

REPORT TO: CABINET

DATE: 6 DECEMBER 2018

TITLE: CAPITAL PROGRAMMES, QUARTER 2 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 I008570

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 notes:

- A** The progress in the delivery of the Council's Housing and Non Housing Capital Programmes as at Quarter 1 (30 September 2018) as follows:
- i) Housing Capital Programme –forecast outturn of £19,819,000 (Original Estimate: £18,804,000).
 - ii) Non Housing Capital Programme – forecast outturn of £13,268,000 (Original Estimate: £15,250,000).
- B** That the cost of providing three council homes at The Readings is likely to be £876,000 spanning three financial years, and that the first portion of the project will incur £147,000 in 2018/19 financed by retained receipts (£44,100) and HRA resources (£102,900).

REASON FOR DECISION

- A** To ensure that Cabinet 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.
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.
4. As reported to Cabinet on 13 September, the Housing and Non Housing Capital Programme current budgets are £24,551,000 and £14,727,000 respectively.

ISSUES/PROPOSALS

Asset Management Priorities

5. 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.
6. The HIP programme for 2018/19 continues the work 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.
7. 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.
8. The budget for Fire Safety in Tower Blocks is £1,746,000. This will enable the towns Tower Blocks to be surveyed to identify ad hoc fire stopping works required. However, due to the nature of the work being carried out the anticipated outturn is £750,000 in 2018/19, requiring a carryover of £996,000 to 2019/20.
9. The tragic fire at Grenfell Tower 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. The Council will have to analyse and respond to this.

10. The previous external works programme being undertaken by Mulalley and Company is ongoing. The anticipated completion date of works instructed under this contract is the end of November 2018. However, based on current productivity on site it is unlikely that this will be achieved on a limited number of sites. The additional health and safety related works that were referred to within the previous report to Cabinet have now been quantified and instructed. These works will be funded from within the existing budget of £3,793,000. The process of procuring the new phase of targeted external works to a number of priority sites across the town continues. The first works packages relating to The Hides and The Hornbeams have now been approved by Cabinet and are proceeding to contract. However, the planned programme of works is not expected to complete until 2019/20 requiring an anticipated carryover of £2,294,000.
11. As part of the Council's desire to build new council houses and increase the number of bed spaces available for temporary accommodation, and ensure the units remain compliant, a programme of work is in hand (£304,000). This will result in an additional one bed unit, a two bed unit and four additional bedrooms, for both general needs and temporary accommodation. The work is expected to commence in January 2019 but progress will be subject to weather conditions. In addition, at Sumners Farm Close four units are planned in 2018/19 at a cost of £500,000. Both schemes will be funded from the Housing Revenue Account (HRA) by revenue contribution and from retained pooling receipts.
12. During 2018/19 planning for the further development of council housing is taking place with a view to three new properties being built at The Readings. A business case to build three council homes at The Readings has been received. The total cost of £876,000 will be financed from retained capital receipts (£263,000) and the Council's HRA resources (£613,000). Total expenditure in 2018/19 is anticipated to be £147,000.
13. The Council received a grant to tackle rough sleepers in 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 System Replacement

14. 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, Tylny Croft, Latton House, The Wayre and Toddbrook.
15. In 2017/18, Cabinet approved a contract for HTS (Property and Environment) Ltd 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 £1,174,000 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.

16. Alongside the Heating System Replacement programme a programme of urgent works was 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). Due to the complex nature of the work the replacement programme commenced with a pilot on Willowfield Tower in August 2018 and works to this pilot scheme are due to complete by March 2019. Over the five sites the work affects 248 individual properties (140 tenanted and 108 leaseholders), and includes consultation with residents. Full completion of the project is currently forecasted for March 2020.
17. On 19 July 2018, Cabinet 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). Consultancy costs have increased the anticipated outturn to £2,424,000. Works have progressed well with handover of all sites expected by the end of November 2018.

Housing ICT

18. 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. This programme will be phased over three years with an anticipated outturn in 2018/19 of £162,000.

Housing Capital Programme – 2018/19

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

Table 1 – Housing Capital Programme as at Quarter 2

2018-19 Budget Stage	£000s	Date Approved
Original budget	18,804	1 Feb 18
Carryovers from 2017/18	5,187	19 July 18
	560	
Revised Current Budget	24,551	13 Sept 18

HTS Carryover 2019/20	(-)1,553	
Carryovers to 2019/20	(-)3,744	
Additional expenditure	565	
Forecast Outturn	19,819	

21. 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 £6,724,000.

Table 2 – Housing Capital Programme 2018/19

	Original Budget	Current Budget with carryovers	Projected Outturn	Variance Current Budget (Projected Outturn)	Report Ref.
	£'000	£'000	£'000	£000	
Expenditure					
Internal Works	5,132	5,322	3,778	(-)1,544	22i
Windows & Doors	100	370	370	0	22i
External Works	3,732	7,705	5,461	(-)2,244	Para 10 & 22iii
Damp & Structural Works	200	200	200	0	
Other Works: Asbestos, Garages, Lifts	1,400	1,448	1,832	384	22iv,v & vi
Electrical Upgrades & Fire Safety	500	1,096	997	(-)99	22vi
Fire Safety & Regulation – SE	1,053	1,053	1,053	0	
Ducts removal					
Fire Safety & Regulation – Other work	1,590	1,746	750	(-)996	Para 8
Energy Efficiency	3,312	3,816	3,890	74	Paras 15 & 17
Disabled Adaptations	900	1,079	1,079	0	
Surveyors Fees	422	0	0	0	22ii
Bromley Cottages	0	100	100	0	Para 13
Building Homes: The Readings	0	0	147	147	Para 12
Housing IT Development	463	616	162	(-)454	
TOTAL EXPENDITURE	18,804	24,551	19,819	(-)4,732	
Financed by:					
Capital Receipts: Right to Buy	(-)1,217	(-)1,217	(-)1,217	0	
Retained Receipts	(-)234	(-)242	(-)269	(-)27	

	Original Budget	Current Budget with carryove rs	Projected Outturn	Variance Current Budget (Projected Outturn	Report Ref.
	£'000	£'000	£'000	£000	
Unapplied Receipts	0	(-)1,535	(-)1,535	0	
Major Repairs Reserve	(-)11,439	(-)12,320	(-)9,969	2,351	
Grant	0	(-)100	(-)105	(-)5	
Direct Revenue Contribution	(-)5,914	(-)9,137	(-)6,724	2,413	
TOTAL FINANCING	(-)18,804	(-)24,551	(-)19,819	4,732	

22. Table 2 revised current budget reflects 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. The variance for internal works also includes £54,000 to be carried over to 2019/20 in respect of work to temporary accommodation as set out in paragraph 11.
- b) The establishment of a Technical Services Team within the HRA is funded in part from a reduction in surveyors' fees.
- c) Urgent external works at Hookfield and Dellfield Court require an additional budget of £180,000 which will be recouped in part from leasehold contributions to the work being undertaken.
- d) The increased expenditure of £200,000 for asbestos is as a direct result of works being identified whilst undertaking various capital improvements to both individual and block works across the town. Due to the complex nature of the works currently being undertaken as part of this year's programme, the Council has been required to carry out additional removal and testing.
- e) A review of the works included in this year's capital programme and reprioritisation of schemes within the programme has resulted in an increase to works on tenanted garages that has resulted in an £85,000 increase.
- f) Since 2013, the Council has installed a large number of composite fire doors to its properties that meet building regulations and were considered fit for purpose at that time. Following recent advice from the Ministry of Housing, Communities and Local Government (MHCLG) regarding the safety of composite fire doors, the Council has taken the decision to suspend new fire door installations to all properties. The Council is awaiting further guidance from MHCLG to clarify the specific

door models that are deemed to require further testing and to recommend a suitable replacement product (if required) for the doors that may need to be replaced. The guidance received from MHCLG has confirmed that the risk posed from the installation of composite fire doors is low and the Council will be commencing a further programme of fire risk assessments within this financial year. The budget for new fire door installations within the capital programme will be transferred to the budget for 'other works' until further guidance and test results are received from MHCLG.

23. From 1 February 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.
24. The 2018/19 HTS work programme has been realigned as part of the three year delivery of planned works. Details of the 2018/19 budget are reported in Table 3.

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

Work Packages	Current Contract	2018/19 Projected Outturn	Year 2 Underspend
	£'000	£'000	£'000
Internals	3,380	1,881	1,499
Aids & Adaptations	900	900	
Compliance	757	757	
Contingency	127	127	
Windows and Doors	266	266	
Fire Doors	100	100	
Communal Boilers	1,174	1,174	
Energy Efficiency	330	330	
Garage Doors	50	50	
Lift Replacement	620	620	
Bromley Cottages	100	100	
Property Conversions	305	250	54
Sumners Farm Close	500	500	
TOTAL	8,608	7,155	1,553

25. 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.
26. 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 such as gas, electric, asbestos is compiled and formally handed over. The Council is committed to prompt payment once these processes have been completed.

27. The Original Estimate approved by Council on 1 February 2018 assumed fifty 'Right to Buy' (RTB) sales in 2018/19. Twenty-three RTB disposals had been completed by 30 September 2018.
28. 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 £9,969,000 (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

29. 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 set out in Table 4 below.

Table 4 – Non Housing Capital Programme as at Quarter 2

2018-19 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
	(-)4,519	
Revised Current Budget	14,727	13 Sept 18
Town Centre Funding	100	Annex A12
Current budget	14,827	
Carryovers	(-)612	
Enterprise Zone underspend	(-)733	
Additional Underspends	(-)214	
Projected outturn at 31.3.19	13,268	

30. Further details of expenditure relating to projects are contained within Appendix A to this report, together with financing implications related to these.
31. Estimated capital receipts from asset disposals in 2018/19 (Original Estimate: £824,000) are not expected to proceed due to the move towards council house building. However, some income is anticipated in relation to the disposal of land for the new motorway junction (£11,000). In addition, overage is due from the sale of land at Ram Gorse. The first tranche of £172,000 is expected shortly, however, the timing of receipts is subject to legal process.
32. The Council has been awarded a Disabled Facilities Grant (DFG) for 2018/19 of £740,000 from the MHCLG. This increases the budget available by £205,000, however expenditure is determined by demand and is currently forecast at £466,000, (Original Estimate: £535,000).

33. The carryovers approved in the Housing Capital Programme included an element of carryover for General Fund garages of £77,000 giving a forecast outturn for garages in the Non Housing Capital Programme is £319,000 and is funded by revenue contribution from the General Fund.
34. Estimated internal borrowing to support the core programme in 2018/19 is £2,471,000 (Original Estimate: £2,010,000). The increase is due to approved capital and revenue carryovers from 2017/18, plus amendments to budgets in 2018/19. In addition, there is estimated internal borrowing of £5,790,000 in line with the current forecast of expenditure in 2018/19 for the Enterprise Zone and £1,755,000 to complete work at Prentice Place.
35. Expenditure of £612,000 has been identified in 2018/19 to be carried over to 2019/20 due to delays in the procurement process. An additional £225,000 for the Civic Centre is also to be carried over to 2020/21 in order to have sufficient budget to commence the works required and achieve value for money.
36. 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	3,380	2,804	(-)576	A9- A14
Governance	15	0	0	0	
Finance	236	236	236	0	A4
Community Wellbeing:	1,065	1,338	1,088	(-)250	A5- A8
	3,946	4,954	4,128	(-)826	
Prentice Place	3,273	3,350	3,350	0	A15
Enterprise Zone	8,031	6,523	5,790	(-)733	A16
	11,304	9,873	9,140	(-)733	
Total expenditure	15,250	14,827	13,268	(-)1,559	
Financed by:					
Capital Receipts - Right To Buy	(-)205	(-)205	(-)205	0	
Asset Disposals / Overage	(-)824	(-)624	(-)183	441	
Earmarked Resources	(-)100	(-)143	(-)143	0	
Direct Revenue Contribution	(-)242	(-)620	(-)620	0	

Disabled Facilities Grant-				
Strategic Housing	(-)535	(-)466	(-)466	0
Renovation Loans etc.	(-)30	(-)25	(-)40	(-)15
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	(-)6,523	(-)5,790	733
Prudential Borrowing	(-)2,010	(-)2,871	(-)2,471	400
Total Financing:	(-)15,250	(-)14,827	(-)13,268	1,559

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	10,016
Borrowing to support Non Housing Capital Programme as at 31 March 2019	19,551

Risks and Opportunities

37. There is national concern about fire safety and regulation in tower blocks in the wake of the Grenfell Tower fire. The outcomes from the Public Inquiry are likely to have far reaching consequences, with a potential requirement to totally recast the Housing Capital Programme of works during 2019/20.
38. Key risks in the delivery of the 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.
39. Housing capital funding is affected by reducing rents until 2020.
40. 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.
41. 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

Appendix A – Capital Programmes Quarter 2 Finance Report, 2018/19

Background Papers

None.

Glossary of terms/abbreviations used

DFG – Disabled Facilities Grant

HRA – Housing Revenue Account

HTS – Harlow Trading Services (Property and Environment) Ltd

MHCLG – Ministry of Housing, Communities and Local Government

RTB – Right to Buy