. The Housing Capital Programme in 2018/19 will continue to deliver the investment priorities for the Council's housing assets outlined in the approved Housing Revenue Account (HRA) Business Plan 2017-2047. The Council will continue to monitor contract performance and delivery making adjustments to the programme as the year proceeds.
19. Table 1 below provides a summary of the approved Housing Capital Programme. It includes carry forwards from 2017/18 and is the current projection of expenditure to 31 March 2019.

Table 1 – Housing Capital Programme as at Period 3

2018-19 Budget Stage	£000s	Date Approved
Original budget	18,804	1 Feb 18
Carryovers from 2017/18	5,187	19 July 18
Garage carryover to General Fund	(-) 116	Para 31
	23,875	
Communal Boiler	660	Para 14
Other adjustments	16	
Forecast Outturn	24,551	

20. Table 2 below provides a more detailed view of the approved Housing Capital Programme. As a result of the current forecast it is expected that Direct Revenue Financing required from the HRA will be £9,137,000.

Table 2 – Housing Capital Programme 2018/19

	Original Budget	Current Budget with carryovers	Projected Outturn	Variance Current Budget (Projected Outturn £000)	Report Ref.
	£'000	£'000	£'000	£000	
Expenditure					
Internal Works	5,132	5,155	5,322	167	21i
Windows & Doors	100	266	370	104	21i
External Works	3,732	7,525	7,705	180	21iii
Damp & Structural Works	200	200	200	0	
Other Works (Asbestos, Garages, Lifts)	1,400	1,511	1,448	(-)63	Para 32
Electrical	500	797	1,096	299	20iv
Upgrades & Fire Safety					
Fire Safety & Regulation – SE	1,053	1,053	1,053	0	
Ducts removal					
Fire Safety & Regulation – Other work	1,590	1,746	1,746	0	
Energy Efficiency	3,312	3,504	3,815	311	Para 14/21iv
Disabled Adaptations	900	1,079	1,079	0	
Surveyors Fees	422	422	0	(-)422	21ii
Bromley Cottages	0	0	100	100	Para 12
Housing IT Development	463	617	617	0	

	Original Budget	Current Budget with carryovers	Projected Outturn	Variance Current Budget (Projected Outturn £000)	Report Ref.
	£'000	£'000	£'000		
TOTAL EXPENDITURE	18,804	23,875	24,551	676	
Financed by:					
Capital Receipts:	(-)1,217	(-)1,217	(-)1,217	0	
Right to Buy Retained Receipts	(-)234	(-)234	(-)242	8	
Unapplied Receipts	0	(-)1,535	(-)1,535	0	
Major Repairs Reserve	(-)11,439	(-)12,320	(-)12,320	0	
Grant	0	0	(-)100	100	
Direct Revenue Contribution	(-)5,914	(-)8,569	(-)9,137	568	
TOTAL FINANCING	(-)18,804	(-)23,875	(-)24,551	676	

21. The variances reported in Table 2 are as a result of the following:

- a) The final settlement with Kier Harlow Ltd resulted in additional invoicing for internal works and windows and doors in excess of the creditors included in the 2017/18 Capital Programme.
- b) The establishment of a Technical Services Team within the HRA is funded in part from a reduction in surveyor's fees. Costs effectively transfer from capital to revenue.
- c) Urgent external works at Mill House and Hookfield require an additional budget of £180,000 which will be recouped in part from leasehold contributions to the work being undertaken.
- d) Increase in work required under the HTS Compliance budget offset by a reduction in the cost of Communal Boilers undertaken by HTS.

22. From February 1 2017, HTS (Property and Environment) Ltd, a subsidiary company of the Council, 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.

23. The work programme in 2017/18 was realigned to HTS' mobilisation plans and expected delivery times on the first of a three year programme. This particularly affected energy efficiency/communal boilers; £1,412,000 from the energy efficiency budget was therefore deferred to 2018/19 (Cabinet 25 January 2018). The annual contract value for 2018/19 is £5,850,000 which with carryovers of

£822,000 and changes to works planned, results in a budget for 2018/19 of £8,319,000 Details of the 2018/19 budget are reported in Table 3 below.

Table 3 – HTS (Property & Environment) Ltd. Work Packages 2018/19

Work Packages	Original Contract	Carryovers	In year adjustments	Current Contract
	£'000	£'000	£'000	£'000
Internals	3,380	0	0	3,380
Lifts	620	305	(-)925	0
Aids & Adaptations	900	0		900
Disabled Facilities	0	179	0	179
Compliance	400	57	300	757
Contingency	100	27	0	127
Windows and Doors	100	166	0	266
Fire Doors	100	0	0	100
Communal Boilers	0	1,474	(-)349	1,125
Energy Efficiency	200	130	0	330
Garages - General Fund	0	201	0	201
Garage Doors	50	0	0	50
Bromley Cottages	0	0	100	100
Property Conversions	0	0	304	304
Sumners Farm Close	0	0	500	500
TOTAL	5,850	2,539	(-)70	8,319

24. The Housing Capital Programme delivered 48,200 new components such as windows, doors, kitchens, bathrooms and boilers in dwellings between 1 April 2013 and 31 March 2018, with a further 2,787 planned by 31 March 2019.
25. The Council only pays for completed work when it is signed off by an independent clerk of works. There is a time lag, however, with this invoicing due to the necessary requirement that works can only be invoiced once they are satisfactorily completed and all associated paperwork/certification is compiled and formally handed over. The Council is committed to prompt payment once these processes have been completed.
26. The original estimate approved by Council 1 February 2018 assumes fifty 'Right to Buy' (RTB) sales in 2018/19. Eleven RTB disposals had been completed by 1 July 2018.

27. At 31 March 2018 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 £12,320,000 (original estimate £11,439,000) in 2018/19. At year end this is transferred to the MRR which, in turn, is utilised to support the Housing Capital Programme.

Non-Housing Capital Programme 2018/19

28. Full Council on 1 February 2018 approved a Non-Housing Capital Programme of £15,250,000, which included major works at the Enterprise Zone and Prentice Place, as shown in Table 4 below:

Table 4 – Non Housing Capital Programme as at Period 3

2017-18 Budget Stage	£000s	Date Approved
Original budget (Core)	3,946	1 Feb 18
Enterprise Zone	8,031	
Prentice Place	3,273	
Approved budget	15,250	
Carryovers 2017/18	3,996	19 July 18
GF Garage carryover 2017/18	116	19 July 18, Para 31
Other budget adjustments	478	Paras 30 31,32 Apps A5, 9, 10
Current Budget	19,840	
Carryovers	(-)430	Apps A11, 13
Enterprise Zone outturn 2018/19	(-)4,412	
Other forecast adjustments	(-)271	
Projected Outturn	14,727	
Variance to revised current budget	5,113	

29. Further details of expenditure relating to projects are contained within Annex A to this report, together with financing implications related to these.

30. Estimated capital receipts from asset disposals in 2018/19 total £624,000 (original estimate £824,000) due to the move towards council house building the land which was expected to be disposed of may now be used for house building. In addition overage is due from the sale of land at Ram Gorse. However, the timing and value of payments is dependent on the conclusion of negotiations.

31. The Council has been awarded a Disabled Facilities Grant for 2018/19 of £740,000 from the Ministry of Housing, Communities and Local Government. This increases the budget available by £205,000. However, expenditure is determined by demand and is currently forecast at £466,000, (Original estimate of £535,000).

32. The carryovers approved in the Housing Capital Programme included an element of carryover for General Fund garages of £116,000 and a further adjustment from the current year budget (£47,000) following a revised allocation

of costs relating to garages in the General Fund. The forecast outturn for garages in the non-housing programme is £405,000 and is funded by revenue contribution from the General Fund.

33. Additions to the current budget also include the supplementary budget for the Playhouse of £80,475 agreed by Cabinet 19 July 2018 and the grant funding made available to the Town Park Inclusive Play Scheme.
34. Estimated internal borrowing to support the core programme in 2018/19 is £2,871,000 (Original estimate £2,010,000). The increase is due to approved capital and revenue carryovers of £4,112,000 from 2017/18, plus budget amendments in 2018/19. In addition there is estimated borrowing of £6,523,000 in line with the current forecast of expenditure in 2018/19 for the Enterprise Zone and £1,754,000 to complete work at Prentice Place.
35. Details of the Non-Housing Capital Programme expenditure and financing are given in Table 5 below.

Table 5 – Non-Housing Capital Programme 2018/19

	Original Budget	Current Budget	Projected Outturn	Variance Forecast Outturn to Current Budget	
	£000s	£000s	£000s	£000s	
Expenditure:					
Place Services:	2,630	3,916	3,225	(-)691	A8-14
Governance	15	15	0	(-)15	
Finance	236	236	236	0	A4
Community Wellbeing:	1,065	1,388	1,393	5	A5-7
	3,946	5,555	4,834	(-)701	
Prentice Place	3,273	3,350	3,350	0	A15
Enterprise Zone	8,031	10,935	6,523	(-)4,412	A16
	11,304	14,285	9,873	(-)4,412	
Total expenditure	15,250	19,840	14,727	(-)5,113	
Financed by:					
Capital Receipts - Right To Buy	(-)205	(-)205	(-)205	0	
Asset Disposals	(-)824	(-)624	(-)624	0	
Earmarked Resources	(-)100	(-)143	(-)143	0	
Direct Revenue Contribution	(-)242	(-)520	(-)520	0	

Disabled Facilities Grant- Strategic Housing	(-)535	(-)740	(-)466	274	
Renovation Loans etc.	(-)30	(-)25	(-)25	0	
Prentice Place capital receipt	(-)1,519	(-)1,595	(-)1,595	0	
Prentice Place Borrowing	(-)1,755	(-)1,755	(-)1,755	0	
Enterprise Zone Internal Borrowing	(-)8,030	(-)10,935	(-)6,523	4,412	
Prudential Borrowing	(-)2,010	(-)3,298	(-)2,871	427	
Total Financing:	(-)15,250	(-)19,840	(-)14,727	5,113	

Impact of Prudential Borrowing	£000s
Borrowing to support Non Housing Capital Programme as at 31 March 2018	9,535
New borrowing to finance shortfall in Non Housing Capital Programme, 2018/19	11,149
Borrowing to support Non Housing Capital Programme as at 31 March 2019	20,684

Risks and Opportunities

36. There is 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 during 2018/19 or 2019/20.
37. Key risks in the delivery of the HIP 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 implications for the Asset Management Plan and for future capital budgets and income generation following the completion of the Stock Condition Surveys.
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 within the report.

Author: Jane Greer, Head of Community Wellbeing on behalf of Graeme Bloomer, Head of Place

Finance (Includes ICT)

As contained within the report.

Author: Simon Freeman, Head of Finance

Housing

As contained within 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: Colleen O'Boyle, Interim Head of Governance

Appendices

Annex A – Capital Programmes Quarter 1 Finance Report, 2018/19

Background Papers

None.

Glossary of terms/abbreviations used

HIP – Housing Investment Programme

HRA – Housing Revenue Account

HTS – HTS (Property and Environment) Ltd

MRR – Major Repairs Reserve

RTB – Right to Buy

ANNEX A

CAPITAL PROGRAMMES QUARTER 1 FINANCE REPORT, 2018/19 Update on the Status of Capital Projects

Housing Capital Programme

- A1. Expenditure on the Mulalley External Works Programme (budget carried over from 2017-18) is low at the end June 2018, however, this does not present cause for concern given the contractual payment mechanism that is associated with three large schemes within the Task Order (Longbanks, Moorfields and Northbrooks which have a combined value of c.£2.8m). Payments on these schemes only become due once all elements of works to an entire block are accepted as complete and handed over.

The original construction phase programmes for these three schemes had programme start dates occurring in November and December 2017 with programmed completion dates in July and August 2018. As such, low expenditure as at the end of June 2018 was expected. In addition, we foresee that some level of delay will be encountered on each of these schemes with Moorfields now likely to complete early October. This will impact on spend against programme, with further reduced expenditure being experienced in the short term. This will not affect the long term financial out-turn of the programme within the financial year 2018-19. A cautious approach to assumptions and forecasting is being adopted, but currently it is expected that the programme will be delivered within the budget allocation.

Procurement of new schemes in the 2018-19 External Works Programme is underway. Tender, decision making and consultation periods associated with the procurement of this work, mean that significant spend is not anticipated until after October 2018, with re-forecasting, if required, occurring at the end of September 2018.

A2. **ANNUAL SERVICE CHARGE (ASC) Fixed Prices**

Works to the ASC fixed prices for 2018/19 commenced on the 1 April 2018. The number of units completed at end of June is shown in the table below. Performance shows kitchens and heating ahead of target. The HTS fixed prices budget is fully committed and on track to outturn in full by year end.

Element	Total Annual units agreed	Agreed Total ASC to date	Completed Units to date	Total Value to date	Variance to Profiled Budget
Kitchens	84	£409,728	22	£104,184	£1,752
Re-Wires	45	£107,472	10	£23,187	(-)£3,681
Boiler/ Heating	142	£439,580	54	£162,295	£52,400
Total	271	£956,780	86	£289,667	£50,472

Non-Housing Capital Programme

- A3. The completed stock condition survey will enable a 20 year programme to be drawn up covering the development or disposal of commercial and municipal assets and will help shape and inform the future capital investment requirements for the non-housing asset portfolio.
- A4. IT work in 2018/19 will include the upgrade of the telephony system in the Civic Centre.
- A5. In Community Wellbeing schemes in 2018/19 include the on-going work to refurbish the Playhouse totalling £434,000, work to 21 The Rows (£250,000), schemes in the Town Park (£390,000) and work to the Stow in front of the Moot House (£250,000).
- A6. Included in the Town Park Schemes is the Inclusive Play Scheme approved in 2018/19 with a budget of £200,000 which has secured an additional £11,000 from Essex County Council (ECC) for a new footpath and footpath improvements. This will assist with the creation of the Inclusive Play facility in the Town Park.
- A7. A new van for the Community Rangers is included in the programme with a budget of £30,000.
- A8. Schemes originally approved at the Latton Bush Centre total £361,000 plus a carryover of £173,000 to support the roofing work. In addition there are schemes to replace one of the two boilers (£95,000) and asbestos removal work (£50,000).
- A9. Home Repairs Assistance Loans (estimate £15,000) are made available by the Council to owner occupiers for work to improve their homes.
- A10. The Council's Commercial portfolio in 2018/19 includes work to various properties including Ladyshot Pavilion (£60,000), Barbara Castle Health Centre (£65,000), Leah Manning Centre (£40,000) and work at the Stow and Bush Fair (£391,000).

Replacement of the boilers and control system at Abercrombie Playbarn (£25,000) is required in order to replace the obsolete and inefficient gas boiler. This will mean that there is reliable heating and hot water to the building and will also reduce energy usage and CO2 emissions.

- A11. Other works in Place Services include improvements to the Public Realm in the Town Centre (£205,000), work to Abercrombie Playbarn Roofing (£40,000) and refurbishment of the toilets by Pets Corner in the Town Park (£72,000). Work also continues on the restoration of Oakwood Pond (£15,000).

Renewal of the existing obsolete and inefficient gas boilers providing both central heating and hot water to Sumners Leisure Centre is estimated to

outturn at £78,000, funded from an approved budget of £58,000 and a tenant contribution of £20,000.

- A12. Pending a bid by Science Alive to Heritage Lottery Fund (HLF) for major works to the Museum of Harlow, which may require some level of match funding; health and safety works will be carried out (£20,000) in 2018/19 and the remaining budget carried over (£180,000).
- A13. A budget for Energy Performance Certificates (£20,000) will enable capital works to upgrade commercial properties to meet the minimum E EPC rating in line with the Energy Act (2011) and EU legislation which came into force 1 April 2018. This will increase the sustainability of the commercial portfolio as the regulations will apply from the granting or renewing of leases to tenants. By 2023 properties leased with less than an E rating will be subject to a penalty payment.
- A14. The budget for Civic Centre works is currently reported as a carryover to 2019/20 to enable a programme of work to be drawn up that will achieve value for money for improvements to the building.
- A15. The Regeneration of Prentice Place was approved by Cabinet 31 March 2016 and a business case included in the Non Housing Capital Programme 2017/18. A carryover from 2017/18 of £76,000 will bring the estimated spend for 2018/19 to £3,350,000 financed in part from ring fenced capital receipts (£1,595,000).
- A16. The Council is undertaking a major project to construct premises on the Enterprise Zone with expenditure of £4.195m in 2017/18 and a current estimate of £6.5m 2018/19. The project from 2018/19 will be funded from borrowing. Income will be generated through future business rate receipts.