

Meeting: EXECUTIVE

**Council Agenda
Item:**

5B

Portfolio Area: Resources

Date: 16 FEBRUARY 2016

2016/17 CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

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1. PURPOSE

- 1.1 To approve revisions to the 2015/16 General Fund and Housing Revenue Account Capital Programme and approve the final Capital Programmes for 2016/17 for recommendation to Council.
- 1.2 To provide Members with an update on the Council's 5 Year Capital Strategy and the resources available to fund the Capital Strategy.
- 1.3 To update Members on the work of the Leaders Services Priority Group (LSPG) in reviewing all General Fund capital bids prior to inclusion in the draft 2015/16 onwards Capital Strategy.

2. RECOMMENDATIONS

- 2.1 That the following proposals be recommended to Council on 24 February 2016.
 - 2.1.1 The revised General Fund and HRA 2015/16 capital programme, as detailed in Appendix A and Appendix C be approved.
 - 2.1.2 The 2016/17 General Fund Capital Programme as detailed in Appendix A be approved.
 - 2.1.3 The draft 2016/17 HRA Capital Programme as detailed in Appendix C be approved.
 - 2.1.4 That the updated forecast of resources as summarised in Appendix A (General Fund) and Appendix C (HRA) be approved.
 - 2.1.5 The growth bids identified for inclusion in the Capital Strategy (Appendix B) be approved.
 - 2.1.6 That the work undertaken by LSPG on behalf of the Executive in reviewing and challenging the General Fund Capital Strategy be noted.

3. BACKGROUND

3.1 **General Fund** - One of the significant pressures for the General Fund has been the impact of supporting the General Fund Capital Strategy, with a reducing resource base to meet the expenditure and investment needs of the town's assets. Investment demands have become evident with the Strategic Management Board (SMB) ward inspections and the Neighbourhood improvement agenda strand under the 'Future Town Future Council' priorities. The capital programme in recent years has seen the deferral of significant levels of capital investment over recent years unless classed as a high priority.

3.2 From 2015/16 a new approach to the capital programme was introduced, zero basing all capital budgets from 2015/16 onwards and the categorising of new bids. Schemes have been classified as follows:

Schemes to be considered on Business Case:

- Category 1 : Return on investment schemes
- Category 2 : Income generating asset schemes

Schemes to be considered on Priority:

- Category 3 : Mandatory requirements
- Category 4 : Schemes to maintain operational effectiveness
- Category 5 : Match funding schemes

3.3 In terms of funding the bids, prudential borrowing will 'normally' only be used to support Category 1 and 2 schemes, with capital receipt, external grants and a new revenue reserve for capital being used to fund Category 3, 4 and 5 schemes. Obviously the funding total for Category 3, 4 and 5 schemes is finite and all schemes, although accepted on the capital strategy, cannot commence until funding is available.

3.4 LSPG met in October and November to review all General Fund capital bids (2016/17 onwards) and made a number of recommendations and these are contained within this report.

3.5 **HRA** -The HRA capital programme was revised in 2014 as part of the 30 Year Business Plan (November 2014 Executive). The 30 year HRA capital programme totalled £1,034Million with a funding shortfall (over 30 years) of £15.458Million, this was within the tolerance set by the Chief Financial Officer of 3% of total spend.

3.6 However recent announcements contained within the July 2015 budget and the subsequent Welfare Reform Bill and Housing and Planning Act mean that the identified funding for the 30 year programme is no longer in place, as a result of rental loss from the four years 1% rent reduction and government initiatives such as 'sale of high value homes'.

3.7 Officers and Members are currently reviewing priorities for the HRA to determine the shape of the future capital programme as a result of the anticipated lower resources.

3.8 **Total Programme-** The draft Strategy was last reported to the Executive in January 2016 with a 2015/16 General Fund Capital Programme of £7,422,900 and a HRA programme of £28,123,510. The combined capital programme totals £35,546,410 for 2015/16.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Overview & Scrutiny Committee

4.1.1 The Committee was reminded that this was before them as a Budget and Policy Framework item and any comments made would be incorporated into the final report that the Executive would consider for recommendation to Council in February.

4.1.2 The Assistant Director (Finance) presented the report which detailed revisions to the 2015/2016 General Fund and Housing Revenue Account Programme, sought approval to the draft Capital Programme for 2016/2017 and updated Members on the Council's draft five year Capital Strategy.

4.1.3 The Committee was advised that all the General Fund capital growth bids had been considered, challenged and prioritised by LSPG prior to their inclusion in the draft Capital Strategy.

4.1.4 A question was asked concerning parking enforcement and the provision of parking bays the Committee was advised that works would generally be prioritised on highway safety grounds.

4.1.5 In reply to a further question the Committee was advised of potential funding sources to allow the capital bid for improvements to the Forum Square to be included in the Capital Strategy in 2016/17.

4.1.6 The Committee did not wish for any comments to be incorporated into the final report.

4.2 Capital Programme – 2015/16 General Fund

4.2.1 The 2015/16 programme is now projected to be £7,045,900, which is £377,000 lower than reported at the Executive in January 2016.

4.2.2 At the January 2016 Executive meeting officers were asked if the Forum Square scheme capital bid of £590,038 could be funded and included in the 2016/17 programme, due to its importance as a signal for regeneration in the town centre. The regeneration team revisited the bid and assessed that a scheme could be delivered for £377,000. There was an existing budget of £673,910 (mainly funded by prior years new homes bonus) to pump prime town centre regeneration.

4.2.3 The Town Centre regeneration budget was included in the programme to assist with the Council's regeneration aims and will be required to help procure a development partner. Officers recommend that £377,000 is used for the Forum scheme and a later assessment will be done to determine the level of funding

that will be required by the council for the future cost of regeneration however this will be a combination of partner funding through Stevenage First including the Local Enterprise Partnership (LEP), Hertfordshire County Council, private investors and SBC. In the interim the remaining budget of £296,910 is held for that purpose.

4.2.4 As at 2 February 2016, 57% (£4,004,094) of the revised General Fund programme had been invoiced. Spending officers have been asked to review all 2015/16 capital budgets currently unspent or not committed to determine whether any budgets can be deleted rather than 'slipped' into the following year. This will be reported as part of the 3rd quarter monitoring process in March 2016.

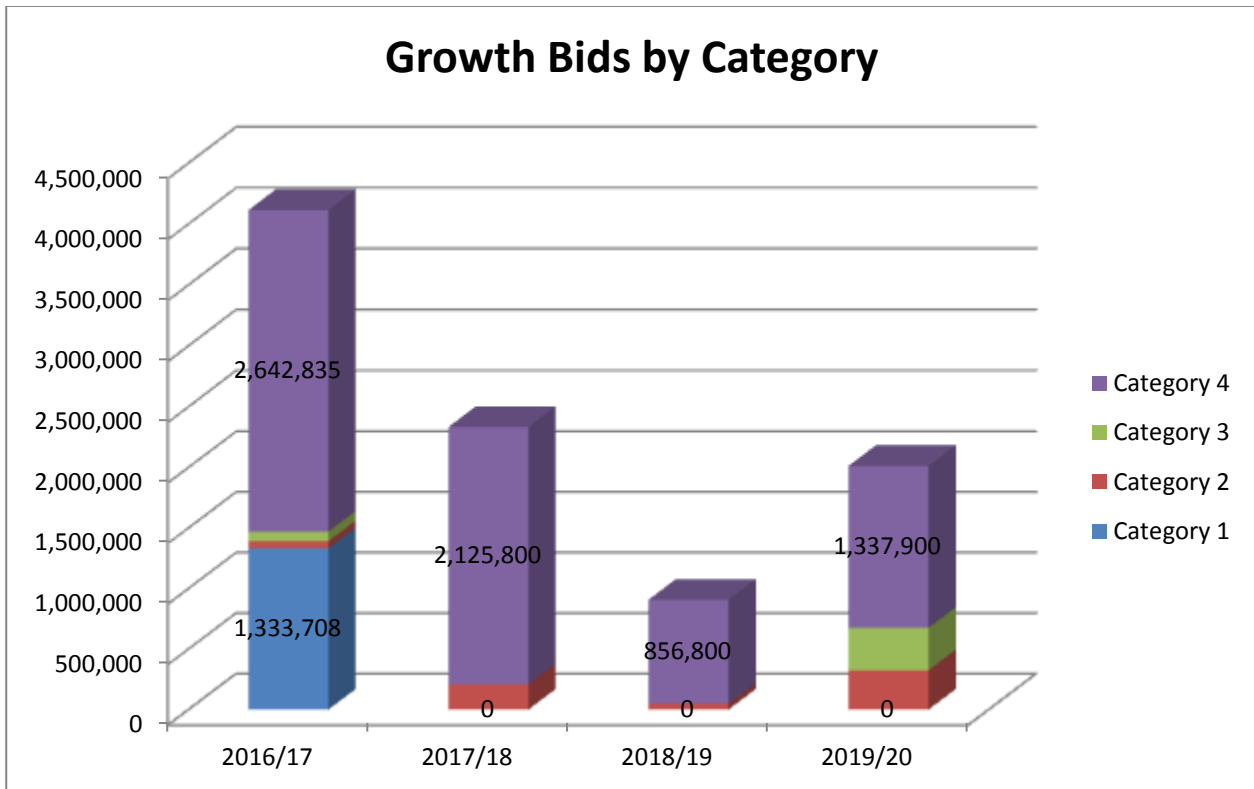
4.3 Capital Programme – 2016/17 General Fund

4.3.1 Officers originally put forward a range of Capital Bids for consideration by LSPG which totalled £9.742Million with funding of just £478,000 identified. In addition there were adjustments to the 2015/16 programme of £258,000 reduction (mainly related to vehicles).

4.3.2 It was clear that the original level of growth bids were in excess of the resources available and consequently LSPG challenged each growth bid put forward and as a result some bids were revised down by officers or works deferred to later years of the Strategy. This assessment was made before the revision to the capital bids and any new resources that could be used.

	Capital Resources £'000					
Year:	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance of Resources	(1,816)	(1,501)	2,290	4,389	5,163	(1,816)
In Year Receipts	(2,649)	(1,826)	(151)	(300)	(73)	(4,999)
In Year Capital Reserve	(1,542)	(1,465)	(1,475)	(1,488)	(1,501)	(7,469)
New Funding Resources	0	(4)	(117)	(4)	(353)	(478)
Total in year resources	(4,190)	(3,295)	(1,742)	(1,792)	(1,927)	(12,945)
Use of Resources (current programme)	4,763	2,633	1,471	1,659	70	10,596
New bids	(258)	4,453	2,370	907	2,013	9,485
Total Programme	4,505	7,086	3,841	2,565	2,083	20,081
Balance Carried forward	(1,501)	2,290	4,389	5,163	5,319	5,319

4.3.3 LSPG could not assess some of the bids as further clarification was required so LSPG asked that the Senior Management Board (SMB) review the existing programme and new bids put forward for the group of assets including offices, depots, play areas, pavilions and community centres. As a result of this review the 2016/17 existing programme for these assets and growth bids were revised down and some bids were put on a deferral list. A summary of the revised bids is summarised in the following table and are detailed in Appendix B. The majority of bids are Category 4 : Schemes to maintain operational effectiveness.



4.3.4 LSPG and SMB also recommended that some schemes are deferred totalling £523,000, however, to maintain operational effectiveness for the assets concerned a sum of £100,000 is included in the Capital Strategy in 2016/17 in the event that any of these works become unavoidable in the year. This remains unchanged from the January 2016 Draft Capital Strategy report.

4.3.5 There were further schemes recommended for deferral or not recommended for 2016/17 (£665,693) at the January Executive and there was one bid which scored zero (an additional sum of £5,000 per year to fund furniture). The Executive in January asked officers to relook at the Forum Square scheme (as outlined in paragraphs 4.2.2-4.2.3 and a scheme totalling £377,000 is now included in the 2016/17 Capital Strategy for approval at Council on the 24 February 2016.

4.3.6 The 2016/17 General Fund capital programme has also increased by a further £95,000 which relates to site assembly costs to realise land disposals in the Strategy. This cost had been offset against the receipt but the cost is now shown in the Strategy with a corresponding increase in the capital receipts from 2016/17.

4.3.7 The new capital strategy approved bids for 2016/17 now total £3,261,200, (January 2016, £2,884,200) giving a total 2016/17 capital programme for the General Fund of £7,100,720.

4.3.8 Some growth bids have been added to the existing Capital Strategy for future years, however for future years it is recommended that the whole programme is reviewed alongside new growth bids for 2017/18. This was done in part for some assets (see paragraph 4.2.3) but should be completed for the whole programme as priorities may change over time.

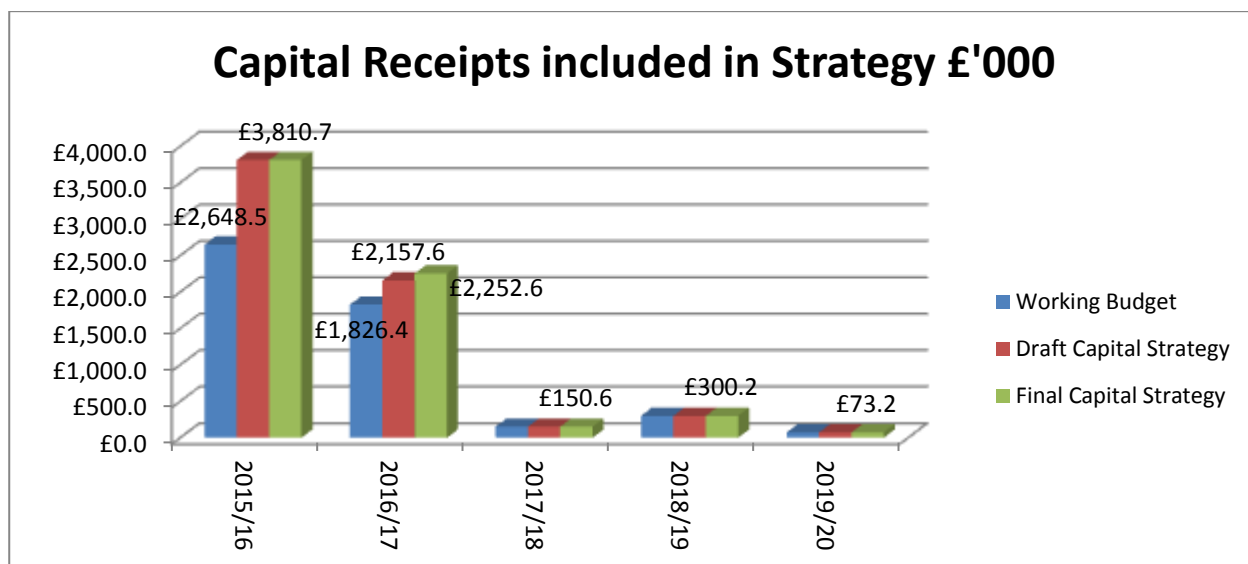
4.3.9 Any further changes to the Capital strategy will reported as part of the quarterly monitoring process to the Executive.

4.4 Capital Programme – General Fund Resources

4.4.1 There are two main sources of funding for the General Fund capital programme these are the capital reserve and capital receipts.

4.4.2 The Capital Reserve is funded from a number of sources including New Homes Bonus (£200,000), General Fund contributions (£500,000) and Right to Buy Receipts (£346,000). Cost of borrowing not required in year (£95,090). In addition up to £350,000 of underspends in any one year from the General Fund may be transferred to the reserve, however the latter cannot be guaranteed.

4.4.3 Capital receipts are generated from the sale of assets (mainly land) agreed by Members for disposal. The value of sales included in the 2nd quarter monitoring update was £4.999Million for the period 2015/16-2019/20. The revised estimate based on improved land values is now anticipated to be £6.587Million an increase of £95,000 (see paragraph 4.3.6) over that reported in January and an increase of £1.588Million over that reported at the 2nd quarter.



4.4.4 Part of the increase since the 2nd quarter monitoring report relates the cost of site assembly cost in terms of freeholds and garage buybacks which previously had been treated as a pre-sale expense and deducted from the cost of sale but are now shown in the Capital Strategy (£275,000), with the remainder relating to higher anticipated sale prices.

4.4.5 In addition to the resources identified above a proposed amount of £433,000 from New Homes Bonus has been ring fenced to support the Neighbourhood improvement programme ('Future Town Future Council' priority). This will be both capital and revenue expenditure. For capital bids this enables the playground improvement programme (£360,000 in 2016/17) to be funded and £16,000 (2016/17) of new litter bins.

4.4.6 Consideration was also given as to how to fund Town Centre improvements such as the growth bid for works to the intersection of Park Place and

Queensway'. Within the existing programme was a residual amount of £185,180 funded by Growth Area Funding (GAF). This budget together with a further amount of £113,120 from the allocated reserve is recommended to fund 50% of the scheme costs, with the remaining funding from capital receipts.

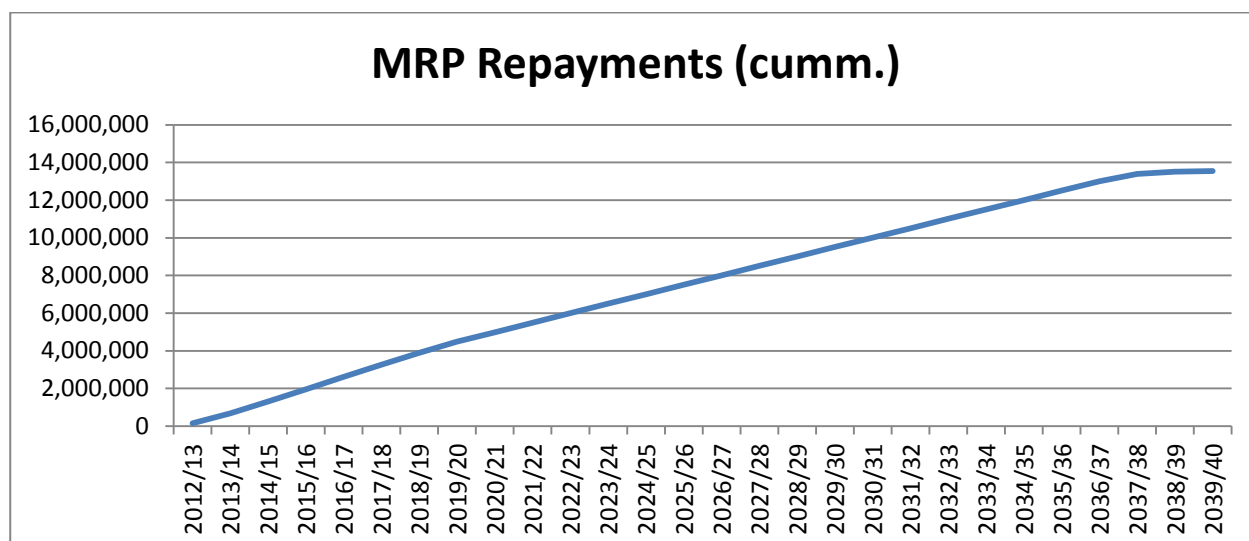
- 4.4.7 The increase in projected capital receipts, additional New Homes Bonus monies and use of allocated reserves means that the Capital Strategy is balanced with a small amount of resource remaining (£346,024) as at 31 March 2020. However, there are deferred or not recommended schemes totally £663K which may need to be funded and there is no guarantee that anticipated capital receipts will be realised. Furthermore the pipeline of sites for disposal is significantly lower from 2017/18 onwards.
- 4.4.8 The Council has the ability to prudentially borrow to fund the capital programme however this is not currently built into the General Fund MTFs. The indicative General Fund grant settlement for the next four years necessitates on-going savings and borrowing will only normally be considered for income generating assets or a return of investment. Furthermore investment in neighbourhoods will itself lead to high revenue costs in terms of maintenance which will be included in future updates of the MTFs.
- 4.4.9 There is likely to be significant investment required in the Council's garage stock which is not included in this Capital Strategy update. A separate report will be presented to a future Executive covering the garage asset and service review. In addition the outcomes of the Asset Management review may impact on the capital strategy and are not currently included in this update.
- 4.4.10 The capital reserve and capital receipts available to the Capital Strategy and their use to fund the programme is summarised in the table below and the balances remaining are unchanged from the January Executive.

Capital Reserve & Capital Receipts	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Opening balance	(1,815,926)	(3,680,565)	(2,104,209)	(465,305)	(63,557)
In Year Resource	(5,352,355)	(3,717,619)	(1,626,158)	(1,788,557)	(1,574,672)
Used in Year	3,487,717	5,293,975	3,265,062	2,190,305	1,289,205
Closing Balance	(3,680,565)	(2,104,209)	(465,305)	(63,557)	(349,024)

- 4.4.11 It is the Chief Financial Officer's view that the reserve needs to build up balances to take account of unexpected capital items and a fluctuating capital programme. There will further future growth bids for which as of today no resources are available to fund them.
- 4.4.12 Since 2011/12 the Council has required £13,542,260 of borrowing to fund its capital programme. The Treasury Team have only taken loans of £4,000,000 and the General Fund will have already set aside £1,957,580 of Minimum Revenue Payment (MRP) to meet the borrowing cost by 31 March 2016.

Financial Year	General £	Regeneration Initiatives £	Total £	MRP repaid £	MRP remaining £
2011/12	1,803,028		1,803,028	408,000	1,395,028
2012/13	1,560,314	7,039,448	8,599,762	1,318,428	7,281,334
2013/14	1,802,457	28,317	1,830,774	156,995	1,673,779
2014/15	0	1,308,696	1,308,696	74,157	1,234,539
2015/16	0	0	0	0	0
Total	5,165,799	8,376,461	13,542,260	1,957,580	11,584,680

4.4.13 The MRP repayment profiles are shown in the chart below for borrowing required for the period 2011/12-2014/15. This will all be repaid by 2039/40. The amount of repayment is higher in the earlier years because the borrowing is repaid over the life of a capital asset and not all asset lives are 25 years. Where possible shorter life assets are funded from capital receipts to minimise the impact of MRP.



4.4.14 The revised General Fund capital programme has currently alleviated the pressure of borrowing on the General Fund. However, it is likely that from 2017/18 onwards more capital growth bids will emerge and it is key that the capital reserves are built up to prevent a switch back to reliance on borrowing just to keep existing assets useable.

4.5 Capital Programme – 2015/16 Housing Revenue Account

4.5.1 The 2015/16 programme is projected to be £28,123,510, this remains unchanged from that reported at the January Executive, the programme is summarised in Appendix C.

4.5.2 As at 2 February 2016, 49% (£13,665,767) of the revised HRA programme had been invoiced, if the new build budgets are excluded 63% has been invoiced and 75% had been completed and/or invoiced at the end of January 2015.

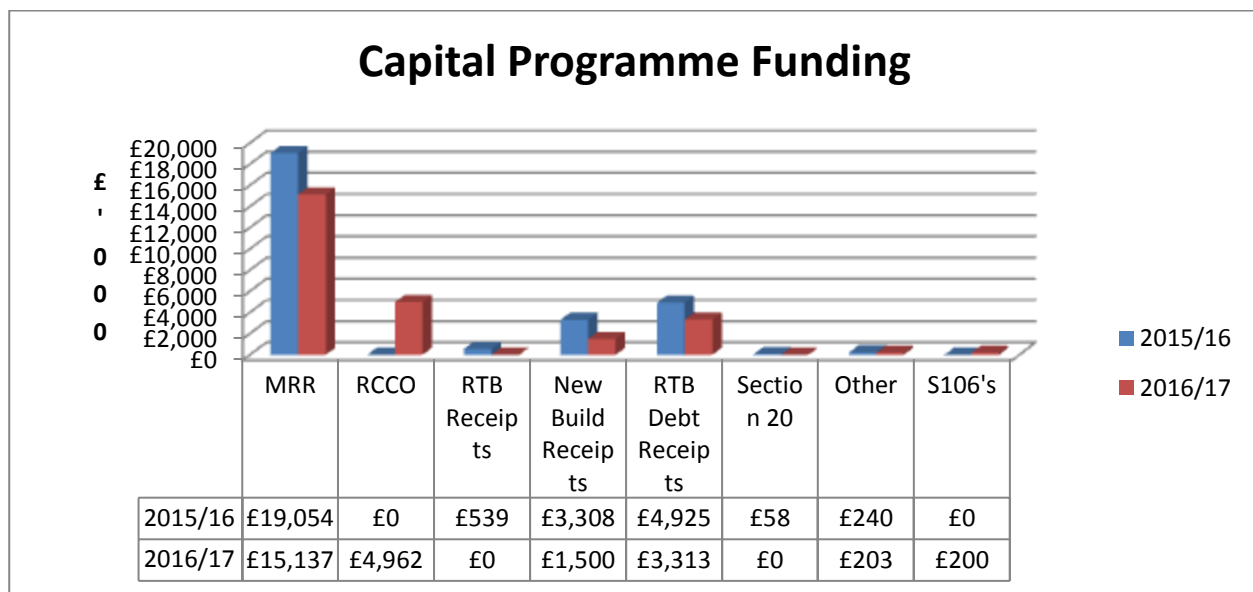
4.6 Capital Programme – 2016/17 HRA

4.6.1 The HRA's 2016/17 Capital Programme has been updated based on current stock information a revision from that included in the HRA Business Plan reported to the November 2014 Executive. The programme has been updated for any slippage in the current year and is detailed in **Appendix C**, this remains unchanged from the January Executive.

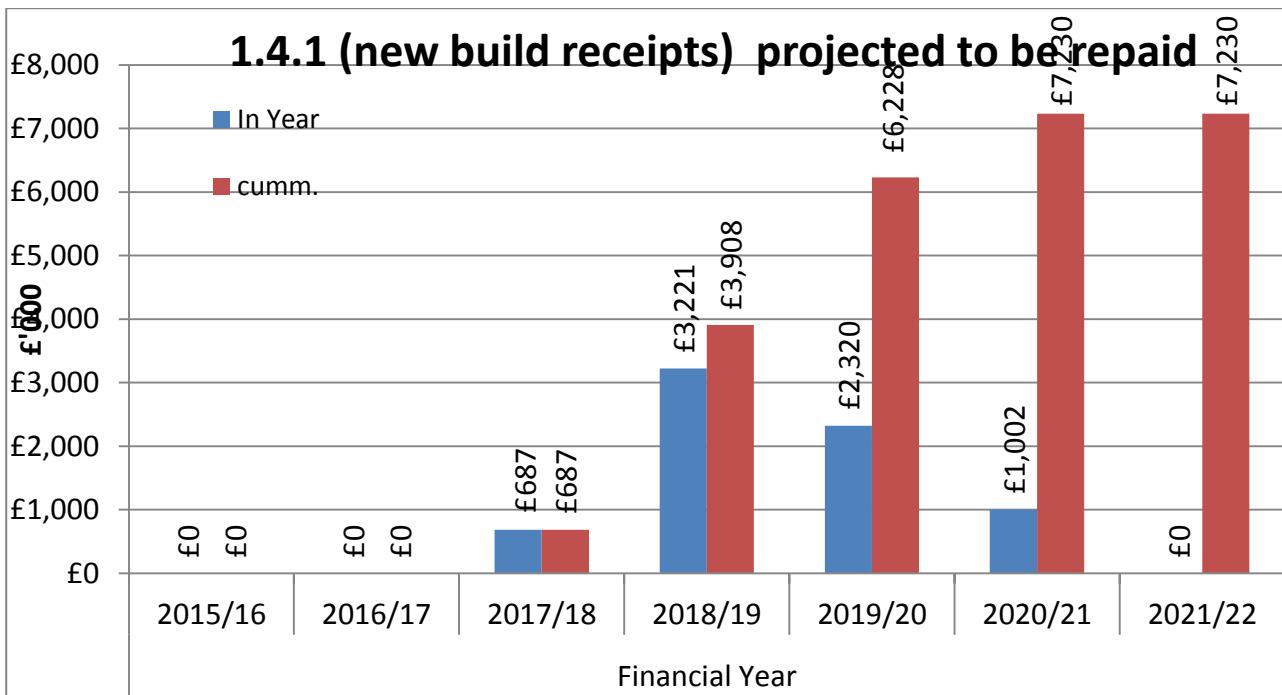
4.6.2 The impact review of current government policy on extending the Right to Buy (RTB) to Housing Associations and reducing the welfare bill has had well reported consequences for the HRA (see also the HRA rent and budget setting report to this committee). The impact has been to create a funding gap by 2019/20 of an estimated £7.9Million and consequently the HRA capital programme is being reviewed and future years beyond 2016/17 are indicative only. The Business Plan is being updated and this estimate may change.

4.7 Capital Programme HRA Resources

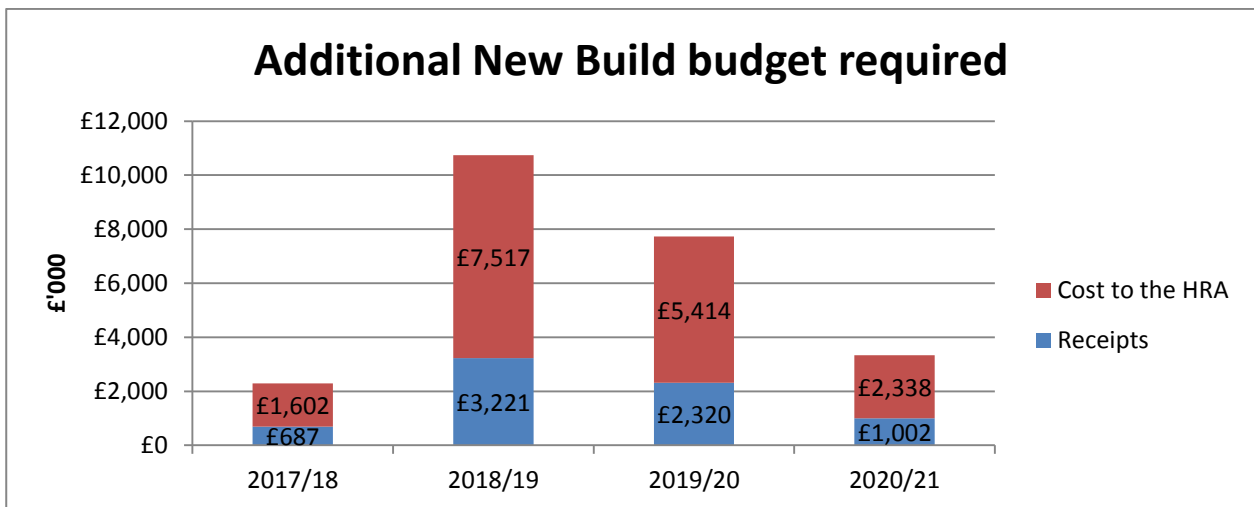
4.7.1 The revised Business Plan assumed the following funding for the 2015/16 and 2016/17 capital programmes in total, as shown in the chart below.



4.7.2 As previously reported the final HRA rent and budget report to this committee identifies that some new build receipts (£7.23Million) will need to be returned to the government based on the current capital programme (as shown overleaf).



4.7.3 In order to avoid handing back the receipts the new build capital programme would need to be increased as shown in the chart below. A total of £24Million would be needed of which the HRA would need to fund 70% or £16.87Million. Officers are currently looking at options to reduce the amount of receipts returned.



4.7.4 The number of RTB sales to 3 February was 91 which is in line with the current projection of 100 sales for the year. The projection for 2016/17 remains unchanged at 100 for the year. The projected one for one receipts are based on a reducing number of sales from 2017/18, however if the number stays around the 100 for the next few years this will substantially increase the value of receipts unused after the three year period.

4.7.5 The funding for the HRA new build capital programme also includes Section 106 planning receipts of £199,856 which the council has received and allows for an additional £85,653 of one for one new build receipts to be utilised.

4.8 De Minimis Level for Capital Expenditure 2016/17

- 4.8.1 Accounting best practice recommends that the Council approves a de minimis level for capital expenditure, or a value below which the expenditure would not be treated as capital. This would mean that the expenditure would not be recorded on the asset register nor be funded from capital resources.
- 4.8.2 The limit set for 2016/17 remains unchanged at £5,000, this applies to a scheme value rather than an individual transaction. This will be reviewed during 2016/17 in readiness for early closure of the accounts and recording capital expenditure

4.9 Contingency Allowance for 2016/17

- 4.9.1 The contingency allowance for 2015/16 is £250,000 reflecting the resourcing pressures facing the capital programme. The contingency proposed for 2016/17 remains at £250,000, for schemes funded from existing capital resources. This limit applies individually to both the General Fund and the HRA. This contingency sum constitutes an upper limit on both funds within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is financial in nature and consequently financial implications are included in the above.

5.2 Legal Implications

- 5.2.1 None identified at this time.

5.3 Policy Implications

- 5.3.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across Council services and the overall Capital Strategy.

5.4 Equality and Diversity Implications

- 5.4.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

5.5 Risk Implications

- 5.5.1 The significant risks associated with the capital strategy are largely inherent within this report and as shown below.

- 5.5.2 A significant risk exists that there are insufficient capital reserves to fund in year urgent works without the need to prudentially borrow. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum, however, it cannot be forecast fully.
- 5.5.3 There are risks around achieving the level of disposals budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates, for instance tenders and planning meetings. We manage this risk by reviewing and updating the Strategy quarterly, including resources. This will enable action to be taken where a receipt looks doubtful.
- 5.5.4 There are potential contractual risks around tendering contracts in the current market conditions which indicate increased costs of materials and trades.
- 5.5.5 There is now significant risk to the HRA capital programme as a result of government policy outlined in this and the Final HRA rent setting and budget report. The long term ability of the HRA to repay debt may mean that debt receipts can no longer be used to fund the capital programme but need to be held to repay the debt on properties sold. This option will be kept under review and considered as part of the update on the HRA Business Plan.

BACKGROUND DOCUMENTS

- BD1 - Capital strategy Update November 2015 (Executive)
<http://www.stevenage.gov.uk/content/committees/139616/139705/139725/150283>
- BD1 2016/17 Draft Capital Strategy Capital Forward Plan & 5 Year Capital Strategy.
<http://www.stevenage.gov.uk/content/committees/139616/139705/139725/155134>

APPENDICES

- Appendix A – General Fund 5 Year Capital Strategy
- Appendix B - General Fund Capital Bids
- Appendix C - HRA 5 Year Strategy