

REPORT TO: CABINET

DATE: 5 DECEMBER 2019

TITLE: CAPITAL PROGRAMMES, QUARTER 2 FINANCE REPORT 2019/20

PORTFOLIO HOLDERS: COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING

LEAD OFFICERS: SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446004

SENIOR MANAGEMENT BOARD (01279) 446004

This is not a Key Decision

It is on the Forward Plan as Decision Number I010146

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 in the delivery of the Council's Housing and Non Housing Capital Programmes as at Quarter 2 (29 September 2019) as follows:
- i) Housing Capital Programme – forecast outturn £21,615,000 (revised estimate £23,743,000).
 - ii) Non Housing Capital Programme – forecast outturn £14,559,000 (revised estimate £19,654,000).
- B** Approve a business case in the Non Housing Capital Programme for new CCTV in Old Harlow (£31,000) to improve the images available to assist with tackling crime and anti-social behaviour.
- C** Approve capital funding in the Housing Capital Programme of £140,000 for the purchase of the 50 per cent interest in an equity share property in Little Pynchons. The Council currently owns a 50 per cent interest and the purchase of the other half interest in the property will add a three bed house to the lettable social housing stock. This purchase falls outside of the rules for the use of retained receipts.

- D** Note purchase of the freehold of Osler House (£200,000) from Harlow Health Centres Trust under an Option Agreement dated 15 January 2016, as part of the development work at Prentice Place.

REASON FOR DECISION

- A** To ensure that Cabinet reviews performance against the Council's approved 2019/20 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 2019, Full Council approved a Housing Capital Programme for 2019/20 totalling £24,044,000 and a Non Housing Capital Programme totalling £11,156,000.
3. The Cabinet meeting on 12 September 2019 approved a revised Housing Capital Programme for 2019/20 of £23,743,000 in line with revised Housing Asset Management priorities. The Non Housing Capital Programme of £19,654,000 (original estimate £11,156,000) includes a budget for Enterprise Zone Plot H 'Modus' of £7,200,000 approved at Cabinet on 20 June 2019.
4. The Council continues to plan ahead using its business planning processes to establish a short, medium and long term Asset Management Plan with programmes of works to its housing stock procured effectively as possible to realise efficiency, make the best use of resources, and maintain compliance with the Government's Decent Homes Standards, manage the growing complexity of meeting local priorities, as well as fulfil its wider regulatory and statutory duties as a responsible landlord.

ISSUES/PROPOSALS

Asset Management Priorities

5. Having achieved the Government's Decent Homes Standard the Council has continued investment through its modern homes programme. The programme includes replacement of district heating schemes, energy efficiency programmes, and commencing a programme of Council house building within the reducing resources available.
6. Previous reviews of the Council's tower block fire risk assessments confirmed that all blocks were inherently safe. However, the budget for 2019/20 enables schemes to continue 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 including related Health and Safety work in tower blocks is £3,224,000. This will enable the Council to continue to tackle more

complex works to ensure the Council's assets remain safe and align to Building Regulation, and Statutory/Regulatory requirements both in the short and long term. Works continue to be identified through inspection regimes, Fire Risk Assessments and advice from Ministry for Housing, Communities and Local Government (MHCLG). This process means that a carryover of £2,000,000 has been identified to enable the work to continue in 2020/21.

8. The previous external works programme being undertaken by Mulalley and Company is complete with a few specific issues to be finalised. The contract requires all sites to have been handed over complete prior to the final payment. A carryover of £623,000 was requested at year end to fund the remaining final account.
9. External works to a number of priority sites across the town continues in 2019/20 with a budget of £2,646,000. Work is currently on-going at five sites with a further site being prepared for inclusion in the programme of work.
10. A further £1,850,000 for other external works includes planned work to leasehold properties to Dellfield Court and work to be carried out under the HTS (Property and Environment) Ltd (HTS) contract. The programme of work to replace water tanks in flat blocks (£100,000) will now be carried out in 2020/21.
11. Other works includes a programme to refurbish or demolish garages across the town or create new parking spaces with budgets, including carryovers, totalling £910,000 across the Housing Revenue Account (HRA) and General Fund capital budgets. The budget for 'Other Works' also includes work to remove asbestos to council dwellings which is forecast to cost £200,000 (original estimate £100,000).
12. In 2018/19 the Council received a Flexible Support Grant (FSG) from the Government. In 2019/20 under round two of the FSG allocation the Council has been awarded a further £360,000 funding which will continue to support this service with £36,000 allocated to support expenditure in the HRA.

Building Council Homes

13. The Council's programme to build new council homes within its HRA, is funded from retained pooled receipts and, when appropriate, external borrowing. This includes:
 - a) Temporary Accommodation: An increase in the number of bed spaces available for Temporary Accommodation. This has resulted in an additional one bed unit, a two bed unit, and four additional bedrooms, for both general needs and temporary accommodation.
 - b) Sumners Farm Close: Planning consent has been approved and the scheme is expected to progress in 2019/20 providing four one bed units.

- c) The Readings: The construction of three units, approved by Cabinet at its meeting on 6 December 2018, with work expected to commence towards the end of 2019/20.
- d) Bushey Croft and Elm Hatch: Preparatory work on Bushey Croft commenced in 2018/19 to deliver 16 additional homes with a budget in 2019/20 of £2,670,000.
- e) Lister House site, Perry Road: The contract for the demolition of the building has been awarded with work due to commence in November at an estimated cost of £350,000 with construction planned for 2020/21.
- f) Planned expenditure and funding from 2020/21 will be in line with the Business Plan and reported in the Capital Estimates report.

Table 1 – Council Home Building Programme 2019/20 (

2019/20			
	Original Estimate (£'000)	Revised Budget (£'000)	Forecast Outturn 2019/20 (£'000)
Existing programme			
Sumners Farm Close	450	461	461
Temporary Accommodation	54	63	72
Planned programme			
The Readings	560	71	71
Bushey Croft	2,621	100	105
Lister House site / Perry Road	31	350	350
Total	3,716	1,045	1,059

Heating Systems Replacement

14. In 2017/18 Cabinet approved a contract for HTS to deliver the replacement of four District Heating Schemes. In 2019/20 HTS has a proposed budget of £1,552,000 to complete works commenced in 2018/19 and facilitate further communal boiler works.
15. 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 scheme at Willowfield Tower in August 2018, works which were complete by the end of July 2019. In 2019/20 the remaining budget for the pilot scheme is £629,000, with £3,000,000 allocated to work on the remaining towers. Over the five sites the work affects 248 individual properties (140 tenanted and 108 leasehold) and includes consultation with residents. Full completion of the project across all tower blocks is currently forecasted for March 2020.

Housing ICT

16. 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 for 2019/20 is £522,000 and will focus on improving and enhancing Homelessness Management together with customer access. However, the work will need to carryover (£300,000) in to 2020/21 to complete this work.

Housing Capital Programme – 2019/20

17. The Housing Capital Programme in 2019/20 will continue to deliver the investment priorities for the Council's housing assets outlined in the approved HRA Business Plan 2018-2048. The governance around programme and project management remains robust and the Council continues to monitor contract performance and delivery making adjustments to the programme as the year proceeds.
18. Table 2 below provides a summary of the approved Housing Capital Programme. It includes carry forwards from 2018/19 and is the current projection of expenditure to 31 March 2020

Table 2 – Housing Capital Programme as at Quarter 2

2019-20 Budget Stage	£000s	Date Approved
Original budget	24,044	7 Feb 19
Carryovers from 2018/19	3,608	18 July 19
Other additions / adjustments	(-)1,104	
	26,548	
Quarter 1 Adjustments	(-)2,805	12 Sept 19
Current Budget	23,743	
Carryovers to 2020/21	(-)2,400	
Other Minor Adjustments	132	
Addition to Stock	140	

Forecast outturn 2019/20	21,615
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19. A more detailed view of the approved Housing Capital Programme is shown in Table 3 below. As a result of the current forecast it is expected that Direct Revenue Financing required from the HRA will be £9,673,000.

Table 3 – Housing Capital Programme 2019/20

	Original Budget	2018/19 Carryovers and adjustments*	Current Estimate	Projected Outturn (revised estimate)	Variance Current Budget (Projected Outturn)	Report Ref.
	£'000	£'000	£'000	£'000	£000	
Expenditure						
Council Home Building	3,716	(-)2,671	1,045	1,059	14	Table 1
Internal Works	3,313	(-)333	2,980	2,980	0	
External Works (Savills)	3,294	(-)25	3,269	3,269	0	8 & 9
External Works (HTS)	1,000	(-)680	320	320	0	10
External Works (Other)	250	1,280	1,530	1,430	(-)100	10
Environment	100	0	100	100	0	
Damp & Structural Works	600	0	600	600	0	
Other Works: Lifts Asbestos, Garages,	894	306	1,200	1,305	105	11
Energy Efficiency (including Boilers)	1,700	13	1,713	1,713	0	14
Compliance & Electrical Upgrades	1,000	1,337	2,337	2,337	0	
Fire Safety Tower Blocks	3,746	(-)522	3,224	1,224	(-)2,000	7
Fire Safety – Pilot Scheme	0	0	629	629	0	15
Fire Safety SE Ducts	3,000	629	3,000	3,000	0	15
Aids & Adaptations	900	375	1,275	1,275	0	
Housing IT Development	531	(-)9	522	222	(-)300	16

	Original Budget	2018/19 Carryovers and adjustments*	Current Estimate	Projected Outturn (revised estimate)	Variance Current Budget (Projected Outturn)	Report Ref.
	£'000	£'000	£'000	£'000	£000	
Communal Boilers (non HTS)	0	0	0	12	12	
Acquisition	0	0	0	140	140	Recommendation C
TOTAL EXPENDITURE	24,044	301	23,743	21,615	(-)2,129	
Financed by:						
Capital Receipts: Right to Buy	(-)953		(-)953	(-)1,532	(-)579	
Retained Receipts	(-)1,115		(-)314	(-)317	(-)3	
Major Repairs Reserve	(-)10,085		(-)10,085	(-)10,092	(-)7	
Borrowing	(-)2,700		0	0	0	
Direct Revenue Contribution	(-)9,191	(-)2,504	(-)12,391	(-)9,673	2,718	
TOTAL FINANCING	(-)24,044	(-)2,504	(-)23,743	(-)21,615	2,129	

20. The projected outturns reflect the planned scope of work in progress and schemes planned for 2019/20.
21. HTS are 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.
22. The 2019/20 HTS work programme has been realigned as part of the three year delivery of planned works. Details of the 2019/20 budget are reported in Table 4 below.

Table 4 – HTS Work Packages 2019/20

Work Packages	Current Contract	Carryovers /Adjustments	Forecast/ revised outturn
	£'000	£'000	£'000
Compliance	1,800	537	2,337
Communal Boilers	1,400	152	1,552
Energy Efficiency		160	160
Aids & Adaptations	900	375	1,275
Externals	320		320
Environment	100		100

Internals	930	986	1,916
Garage Refurbishment (including GF Allocation)	350	117	467
ASC fixed prices	1,014	0	1,014
Sumners Farm: Business Case	0	0	461
TOTAL	6,814	2,327	9,602

23. The Housing Capital Programme has delivered over 50,000 new components such as windows, doors, kitchens, bathrooms and boilers in dwellings between 1 April 2013 and 31 March 2019. The 2019/20 Housing Capital Programme will focus on preventing 102 properties from becoming non-decent within the financial year, as well as delivering a number of additional projects, including district heating systems, lift refurbishments, electrical upgrades, external property refurbishments and aids and adaptations to council properties, in line with Housing's Asset Management short, medium and long term priorities contained within the Business Plan.
24. 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.
25. The original estimate approved by Council 2 February 2019 assumes 40 Right to Buy (RTB) sales in 2019/20 with 27 RTB disposals completed by 29 September 2019. However, applications pending suggest that there will 62 Right to Buy sales in by 31 March 2020 resulting in additional income and therefore finance available of £579,000.
26. At 31 March 2019 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 £10,092,000 in 2019/20 (original estimate £10,085,000). At year end this is transferred to the MRR which, in turn, is utilised to support the Housing Capital Programme.

Non-Housing Capital Programme

27. The Non Housing Capital Programme of £11,156,000 was approved by Council at its meeting on 7 February 2019, which included major works at the Enterprise Zone and Prentice Place. Table 5 details the Non Housing Capital Programme as at Quarter 2.

Table 5 – Non Housing Capital Programme as at Quarter 2

2019-20 Budget Stage	£'000s	Date Approved
Original budget (Core)	3,490	7 Feb 19

Enterprise Zone	5,319	
Prentice Place	2,347	
Approved budget	11,156	18 July 19
Carryovers 2018/19	1,476	
Adjustment re. Prentice Place	(-)188	
Funding contribution – Passmores Wall	10	
Enterprise Zone – Modus	7,200	20 June 19
Current Budget	19,654	
Potential carryovers: Enterprise Zone - Modus	(-)5,200	A14
Enterprise Zone	666	
Business Case CCTV Old Harlow	30	Recommendation B
Latton Bush Boiler Houses	(-)325	A4
Harlow Museum	(-)239	A8
Other minor adjustments	27	
Forecast Outturn	14,559	

28. Further details of expenditure relating to projects are contained within Appendix A to this report, together with financing implications related to these.
29. Estimated capital receipts from asset disposals in 2019/20 are anticipated to be £34,000 plus overage received in respect of private house sales at Ram Gorse which currently totals £609,000 (original estimate £250,000).
30. The Council has been awarded Disabled Facility Grant (DFG) funding for 2019/20 of £798,000 from MHCLG. However, the estimated budget of £500,000 will remain unchanged as expenditure is determined by demand and it is not expected that the estimated budget will be required in full.
31. Estimated internal borrowing to support the core programme in 2019/20 totals £2,324,000. In addition there is estimated borrowing of £8,246,000 to support new and on-going work at the Enterprise Zone and £1,754,000 to complete the refurbishment works at Prentice Place. It is likely that the Council will need to borrow externally to finance expenditure. The amount of external borrowing is estimated at £2,000,000.
32. Details of the Non Housing Capital Programme expenditure and financing are shown in Table 6 below.

Table 6 – Non Housing Capital Programme 2019/20

	Original Budget	Current Budget with carryovers	Forecast Outturn	Variance Outturn to Current Budget	Report Ref.
	£'000		£'000	£'000	
Expenditure:					

Place Services	2,879	3428	2837	(-)591	A4-10
Governance	140	140	140	0	
Finance	36	236	236	0	A11
Community Wellbeing	435	912	942	30	A2-3
Subtotal Core Programme	3,490	4,716	4,155	(-)561	
Prentice Place	2,347	2,158	2,158	0	A12
Enterprise Zone	5,319	5,580	6,246	666	A13
Enterprise Zone "Modus"	0	7,200	2,000	(-)5,200	A14
Sub total	7,666	14,938	10,404	(-)4,534	
Total Expenditure	11,156	19,654	14,587	(-)5,095	
Financed by:					
Capital Receipts / Right to Buy	(-)207	(-)207	(-)207	0	
Asset Disposals/Over age	(-)250	(-)250	(-)643	(-)393	Para 31
Earmarked Resources	0	(-)20	(-)20	0	
Direct Revenue Contribution	(-)156	(-)453	(-)446	7	
Disabled Facilities Grant	(-)500	(-)500	(-)500	0	
Renovation Loans & Contributions	(-)5	(-)5	(-)15	(-)10	A9
Prentice Place capital receipt	(-)593	(-)404	(-)404	0	
Sub Total	(-)1,711	(-)1,839	(-)2,235	(-)396	
Prentice Place borrowing	(-)1,754	(-)1,754	(-)1,754	0	
Enterprise Zone Internal borrowing	(-)5,319	(-)12,780	(-)8,246	4,534	A14
Other borrowing	(-)2,372	(-)3,281	(-)2,324	929	
Sub Total Borrowing	(-)9,445	(-)17,815	(-)12,324	5,491	
Total Financing	(-)11,156	(-)19,654	(-)14,559	5,095	

Risks and Opportunities

33. There is national concern about fire safety and regulation in tower blocks in the wake of the Grenfell Tower fire and the implications the outcomes of the inquiry will have for landlords including Harlow.
34. 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.
35. Housing capital funding has been affected by the nationally imposed rent reductions over the 2016-2020 period.
36. 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.
37. An additional risk in the Non Housing Capital Programme is the cost of removing asbestos as works are undertaken.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

As contained within the body of the report.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT and Properties & Facilities)

As contained within the body of the report.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

As contained within 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: Simon Hill, Head of Governance

Appendices

Appendix A – Capital Programmes Quarter 2 Finance Report, 2019/20

Glossary of terms/abbreviations used

DFG – Disabled Facilities Grant

FSG – Flexible Support Grant

HRA – Housing Revenue Account

HTS – Harlow Trading Services (Property and Environment) Ltd

MHCLG – Ministry of Housing, Communities and Local Government

MRR – Major Repairs Reserve

RTB – Right to Buy