

Delegated Decision: Meadows West Additional Funding
Draft Finance comments

Impact on Capital Programme

In April 2014 Executive Board approved the construction of 55 council homes (46 houses and 9 bungalows) in the Meadows West at a cost of £5.915m. Then at an Executive Board meeting in February 2015 this was increased to £6.228m. This was then reduced to £5.978m in the Quarter 3 capital monitoring report for 2015-16 (i.e. reduced by £0.250m).

Upon completion the total cost of construction for the scheme is £6.542m, which is £0.564m higher than the approved budget. Details of the reasons for the additional cost are given in the Briefing Note and Exempt Appendix attached to the report. All the additional expenditure is due to be incurred during 2018/19.

In addition to the construction costs the scheme incurs fees of £0.485m, which are paid to NCH for project management (5% of total cost including any decommissioning and demolition).

Impact on viability

The main impact of the final costs is that it results in an additional £0.422m of interest payable over the life of the scheme due to the increased borrowing.

The increase in cost has the following effect:

- 1) Payback increase of 2 years (from 38 to 40 years)
- 2) Borrowing increase £0.556m (from £4.908m to £5.464m) which results in a reduction in borrowing "headroom" available for new build schemes
- 3) Interest payments increase of £0.422m (from £3.525m to £3.947m)
- 4) Unit cost £14k/unit (from £171k/unit to £185k/unit)
- 5) Additional use of RTB replacement receipts ("1-4-1") receipts £0.008m

There is no option to avoid the additional costs as these have already been incurred with the developer. This scheme is one of a number of new build schemes delivered by Nottingham City Homes where cost have exceeded the approved budget. In future improvements in budget setting and monitoring are needed to ensure that increased costs are approved in advance. The impact on viability needs to be checked before significant additional costs are committed to.

Impact on funding

The scheme is financed by a combination of HCA grant, RTB replacement ("1-4-1") receipts and prudential borrowing. The Council has sufficient remaining RTB replacement receipts that it can utilise to fund £0.008m of the increased costs. The remainder of the additional costs (£0.556m) will be financed through borrowing. See table below:

Financed by	Approved budget £m	Additional funding required £m	Total £m
HCA grant	0.900	0.000	0.900
RTB replacement receipts (1-4-1)	0.170	0.008	0.178
Borrowing	4.908	0.556	5.464
TOTAL	5.978	0.564	6.542

* RTB replacement ("1-4-1") receipts must be spent in accordance with the Agreement (pursuant to Section 11(6) of the Local Government Act 2003) signed by the Council and the Department for Communities and Local Government on 26th June 2012. The use of the receipts for this scheme would be in accordance with the Agreement including being spent within the timescale required and will ensure that the "1-4-1" retained receipts can be retained by the council and not returned to central government.

Advice provided by Julie Dorrington (Senior Accountant (HRA)) on 21/05/2018.