

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 1ST NOVEMBER 2016
REPORT OF THE HEAD OF RESOURCES

CAPITAL BUDGET MONITORING AS AT 30TH SEPTEMBER 2016 (PERIOD 6)

1 Executive Summary

- 1.1 This report presents the capital expenditure monitoring outturn and associated capital funding for the period to 30th September 2016, for both general fund and housing services. The report and associated appendices detail the changes to the original 2016/17 capital programme and funding plans, as a result of commitment and project delivery to the end of the period.
- 1.2 As at period 6, the current approved budget is £47.330m with committed expenditure totalling £19.306m. The current forecast outturn is £40.617m; summarised at Table 1 and detailed at Appendix A.
- 1.3 The resources available to fund the proposed capital programme are summarised in Table 2.

2 Recommendation(s)

- 2.1 That Cabinet note the contents of the monitoring report and agree to a reduction of £6.713m in the 2016/17 current budget of the capital programme bringing the total budget to £40.617m as summarised at Table 1.
- 2.2 That Cabinet agree the revised funding of the capital programme as summarised in table 2.
- 2.3 That Cabinet approve the proposed re profiling of capital scheme totalling £6.729m into the 2017/18 capital programme as detailed in Appendix B.
- 2.4 That cabinet note the Prudential Indicators detailed in paragraph 5.

3 Explanation

- 3.1 The summarised capital expenditure position is shown in Table 1 and a detailed breakdown by capital scheme per directorate can be found at Appendix A. The current budget (£47.330m) was increased from the original budget (£29.972m) primarily due to the roll forward of previous years budgets into 2016/17.

- 3.2 The revised forecast outturn (£40.617m) reflects proposed re profiling of various capital projects totalling £6.729m into 2017/18, as detailed in Appendix B.

Table 1: Capital Expenditure Budgets by Head of Service as at period 6

Description	Original Budget 2016/17	Approved Roll Forwards from 15/16	Current Budget 2016/17	Actual to Date	% spent & committed of Forecast Outturn	Forecast Outturn 2016/17	Variance of Forecast Outturn to Current Budget
	£'000	£'000	£'000	£'000		£'000	£'000
Head of Resources	1,715	3,940	5,664	3,363	65%	5,174	(490)
Head of Environment	1,453	60	1,513	186	50%	369	(1,143)
Director (Finance and Operations)	3,168	4,000	7,176	3,549	64%	5,543	(1,633)
Head of Planning	0	322	322	36	15%	239	(83)
Head of Policy and Culture	1,215	379	1,636	123	32%	388	(1,248)
Head of Housing and Community	25,589	12,541	38,196	15,597	45%	34,447	(3,749)
Director (Strategy and Development)	26,804	13,242	40,154	15,757	45%	35,073	(5,080)
TOTAL	29,972	17,242	47,330	19,306	48%	40,617	(6,713)

3.3 Capital Schemes progress to date:

Progress on key capital projects is detailed below:

3.3.1 Hatfield Town Centre (HTC) - Current Forecast £3.158m, Committed Expenditure to date £2.076m, latest forecast outturn £3.138m.

Phase two of the redevelopment is now being delivered This includes expenditure on the final costs for the arcade canopy works, associated fees, flat refurbishments at White Lion House, acquisition of 17c HTC, redevelopment of 1 & 3-9, and the creation of new residential units 20a & 22a.

Internal borrowing of £2.220m for 2016/17 has been allocated to the scheme to fund the acquisitions and redevelopment of various units.

The scheme is expected to complete in 2017/18.

3.3.2 Bereavement Services - Current Forecast £1.000m, Committed Expenditure £0.057m, latest forecast outturn £0.057m.

The in year budget is to further develop the re-location of existing buildings at the Lawn Cemetery, and the provision of a crematory facility. Funds to be used for developing the design and undertaking the engineering, transportation, ecological and environmental assessments required to enable planning consent. Subject to planning approval, funds also cover the demolition of the existing building.

Two contractors have been procured for this project, and the planning application was submitted in the summer of 2016. There is request for the remaining budget (£0.943m) to be re profiled into 2017/18.

3.3.3 Development of Splashlands Site - Current Forecast £0.981m, Committed Expenditure £0.030m, latest forecast outturn £0.030m.

This scheme is for the redevelopment of the former Splashlands site in Stanborough Park. Consultants are preparing a business case and cost plan for consideration by the Splashlands Project Board over the autumn months, ahead of a decision on Phase 2 of this project. The remaining budget (£0.951m) is requested to be re profiled into 2017/18.

3.3.4 Affordable Housing Programme - Current Forecast is £22.795m, Committed Expenditure £10.428m, latest forecast outturn £19.046m.

The schemes committed expenditure to date represents 46% of the current budget.

Cabinet agreed on 7 August 2012 for the council to enter into an agreement to allow the council to retain receipts from the reinvigorated Right to Buy (RTB) sales and to reinvest in the delivery of new affordable homes within the district. These receipts need to be spent within three years of the receipt being received. Ring fenced reserves for this scheme at the beginning of the year were £23.164m, as detailed at Table 2. In year receipts are forecasted to be £8.277m plus an HRA revenue contribution of £3.700m.

The forecast outturn expenditure has been reduced to £19.046m for 2016/17, as a result of a strategic review of the Affordable Housing Programme. Appendix B includes a requested re profile of the programme of £3.749m.

3.3.5 Disabled Facility/Decent Homes Grants - Total Current Forecast £0.585m, Committed Expenditure £0.275m, latest forecast outturn £0.728m.

The council receives a contribution to the Disabled Facilities Grant expenditure via the Better Care Fund, managed by the County Council. This year the amount of funding has substantially increased to £0.592m. A separate report will be brought to Cabinet setting out proposals for using the additional funding.

The Decent Homes budget is ring fenced for use to undertake work which improves housing standards in the private sector. Cabinet have approved a scheme which ensures this money will be targeted for use by owner occupiers within the most deprived areas of the Borough. Part of the funding will also be used to increase the uptake of boiler replacements via the Herts and Essex Energy Partnership.

3.3.6 Major Repairs Allowance funded schemes- Current Forecast is £13.538m, Committed Expenditure £4.546m, latest forecast outturn £13,538m.

Of the committed expenditure £2.506m relates to the Mears contract. The Mears contract has a budget of £8.029m and is used for improvements required to the housing stock including replacement kitchens, bathrooms, electrical and asbestos works. The full program of works is underway according to the agreed business plan and it is expected that the budget will be spent in full.

4 Capital Funding and Reserves

4.1 General Fund Receipts

In year receipts are expected to be £17.837m. Capital receipts include Grants, Contributions, Principal capital loan payments, asset disposals, council house sales (including receipts to fund the affordable housing programme), and internal borrowing. Actual receipts received to date are £8.238m which is 46% of the current budget. The forecast outturn shows an increase of £0.532m on current budget. The increase includes the high value right to buy sales of £0.565m, £0.090m contributions for HTC fees, plus additional disposals of assets of £0.360m. This is offset by a reduction of internal borrowing required owing to the partial re profiling of the bereavement services scheme into 2017/18.

Internal borrowing was originally forecast to be £3.858m (£2.220m for Hatfield Town Centre redevelopments + £1m for Bereavement Services + £0.213m Campus East Offices + £0.425m Council Chamber) for 2016/17. This has been revised to £2.915m for the forecast outturn, in line with requested changes to the expenditure profile for these projects.

4.2 Housing Schemes (MRA funded)

Major Repairs Allowance receipts are received at the end of the financial year. We are expecting to receive £11.227m in year. Expenditure on Major Repairs Allowance funded schemes in year is expected to be £13.539m. The main contract for housing repairs is with MEARS with a budget of £8.029m in year. Paragraph 3.4.6 summarises the progress on the MEARS contract.

4.3 Developers Contributions – S106

The council holds capital monies received for external developers towards the funding of specific capital schemes.

Bought forward receipts: £0.030m for Hatfield aerodrome frontier
 £0.350m for Sir Frederic Osborn School

In year receipts: £0.059m for Sir Frederic Osborn School
 £0.850m for Angerland Hatfield Football
 £0.100m for Angerland Hatfield Rugby

The receipts are included in the capital funding as ear marked reserves. There have been three schemes identified for expenditure in the 2016/17 capital programme:

- £0.220m Welwyn Football Club – development.
- £0.050m Stanborough Netball Club improvements.
- £0.015m Welwyn Rugby Club improvements.

Of the £0.285m current budget, there has been in year expenditure of £0.252m.

4.4 Capital Funding and Reserves – Forecast Outturn

Table 2: Capital Reserves & Funding forecast at year end.

	Usable Capital Receipts £000	Major Repairs Reserve £000	Affordable Housing Funds £000	Capital Grants Unapplied £000	Total Movement on Capital Reserves £000	** Spend Funded by Internal Borrowing £000
Opening Balance 1st April 2016	9,183	3,469	23,164	707	36,523	(10,626)
RTB receipts (including Attributable Debt & High value sales)	229	-	8,277	-	8,506	-
Revenue Contribution to Capital	-	-	3,700	-	3,700	-
Other receipts	2,655	11,227	-	-	13,882	-
Grants	-	-	-	592	592	-
Capital expenditure – Forecast Outturn	(4,264)	(13,539)	(19,046)	(852)	(37,701)	(2,915)
Closing Balance 31st March 2016	7,803	1,157	16,095	447	25,502	(13,541)

*Capital Forecast Expenditure: Total Spend Funded by Receipts & Grants plus Spend Funded by Internal Borrowing = £40.616m.

** This expenditure is being financed through minimum revenue provision charges.

4.5 Of the £40.616m forecast outturn expenditure, £37.701m will be funded from capital reserves and £2.915m from internal borrowing.

4.6 Capital reserves (General Fund and Housing) are forecast to move from an opening position of £36.523m to a closing forecast position of £25.502m.

4.7 In year receipts are forecast to increase on the original budget by £3.318m. This is mainly owing to the roll forward of funding for the Hatfield Town Centre Redevelopment schemes, the early payment of the Gosling Loan, and additional funding for Disabled Facilities Grants and Angerland S106 funded schemes.

- 4.8 It is forecast that in year internal borrowing will be £2.915m. This is made up of £2.220m for Hatfield Town Centre redevelopments, £0.056m for Bereavement Services, £0.426m Campus East Council Chamber and £0.213m Campus East Offices.

5 Prudential Indicators

Monitoring for the Prudential Indicators. The indicators are as follows:

- 5.1 Capital Expenditure. This indicator represents the total capital expenditure for the authority. The 2016/17 forecast outturn is £40.616m. The capital budget expenditure programme is currently set to spend an average of £21m each year for the next four years.
- 5.2 Capital Financing Requirement (CFR). This indicator reflects the authorities underlying need to borrow to fund its capital programme. The 2016/17 CFR is calculated using the information from the 2015/16 Statement of Accounts. Calculations exclude Finance Leases and Loan Principal Repayments. The Housing CFR includes the self financing loan of £305m (March 2012) and voluntary debt payments. Based on the capital expenditure forecast outturn, the Councils CFR indicator is budgeted at General Fund = £28.608m + HRA = £249.344m). Included is the requirement of internal borrowing.
- 5.3 Authorised Limits and Operational Boundaries. The authorised limit indicator provides a maximum limit that the authority can borrow at any one time. It identifies external borrowing and long term liabilities. For 2016/17 the council's total authorised limit is £315.1m. (Borrowing limit of £8m + Long term liabilities/finance leases and loans of £2.1m + housing self financing loan of £305m). The operational boundary indicator is lower than the authorised limit as it is set to reflect the most likely borrowing requirement of the authority. For 2016/17 this is £273.1M (Borrowing boundary of £6m + other long term liabilities of £2.1m + housing self financing loan of £265m).
- 5.4 Affordability Ratios. The ratio of financing costs to net revenue stream is an indicator that measures the percentage of the council's income that will be committed to meet the costs of borrowing to fund the capital programme. For 2016/17 we have an estimated general fund percentage of 1.59, and for housing 38.08. The ratio reflects a reduction in our investment income (generally owing to reduced interest rates). The percentage in the outer years is predicting increased interest rates and/or a reduction in capital spending. HRA from 2012/13 onwards includes self financing debt repayments.
- 5.5 The Incremental Impact of Capital Investment indicator measures the impact on council tax and housing rents which would arise from changes to the councils capital budget programme. For 2016/17 the indicator is at £1.93 for band D council tax. Investment income has increased which has helped to offset the impact of capital investment decisions on the council tax budget.

- 5.6 Gross debt and the capital financing requirement. This indicator records the extent that gross debt is below the CFR. This ensures that over medium term that the debt is only used for capital purposes. For 2016/17 our indicator is below the CFR and remains so into outer years.
HRA limit on indebtedness. This indicator shows the HRA debt limit at the start of the year (£305m) and the CFR shows the expected debt at the end of the year (£249m).
- 5.7 Prudential indicator outturns for the previous year and budgets for 2016/17 to 2020/21 are set in the 2016/17 Budget Book.

Implications

6 Legal Implication(s)

- 6.1 There are no direct legal implications arising from this report. However, the individual projects will require legal input into procurement and contractual documentation.

7 Financial Implication(s)

- 7.1 Financial risks associated with the capital budgets are detailed at paragraph 8.

8 Risk Management Implications

- 8.1 The risks related to this proposal are:
- 8.2 Receipts are not received in the expected year and at the expected amount. If this occurs the implications on reserve levels need to be assessed along with whether alternative funding needs to be sought, this may have a cost to the Council.
- 8.3 The capital programme does not fully spend the expected amount. This has an opportunity cost to the Council. If we have planned to finance from receipts and there has been slippage against the programme, the receipts could have financed other programmes. The implication of the funding not being utilised may mean unnecessary costs are incurred in the delay.
- 8.4 Long term investment plans are based on anticipated levels of core cash, not committed to revenue or capital expenditure. Delays in capital programme spending therefore represent a lost opportunity to invest additional funds at higher long term interest rates.
- 8.5 The capital programme spending is more than the expected amount. This will have implications on the cash and planning of the organisation. Additional sources of funding will have to be identified and there may be a cost to the Council.
- 8.6 Regular monitoring and reporting of the capital budget and funding are an important part of mitigating these risks.
- 8.7 A formal risk assessment has not been prepared in relation to the details in this report.

9 Security & Terrorism Implication(s)

9.1 Implications will be considered when individual capital schemes are proposed and the release of capital funding is sought.

10 Procurement Implication(s)

10.1 Implications will be considered when individual capital schemes are proposed and the release of capital funding is sought.

11 Climate Change Implication(s)

11.1 Implications will be considered when individual capital schemes are proposed and the release of capital funding is sought.

12 Link to Corporate Priorities

12.1 The subject of this report is linked to the Council's Corporate Priority "Engage with communities and provide value for money", and specifically to the achievement of "Demonstrate Value for Money".

13 Equality and Diversity

13.1 An Equality Impact Assessment (EIA) has/ has not been carried out in connection with the proposals that are set out in this report (please complete section 9.2 only if an EIA has been completed).

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Background papers to be listed (if applicable)

Appendices to be listed:

Appendix A - Capital Expenditure Monitoring per Scheme

Appendix B – Capital Budgets 2016/17 Re profiling into 2017/18