

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 10 JANUARY 2016
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

CAPITAL PROGRAMME 2017/18 TO 2021/22

1 Executive Summary

- 1.1 The report provides Members with details of the proposed programme of capital expenditure and funding for the period 2017/18 to 2021/22, for both the General Fund and Housing services.
- 1.2 The report also includes the associated Prudential Indicators for the period, to enable Members to evaluate the affordability, sustainability and prudence of the capital strategy.
- 1.3 The estimated capital spend over the reporting period is £153.6m and is summarised at Table 1, split between General Fund and Housing services.
- 1.4 Available capital resources over the five year period are forecast to be £206.2m and include £50m of internal and external borrowing.

2 Recommendation(s)

- 2.1 That Cabinet approve the capital programme for 2017/18 to 2021/22 as set out at Appendix A and B and recommend it for approval by full Council.
- 2.2 That Cabinet approve the proposed capital funding and borrowing forecasts for 2017/18 to 2021/22 as set out at in section 5 of the report and recommend the proposals for approval by full Council.
- 2.3 Cabinet Note that the proposed capital schemes will be subject to individual report by relevant Directors to Members for approval and release of funds prior to commencing financial commitment to the relevant scheme.
- 2.4 Cabinet note the Prudential Indicators detailed at Appendix C and the Minimum Revenue Provision detailed at Appendix D.

3 Capital Programme Objectives

- 3.1 The Council's capital programme identifies the investment priorities of the Council over the medium term and the associated funding proposals. The programme aims to:
 - a) ensure the Council has a fully funded capital programme,
 - b) align expenditure and resources to the corporate plan priority projects,
 - c) make provision for service specific investment strategies (for example affordable housing) and cross service strategies (for example business improvement and invest to save projects),

- d) use prudential borrowing where appropriate and affordable,
- e) to identify external funding sources to meet the council's investment aspirations; and
- f) ensure surplus assets are identified and disposed of to support future investment, in line with corporate priorities.

4 Capital Expenditure Programme

4.1 The capital programme for the period to 2021/22 is detailed at Appendix A and includes:

- a) General Fund Capital Schemes,
- b) S106 Schemes (General Fund),
- c) Affordable Housing Programme,
- d) Housing Major Repairs Schemes, and
- e) Other Housing Schemes(for example sheltered housing refurbishment)

4.2 Table 1 summarises the proposed expenditure for each element of the capital programme. Housing development and major repairs make up approximately 80% of the five year programme.

Table 1: Proposed Capital Expenditure 2017/18 to 2021/22

	Forecast Spend 2017/18	Forecast Spend 2018/19	Forecast Spend 2019/20	Forecast Spend 2020/21	Forecast Spend 2021/22	TOTAL
Schemes	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Services	17,402	7,760	1,720	1,121	1,141	29,145
S106 Funded Schemes	1,000	0	0	0	0	1,000
Affordable Housing Programme	13,929	9,937	18,639	19,552	5,088	67,145
Housing Major Repairs Programme	11,295	11,288	11,302	11,328	11,081	56,294
TOTAL	43,626	28,986	31,661	32,001	17,310	153,584

4.3 The programme has been developed having regard to the priorities set out in the Council's Corporate Plan, the Medium Term Financial Strategy and the Housing Business Plan. Directors and Heads of Service have pulled the scheme details together through the completion of capital investment bids; identifying the relevant scheme and associated financial (capital and revenue) and non-financial implications (link to corporate priorities, etc). All bids are formally challenged by the Section 151 Officer, members of the Council's management team and the finance team.

General Fund Schemes

4.4 The 2017/18 - 2020/21 expenditure programme is shown in full detail in appendix B but includes a number of key corporate schemes such as Hatfield Town Centre Redevelopment, Highview redevelopment, investment through a property company, improvements to Huntersbridge car park, Bereavement Services and Splashlands.

- 4.5 Hatfield Town Centre re-development – following on from the refurbishment and improvement of the flats and shops in White Lion Square, the Arcade and White Lion House will come the regeneration of the public realm and the re-development of the site of numbers 1 and 3-9 town centre. A total of £1.6million is proposed for the schemes in the town centre over 2017/18 and 2018/19, excluding any budgets which may roll forward from 2016/17.
- 4.6 Highview – A total of £0.4m is proposed over 2017/18 and 2018/19 to progress the redevelopment scheme for the Highview neighbourhood shopping parade.
- 4.7 Property Company – subject to the approval of the business plan and the setting up of the company a total of £10m is proposed to be included in the programme for investment in property in order to generate a return to the general fund.
- 4.8 Huntersbridge Car Park – works at an estimated cost of £0.6m are required to restore and preserve the appearance and water-proofing to the concrete. This will extend the useful life of the car park.
- 4.9 Bereavement Services – A budget of £4.193m in 2017/18 is for the construction of a new crematorium at Hatfield Cemetery.
- 4.10 Splashlands – the development of new leisure facilities to complete the regeneration of the site in Stanborough Park is estimated to cost £2.3m.
- 4.11 S106 Funded Schemes

The Council holds capital monies received from external developers towards the funding of specific capital schemes. These receipts are subject to legal restrictions on both the timing of their use and the community scheme to be financed. The Council's failure to deliver the obligations attached to the receipt will result in the repayment of the receipt and in some case the associated interest.

As at 1st April 2017 it is estimated that £1.154m will be held as S106 receipts and available for use. The Council is forecast to spend £0.8m during 2017/18 in supporting local organisations to upgrade football facilities in Hatfield and £0.2m during 2017/18 in supporting local rugby facilities within Hatfield. As at 31st March 2018, the Council is forecast to hold two S106 contributions totalling £0.154m, with the proposed application currently undetermined.

No further S106 receipts have been identified to support non housing schemes in the future.

- 4.12 Affordable Housing Schemes – Total Programme over the five years of £67.1m. The Affordable Housing Programme delivers homes via a number of methods including:
- open market purchase (OMP)
 - disposal of brownfield sites to Registered Providers (RPs)
 - direct funding/construction for council ownership
 - windfall opportunities, including additional value on Section 106 sites
- 4.13 The Affordable Housing budget has been estimated to reflect the Right to Buy (RTB) Replacement Programme. After a strategic review during 2016 the

programme will continue with the aim of maintaining the number of properties in the housing stock and deliver 600 affordable homes between 2016 and 2021. The Council has been retaining receipts from RTB sales and is monitoring closely the spending of the receipts. The government scheme requires the authority to spend the receipts within three years before they must be handed over and the Authority incur an interest charge. Under the scheme the Council will only be able to fund a maximum of 30% of the cost of replacement housing from the RTB sales receipts. For this reason an underlying budget has been put in place to support the other 70% of costs for direct provision of replacements.

- 4.13 Housing Major Repairs Scheme – total programme of £56.3m. The Housing Refurbishment Programme and Major Repair’s expenditure are a continuation of the current programme and are supported by the stock condition survey, the asset management plan and the requirement to comply with the Government’s Decent Homes requirements. The major element of the Major Repairs Programme is delivered by the MEARS contract, with an annual budget of £7.2m and is spent on improvements to the Council’s current housing stock; such as rewiring, kitchen and bathroom refurbishments, windows replacement, etc.
- 4.14 The Gas Replacement programme, which forms part of the Housing Major Repairs Scheme, totals £8.2m over the 5 year reporting period and on average results in the installation and upgrade of approximately 540 systems per annum.

5 Capital Resources

- 5.1 The Council’s available capital resources (capital receipts, capital grants, S106 contributions, repayment of loans, etc) totalled £36.523m (Appendix A) as at 1st April 2016. The Council is forecast to generate capital funding totalling £130.2m over the five year period, primarily from RTB receipts.
- 5.2 In order progress the Affordable Housing Programme, the council will have to borrow £34.278m, both internally and externally, to match fund RTB receipts under current legislation. Further borrowing of £15.674m is proposed for General Fund invest to save schemes. Due to funding pressures on the General Fund and the HRA revenue accounts, there are no contributions from revenue to fund capital schemes over the five year programme.
- 5.3 Table 2 below shows the funding that is proposed to be used to finance the schemes over the five years to 2021/22.

	Forecast Spend 2017/18	Forecast Spend 2018/19	Forecast Spend 2019/20	Forecast Spend 2020/21	Forecast Spend 2021/22	TOTAL
Funding Source	£'000	£'000	£'000	£'000	£'000	£'000
Capital Receipts/Reserves	16,043	7,583	9,861	9,351	3,177	46,015
Government Grants	265	265	265	265	265	1,323
Major Repairs Reserve	11,295	11,288	11,302	11,329	11,081	56,294
Internal Borrowing	12,323	8,350	2,500	2,500	0	25,673
External Borrowing	3,700	1,500	7,734	8,557	2,787	24,278
TOTAL	43,626	28,986	31,661	32,001	17,310	153,584

- 5.4 Internal Borrowing – As the council has significant cash balances and whilst income from Council investment remains at an all-time low; the council is using internal borrowing to finance capital expenditure. Ongoing scheme running costs along with the cost of the scheme will be provided for from ongoing revenue budgets over the life of the asset.
- 5.5 Table 3 below outlines the cumulative position to date, the expected additional internal borrowing to 2021/22 and the closing balance of internal borrowing to be repaid over the life of the respective assets.

Internal Borrowing Summary	Forecast Outturn 2016/17	Original Budget 2017/18	Original Budget 2018/19	Original Budget 2019/20	Original Budget 2020/21	Original Budget 2021/22
	£M	£M	£M	£M	£M	£M
General Fund						
Opening Internal Borrowing	15.20	17.71	27.37	33.01	32.70	32.39
Capital Expenditure funded from Internal Borrowing	2.85	9.82	5.85	0.00	0.00	0.00
Revenue repayments of borrowing	-0.34	-0.17	-0.20	-0.31	-0.32	-0.32
Closing Balance - GF Only	17.71	27.37	33.01	32.70	32.39	32.07
HRA						
Opening Internal Borrowing	0.00	0.00	2.50	4.92	7.25	9.50
Capital Expenditure funded from Internal Borrowing	0.00	2.50	2.50	2.50	2.50	0.00
Revenue repayments of borrowing	0.00	0.00	-0.08	-0.17	-0.25	-0.33
Closing Balance - HRA Only	0.00	2.50	4.92	7.25	9.50	9.17
Total Closing Balance	17.71	29.87	37.93	39.95	41.89	41.23

- 5.6 The ability to internally borrow to fund capital schemes will depend on level the cash balances held, resulting from capital receipts and spending on capital schemes. We monitor these throughout the year in the capital budget monitoring reports and will optimise the opportunity to internally borrow over the more expensive external borrowing option. The Authority is able to borrow externally from the Public Works Loan Board.
- 5.7 The Council's available capital resources as at 31st March 2022 are expected to be £28.304m a reduction of £2.246m on the projected opening balance as at 1st April 2017 (£26.058m). However, in order to match fund the Affordable Housing Programme under current restrictive legislation, the Council will have increased borrowing of £49.951m, of which £25.673m is expected to be internally borrowed and £24.278m from external sources.
- 5.8 From April 2017, due to a removal of transitional mitigation of legislation changes, the Housing Revenue Account will now fund the ongoing improvement work required on the Housing stock from the depreciation charge which gets charged to the Major Repairs reserve. From here the amounts set aside each year from

depreciation can be used to fund the capital programme on the housing stock along with repayment of the principal of amounts borrowed by the HRA. As the depreciation charge exceeds the capital expenditure requirement for the housing schemes, we will be using the surplus balance to fund some of the principal repayments going forward.

- 5.9 Based on the Affordable Housing Programme and associated funding assumptions; the Council is not liable to repay any RTB receipts and associated interest penalty. Regular monitoring of this scheme is in place to ensure this position is maintained.
- 5.10 The Council's legal commitments in relation to S106 capital contributions have been included in the expenditure and funding plans for the 5 year period. Monthly capital monitoring reports will ensure that these commitments will be reviewed at regular intervals to ensure that local community expectations are met in the long term.

6 Prudential indicators

- 6.1 The Prudential Indicators contained in appendix C include information for the 2016/17 forecast outturn, and 2017/18 to 2019/20 budget. The indicators are as follows:
 - 6.1 Capital Expenditure. This indicator represents the value of the total planned capital expenditure for the authority against the financing for the 2016/17 revised budget, and budgets 2017/18 to 2019/20.
 - 6.2 Capital Financing Requirement. This indicator changes to reflect any use of previously reserved receipts to fund capital expenditure. The 2017/18 CFR is calculated using the information from the 2015/16 Statement of Accounts. The Authorities CFR includes the Housing Self Financing debt of £305M taken on by the authority during 2012/13. The General Fund indicator is £22.394M and includes internal borrowing and borrowing repayments. Overall the CFR is forecast to fall by £11.213m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.
 - 6.3 Borrowing Limits – Operational Boundary and Authorised limit
 - 6.4 Affordability – Ratio of Financing Costs to Net Revenue Streams and Incremental impact of Capital Investment.
 - 6.5 Prudence – Gross Debt, Capital Financing Requirement and HRA limit on Indebtedness

Implications

7 Legal Implication(s)

- 7.1 There are no direct legal implications arising from this report. However, the individual projects will require legal input into procurement and contractual documentation and any implications will be outlined in the reports referred to in section 2.3.

8 Financial Implication(s)

Financial risks associated with the capital and funding strategies are contained within this report.

9 Risk Management Implications

9.1 The risks related to this proposal are:

9.2 Capacity and site opportunities to deliver the AHP. The Council must spend retained RTB receipts within three years and find funding of 70% to use the receipts as up to 30% of the cost of the scheme. The programme is managed through a project working group and a steering group and a full risk register is maintained and monitored.

9.3 Receipts are received in the expected year and at the expected amount. If this does not happen, the implications on reserve levels need to be assessed for their impact on the affordability of the capital programme. Quarterly and monthly monitoring will help to prudently estimate reserve balances and for appropriate action to be taken as required.

9.4 Accurate costing of schemes and spending at the anticipated level. Wide variations in actual cost compared to budget will impact on the affordability of the overall capital programme. Capital estimates are proposed based on an informed view of the likely cost of the scheme. Estimates may change when services are procured and could delay the scheme if further authorisation from Cabinet is required to proceed. Over estimating costs also has a detrimental impact if other schemes are postponed or cancelled due to an incorrectly perceived lack of resources.

9.5 Regular monitoring and reporting of the capital budget and funding are an important part of mitigating these risks

10 Security & Terrorism Implication(s)

10.1 There are no direct implications to be considered within the proposals in this report.

11 Procurement Implication(s)

11.1 All expenditure will be procured in line with the Council's procurement rules.

12 Climate Change Implication(s)

12.1 Implications will be considered by scheme managers as appropriate.

13 Link to Corporate Priorities

13.1 The subject of this report is linked to the Council's Corporate Priority 'Engage with Communities and provide Value for Money'. Individual capital schemes are also linked to the Council's corporate priorities.

14 Equality and Diversity

- 14.1 Equality Impact Assessments (EIA) will be carried out in connection with the new projects that are set out in the capital programme, and as part of the detail reports to be presented by scheme managers in accordance with recommendation note 2.3 in this report.

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Background papers to be listed (if applicable)

Appendix A – Capital Receipts and Reserves 2017/18 to 2021/22

Appendix B – Proposed Capital Expenditure Programme for 2017/18 to 2021/22

Appendix C – Prudential Indicators 2017/18 to 2019/20

Appendix D – Annual Minimum Revenue Provision Statement 2017/18