



Report To: Scrutiny and Overview
Cabinet

17 December 2019
8 January 2020

Lead Cabinet Member(s): Councillor John Williams,
Lead Cabinet Member for Finance

Lead Officer: Peter Maddock, Head of Finance

Subject: Housing Revenue Account (HRA) – Capital Programme Update

Executive Summary

1. To update the HRA Capital programme reprofiling spend in line with current expectations and amending the programme where budgets are out of line with expected spending needs.
2. This is not a key decision as there are no additional resource implications directly arising from the report; it provides monitoring information to ensure awareness of capital scheme progress and new capital bids for consideration and allocation.

Recommendations

3. **That Scrutiny and Overview is invited to consider and comment upon:**
 - (a) **Note the outturn position of a £2.742 million underspend for the HRA Capital Programme and that, of this, £1.124 million was at that time proposed for reprofiling into future years;**
 - (b) **Consider the updated HRA capital programme at Appendix B which has been re-profiled in line with the expected timing of spend and amended in line with expected levels of spend where appropriate;**
 - (c) **To note that, in order to finance the updated Capital Programme, borrowing of around £10 million is likely to be required during 2021/22;**
 - (d) **To note that, following the abolition of the HRA debt cap, a local debt cap has been calculated as £250 million at 1st April 2019 rising to £300 million as at 31st March 2022;**
 - (e) **Recommend to Full Council the revised HRA capital programme for the period 2019/2020 to 2024/2025, at Appendix B, to reflect amendments to, and the reprofiling of expenditure identified in the report.**

Reason for Recommendations

4. To enable the Cabinet to consider the outturn performance of the Council's HRA Capital Programme in 2018/2019 and the updated capital programme incorporating new items and reprofiling of expenditure.

Details

Capital Programme – Performance Monitoring

5. The Council's approved Capital Strategy and good practice requires that:
 - (i) Effective arrangements are established for the management of capital expenditure, including the assessment of project outcomes, budget profiling, deliverability and the achievement of value for money;
 - (ii) It is appropriate that, in terms of project outcomes and deliverability, the Cabinet receive an annual report covering:
 - the details of schemes commenced on time;
 - the details of schemes completed on time;
 - how many schemes were completed within budget.

HRA Capital Programme – Performance 2018/2019

6. A summary of the performance achieved in relation to the HRA Capital Programme schemes substantially completed in 2018/2019 is detailed in **Appendix A**.
7. In summary, the Cabinet will note that, in many cases, schemes that commenced were completed on time and within budget. It is relevant, however, that there was an expenditure underspend of £2.742 million and equivalent financing underspend in relation to the approved 2018/2019 Capital Programme, with outturn expenditure of £15.625 million compared to the original funding allocation of £18.367 million.
8. A more detailed post implementation review of key capital projects has been undertaken by relevant Officers in accordance with the Capital Strategy and a summary of the scheme progress is also identified in **Appendix A**.

HRA Capital Programme – 2019/2020 and beyond

9. The Council has updated the 30 year HRA plan for the first time in a number of years and this shows that the existing programme (excluding unallocated housebuilding amounts) can be funded from existing resources, particularly now that the 1% rent reductions have ended and the Council is back to increases of CPI +1%.
10. The revised programme as presented does, however, suggest that if the unallocated amounts do translate into actual schemes the Council will need to borrow around £10 million in 2021/2022 though this is very much dependant on actual resources available and whether the proposed changes to the criteria for use of 1-4-1 receipts actually happen. The 30 year plan suggests this borrowing could be fairly short-term but by reprofiling to later years could be minimised.
11. Following the abolition of the HRA debt cap in 2018 a proposed local debt cap for South Cambs has been calculated as part of the 30 year plan update at £250 million

at 1st April 2019 rising to £300 million by 31st March 2022. Borrowing of £205.123m was taken on when the HRA subsidy system was abolished in 2012 so the cost of a further £45 million of borrowing is estimated to be affordable which would include the aforementioned £10 million. The Council will need to do further work to ascertain the exact level and duration of borrowing required when the time comes.

12. The 30 year plan will be updated again once the 2020/2021 budget has been set and a presentation to members is planned soon afterwards.

Capital Programme Financing

13. The HRA Capital programme is financed by Capital Receipts, The Major Repairs Reserve, Direct Revenue Financing and developer contributions (section 106) specifically for the new build programme. Any new build expenditure can be funded from 1-4-1 receipts but only up to 30% of spend on housing stock for rent.
14. The ability to generate capital receipts to contribute to the capital programme funding is limited and primarily comes from HRA right to buy sales; it is currently assumed that 20 sales per year will be achieved initially but levels are expected to fall away in later years. It is currently expected that all 1-4-1 receipts will be used within the set timescales without having to return any monies to Central Government but any significant delays in the house building programme could jeopardise this.
15. In determining its Capital Programme, the Council must comply with the regulations relating to the Prudential Framework for Capital Finance in local authorities and related prudential indicators, i.e. is it prudent, affordable (in terms of HRA income) and sustainable (in the Medium Term). Due regard should, therefore, be given to:
 - (i) The estimate of available capital finance (from capital receipts and borrowing) needed to cover existing committed schemes and any residual sum available for uncommitted and future priority schemes;
 - (ii) The estimate of capital finance resource becoming available (from capital receipts and external borrowing) in the ensuing five years for uncommitted schemes and new priority schemes (e.g. from forecast new capital receipts or external funding);
 - (iii) The estimated revenue implications (estimated at £53,000 per year per £1 million borrowed over 25 years) of the proposed total programme and impact on the HRA in terms of affordability.
16. To enter into excessive long term borrowing could expose the HRA to excessive risk so it is strongly recommended that the Council seriously considers the level of capital investment proposed before any borrowing is considered.
17. The programme should be reset at least twice in any calendar year, once as part of the annual budget setting and again in the autumn to ensure the allocations are as up to date as possible and reflect actual expectations.
18. The Capital Programme is prepared on a five year rolling programme. As such Cabinet/Council in February 2020 will be formally setting the programme for the 2020/2021, 2021/2022, 2022/2023 2023/24 and 2024/2025 financial years.

Options

19. The option exists of not approving the revised capital programme.

Implications

20. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

21. The Council has two policies which underpin the Capital Programme, namely the Capital Investment Strategy and the Medium Term Financial Strategy for the HRA (MTFS). The former provides the framework for the evaluation, approval and monitoring of capital schemes and this includes a requirement for an annual report relating to schemes completed in the previous financial year. The MTFS provides the framework for funding the Capital Programme and, in line with good practice, no capital scheme can be authorised and no commitment made until:
 - Capital finance is in place to cover the full capital costs; and
 - It has been determined by Council that the ongoing revenue cost consequences are affordable in the light of forward Revenue Budget forecasts and related consequences.
22. The Capital Strategy was approved by Council at its meeting on 21 February 2019 and provides the framework for submitting and considering new bids and for reviewing the performance of schemes in the approved programme.
23. Specifically, it is appropriate to submit an annual report (as part of performance monitoring arrangements) in respect of capital schemes that have reached practical/substantial completion in terms of whether or not the scheme has met the objectives and, where appropriate, relevant performance measures.

Legal

24. The Council is not legally required to have a Capital Programme but from time to time legally unavoidable schemes, such as those relating to Health and Safety, are required for which the Council has to identify an appropriate source of funding.
25. The Local Government Act 2003 introduced the Prudential Code which requires the Council to agree and comply with a number of Prudential Indicators that underpin the Council's capital investment demonstrating that the investment is prudent, sustainable and affordable.

Resource Implications

26. The net budget for the capital programme will need to be financed from the Council's resources (e.g. capital receipts), revenue financing or, borrowing. The borrowing costs are approximately £53,000 per year for every £1 million borrowed and any

borrowing costs will need to be factored into the revenue budget when preparing the HRA Medium Term Financial Strategy.

27. Full Council, at its meeting on 21 February 2019, approved the HRA capital programme for the period 2019/2020 to 2023/2024 and also the re-profiling of the existing programme. The full programme is summarised in the table below:

Capital Programme: Housing Revenue Account	2019/2020 £million	2020/2021 £million	2021/2022 £million	2022/2023 £million	2023/2024 £million
Expenditure					
Existing Stock Improvements	7.000	7.148	6.904	6.887	6.902
Other Improvements	0.070	0.070	0.070	0.070	0.070
New Build	18.702	27.696	13.869	4.724	6.200
Other	1,259	0.937	1.014	0.319	0.444
Total	27.031	35.851	21.857	12.000	13.616
Funding					
Capital Receipts	5.162	7.538	3.693	2.849	1.710
Major Repairs Reserve	6.689	6.868	7.032	5.714	8.567
Direct Revenue Financing	12.622	12.603	7.323	-	2.435
Grants/Contributions	2.558	8.842	3.753	3.437	0.904
Borrowing	-	-	0.056	-	-
Total	27.031	35.851	21.857	12.000	13.616

28. The outturn in relation to the 2018/2019 Capital Programme, reported to Cabinet on 2 October 2019, is reproduced below for information and it identified an expenditure underspend of £2.742 million and equivalent financing underspend:

	Revised Budget £ million	Outturn £ million	Variance £ million	C/F
New Homes Programme	8.916	8.040	(0.876)	0.843
Capitalised Repairs	7.546	6.640	(0.906)	0.281
Self-Build Plot Preparation	0.695	0.092	(0.603)	0
Re-provision of Existing Homes	0.910	0.799	(0.111)	0
Re-Purchase of Shared Ownership Properties	0.300	0.054	(0.246)	0
Expenditure	18.367	15.625	(2.742)	1.124
Capital Receipts	3.319	2.881	(0.438)	
Major Repairs Reserve	6.429	6.455	0.026	
Revenue Funding	5.095	5.538	0.443	
Contributions including S106	3.524	0.751	(2.773)	
Funding	18.367	15.625	(2.742)	

29. There is now a need to update the capital programme to take into account amendments to and the re-phasing of 2019/2020 and future years schemes, including the addition of an initial allocation for 2024/25. The revised programme is reproduced at **Appendix B**.

Risk Implications

30. The main risks associated with the capital programme are that budgets are not adequate, leading to over spend and the financial implications arising from this or that the schemes will not meet the desired objectives.
31. The future aspirations for capital schemes must be affordable (i.e. there is identified capital resource to fund schemes) and capital budgets must be adequate to avoid over spending with consequent financial implications.

Environmental Implications

32. There are no environmental implications arising directly from the report. A number of the proposed bids would have environmental impacts that would be considered prior to implementation.

Equality Impact

33. The report is exclusively a support or administrative process and has no direct relevance to the Council's duty to promote equality of opportunity, promote good relations and eliminate unlawful discrimination. Individual bids may have specific equality impacts. For example, the highways bid would include improvements to street lighting and footways that would directly benefit people with restricted mobility.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

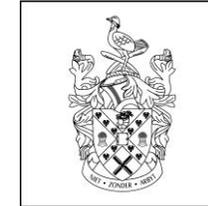
The following documents are relevant to this report:

- Budget Report – Report to Cabinet: 6 February 2019
- Business Plan 2019 - 2014 – Report to Council: 21 February 2019
- HRA Medium Term Financial Strategy and HRA Budget – Report to Council: 21 February 2019

Appendices

- A Capital Programme Performance 2018/2019
- B Updated Capital Programme 2019/2020 – 2023/2024

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Appendix A

Completed Capital Projects [HRA]: Performance - 2018/2019 Projects

Capital Funded Projects: New Build	Funding Allocation £'000	Actual Cost £'000	Commenced on Time?	Completed on Time?	Completed within Budget?	Lead Officer
Pembroke Way Teversham	483	17	YES	YES	YES	Kirsten Donaldson
Pampisford Road Gt Abingdon	200	159	YES	YES	YES	Kirsten Donaldson
High Street Balsham	1,532	805	YES	NO	YES	Kirsten Donaldson
Woodside Longstanton	249	261	YES	YES	NO	Kirsten Donaldson
Bannold Drive Waterbeach	94	102	YES	YES	NO	Kirsten Donaldson
Gibson Close Waterbeach	1,444	947	YES	NO	YES	Kirsten Donaldson
Highfields Caldecote	446	275	YES	NO	YES	Kirsten Donaldson
Linton Road Gt Abingdon	1,302	1,901	YES	N/A	N/A	Kirsten Donaldson
Grace Crescent Hardwick	1,306	2,018	YES	N/A	N/A	Kirsten Donaldson
Unallocated	300		N/A	N/A	N/A	Kirsten Donaldson
Acquisitions	1,560	1,555	YES	YES	YES	Kirsten Donaldson
TOTAL	8,916	8,040				

Capital Funded Projects: Other HRA Capital	Funding Allocation £'000	Actual Cost £'000	Commenced on Time?	Completed on Time?	Completed within Budget?	Lead Officer
Shared Ownership Re-Purchase	300	54	YES	YES	YES	Kirsten Donaldson
Self Build Set Up Costs	695	92	YES	YES	YES	Kirsten Donaldson
TOTAL	995	146				

Capital Projects – Scheme Progress/Post Implementation Review

REVIEW OF SCHEMES: NEW BUILD PROGRAMME

The programme includes 9 schemes. The nature of these schemes means there is significant potential for delay and cost overrun. Three schemes completed during the year with two seeing a cost overrun albeit it marginal. Four schemes are behind schedule though two of these (Gibson Close, Waterbeach and Highfields Caldecote) are due to complete this month. A further two commenced and are ahead of schedule. Overall there were a number of carry forwards requested as part of the outturn and these have been taken into account now that the programme has been updated.

REVIEW OF SCHEMES: OTHER HRA CAPITAL

This relates to the re-purchase of Shared Ownership properties and Self Build Plot preparation. Both budgets were set too high and spend fell significantly short. Going forward budgets have been set at more realistic levels the downside though is that income to fund other elements of the programme will be less than previously forecast.

REVIEW OF SCHEMES: CAPITALISED REPAIRS

There are a number of repair and renewal programmes within the HRA including kitchens, bathrooms, re-wiring, window, heating and re-roofing. The overall budget was set at £7.5m with spend coming in at £6.6m. There were delays to the Heating installation, Energy Conservation and Kitchen and Bathroom refurbishments due to a number of contractor issues. Some of this underspend was carried forward though it was felt there was enough capacity in future budgets to manage expenditure going forward. The budgets have been completely re-assessed as part of this report and the five year total has increased by around £1m.

REVIEW OF SCHEMES: REPROVISION OF EXISTING HOMES

The scheme was for the replacement of bedsit accommodation at Robinson Close, Gamlingay and completed during 2018/2019.



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