

Report to the Finance and Performance Management Cabinet Committee



Report reference: FPM-002-2015/16
Date of meeting: 18 June 2015

**Epping Forest
District Council**

Portfolio: Finance

Subject: Provisional Capital Outturn 2014/15

Responsible Officer: Teresa Brown (01992-564604)

Democratic Services Officer: Rebecca Perrin (01992 564532).

Recommendations/Decisions Required:

- (1) That the provisional outturn report for 2014/15 be noted;**
- (2) That retrospective approval for the over and underspends in 2014/15 on certain capital schemes as identified in the report is recommended to Cabinet;**
- (3) That approval for the carry forward of unspent capital estimates into 2015/16 relating to schemes on which slippage has occurred is recommended to Cabinet;**
- (4) That approval for bringing forward allocations from 2015/16 in respect of a small number of capital schemes on which expenditure has been incurred ahead of schedule is recommended to Cabinet; and**
- (5) That approval of the funding proposals outlined in this report in respect of the capital programme in 2014/15 is recommended to Cabinet.**

Executive Summary:

This report sets out the Council's capital programme for 2014/15, in terms of expenditure and financing, and compares the provisional outturn figures with the revised estimates. The revised estimates, which were based on the Capital Programme, represent those adopted by the Council in February 2015.

Appendix 1 summarises the Council's overall capital expenditure and funding in 2014/15. Expenditure on Council-owned assets is analysed over the four directorates within the General Fund and identifies Housing Revenue Account (HRA) capital expenditure separately. Underneath this are the total sums advanced in the form of Capital Loans and the Revenue Expenditure Financed from Capital under Statute (REFCuS).

Information on individual projects or programmes is given on Appendix 2 for the General Fund Capital Programme and Appendix 3 for the HRA Capital Programme, Capital Loans and Revenue Expenditure Financed From Capital under Statute. Overspends and underspends are shown in the third column of each appendix and these are identified as budget overspends,

savings, carry forwards or brought forwards on a project-by-project basis in columns four to six. In some instances, other changes are recommended; these are identified in column seven and explanations are given in the report. The carry forwards and brought forwards represent changes in the timing and phasing of schemes and the movement of estimates between financial years rather than amendments to total scheme estimates.

An analysis of the funds used to finance the Council's capital expenditure in 2014/15 is also given in Appendix 1, detailing the use of government grants, private funding, capital receipts and direct revenue funding. The generation and use of capital receipts and Major Repairs Fund resources in 2014/15 are detailed in Appendix 4.

Reasons for Proposed Decision:

The funding approvals requested are intended to make best use of the Council's capital resources that are available to finance the Capital Programme.

Other Options for Action:

The Council's current policy is to use all HRA capital receipts from the sale of assets other than Right to Buy Council House sales to fund the Council's house building programme. However, Members have the option to use these capital receipts for other HRA or General Fund schemes if they chose. This option has been rejected to date because, unless HRA receipts are applied to affordable housing schemes, 50% of each receipt would be subject to pooling i.e. the council would have to pay 50% of these receipts to central government.

Another option would be to finance more of the 2014/15 HRA capital expenditure from usable capital receipts. This option was rejected because the Direct Revenue Funding (DRF) level, previously referred to as Revenue Contributions to Capital Outlay (RCCO), suggested in this report is affordable within the HRA, according to current predictions, and greater use of usable capital receipts for HRA purposes would have the effect of reducing scarce capital resources available for the General Fund.

Report:

Capital Expenditure

1. The Council's total investment on capital schemes in 2014/15 was £20,114,000, compared to a revised estimate of £24,092,000. The largest underspends were experienced on General Fund projects, details of which are shown on Appendix 2. In particular, there was an underspend of £1,000,000 on the St John's Road Development scheme as the land purchase and asset negotiations planned to enable the proposed development of this site, have not taken place yet. As a consequence the full £1,000,000 set aside to for this scheme is requested for carry forward to 2015/16. In addition, there was another large underspend of £448,000 on the Museum redevelopment scheme, for which Heritage Lottery funding has been secured. This was due to the start-on-site date for the extension works being later than anticipated due to a delay in the purchase of the lease as well as additional cost reviews, which took place ahead of issuing the contract. A carry forward of £448,000 to 2015/16 is requested.

2. Within the Resources Directorate, there was also a significant underspend of £557,000 on the planned maintenance programme. Last year a total of 24 schemes were undertaken, mainly at the civic offices. The largest underspends relate to the installation of the new windows in the main building and the solar panels. The window replacement programme slipped into 2015/16 due to problems with the manufacturer and the installation of the solar panels has been postponed to July 2015 to allow for the completion of the replacement windows programme first. Other projects, which have slipped into this financial year include;

the installation of a new electrical management system and a new voltage regulator at the Civic Offices; and acoustic reduction works and work on the plant room at the Limes Centre. It is recommended that the full underspend on the planned maintenance programme is carried forward.

3. Expenditure on the Information and Communication Technology (ICT) Programme was £424,000 last year compared to a revised budget of £533,000. The £109,000 underspend relates primarily to the installation of the new disaster recovery system and replacement of the host servers. Although the new host servers were delivered last year, they take a while to be installed properly, and this process is underway. Once complete, the older hardware will be released for use for the disaster recovery system. All other ICT schemes were completed in 2014/15 and were within budget. It is recommended that the underspend be carried forward to 2015/16.

4. The 2014/15 Resources Capital programme also included a budget of £40,000 for an enveloping machine; this was purchased last year within budget. A further allocation of £12,000 was approved in 2015/16 for the purchase of a franking machine; this was purchased at the end of March for a sum of £10,000 and was therefore charged to 2014/15. It is recommended that the full allocation of £12,000 be brought forward from 2015/16 and that the saving of £2,000 be acknowledged in 2014/15.

5. Within the Governance Directorate, all projects have progressed well apart from the St John's Road Development mentioned in paragraph 1 above. The purchase of the Torrington Drive lease was completed successfully; with a small overspend of £1,000. The property management system and document scanner were both purchased last year within budget. Work on new developments is also progressing, most notably on the Langston Road development, for which a report will be presented to Cabinet later this year. Some initial fees were incurred in 2014/15 in respect of the new depot at Oakwood Hill and construction is planned later this financial year. The budget for capital works on the investment properties was set aside for the upgrade of the industrial units at Oakwood Hill. However, last year, urgent capital works were required on the shops at Roundhills and £28,000 of this budget was utilised to cover this. As the work to upgrade the Oakwood Hill units is still at the consultation stage, the budget required is uncertain. Should the remaining budget set aside for these works be insufficient, a report will be submitted to Cabinet. Appendix 2 gives details of those schemes under the Governance Directorate in 2014/15 for which unspent allocations are recommended for carry forward to 2015/16. It also identifies those schemes for which retrospective approval is sought to bring forward allocations from 2015/16.

6. The two largest underspends within the Neighbourhoods Directorate relate to work on the Councils parking schemes and the upgrade of the pay and display machines in car parks. Expenditure on parking schemes was lower than anticipated due to delays on the Buckhurst hill review. With regard to the project to extend the replacement of new pay and display machines to all Council car parks, no expenditure was incurred in 2014/15 but the project is now progressing and the machines are expected to be operational by July 2015. Carry forwards on both projects are therefore sought.

7. The capital allocation for waste management equipment was set aside primarily for new refuse and recycling bins. However, the Council is now operating a stock account for bins through new arrangements with Biffa. Members agreed to utilise some of the 2014/15 allocation for essential IT work necessary for the integration of Biffa's computer system with the councils IT platform. Biffa made a contribution of £18,000 towards this work. It is recommended that the remaining budget of £48,000 be carried forward to 2015/16.

8. The 2014/15 allocation for improvement works associated with the North Weald airfield market represents the total underspent balance on the account at the beginning of the year.

Only £5,000 was spent last year and plans have been made to install a new CCTV system in 2015/16. Members are requested to approve a carry forward of £15,000 as a contribution towards the CCTV system and approve the use of the remaining £24,000 for maintenance works.

9. The final two allocations within the Neighbourhoods Directorate last year were for flood alleviation works and grounds maintenance vehicles. Both show a small overspend and Members are asked to retrospectively approve £8,000 of the 2015/16 allocation to be bought forward for flood alleviation works. However, the extra £2,000 allocation for grounds maintenance vehicles does not represent an overspend as such because it was offset by the trade-in sums received for old vehicles.

10. With regard to the Communities Directorate, three schemes showed underspends. One was the Museum which has been discussed in paragraph 1. The other two are the off-street parking schemes on housing land and CCTV systems. The off-street parking schemes are joint funded between the General Fund and the HRA, depending on the split between sold properties and Council properties. The program is progressing well with phase 5 nearing completion. As the program is ongoing, it is recommended that the 2014/15 underspend of £66,000 is carried forward to 2015/16. With regard to the CCTV upgrade program, most works were completed on schedule last year but two schemes are outstanding which will be completed this year. Again, this is an ongoing program and a carry forward of the £20,000 underspend is requested.

11. Finally, some additional capital works had to be carried out at the Waltham Abbey Astroturf pitch. This was primarily due to drainage and security issues. Members are requested to approve a retrospective overspend of £10,000 on this project.

12. With regard to capital expenditure on the Council's HRA assets, A total of £13,851,000 was invested compared to a revised estimate of £15,219,000; this represents a 9% underspend. In comparison with 2013/14, however, expenditure is up by 30%. This is partly because the building works on the house building and conversions programme is now underway. In addition to this, capital investment in Council dwellings has continued to increase in order to achieve the higher modern homes standard.

13. Appendix 3 shows how actual costs compared to budgets allocated for each category of work within the HRA capital program. It shows that the largest underspend in 2014/15 was on the kitchen and bathroom replacement programmes. The vast majority of the £501,000 underspend occurred because a quarter of kitchen replacements planned for 2014/15 had to be placed on hold pending clearance of tenant arrears and other matters. In addition to this a further 5% of the properties programmed for kitchen replacements became vacant and, as a consequence, the kitchens in these properties were replaced under the voids refurbishment program. This resulted in an overspend on the voids program which partially offset the underspend on the kitchen replacement program. It is recommended that the full underspend is carried forward, pending a re-assessment of the budget as part of the Capital Review to be undertaken in the autumn.

14. The second largest underspend was experienced on the new house building and conversions program. Work is now well underway on all four sites of Phase 1 of the house building programme and also on the conversions at Marden Close and Faversham Hall. However, progress in the first few months was slower than planned due to the need for soil investigation works and design negotiations with the contractor. A carry forward of the full £436,000 underspend is sought to complete works on these projects.

15. Two further areas that experienced significant underspends were the window and door replacement programme and the major roofing works. The start on the front entrance door

replacement program was delayed while a new specialist contractor was appointed. The roofing program was also delayed due to works being undertaken by utility companies, which resulted in road closures. Both these programs are now progressing and are due to be completed this financial year. Again, it is recommended that the underspends of £205,000 and £114,000 respectively be carried forward, pending the review of budgets later this year.

16. The variations between actual expenditure and revised estimates are less significant on the other categories of HRA capital work undertaken; details of which are given in appendix 3. Members are asked to approve the carry forward of the unspent sums identified on all categories of work within the HRA where slippage has occurred. Members are also asked to retrospectively approve bringing forward allocations in respect of work carried out ahead of schedule as indicated.

17. With regard to the Capital Loans provided by the Council for private housing assistance, a total of £65,000 was advanced compared to an allocation of £240,000. The majority of this underspend relates to the Open Market Shared Ownership scheme whereby the council provides interest free loan to B3 Living to provide properties on a shared ownership basis to Epping Forest residents. Although it was hoped that the final three loans included in Phase 2 of the scheme would be completed by 31 March 2015, this was not achieved. These loan advances are progressing and Members are asked to approve a full carry forward of the underspend. With regard to the scheme to provide discretionary loans to improve private sector housing stock, which replaced the old grant scheme, uptake is now increasing after a slow start. The underspend of £55,000 is therefore recommended as a carry forward.

18. Finally, the Council provides capital funds to finance certain items of revenue expenditure, known as REFCuS. To qualify such expenditure must be of a capital nature but serve to increase the value of assets not owned by the council. The largest budget in this section is for Disabled Facility Grants (DFGs) for adaptations to private properties. The number of grants given in 2014/15 has increased on the last two years, as the number of referrals from occupational therapists has continued to grow. This has resulted in an overspend of £21,000 which was funded from the Government DFG grant plus contributions from Housing Associations of £11,000. It is therefore recommended that this sum is not deducted from the approved 2015/16 allocation. Likewise expenditure on leasehold flats, sold under Right to Buy legislation where the Council is the freeholder, was higher than anticipated and again it is recommended that no reduction is made to the 2015/16 allocation due to the reimbursable nature of this budget.

19. In summary, Members are requested to recommend to Cabinet the approval of the budget overspends, savings, carry forwards and brought forwards referred to above on the schemes identified in Appendices 2 and 3. Overall, there were budget savings of £2,000 on the General Fund; £1,000 on the HRA; and £7,000 on Revenue Expenditure Financed from Capital under Statute. There were also two overspends totaling £11,000 on the General Fund. The total carry forwards requested are £2,555,000 on the General fund; £1,540,000 on the HRA capital programme; £175,000 on Capital loans and £4,000 on REFCuS respectively. Sums brought forward from 2015/16 include a total of £44,000 on the General Fund and £173,000 on the HRA. Members are also asked to approve the other amendments of £22,000 on the General Fund and £100,000 on REFCuS, as identified in the report, all of which were from external sources.

Funding

20. The funds available to finance the capital programme include Government grants, other public sector grants, private contributions to capital schemes, capital receipts and direct revenue funding from the General Fund and HRA. Initially any specific grants and private contributions made for particular projects are used to finance the appropriate projects, taking

into account any restrictions with regard to usage and time scales. Other sources of capital finance, which carry restrictions, are also applied at the earliest opportunity in order to avoid losing potential funds. For example, the element of capital receipts generated from the sale of council houses is available solely for replacement affordable housing (often referred to as 1-4-1 receipts) and must be used within three years of receipt. As a consequence, the maximum sum allowable has been applied to the 2014/15 HRA house building programme in order to reduce the potential risk of handing any funds back to Central Government.

21. Appendix 1 identifies the sources of funding used to finance the 2014/15 capital programme and it compares the actual sums used with the amounts estimated in the revised capital programme. In total, grants of £1,735,000 were used last year compared to an estimated sum of £2,348,000, representing a reduction of £613,000. This was primarily due to the delay in starting the extension works at the museum for which Heritage Lottery funding has been secured. To 31 March 2015 £462,000 of the capital element of the Heritage Lottery Grant had been received, all of which has been used to partially finance expenditure on the Museum capital works. In addition, financing applied from private capital contributions was £70,000 lower than anticipated. This was due to lower levels of Section 106 monies needed to fund the lower than expected expenditure on the new house building programme. Offsetting this to some extent was higher than expected income received from HRA leaseholders to pay for higher levels expenditure on these properties.

22. The generation of capital receipts proved to be significantly higher in 2014/15 than had been anticipated, as shown in Appendix 4. This was partly due to more council houses being sold than expected, following the increase in the maximum allowable discount under the Right to Buy scheme. A total of 46 properties were sold compared to an estimated 37. In addition to this the Council benefited from three large capital receipts, one from the sale of Leader Lodge, an HRA asset, and the other two from the sale of General Fund assets: Church Hill Car Park; and the Council's refuse vehicles. There were also a few smaller sums received from the sale of some other vehicles and equipment. On the other hand, the use of capital receipts to finance expenditure was £2,175,000 lower than estimated, reflecting the overall underspend on the General Fund. The impact of the increased receipts and reduced usage is that the year end balance on the Capital Receipts Reserve has risen to £19,615,000 as at 31 March 2015, this being £4,852,000 higher than projected.

23. With regard to the use of direct revenue funding, the HRA contribution of £5,200,000 was in line with the revised budget. However, the use of funds from the Major Repairs Reserve was £1,199,000 lower than estimated reflecting the underspend on HRA capital schemes. The impact of this, combined with an increase in the Major Repairs Allowance transfer, is that the balance on the Major Repairs Reserve is £1,474,000 higher than expected at £11,124,000 as at 31 March 2015.

Resource Implications:

The 2014/15 Provisional Capital Outturn totalled £5,585,000 for General Fund assets which represents underspends of £2,524,000 on the revised budget. This comprises of savings of £2,000; overspends of £11,000; slippage of £2,555,000; brought forward expenditure of £44,000, and other overspends of £22,000 funded from external sources.

The 2014/15 HRA Provisional Capital Outturn was £13,851,000, which represents an overall underspend of £1,368,000 on the revised budget. This includes savings of £1,000; slippage of £1,540,000; and brought forward expenditure of £173,000.

Provisional Outturn figures on Capital Loans totalled £65,000, which represents an underspend of £175,000 all of which was slippage.

Revenue Expenditure Charged to Capital under Statute (REFCuS) totalled £613,000; this represents an overall budget overspend of £89,000 including a saving of £7,000; slippage of

£4,000; and other overspends of £100,000 financed from external sources.

Legal and Governance Implications:

The Council's capital accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Code of Practice on Local Authority Accounting in the United Kingdom 2011.

Safer, Cleaner and Greener Implications:

The Council's Capital Strategy works to incorporate safer, greener and cleaner design concepts within all capital schemes. The capital programme also supports sustainable initiatives such as the new food and recycling system which was supported by the provision of new vehicles and equipment.

Consultation Undertaken:

Progress on the capital programme is monitored regularly by the Finance and Performance Management Scrutiny Panel and the Finance and Performance Management Cabinet Committee. Service Directors and spending control officers are also consulted throughout the year. In addition, consultation is undertaken with the Tenants and Leaseholders Federation and the Director of Communities on the HRA programme.

Background Papers:

The capital programme approved at Cabinet in February 2015 and working papers filed for External Audit purposes.

Due Regard Record

Name of policy or activity:

What this record is for: By law the Council must, in the course of its service delivery and decision making, think about and see if it can eliminate unlawful discrimination, advance equality of opportunity, and foster good relations. This active consideration is known as, 'paying due regard', and it must be recorded as evidence. We pay due regard by undertaking equality analysis and using what we learn through this analysis in our service delivery and decision making. The purpose of this form is as a log of evidence of due regard.

When do I use this record? Every time you complete equality analysis on a policy or activity this record must be updated. Due regard must be paid, and therefore equality analysis undertaken, at 'formative stages' of policies and activities including proposed changes to or withdrawal of services. This record must be included as an appendix to any report to decision making bodies. Agenda Planning Groups will not accept any report which does not include evidence of due regard being paid via completion of an Equality Analysis Report.

How do I use this record: When you next undertake equality analysis open a Due Regard Record. Use it to record a summary of your analysis, including the reason for the analysis, the evidence considered, what the evidence told you about the protected groups, and the key findings from the analysis. This will be key information from Steps 1-7 of the Equality Analysis process set out in the Toolkit, and your Equality Analysis Report. This Due Regard Record is Step 8 of that process.

Date / Name	Summary of equality analysis
8 June 2015	This report represents a financial summary of expenditure within the Council's Capital Programme in 2014/15, in addition to the associated funding for the year.
Teresa Brown Principal Accountant	At this stage the aims of the public sector equality duty will already have been taken into account when the individual schemes were originally approved. As this report does not represent a formative stage in the approval of capital projects, an equality analysis is not considered relevant in respect of this report.