

REPORT TO: CABINET

DATE: 31 MARCH 2016

TITLE: CAPITAL PROGRAMMES QUARTER 3
FINANCE REPORT, 2015/16

PORTFOLIO HOLDERS: COUNCILLOR ROD TRUAN
COUNCILLOR MIKE DANVERS

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM

SIMON FREEMAN, HEAD OF FINANCE
(01279) 446228

This is a Key Decision

It is on the Forward Plan as decision number I004247

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

The recommendations are within the scope of the original budget and Corporate Plan approved by Full Council in February 2015.

This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

- A** Acknowledges the progress made in the delivery of the Council's Housing and Non-Housing Capital Programmes for the third quarter of 2015/16 (as at 3 January 2016) as follows:
- (i) Housing Capital Programme – a projected variation of £3,287,000 below the revised budget (representing -13.09%) due mainly to items carried forward from 2015/16 to 2016/17.
 - (ii) Non-Housing Capital Programme – a projected variation of £864,000 below the revised budget (representing -12.4%).
- B** Acknowledges the performance in delivering the capital programmes, as summarised in Tables 2 and 5 of this report (reference paragraphs 6 and 22).
- C** Approves the following new business cases, as detailed in paragraphs 17 to 19 of this report:
- (i) Harlow Transformation Project to upgrade the software on which benefit claims are based, funded from reserves (£119,000).
 - (ii) Management of a biodiversity scheme at Parndon Lock Meadows which is fully grant-funded by the Land Trust (£56,000).
 - (iii) Work to a retaining wall at Sumners Hatch which has health and safety implications for the area (£11,000).

REASON FOR DECISION

- A To ensure that Cabinet reviews performance against the Council's approved 2015/16 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 Cabinet each quarter. Further monthly monitoring and review is formally conducted by Corporate Management Team and Heads of Service to ensure close supervision over the Council's financial position throughout the year.
2. In February 2015 Council approved a Housing Capital Programme for 2015/16 totalling £26,772,000 and a Non-Housing Capital Programme totalling £5,840,000.
3. The Housing Capital Programme in 2015/16 continues to deliver the significant investment plans for the Council's housing assets and builds upon the Decent Homes standard.

SUMMARY OF THE QUARTER THREE CAPITAL PROGRAMMES' FINANCIAL PERFORMANCE, 2015/16

Housing Capital Programme

4. At December 2015 the projected outturn is £21,816,000, being £3,287,000 below the revised budget approved within the HRA Business Plan on 4 February 2016 (£4,956,000 below the original annual programme, prior to adding in any carry-overs from 2014/15).

TABLE 1. Housing Capital Programme as at Quarter 3

2015-16 Budget Stage	£000s	Date Approved
Original budget	26,772	5 Feb 15
Carryovers from 2014/15	76	23 Feb 15
	26,848	
2015/16 Revisions Quarter 1	201	17 Sept 15
2015/16 Revisions Quarter 2	(1,946)	
Revised Budget	25,103	4 February 16
Projected Outturn as at Quarter 3	21,816	
Variance from Revised Budget	(3,287)	Below budget

5. The variance is due to following factors:
 - (i) the final account for the Pathfinder Scheme is still to be completed but is

expected to outturn at £2.1m in 2015/16, an increase of £255,000 against the revised estimate. The shortfall in financing in 2015/16 will be met from increased grant funding of £179,000 from Programme of Development funding and additional retained receipts of £76,000 from CLG.

- (ii) a carryover of £3.0m has been identified in respect of external works, (see Appendix A paragraphs A5 and A6). This will have the effect of reducing leaseholders' contributions by £480,000 in 2015/16. However, the revised work schedule means that there will be additional income in 2016/17 giving a total projected income from leaseholders of £1,818,000 over the two years.
- (iii) a carryover of £400,000 on work to kitchens, bathrooms, heating and electrics due to contractor resourcing and performance. Measures are now in place to ensure that the revised work plan will achieve the agreed outcomes.

6. A summary of the forecast outturn expenditure for individual projects in the Housing Capital Programme in 2015/16, together with their financing, is given in Table 2. Further details of each project are contained within Appendix A of this report.

TABLE 2
Housing Capital Programme 2015/16

	Original Estimate including carryovers Feb 2015	Revised Budgets	Net Spend-to-date	Projected Outturn	Variance Projected outturn to revised budget	App'x A Details
	£000s	£000s	£000s	£000s	£000s	
Internal Works	6,330	7,543	3,970	7,138	-405	A2/3
Structural: Barley Croft and Lower Meadow	3,286	1,000	687	850	-150	A1
Windows & Doors	3,530	3,100	1,165	3,100	0	A4
Damp & Structural Works	152	174	97	136	-38	
External Works	4,420	4,509	589	2,085	-3,000	A5/A6
Environmental Works	51	141	0	141	0	
Other Works	1,496	2,027	1,240	2,053	-26	
Leasehold Works	576	576	0	0	0	
Electrical Upgrades and Fire Safety	1,011	1,071	250	1,071	0	
Energy Efficiency	1,769	683	451	683	0	
Disabled Adaptations	809	965	464	978	13	
Pathfinder Project – New Build	1,856	1,845	2,098	2,110	265	A10
Total Fees	1,256	1,214	945	1,216	2	
Housing IT Development	306	256	116	256	0	
TOTAL EXPENDITURE	26,848	25,103	12,071	21,816	(3,287)	

Continued overleaf

	Original Estimate including carryovers Feb 2015 £000s	Revised Budgets £000s	Net Spend-to-date £000s	Projected Outturn £000s	Variance Projected outturn to revised budget £000s	App'x A Details
Financed by:						
Capital receipts – Right to Buy	1,338	1,574		1,574	0	
Retained Capital Receipts	551	553		633	80	
Major Repairs Reserve	11,270	10,811		10,811	0	
Leaseholder Contributions	486	600		120	(480)	
Grant Funding	1,017	1,067		1,252	185	
Direct Revenue Contribution	12,186	10,498		7,426	(3,072)	
TOTAL FINANCING	26,848	25,103		21,816	(3,287)	

7. The spend-to-date indicates that the forward forecast is expected to be delivered in the fourth quarter. This is consistent with previous years.
8. The Council only pays for completed work when it is signed off by an independent clerk of works. However there is a time lag with this invoicing due to the necessary requirement that works can only be invoiced once they are satisfactorily completed and all associated paperwork/certification (gas, electric, asbestos etc.) compiled and formally handed over. This protects the Council from future complaints and liability but has had an impact on the actual expenditure reported to date. The Council is committed to prompt payment once these processes have been completed. As at Quarter 3 there is £726,000 approved ready for payment.
9. The original capital programme had assumed 60 “Right to Buy” (RTB) sales in 2015/16. As at 3 January 2016, 48 RTB disposals had been completed. However, analysis of applications in progress indicates that the level of sales could reach 69 in 2015/16. The impact of this projection on the financing of the Housing Capital Programme increases the capital receipts from RTB sales to £1,574,000. The sale of properties continues to be driven by the Government’s re-invigoration of RTB sales which increased the discount available and has raised tenant awareness. Incentives included a reduced qualification time limit, from five years to three years, before a tenant can buy their property. There is currently no evidence that this reduction has had a significant impact on the planned or actual RTB sales.
10. The external works programme includes work to leasehold properties, which gives rise to income from leaseholders to support the capital works. However, due to the carryover of external work to 2016/17 the estimated income from leaseholders will reduce to £120,000 for 2015/16 (revised estimate £600,000).
11. The reduction in the direct revenue contribution is due to the reduced level of support required by the Housing Capital Programme from the HRA as a result of the additional carryover of capital works to 2016/17.

12. At 31 March 2015 there was a nil balance on the Major Repairs Reserve (MRR). Under proper accounting practice, the charge to the HRA for depreciation, now projected to be £10.811million in 2015/16, is transferred to the MRR which, in turn, is utilised to support the Housing Capital Programme for an equivalent sum.

Non-Housing Capital Programme

13. At Quarter 3 the projected outturn is £6,076,000, being £864,000 below the revised budget approved in December (£257,000, above the original annual programme prior to any carry-overs from 2014/15).

TABLE 3. Non Housing Capital Programme as at Quarter 3

2015-16 Budget Stage	£000s	Date Approved
Original budget	5,840	5 Feb 15
Carryovers from 2014/15	883	23 Feb 15
	6,723	
2015/16 Revisions Quarter 1	60	17 Sept 15
2015/16 Revisions Quarter 2	162	
Revised Budget at Quarter 2	6,961	10 Dec 15
Projected Outturn as at Quarter 3	6,097	
Variance from Revised Budget	(864)	Below budget

14. The Non-Housing Capital Programme of work enables the Council to meet its statutory, contractual and health and safety obligations. Included within the carry forward of £883,000 are grant-funded schemes amounting to £570,000.
15. The net variance of £864,000 under budget is due mainly to the following factors:

TABLE 4. Non-Housing Capital Programme - Major Variations Quarter 3

	£000s	£000s	App'x A /Reference
New schemes:			
Parndon Lock Meadow biodiversity		56	Para 17
Harlow Transformation Project – software upgrade		119	Para 18
Sumners Retaining Wall		11	Para 19

	£000s	£000s	App'x A /Reference
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Table continued overleaf

Commercial properties: Re- roofing Latton Bush Centre – majority of work carried over to 2016/17	(90)		
Refurbishment of vacant commercial properties at The Stow - final outturn	(78)		
Re-roofing at The Stow and Bush Fair proposed carryover to enable work to commence in 2016/17	(205)		
Windows and Doors at the Stow and Bush Fair – final outturn		52	
Other schemes: to carryover			
Pitch Regeneration – grant funded	(500)		
Playhouse Glazing	(75)		
Estate Flood Alleviation work – committed works	(26)		
Community Map Pro scheme to update the environmental database – in part EU funded	(13)		
Disabled adaptations and Repairs Assistance - carryover	(60)		
Other minor variances	(55)		
	(1,102)	238	
TOTAL			(864)

16. Further details of expenditure relating to projects are contained within Appendix A of this report, together with financing implications related to these.
17. A new business case in respect of work at Parndon Lock Meadows is included in the programme whereby Harlow Council, under a five-year management agreement, is the managing agent responsible for the delivery of biodiversity infrastructure and land management improvements to enhance the biodiversity value of the site and improve recreational access and education for the public. The scheme is fully grant funded (£56,000) by the Land Trust.
18. The software supporting the system used by the Revenues and Benefits Team requires an upgrade to improve and modernise the handling of benefit claims. The work planned, known as the Harlow Transformation Project, will be fully funded from reserves accumulated for this purpose.

Estimated cost £119,000.

19. Also included in the programme is a business case to address health and safety issues around a retaining wall at Sumners Hatch. The work will replace a defective brick wall which is part of the landscaping at the front of Sumners Hatch. The estimated cost of £11,000 is included in the projected Non Housing Capital Programme outturn.
20. Projected asset disposals to support the Non-Housing Capital Programme are forecast to be £600,000 for the sale of land at Ram Gorse (Rugby Club) in 2015/16. The disposals that were included in the original estimate 2015/16 are now scheduled for disposal in 2016/17 (£874,000).
21. Estimated internal borrowing in 2015/16 is £1,771,000 (original estimate £1,772,000).
22. Details of the Non-Housing Capital Programme expenditure and financing are given in Table 5.

TABLE 5
Non-Housing Capital Programme 2015/16

	Original Estimate Feb 2015	Revised Budget (including carryovers)	Net Spend to Date	Projected Outturn	Variance: Projected Outturn to Revised Budget	Details in report or APP'X A
	£000s	£000s	£000s	£000s	£000s	
Expenditure:						
Governance	15	0	0	0	0	
Finance	236	174	59	297	123	A13-A14
Community Wellbeing	1,438	1,003	177	486	-518	A15-A16
Place Services	2,203	2,658	634	2,198	-460	A17-A20
Place Services (Town Park HLF)	1,300	2,158	1,772	2,158	0	A21-A22
GF Garages	648	258	104	248	-10	
Latton Farm	0	710	0	710	0	A24
Total expenditure	5,840	6,961	2,745	6,097	-864	
Financed by:						
Capital Receipts - Right To Buy	204			199		
Asset Disposals	1,124			600		A24
Direct Revenue Contribution	719			396		
Earmarked Resources	1,693			2,803		
Disabled Facilities Grant- Strategic Housing	323			323		
Renovation Loans	5			5		
Prudential Borrowing	1,772			1,771		

Total Financing:	5,840	6,097
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Impact of Prudential Borrowing	£000s
Borrowing to support Non-Housing Capital Programme as at 31 March 2015	2,795
New borrowing to finance shortfall in Non-Housing Capital Programme, 2015/16	1,771
Projected Borrowing to support Non-Housing Capital Programme as at 31 March 2016	4,566

Risks and Opportunities

23. 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 greatly increased housing capital programme with changing priorities.
24. Housing capital funding is at risk from the proposed rent reduction to tenanted properties announced in the Government's Summer Budget. This has major implications for the 30 year HRA Business Plan, which was approved by Council on 4 February 2016.
25. Although the Council undertook an extensive housing property stock condition survey, it did not expose roof areas which, upon more detailed examination, have revealed a number of fire risks. The additional cost which may arise will have an impact on the programme and timing of delivery of the programme (see Appendix A paragraphs A5 and A6).
26. Key risks in the Non-Housing Capital Programme are centred around the outcome of the stock condition surveys and reviews including the result of the local plan review and the implications for future capital budgets.

IMPLICATIONS

Place Services (includes Regeneration)

Contained within the body of the report.

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

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**

Glossary of terms/abbreviations used

CLG	Department of Communities and Local Government
EA/ DDA	Equality Act and Disability Discrimination Act
EU	European Union
FMS	Financial Management System
HLF	Heritage Lottery Fund
HRA	Housing Revenue Account
JVCo	Joint Venture Company (i.e. the arrangement the Council has with Kier Harlow Ltd)
LBC	Latton Bush Centre
MRR	Major Repairs Reserve
RTB	Right-To-Buy
SCAPE	Scape is the procurement vehicle owned by a number of Midlands based Local Authorities.

CAPITAL PROGRAMMES QUARTER 3 FINANCE REPORT, 2015/16
Update on the Status of Capital Projects

Housing Capital Programme

- A1. Within the original estimate for Internal Works there was an allocation of £3.2m for Barley Croft and Lower Meadow to facilitate extensive refurbishment works. Following consultation with residents a revised scope of works was agreed to include internal works to boilers, kitchens and bathrooms and windows. The scheme completed in 2015/16 with a revised budget requirement of £1.0 million. The outturn is now expected to be £850,000 based on the draft final account.
- A2. As a result of the reduced budget requirement for the Barley Croft and Lower Meadow works additional works of £1.2m were planned for properties not originally on the work plan for 2015/16. This brings forward work from future years but is a reduction on an earlier forecast to enable other priorities in the programme to be met. Within the revised projected outturn of £7m there is an allowance for the settlement of final accounts due to the two contractors no longer engaged on internal work.
- A3. Internal works at Quarter 3 are behind schedule due to contractor issues, arising from delays at the beginning of the programme of work in 2015/16. This has resulted in the need to carryover £400,000 to complete the work in early 2016/17.
- A4. The Windows and Doors contract for 2015/16 was included in the SCAPE funded programme to be carried out by Kier Harlow. Following a pilot programme in 2014/15 it was expected that the work could be undertaken within a budget of £3.1m. (original estimate £3.53m). Despite being behind schedule at Quarter 3 full outturn against budget is anticipated at 31 March 2016, however, the programme of work will not fully complete until 2016/17 and a budget for this is included in the 2016/17 estimate.
- A5. Preparation work for the external works contract has identified that a substantial number of properties have roofs of a non-standard construction and may require additional unforeseen work to mitigate fire risks. Work continues to understand the legal, planning and budgetary implications. If roofs with non-standard construction are limited in number it is anticipated that the original external works budget of £4,420,000, together with the leasehold element of the works of £576,000, will be sufficient to meet the likely costs. However, if this type of construction is more widespread, the estimated costs and timescale for replacement will be reported to Cabinet

later in the year and programmed for years 3 and 4 of this 8 year programme.

- A6. The original intention to have an eight year planned programme of external works has had to be reassessed following the outcome of the four pilot schemes, leasehold consultation and the reduction in the funding available to the capital programme in future years following the statutory 1% rent reduction from 2016/17. The pilot schemes and leasehold consultation identified a number of factors relating to specification, cost, quality standards, roofing issues, and tenant and leaseholder expectations which has meant a reprogramming of work such that a carryover to 2016/17 of £3m was identified at Quarter 3.
- A7. Following Cabinet approval on 26 March 2015, Kier Harlow Ltd has been awarded housing works packages under the SCAPE National Minor Works Framework up to a value of £5,863,800 per annum. This is EU procurement compliant and covers internal work to properties including windows and doors, disabled adaptations and garages.
- A8. These packages have been aligned to link closely to local area investment planning. This will reduce the impact of delivering multiple works to tenants' properties and should alleviate potential issues with access whilst providing a more efficient service.

SCAPE Works Packages	Work Content	Value (£)
Internal works	Kitchens, Bathrooms, Heating and Electrical work	949,612
Internal works	Emergency Heating Installations	8,266
Internal works	Fuse Pulling	150,000
External works	Windows and Doors	3,100,188
External works	Damp and structural	21,086
Related Assets	Garage Improvement Programme	491,197
Lifts	Sumners Farm and Morris House	130,000
Disabled Adaptation Works	Various major and minor adaptations	809,000
Non-Housing Capital Programme: Garages		204,451
	Total	5,863,800

- A9. Forming part of the 2015/16 housing capital programme are the JVCo fixed price works allocated to Kier Harlow through the annual service charge. This work is undertaken in void properties and is estimated to deliver improvements as follows:
- 85 kitchens,
 - 51 rewires,
 - 137 boiler / heating upgrades
- A10. The contract for a Pathfinder Project was approved in October 2013. Eighteen new houses have been completed at Felmongers, Fesants Croft and The Hill and are now subject to offers to potential tenants. The projected final account is £3,325,000 (revised estimate 2014/15 £2,856,000). Funding for the scheme is from retained RTB capital receipts and grant income, drawn from

Non-Housing Capital Programme

A11. Officers have now drawn up plans to carry out a series of stock condition surveys of Non-Housing stock over the next two years. The contract for phase one was awarded in January 2016 with work commencing on 1 February 2016. The work will take 4 months to complete and will cover 60 properties including Latton Bush Centre, the Advice Centre and the Civic Centre.

A stock condition report and theatre management report commissioned in 2015/16 form the basis of a business case included in the Capital Estimates Report 2016/17 and approved by Council 4 February 2016.

A separate stock condition survey and dilapidation survey in respect of Mead Park Depot was undertaken in 2015/16 and the report received mid January 2016. It details the work required to be carried out now and over the next 20 years. The general condition of the depot complex is good.

A12. The survey work will enable a schedule of non-housing assets for development or disposal to be produced and will also help shape and inform the future capital investment requirements for the non-housing asset portfolio.

A13. Delays to planned IT work in 2014/15 resulted in the carryover of schemes to facilitate upgrades to the ICT infrastructure, software and backup solutions, totalling £104,000 which will now be completed in 2015/16. Within these schemes the proposed backup and disaster recovery work specification were finalised and agreed by a Waiver Report (10 August 2015) to the Portfolio Holder, amending the budget to £36,000 (original carryover £28,000).

A14. Preparation for the upgrade to the Financial Management System, Agresso is underway. On 28 January 2016, Cabinet approved the contract for implementation of the upgrade. Preparatory work will commence during 2015/16, however, the major part of installation will be carried out in 2016/17, to ensure closedown of accounts is not affected, resulting in a carryover of £170,000.

A15. In Community Wellbeing new schemes in 2015/16 include the purchase of a new van for the Community Rangers which is due to be delivered by 31 March 2016. In addition there are various schemes to support work being undertaken in the Town Park. At the Playhouse the scheme to renew the windows is being reviewed due to cost implications resulting in a carryover of £75,000 at year end.

A16. A Business Case for the purchase of a new Stage Control Desk (£44,000) at the Playhouse was approved by Chief Operating Officer decision 10 August 2015. The equipment was installed in November and

was necessary due to the failure of the existing equipment and the crucial role the Control Desk has in the co-ordination of performances.

- A17. Cabinet approved a report (23 July 2015) to upgrade ten existing plots at Fern Hill Lane Travellers Site. There are twenty-two plots in need of upgrade at an estimated cost of £628,000. A grant application for £490,000 has been approved by the Homes and Community Agency to carry out work to twelve plots. The cost of the refurbishment of the other ten plots will be met by Essex County Council and Harlow Council, each providing up to £70,000 (50%) of the cost.
- A18. The approved budget for Disabled Facilities work to owner occupied properties is £610,000 which is supported by a grant from Communities and Local Government (CLG) of £323,000 for 2015/16. The Council has a statutory duty to carry out disabled facilities work to both tenanted and private properties. It is anticipated at year end that although the budget will be fully committed a carryover of £43,000 will be required to complete work to properties in 2016/17.
- A19. Home Repairs Assistance Loans are made available by the Council to owner occupiers for work to improve homes which are repayable when the property is sold. Demand for such loans has increased in recent years such that a budget of £25,000 has been allocated from the 2015/16 Disabled Adaptations Budget.
- A20. Work to refurbish two offices and the reception area at Latton Bush Centre is in progress. The funding of £15,000 was drawn from the approved funding pot for Latton Bush Centre and is in two parts, one to refurbish two offices which will maintain income from office rentals and the second to provide a new reception area which will also improve security for the staff.
- A21. Work on the capital contracts to restore the Town Park are almost complete. The landscaping contract is complete after undertaking extensive works across the Park including introducing new paths and restoring the water garden area. The capital build contract is also almost complete. Pets Corner has reopened after refurbishment which has included a new Events Barn, new surfacing and a reconfigured layout. Two new entrances are still to be installed. Work on the bandstand has been completed except for renewing the concrete at the front of the stage. Work to the new Learning Centre and the refurbishment of Spurriers House is on-going.

Changes and variations to both the landscape contract and the building contract due to several unforeseen changes and the complexity of the project means that the expected final account for the two contracts is £2,134,000. This will require additional funding of £281,000 which will be funded through the HLF contingency fund and additional grant funding of £136,000 agreed at the beginning of the project.

Projected outturn for 2015/16 is £2,158,000 (original estimate £1,648,000).

- A22. External grant funding for the Town Park is £2,580,000 which with additional grant funding of £136,000 and approved contribution from the Council of £195,000 gives a total scheme budget of £2,911,000.
- A23. Carryovers in the Non Housing Capital Programme identified at Quarter 3 total £979,000 including £500,000 of grant funding.
- A24. In March 2015 Cabinet approved the sale of land at Ram Gorse and the purchase of land at Latton Farm to enable Harlow Rugby Club to move to a larger site. Housing will be built at Ram Gorse, including a proportion of social housing to which the Council will have nomination rights. The Council estimated a capital receipt of £600,000 to offset the anticipated overall cost of £710,000 (including stamp duty). The purchase and financing is included in the non-housing capital programme. A capital receipt from overage arising on the sale of the properties (estimate £200,000) is included in the forward forecast.
- A25. Projected asset disposals to support the Non-Housing Capital Programme are forecast to be £600,000 for the sale of land at Ram Gorse (Rugby Club) in 2015/16. The disposals that were included in the original estimate 2015/16 are now scheduled for disposal in 2016/17 (£874,000).