West Lothian Council

COUNCIL EXECUTIVE

2009/10 HOUSING CAPITAL BUDGET – MONTH 4 MONITORING REPORT

REPORT BY DIRECTOR OF CUSTOMER & SUPPORT SERVICES

A. PURPOSE OF REPORT

To advise the Council Executive on the monitoring of the 2009/10 Housing Capital budget.

B. RECOMMENDATION

It is recommended that the Council Executive:

- Approves the revised Housing Capital budget for 2009/10,
- Notes the outcome of the Month 4 monitoring exercise, and
- Agrees that officers should take the necessary action to ensure that the projected outturn is contained within the approved budget.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Focusing on our customers' needs. Being honest, open and accountable. Making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The council's capital programme is managed within the stringent requirements set out in the Prudential Code. The code allows councils to determine capital investment strategy on the basis that plans are affordable, prudent and sustainable.
III	**Resources - (Financial, Staffing and Property)**	Previously unbudgeted expenditure on the Deans South site of £1.032 million will be incurred in 2009/10 as a result of the demolition of a number of blocks and the purchase of homes from owners. This will be funded by additional borrowing. At this point £3.516 million of programming management has yet to be identified. House sales income will be £3.882 million less than budgeted due to a further large drop in council house sales. It is likely that additional borrowing will be required to balance the programme in 2009/10.
IV	**Consultations**	Consultation has taken place with housing management and technical staff as well as with tenants and with the Head of Finance.

D. TERMS OF THE REPORT

1. Introduction

This report provides information on the financial position in relation to the 2009/10 Housing Capital programme as at 31 July 2009. The report details the revised expenditure and resources and provides a projection to the year-end.

2. Capital Expenditure

The Council Executive approved a capital programme for 2009/10 of £37.148 million in April 2008. This approved budget has been subject to change to take into account carry forward from 2008/09 as well as additional spending requirements at Deans South. The revised budget now stands at £38.148 million. In addition funding has been approved by the Scottish Government for phase 1 of the new build council housing.

<u>Deans South</u>
A redevelopment plan for Deans South is currently being worked on and will be presented to the Council Executive in due course. The council has been advised that it can proceed with a phased demolition of the site and after assessment 15 of the 39 blocks can now be demolished at an estimated cost of £600,000. In addition, there have been further purchases of houses from owners at a cost of around £432,000. Deans South redevelopment costs were not included in the ten-year capital programme approved in December 2008 so these are additional costs, which will require additional borrowing.

<u>Scottish Government Funding for New Build Council Houses</u>
The Scottish Government announced a £25 million funding package to help fund the building of new council houses. West Lothian received £3.730 million of this funding to deliver 298 houses. Work is well advanced at four sites totalling 248 houses, while sites in Armadale, Uphall Station and Blackburn are being considered for being brought forward from phase 2 to deliver the additional 50 houses to reach the 298 target. The terms of the funding mean that the payment from the Government will not be received until all 298 homes are completed.

A summarised version of the programme is shown in the table below.

	Draft Revised Budget £'000	Spend to Month 4 £'000	Projected Outturn £'000	Projected Variance £'000
SHQS work	10,784	1,111	10,784	0
External Upgrading	3,875	734	3,875	0
Energy Efficiency	2,080	656	2,080	0
New Build	17,929	4,643	17,929	0
Miscellaneous	3,512	876	3,512	0
	38,180	**8,020**	**38,180**	**0**
Over Programming	(3,516)	N/A	0	0
Total	**34,664**	**8,020**	**38,180**	**3,516**

A commentary on some of the variances and budget headings is provided below. The over-programming will be managed by rephrasing borrowing, or through any slippage.

Scottish Housing Quality Standard (SHQS)

Expenditure on SHQS is currently forecast to breakeven. There are a number of programmes that cannot commence until the completion of negotiations with homeowners. At this point it is hoped that all programmes will be able to progress as planned.

External Upgrading

The garage upgrade programme will be completed by 31 March. It is anticipated that that the programme will be £300,000 over budget, this will be funded by reducing non-essential environmental works this year by £300,000.

Energy Efficiency

The latest financial projections indicate that expenditure will be contained within the planned programme.

New Build

Phase 1 continues to progress ahead of schedule. Under the terms of our grant funding from the Scottish Government 50 additional houses will be brought forward from phase 2.

The tender process for phase 2 is progressing and a bid has been made to the Government to secure additional funding from the second round of £25 million to support new build council housing.

In addition, subject to agreement of the new build rent strategy by Council, a further 25 units can be built using prudential borrowing. Further information on these plans will be presented to the Council Executive in due course.

Miscellaneous

Expenditure in this area has increased due to the work at Deans South as outlined earlier in the paper. Additional borrowing will fund this project.

3. Capital Resources

The table below shows the capital resources available to fund the housing capital programme in 2009/10.

	Draft Revised Budget £'000	Income to Month 4 £'000	Projected Outturn £'000	Projected Variance £'000
House Sales	6,940	932	3,058	(3,882)
Borrowing	20,878	4,806	20,878	0
CFCR	6,846	2,282	6,846	0
AHP Contributions	0	0	0	0
Total Income	**34,664**	**8,020**	**30,782**	**3,882**

It is therefore estimated that additional borrowing of £3.882 million will require to be brought forward to 2009/10 to balance capital resources.

House Sales

As at 31 July, receipts from council house sales totalled £0.932 million from the sale of 27 properties. Sales projections are now estimated to be 76 for the year. This is compounded by lower house valuations than last year and as such the receipts from the sale of houses are forecast to be almost £4.0 million less than were budgeted. A further reduction in the actual number of sales cannot be ruled out at this point. There are a number of factors impacting on the house sale position, including; restrictions on lending by banks, the withdrawal of 100% mortgages and the increased risk of unemployment.

Over 2 years, if this trend continues, this would result in a funding gap of around £7.764 million.

Borrowing

Core borrowing is currently set at £20.878 million, however due to the decline in receipts from council house sales it is likely that further borrowing of £3.882 million in 2009/10 will be required to fund the programme. Total borrowing is therefore projected to be £24.760 million.

This will impact on the Revenue Account and on the sustainability of the long term programme. There is also the risk that the Government may move to limit councils prudential borrowing powers in future years as steps will have to be taken to control and reduce public sector debt.

CFCR

CFCR remains in line with budget at £6.846 million.

Affordable Housing Policy

Currently no income is forecast for 2009/10 from the Affordable Housing Policy.

Overall Resources

The outcome of the bid for phase 2 funding for new build council housing from the government and reliable estimates of future affordable housing contributions will be crucial in ensuring the viability of the capital programme. I am currently reviewing funding sources to consider what balance of these resources will best address any funding gap over the medium to long term.

4. Strategic Issues

The Prudential Code requires the council to take account of a number of factors when agreeing capital spending plans and these are set out below.

Stewardship of Assets

The stock condition survey undertaken by independent consultants identified the extent of the work required to ensure the council's houses comply with or exceed the SHQS by 2015. The ten-year investment strategy, approved by Committee in April 2005, and subsequently revised and updated in December 2008, was linked to the outcome of this survey and has been an important step in integrating the capital planning process with the management of the council's housing stock.

In addition to the stock survey, the council also has in place a Corporate Asset Management Plan and a capital planning and option appraisal framework.

Practicality and Risk Management

Ongoing monitoring and control arrangements are in place to ensure that officers remain focused on delivery of the capital programme within approved budgets and timescales. There is however a number of risks that needs to be managed including the re-phasing of the New Build programme as well as the risks around falling house sales numbers.

Value for Money and Best Value

All aspects of the programme are geared to securing value for money and best value and a mix of internal and external provision is being utilised depending on the nature of the work required. Procurement and tendering processes continue to be undertaken in line with the council's standing orders and Best Value framework.

Affordability, Prudence and Sustainability

Following consultation with the Head of Finance, I would assess that the revised capital investment plan remains affordable, subject to risks being managed. Such risks include the phasing of spend, particularly with new build, and the assumption that house sales will not fall below the revised forecast of 76 in 2009/10. I can advise that the revenue implications of approved capital spending plans are fully incorporated within agreed revenue budgets. The loan charges projections are monitored on a regular basis and these continue to indicate that spending plans are prudent, affordable and sustainable over a longer period. However, it should be noted that a recovery in capital receipts and affordable housing contributions over the remainder of the ten-year programme and a successful outcome of the bid for phase 2 funding for new build council houses will be crucial to the viability of the capital programme.

E CONCLUSION

Projections show a gap in the capital resources, which will necessitate additional borrowing in this financial year. The outcome of the bid for phase 2 funding for new build council housing from the government, a recovery in future year council house sales and affordable housing contributions will be crucial to the long term viability of the capital programme. A review of capital resources is currently being undertaken to consider the most appropriate balance of resources over the medium and longer terms.

Appendices/Attachments: One – Month 4 Monitoring - Analysis of Expenditure

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GRAHAM HOPE

DIRECTOR OF CUSTOMER & SUPPORT SERVICES

Date: 18 August 2009