

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 7TH FEBRUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

CAPITAL BUDGET MONITORING AS AT 31ST DECEMBER 2016 (PERIOD 9)

1 Executive Summary

- 1.1 This report presents the capital expenditure monitoring outturn and associated capital funding for the period to 31st December 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 experience on programme commitments and project delivery to the end of December 2016.
- 1.2 At Period 9 the current approved budget is £40.597m which includes carry forwards from 2015/16 of £17.242m and re-profiling (agreed by Cabinet on 1st November 2016) of £6.729m. The current forecast outturn is £40.585m summarised in Table 1 and detailed in 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 £0.012m in the 2016/17 current budget of the capital programme bringing the total budget to £40.585m as summarised in Table 1.
- 2.2 That Cabinet agree the revised funding of the capital programme as summarised in table 2.
- 2.3 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 in Appendix A.

Table 1: Capital Expenditure Budgets by Head of Service as at period 9

Description	Original Budget 2016/17	Approved Roll Forwards from 15/16	Current Budget 2016/17(including 2015/16 Carry Forwards and Approved re-profiling in 2016/17)	% spent & committed of Forecast Outturn	Forecast Outturn 2016/17	Variance of Forecast Outturn to Current Budget
	£'000	£'000	£'000		£'000	£'000
Head of Resources	1,715	3,940	5,190	76%	5,110	(80)
Head of Environment	1,453	60	369	77%	470	101
Head of Policy and Culture	1,215	379	352	54%	319	(33)
Executive Director (Resources, Environment and Cultural Services)	4,382	4,378	5,911	75%	5,899	(12)
Head of Planning	0	322	239	18%	239	0
Executive Director (Public Protection, Planning and Governance)	0	322	239	18%	239	0
Head of Housing and Community	25,589	12,541	34,447	68%	34,447	0
Executive Director (Housing and Communities)	25,589	12,541	34,447	68%	34,447	0
TOTAL	29,972	17,242	40,597	69%	40,585	(12)

3.2 Capital Schemes progress to date

Progress on key capital projects is detailed below:

3.3.1 **Hatfield Town Centre (HTC)** - Current budget is £3.138m. In year we have spent and committed £2.472m and the latest forecast outturn is £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 £2.203m for 2016/17 has been allocated to the schemes to fund the acquisitions and redevelopment of various units. The scheme is expected to continue into 2017/18 and public realm works finishing in 2018/19.

- 3.3.2 Bereavement Services** - Current budget is £0.057m. This reflects the current spend on design fees. The forecast outturn has been increased by £100k in year to 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. Budget of £0.943m had been re profiled into 2017/18 and will be adjusted down by £0.100m to reflect the amount re profiled back into 2016/17.
- 3.3.3 Development of Splashlands Site** - Current budget £0.030m. The in year budget funds the fees for business case design works for cafe and toilets on the north side of Stanborough Park. The forecast outturn has increased by £0.006m to fund these costs. This scheme is for the redevelopment of the former Splashlands site in Stanborough Park. The Council has now received the business case and cost plan for consideration which includes a proposal for a new pavilion (cafe & toilets), adventure golf and a bounce pad/trampoline. The Council has yet to make a decision. Budget of £0.951m has been re profiled into 2017/18 and will be adjusted down by £0.006m to reflect the amount re profiled back into 2016/17.
- 3.3.4 Affordable Housing Programme** - Current budget and latest Forecast is £19.046m. Spend and committed expenditure in year is £15.787m and represents 83% of the current forecast outturn. 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 in Table 2. In year receipts are forecast to be £8.277m plus an HRA revenue contribution of £3.700m. The current budget and forecast outturn expenditure was reduced to £19.046m for 2016/17 at the second quarter. Budget of £3.749m has been re profiled into 2017/18.
- 3.3.5 Disabled Facility/Decent Homes Grants** - Current budget and forecast is £0.471m plus rolled forward budget of £0.143m totalling £0.614m. There is also a budget of £0.114m for Decent Homes. Spend and commitments in year are £0.406m on Disabled Facility Grants and £0.014m on Decent Homes. 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 budget and forecast is £13.538m. This includes the total for managed services, Queensway house and professional fees less three schemes which are funded by the housing revenue account (Sheltered refurbishment, Orchard Mobile working and Electronic document management) Expenditure and commitments total £6.932m which is 51% of the forecast outturn. Of this total, £4.062m 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 The capital funding position available to finance the capital programme was £36.523m at the 1st April 2016. The capital funding includes grants, capital contributions, capital loan repayments, asset disposals, council house sales (including receipts to fund the affordable housing programme), and internal borrowing. In-year funding is forecast to be £29.605m, which after in-year expenditure of £40.585m will leave capital reserves at £25.544m by 31st March 2017.
- 4.2 Actual receipts received to date are £19.217m which represents 66% of the forecast budget. A review of the capital receipts position for the end of the financial year shows an expected increase of £2.852m on the original budget. The increase is mainly owing to S106 monies received for sport improvement schemes, and an increase in internal borrowing to fund Hatfield Town Centre improvements.
- 4.3 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 £2.865m for the forecast outturn, in line with requested changes to the expenditure profile for these projects.
- 4.4 **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 3.3.6 summarises the progress on the MEARS contract.

4.5 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 forecast receipts: £0.059m for Sir Frederic Osborn School
£0.800m for Angerland Hatfield Football
£0.200m 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.

4.6 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	(15,249)
RTB receipts (including Attributable Debt & High value sales)	229	-	8,277	-	8,506	-
Revenue Contribution to Capital	-	-	3,700	-	3,700	-
Other receipts	2,716	11,227	-	-	13,943	-
Grants	-	-	-	592	592	-
Capital expenditure*	(4,311)	(13,539)	(19,046)	(824)	(37,720)	(2,865)
Closing Balance 31st March 2017	7,817	1,157	16,095	475	25,544	(18,114)

*Capital Forecast Expenditure: Total Spend Funded by Receipts & Grants plus Spend Funded by Internal Borrowing = £40.585m.

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

- 4.7 Of the £40.585m forecast outturn expenditure, £37.720m will be funded from capital reserves and £2.865m from internal borrowing.
- 4.8 Capital reserves (General Fund and Housing) are forecast to move from an opening position of £36.523m to a closing forecast position of £25.544m.

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 £40.585m. 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