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**Report to Scrutiny Committee**

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**Date of Meeting: 12 January 2012**

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**Subject: Housing Revenue Account Capital Programme 2011/12**

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**Report by: Accountancy Manager**

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**1.0 Purpose**

- 1.1 This purpose of this report is to update the Committee on the Housing Revenue Account (HRA) Capital programme 2011/12 which was approved by the Special Council meeting on 10 February 2011.
- 1.2 The Council approved a programme with gross expenditure of £6.628m for 2011/12 and indicative budgets for the three years to 2014/15. This report details the overall progress in the HRA capital programme in 2011/12 and highlights any significant variances from the budget.
- 1.3 HRA Capital is financed principally from borrowing and capital receipts from house sales. But with the continued reduction in capital receipts due the adverse economic conditions and continued pressure to keep borrowing to affordable levels, a significant part of the programme is budgeted to be funded from CFCR (capital financed from current revenue). CFCR are set at levels to ensure that the objectives of the Housing Business Plans are met.
- 1.4 There have been significant changes in procurement legislation recently which has increased the level of compliance and the length of time required to ensure proper compliance. Added to this, the associated resources restrictions in the Service have presented significant challenges in the delivery of both the SHQS programme and the Clackmannanshire Standard in the 2011/12 Capital Programme. While the Service has made substantial progress towards delivering both elements, it has resulted in some projects being delayed.

**2.0 Recommendations**

- 2.1. It is recommended that the Committee:
  - 2.1.1 Note the latest HRA Capital Programme position and the projected borrowing for 2011/12.
  - 2.1.2 Comments on and challenges the current project status in the 2011/12 HRA Capital Programme.

### 3.0 Considerations

- 3.1 In February 2011, the Council approved a capital budget for 2011/12 of £6.628m and an indicative budgets for the following three years. To this was added £616k being projects carried forward from 2010/11 following finalisation of the 2010/11 accounts, giving a total revised budget of £7.244m for 2011/12. This was budgeted to be financed by capital receipts of £829,000 and the balance by a combination of CFCR and borrowing.
- 3.2 The current review indicates that the total expenditure is expected to be £3.370m compared to the budget of £7.244m. The under-spend of £3.874m is proposed to be carried forward to next year as detailed in paragraph 3.4 below. As highlighted above, changes in procurement legislation and resource restrictions in the Service have contributed to the main proportion of the slippage. The projected expenditure of £3.370million will be funded by anticipated capital receipts of £829k as budgeted and CFCR of £2.440m,. The balance of £101k is projected to be funded by borrowing.
- 3.3 In terms of the Investment Strategy, which was approved by the Council in December 2010, the objective is to restrict new borrowings to levels to ensure a reduction in overall debt. The current projections indicate that compared to a budgeted borrowing requirement of £2.537m only £101k is now required for 2011/12. This will result in a reduction in loan charges falling on the revenue account. Both the level of borrowing and CFCR contribution is continually reviewed in the context of any new projects being proposed and the objectives of the Housing Business Plan.
- 3.4 The approved budgets for 2011/12 and current progress in projects is detailed in Appendix 1 under each of the major headings, and summarised in Table 1 as follows:

Table 2 variances

Project	Overspend	Underspend	Saving	Commentary
Central Heating		(£1,439k)		<p>The out-turn expenditure for the year is expected to be £771k compared to a budget of £2.210m. The variance of £1.439m includes:</p> <ul style="list-style-type: none"> <li>savings of £625k due to a number of favourable tenders that were reported to Council in November 2011 and are being used to fund gas supplies and a further 226 houses electric to gas. The gas supplies are currently at tender and once installed (Q1-2 2012) the existing gas replacement contracts can be used to install the new installations behind the gas supplies (Q2-3, 2012).</li> <li>A budget allocation was included in the approved capital programme for energy efficiency in February 2011. Detailed approval of the CESP project at £2m was not concluded until June 2011 hence the delay in delivering the programme. This was a £1.2m contribution from Clackmannanshire</li> </ul>

Project	Overspend	Underspend	Saving	Commentary
				Council. The project is now legally committed and British Gas will commence on site in the new year with £650k carried forward to 2012/13
Kitchens		(£602k)		The last phase of kitchen replacement commenced in August with Property Contracts Unit at Hillview Terrace, Alloa and will complete in May 2012. Surveys have commenced on a further tranche of 162 kitchens of individual properties (previous refusals etc) and will follow on and be completed in 2012/13. This results in an anticipated carry forward of £602k which will complete the programme in 2012/13.
Bathrooms		(£396k)		The replacement bathroom procurement strategy has been re-scoped and changed to create a longer term framework that should benefit from better economies of scale and the Council's recently developed community benefit clauses. Tenders were received in late December and a contractor is about to be appointed on a 4 year framework basis. It is anticipated that £ 680k will be spent in 2011/12. The consequential delay is expected to result in an under-spend of £396k which is proposed to be carried forward to 2012/13.
Roofs/ External Walls		(£378k)		The roof and external wall repair works have been re-scoped and changed to create a longer term framework that should benefit from better economies of scale and the Council's recently developed community benefit clauses. Tenders were received in late December and a contractor is about to be appointed on a 4 year framework basis. It is anticipated that £ 51k will be spent on works that will be instructed based on the recent condition surveys and previously identified works. The consequential delay is expected to result in an under-spend of £378k which is proposed to be carried forward to 2012/13.
Safe Electrical Systems		(£262k)		Electrical testing and rewiring contracts are instructed and underway. The tenders were lower than anticipated and there were a number of issues with contractor performance which have delayed the contract resulting in the underspend this year. The underspend of £262k will be carried forward to 2012/13.
Demolitions			(£227k)	The main proposed demolitions are linked with plans for the Council's new build programme. The proposed demolition at Bowmar is now cancelled resulting in a saving of £227k.
Other Costs		(£270k)		The budget of £270k in 'Other Projects' is earmarked for the Housing Business Management System (HBMS). The project is currently at PQQ stage and the tender document is being finalised. The contract will not commence until 2012/13 and the budget

Project	Overspend	Underspend	Saving	Commentary
				is expected to be carried forward with a projected completion date in 2013/14.
Conversion & Upgradings	£54k			This is expected to be overspent by £54k as a result of the addition of the Hillcrest project to increase the housing stock and also meeting essential social work disabled adaptation requirements in other houses.
Council New Build Housing (Transforming Communities)		(188k)		This will be a major project for the Service for this and next financial year. The total cost of the project was previously projected at £2.4m. Due to favourable tender it is anticipated that £400k will be saved in the course of the 2-year project and with a Scottish Government grant of £600k the cost to the Council will be £1.4m. The project will commence on site in March (subject to planning).

3.5 The above table highlights one overspend, seven underspends and one saving. Routine capital monitoring in future will flag these issues in advance to ensure appropriate actions and authorisations are processed accordingly.

3.6 The newly formed Capital Investment Forum (CIF) will be reviewing the existing capital programme priorities as it considers the programme for future years. At the same time, the CIF will take into account that the objectives of the Housing Business Plans are met.

#### 4.0 Conclusions

4.1 In summary, the current review indicates anticipated total expenditure of £3.370m in 2011/12 compared to a budget of £7.244m. The variance of £3.874m is proposed to be carried forward to 2012/13 to complete the projects which have been delayed.

4.2 The report details the reasons for the delays in the salient projects. One of the main reason is changes in procurement legislation requiring extended time to ensure proper compliance. The resource restrictions within the Service has further contributed to the delays.

4.3 The anticipated net borrowing in 2011/12 is significantly less than budgeted and accordingly remains within the approved Investment Strategy limits.

#### 5.0 Sustainability Implications

5.1 None

#### 6.0 Resource Implications

6.1 *Financial Details*

6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☒

6.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☒

6.4 *Staffing*

## 7.0 Exempt Reports

7.1 Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

## 8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011** (Please double click on the check box ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) **Council Policies** (Please detail)

## 9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?  
Yes ☐ No ☒

## 10.0 Legality

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

## 11.0 Appendices

- 11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Detailed project expenditure

## 12.0 Background Papers

- 12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☒

### Author(s)

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### Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director of Finance and Corporate Services	Signed: N Bridle
Elaine McPherson	Chief Executive	Signed: E McPherson

# APPENDIX 1

Housing Capital Programme 2011/12 to 2014/15: Period to October 2011 update	Revised Budget 2011/12, inc c/f	Projected Out- turn	Variance of out-turn with Budget	Current Project Status
	£	£	£	
SCOTTISH HOUSING QUALITY STANDARD	27	46	47	
TACKLING SERIOUS DISREPAIR PRIMARY BUILDING ELEMENTS				
				Additional anticipated expenditure for asbestos removal works, to facilitate progress in other areas of the programme. Minimal overspend expected.
Structural Works	289,049	295,500	6,451	
SECONDARY BUILDING ELEMENTS				
				Budget is available for work as required. There have been minimal work identified this year. Budget is proposed to be carried forward to next year in anticipation of any damp rot discovery.
Damp/Rot	49,659	10,000	(39,659)	
				The roof and external wall repair works have been rescoped and changed to create a longer term framework that should benefit from better economies of scale and the Council's recently developed community benefit clauses. Tenders were received in late December and a contractor is about to be appointed on a 4 year framework basis. It is anticipated that £51k will be spent on works that will be instructed based on the recent conditions survey and previously identified works. The consequential delay is expected to result in an underspend of £378k which is proposed to be carried forward to 2012/13.
Roofs / Rainwater / External Walls	428,845	51,000	(377,845)	
ENERGY EFFICIENCY				
				The outturn expenditure for the year is expected to be £771k compared to a budget of £2.210m. The variance includes savings of £625k due to a number of favourable tenders and delay in the delivery of the CESP project which was only approved in June 2011.
Full/Efficient Central Heating	2,210,081	771,000	(1,439,081)	

Housing Capital Programme 2011/12 to 2014/15: Period to October 2011 update	Revised Budget 2011/12, inc c/f	Projected Out- turn	Variance of out-turn with Budget	Current Project Status
	£	£	£	
SCOTTISH HOUSING QUALITY STANDARD	27	46	47	
MODERN FACILITIES & SERVICES				
				The last phase of kitchen replacement commenced in August 2011 to be completed in May 2012. Surveys have commenced on a further tranche of properties and will follow on and be completed in 2012/13.
Kitchen Renewal	852,920	251,000	(601,920)	
				The replacement bathroom procurement strategy has been re-scoped and changed to create a longer term framework that should benefit from the better economies of scale. Tenders were received in late december and a contractor is about to be appointed on a 4 year framework basis. the delay is expected to result in an underspend of £396k which will be carried forward to 2012/13.
Bathrooms	1,076,050	680,000	(396,050)	
HEALTHY, SAFE & SECURE				
				Electrical testing and rewiring contracts are instructed and underway. The tenders were lower and there were a number of issues with contractor performance which have resulted in delays and an underspend of £262k which will be carried forward to 2012/13.
Safe Electrical Systems	614,077	352,000	(262,077)	
				Secure Door Entry Systems out to tender. Work due to commence January 2012. Underspend of £69k is due to re-scoping of the secure door entry contract. This will require to be carried forward to 2012/13 to complete project.
Communal Areas (Environmentals)	184,259	115,000	(69,259)	



Housing Capital Programme 2011/12 to 2014/15: Period to October 2011 update	Revised Budget 2011/12, inc c/f	Projected Out- turn	Variance of out-turn with Budget	Current Project Status
	£	£	£	
SCOTTISH HOUSING QUALITY STANDARD	27	46	47	
NON-SHS ELEMENTS				
PARTICULAR NEEDS HOUSING (CITC)				
				Overspend of £54k is due to additional Hillcrest projects. These projects are essential in terms of increasing the housing stock and meeting medical requirements. Overspend is proposed to be funded partly from 2012/13 budget and partly from savings in Demolition budget
Conversions & Upgradings	87,168	141,000	53,832	
				Current works identified are expected to be on schedule and within budget.
Disabled Adaptations	120,117	120,000	(117)	
Area Improvements	(71)	0	71	
				The Service is in the process of preparing information, for framework contract with Scottish Water. The procurement process will follow on from that and is expected to start in this financial year.
Water Supply Pipe Replacement	51,315	51,315	0	
				Demolition and Road Reconstruction onsite at Burnside Crescent. Proposed Bowmar demolitions will no longer proceed. Part of the savings of £227k is proposed to be used to fund overspend in Conversion & Upgrading, and the balance will be carried forward.
Demolitions	305,036	78,000	(227,036)	
				The Stock condition survey report has only just been finalised. The current position shows an under spend of £63k. The balance may be required for follow on action arising from the standard delivery plan to comply with the SHQS, and is therefore proposed to be carried forward to 2012/13
Feasibility Work	83,367	20,000	(63,367)	

Housing Capital Programme 2011/12 to 2014/15: Period to October 2011 update	Revised Budget 2011/12, inc c/f	Projected Out- turn	Variance of out-turn with Budget	Current Project Status
	£	£	£	
SCOTTISH HOUSING QUALITY STANDARD	27	46	47	
				Tender accepted and site investigation works due to commence December 2011. Procurement taking longer than expected. The balance of the budget will be carried forward. Current estimates indicate a savings of £400k on a Council contribution budget of £1.8m. Expected completion date is 2014.
Council New Build Housing (Transforming Communities)	622,329	434,000	(188,329)	
				Budget is for Housing Business Management System. Currently assessing PQQ. Tender document still to be finalised. Contract will not commence until 2012/13. The budget will require to be carried forward.
Other Costs	270,000	0	(270,000)	
TOTAL CAPITAL EXPENDITURE	7,244,201	3,369,815	(3,874,386)	
				Total sales to date of £582k represents 12 units sold. This is an average of £38k. Expected to sell 20 properties. The total receipts may be lower.
SALE OF COUNCIL PROPERTY	(829,000)	(829,000)	0	
NET EXPENDITURE	6,415,201	2,540,815	(3,874,386)	