

EAST RENFREWSHIRE COUNCILCABINET12 March 2020Report by the Chief Financial Officer and Director of EnvironmentHOUSING CAPITAL PROGRAMME**PURPOSE OF REPORT**

1. The purpose of this report is to monitor expenditure as at 31 December 2019 (Quarter 3) against the approved Capital Programme for 2019/20 and to recommend adjustments where necessary.

RECOMMENDATIONS

2. The Cabinet is asked to:-
 - (a) note and approve the current movements within the programme;
 - (b) note the shortfall of £0.088m and that income and expenditure on the programme will be managed and reported within the final accounts for the year; and
 - (c) note that a further report will be submitted to the Cabinet in due course with regard to increased costs in relation to Phase 1 and Phase 2 of the Council house building programme.

BACKGROUND

3. This report is presented in relation to the following:
 - The Housing Capital Programme for 2019-2024 was approved by Council on 28 February 2019.
 - An update of the Strategic Housing Investment Programme (SHIP) was approved by Cabinet on 24 October 2019.
 - A revised Housing Capital Programme for 2020-2025, reflecting changes to the programme detailed in the SHIP, particularly in relation to new build projects, was presented to Council on 27 February 2020.

CURRENT POSITION

- | | | |
|----|--|-----------------|
| 4. | Total anticipated expenditure (Appendix A) | £ 9.496m |
| | Total anticipated resources (Appendix B) | £ <u>9.408m</u> |
| | Shortfall | £ <u>0.088m</u> |

EXPENDITURE

5. The total estimated expenditure for 2019/20 has increased by £0.019m due to the following changes in respect of timing of expenditure and other adjustments.

Building Works Programme – Existing Stock

Works are progressing across the main budget lines with a total of £3.238m expenditure to date (31/12/19). Expenditure of £0.332m has been deferred into next year. This comprises the following adjustments:

- Renewal of Heating Systems - £0.051m has been deferred to 2020/21 following a decision to assess renewable heating options at two sheltered housing complexes.
- Rewiring – A further reduction in planned expenditure of £0.118m is necessary due to delays in procurement as a result of ongoing discussions to ensure that tender returns for heat and smoke alarms meet the required specifications.
- Energy Efficiency – Expenditure of £0.123m has been deferred to 2020/21 in anticipation of potential increases in the level of Energy Company Obligation (ECO) grant funding available.
- Internal Element Renewal – As a result of access issues for a number of properties, expenditure has been reduced by £0.090m for 2019/20. At this stage the level of 2020/21 budget is assumed to be sufficient to cover the revised schedule of work and as a result it is not planned to carry this forward.
- Communal Door Entry Systems - Close doors and door entry systems are part of Scottish Housing Quality Standard (SHQS). We continue to have closes that do not have both of these elements. Expenditure of £0.040m has been deferred to 2020/21 whilst consultation continues with owners in these closes, from whom agreement is required prior to proceeding.

Rental off the Shelf

Additional grant has been obtained from the Scottish Government allowing the purchase of additional properties as part of this scheme. Expenditure has been increased by £0.131m and this is fully funded by additional grant.

Capital New Build – Phase 1

This is a major construction project across a number of sites. Construction at Fenwick Drive, Robertson Street and Blackbyres Road is now complete. The site start at Balgraystone Road is anticipated in May 2020 and will continue into summer 2021.

Outturn for phase 1 for 2019/20 has increased from budget by £0.245m mainly due to timing variations in respect of retention payments for Fenwick Drive, final payments for Blackbyres Road, and initial costs at Balgraystone Road such as site investigations and planning fees.

Overall costs for the full duration of Phase 1 are currently forecast to increase above budget by £1.826m due to a number of factors:

- The initial budget set indicated an average cost per unit at £0.126m. However, costs cannot be determined until after tender processes are complete and are impacted by market forces. The final costs for Fenwick Drive, Robertson Street and Blackbyres Road are around £0.150m per unit which is greater than the £0.126m per unit originally budgeted. All three sites had variances & abnormal associated costs such as:
 - (a) Fenwick Drive – abnormal costs of approximately £0.025m per unit associated with retaining walls, and relocation of key utility services. In addition there were £0.018m of variations for relocation of a bus stop and additional costs for a retaining wall. The standard grant contribution from Scottish Government is £0.059m per unit. However, the Scottish Government recognised the additional abnormal costs associated with Fenwick Drive and awarded grant of £0.072m per unit for the site.
 - (b) Robertson Street – abnormal costs of approximately £0.003m per unit to relocate utility services and variations of £0.035m to the total cost to upgrade a property to be wheelchair accessible.
 - (c) Blackbyres Court – abnormal costs of £0.012m per unit to relocate key utility services, additional land preparation and drainage improvements. Some small variations to the same properties at an additional cost of £0.005m.
 - (d) In addition to the above, the overall tender price was higher than estimated, reflecting construction inflation across Scotland increasing more rapidly than envisaged.
- The final major site identified under Phase 1 of this programme is the development of council homes at Balgraystone, Barrhead in 2020/21 followed by the sale of the remaining part of the site to the private sector. The abnormal costs for this site are expected to be in the region of £1.000m. The site requires substantial investment in infrastructure and drainage systems to not only support the new council housing but also prepare the remainder of the site for sale. Costs have also increased by increasing the number of units being built. However, more units allows more grant funding to be awarded by the Scottish Government thereby reducing the overall impact of the abnormal costs on the Housing Revenue Account. As with Fenwick Drive, a request will be made to the Scottish Government for a higher per unit grant funding.

Given the increases in cost per unit, additional site costs and increase in units at Balgraystone Road detailed above, the overall estimated cost of Phase 1 has increased by £1.826m. However, all costs for each development are scrutinised and challenged by an appointed employers agent to ensure costs are competitive and value for money delivered.

Appropriate provision has been made within the Housing Capital Programme for 2020/21 and this has been factored in to the Council's treasury management plans for 2020/21 and beyond. A further report will be submitted to the Cabinet with regard to this in due course.

Capital New Build – Phase 2

Phase 2 works include sites at Commercial Road, Barrhead; Barrhead Road, Newton Mearns; and a number of sites at Maidenhill. The main works will commence in 2020/21 however some early site work and planning fees will result in £0.075m expenditure in 2019/20. This will be fully matched by grant funding.

The overall cost of phase 2 is now estimated at around £22.401m which is an increase of £5.030m. This reflects revised estimates of anticipated costs across the above sites as a result of final costs from phase 1. This increase is partially offset by an increase in grant. The Housing Services 30 year Business Plan has been independently reviewed to ensure the programme is affordable.

Appropriate estimated provision for Phase 2 has been included within the Housing Capital Programme for 2020/21 and future years and also reflected in the Council's treasury management plans. As with Phase 1 a further report will be submitted to the Cabinet with regard to this in due course.

INCOME

6. Resources to support the Housing Capital Programme have been adjusted to reflect the changes noted above.
 - Rental Off The Shelf (ROTS) - £0.631m is anticipated to support the purchase of these properties and has been included in the programme for 2019/20. This is an increase of £0.131m on the amount previously expected.
 - Scottish Government New Build Grant – Further revisions of site investigation and planning fee expenditure for Balgraystone Road and the early phase 2 works has resulted in an increase of £0.110m in new build grant anticipated.
 - Home Energy Efficiency Programme – grant anticipated at £0.234m is now included in resources for 2019/20.
 - Borrowing – Changes noted above in respect of project timing movements and the inclusion of HEEPs funding has resulted in a net reduction in borrowing of £0.456m for 2019/20.

COMMENT

7. The projected shortfall of £0.088m represents 0.9% of the resources available and is within manageable limits.

PARTNERSHIP WORKING

8. This report has been prepared following consultation with appropriate staff from Housing Services.

RECOMMENDATIONS

9. The Cabinet is asked to:-
- (a) note and approve the current movements within the programme;
 - (b) note the shortfall of £0.088m and that income and expenditure on the programme will be managed and reported within the final accounts for the year; and
 - (c) note that a further report will be submitted to the Cabinet in due course with regard to increased costs in relation to Phase 1 and Phase 2 of the Council house building programme.

Further information is available from Mark Waugh, Principal Accountant – Capital, telephone 0141 577 3123.

Margaret McCrossan
Head of Accountancy Services (Chief Financial Officer)
MMcC/MW
27 February, 2020

BLANK PAGE

127
EAST RENFREWSHIRE COUNCIL

Appendix A

HOUSING CAPITAL PROGRAMME

PROGRESS REPORT

2019/2020

COST CODE	PROJECT NAME	LEG COMM	ANNUAL COSTS £'000			COMMENT	TOTAL COST £'000		
			CURRENT YEAR APPROVED AT 28.11.19	PROJECTED OUTTURN FOR CURRENT YEAR	ACTUAL EXPENDITURE IN YEAR		SPENT PRIOR TO 31.03.19	PREVIOUS TOTAL COST	REVISED TOTAL COST
835000002	Renewal of Heating Systems	Y	1,202	1,151	348	Work in progress	0	1,202	1,202
832000001	Rewiring (including smoke/carbon monoxide detectors)	Y	396	278	139	Work in progress	0	642	642
831000002	External Structural Works	Y	2,594	2,594	2,168	Work in progress	0	2,896	2,896
835000008	Estate Works	Y	150	150	87	Work in progress	0	216	216
835000006	Energy Efficiency (Including Cavity Wall Insulation)	Y	409	286	62	Work in progress	0	409	409
835000009	Aids and Adaptations	Y	260	260	166	Work in progress	0	260	260
831500001	Internal Element Renewals (including kitchens, bathrooms and doors) 2018/19	Y	1,073	983	257	Work in progress	0	1,073	983
835000005	Communal Door Entry Systems	Y	42	2	1	Work in progress	0	42	42
835000012	Sheltered Housing	Y	34	34	9	Work in progress	0	542	542
N/A	Purchase of Property (CPO/Mortgage to Rent/Rental Off The Shelf)		1,435	1,566	0	Purchase of 14 ROTS properties, supported by grant & additional borrowing.	0	1,435	1,566
N/A	IT Systems		162	162	0	At tender stage.	0	253	253
various	Capital New Build Phase 1	Y	1,710	1,955	1,829	Work in progress, first 3 sites complete	0	12,921	14,747
various	Capital New Build Phase 2		0	75	0	Work to be programmed	0	17,371	22,401
N/A	Retentions		10	0	0		0	10	0
		-	9,477	9,496	5,068		0	39,272	46,159

BLANK PAGE

HOUSING CAPITAL PROGRAMME 2019/20

PROGRESS REPORT

RESOURCES

19/20 Revised
£'000

Borrowing				7,838
Commuted Sums - New Build Phase 1				220
Grant - New Build Phase 1				110
Grant - New Build Phase 2				75
Recharges to Owner Occupiers (including HEEPS grant)				534
Housing Grant - ROTS				631
Total				9,408

BLANK PAGE