Part I – Release to Press

Meeting: **EXECUTIVE** **Agenda Item:** **7**

Portfolio Area: Resources

Date: **24 JANUARY 2017**

2017/18 DRAFT CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

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1. PURPOSE

1.1 To approve revisions to the 2016/17 General Fund and Housing Revenue Account Capital Programme and approve the draft Capital Programmes for 2017/18 for consideration by the Overview & Scrutiny Committee.

1.2 To provide Members with an update on the Council's draft 5 Year Capital Strategy and the resources available to fund the Capital Strategy.

1.3 To update Members on the work of the Leaders Financial Security Group (LFSG) in reviewing all General Fund capital bids prior to inclusion in the draft 2017/18 onwards Capital Strategy.

2. RECOMMENDATIONS

2.1 That Members approve the revised General Fund and HRA 2016/17 capital programme, as detailed in Appendix A and Appendix C.

2.2 That Members approve the draft 2017/18 General Fund Capital Programme as detailed in Appendix A, for consideration by the Overview and Scrutiny Committee.

2.3 That Members approve the draft 2017/18 HRA Capital Programme as detailed in Appendix C, for consideration by the Overview and Scrutiny Committee.

2.4 That the updated forecast of resources as summarised in Appendix A (General Fund) and Appendix C (HRA) be approved.

2.5 That Members approve the transfer of any unused General Fund borrowing costs to the Capital Reserve, (paragraph 4.3.3 refers).

2.6 That Members approve the growth bids identified for inclusion in the Capital Strategy (Appendix B & D).

2.7 That the work undertaken by LFSG on behalf of the Executive in reviewing and challenging the General Fund Capital Strategy be noted.

3. BACKGROUND

3.1 **General Fund** – Over the last few years the General Fund capital programme has faced considerable financial constraints as the ability to fund the programme from resources other than borrowing had become increasingly difficult. Based on officers' assessments of capital works required just to our existing assets and forecasted need to borrowing would have seen borrowing costs spiral. This was projected to put an ever increasing pressure on the General Fund which would reduce resources available to fund services.

3.2 Following on from the Strategic Management Board (SMB) ward inspections and the Neighbourhood improvement agenda strand under the 'Future Town Future Council' (FTFC) priorities further capital works are required putting further pressure on already limited resources.

3.3 Officers have put in place a number of measures to mitigate the impact outlined above. These include:

i. Establishing a funding stream from the General Fund and New Homes Bonus to contribute to a capital reserve.
ii. Limit capital works to priority works (fix on fail).
iii. Zero base the capital programme to ensure that all capital schemes are bid for and prioritised based on a set of criteria.
iv. Limit borrowing to a business case need and those schemes which give a return on investment.

3.4 From 2015/16 all capital schemes have been classified and prioritised to determine whether they should be included in the Capital Strategy. For 2017/18 this approach is still in place but has been slightly refined to identify FTFC priorities, Schemes have been classified as follows:

- Category 1 : FTFC
- Category 2 : Income generating asset schemes (Financial Security)
- Category 3 : Mandatory requirements
- Category 4 : Schemes to maintain operational effectiveness
- Category 5 : Match funding schemes

3.5 In terms of funding the bids, prudential borrowing will 'normally' only be used to support Category 2 schemes, with capital receipt, external grants and a new revenue reserve for capital being used to fund the other categories.

3.6 Leaders Financial Security Group met in November and December to review all General Fund capital bids (2017/18 onwards) and made a number of recommendations and these are contained within this report.

3.7 The 2016/17 General Fund programme reported to the November Executive (2016/17 Second Quarter Capital Strategy Update) totalled £8,151,700 and

£6,705,230 for 2017/18. A summary of the current General Fund capital programme and funding 2016/17-2019/20 is shown in the table below.

Summary of General Fund Capital Programme:	2016/17 £	2017/18 £	2018/19 £	2019/20 £	Total £
General Fund Expenditure	**8,151,700**	**6,705,230**	**5,166,620**	**4,801,870**	**24,825,420**
Funding:					
Capital Receipts	2,851,757	4,183,268	1,363,737	342,678	8,398,762
Grants	1,091,088	350,000	350,000	350,000	1,791,088
S106's	21,690	25,000	0		46,690
Revenue contributions	631,062	117,000	4,000	48,000	752,062
Capital Reserve	2,871,605	1,088,832	1,138,313	1,151,472	6,250,223
Prudential Borrowing	0	370,130	1,966,570	2,565,720	4,902,420
New Homes Bonus	675,998	571,000	344,000	344,000	1,934,998
Other contributions	8,500				
Total Funding	**8,151,700**	**6,705,230**	**5,166,620**	**4,801,870**	**24,076,242**
Balances available to fund future spend:					
Capital Receipts	**2,385,504**	**3,217,592**	**2,636,499**	**2,367,022**	
Capital Reserve	**350,000**	**700,000**	**1,050,000**	**1,400,000**	
Total Capital Reserves	**3,502,667**	**1,575,962**	**3,108,883**	**3,765,192**	

3.8 **HRA** -The HRA capital programme was revised in November 2016 as part of the 30 Year Business Plan. The 30 year HRA capital programme totalled £1,150Million with an identified funding shortfall resourced through spend reductions and refinancing of borrowing (£75Million).

3.9 Since the Business Plan has been produced further capital bids have been identified totalling £1,179,850, which mainly relate to the FTFC priority ‘connecting to our customers’ and are contained within Appendix D to this report. The draft HRA budget report to the December Executive did however identify that the Higher Value Voids (HVV) levy would not be payable for 2016/17 and 2017/18 which meant an additional £1,058,920 is available to fund capital expenditure.

3.10 The 2016/17 HRA programme as reported to the November Executive (2016/17 Second Quarter Capital Strategy Update) and as amended by the HRA Business Plan to the same Executive and the draft HRA budget (December Executive) is summarised in the table below.

Summary of General Fund Capital Programme:	2016/17 £	2017/18 £	2018/19 £	2019/20 £	Total £
Expenditure:					
Existing Stock	17,808,720	9,499,164	16,111,374	16,067,797	**59,487,055**
New Build	8,435,490	5,630,807	15,376,662	13,554,027	**42,996,986**
ICT, Equipment & Vehicles	506,720	782,718	142,221	146,971	**1,578,630**
High value voids levy	0	0	731,911	756,357	**1,488,268**
Total Programme	**26,750,930**	**15,912,690**	**32,362,168**	**30,525,152**	**105,550,939**
Funding:					
Capital Receipts	6,688,550	938,183	2,421,850	1,475,394	11,523,977
1.4.1 Receipts	2,373,291	1,681,586	2,469,271	2,866,208	9,390,357
Major Repairs Reserve	12,004,949	9,682,691	17,178,367	12,059,822	50,925,829
S106's	275,000	0	0	0	275,000
S20 contributions			629,351	1,030,709	1,660,060
Revenue contributions	4,961,990	110,230	9,663,329	13,093,018	27,828,567
Borrowing	0	3,500,000	0		3,500,000
Other contributions	447,150				447,150
Total Funding	**26,750,930**	**15,912,690**	**32,362,168**	**30,525,152**	**105,550,939**
Balances available to fund future spend:					
Capital Receipts any use	**1,057,983**	**1,368,947**	**1,262,780**	**1,177,551**	
Capital Receipts restricted use	**6,165,400**	**6,963,688**	**8,124,532**	**9,185,067**	
MRR Reserve	**3,795,505**	**5,469,784**	**0**	**0**	
Total Capital Reserves	**11,018,889**	**13,802,419**	**9,387,312**	**10,362,618**	

3.11 The capital receipts balances available to use (unrestricted) are an additional £1.1Million which have been generated as a result of the delay in the regulations around HVV levy (paragraph 3.7 refers). Members will also note that from 2018/19 onwards the Business Plan assumes S20 receipts from the flat block contract from leaseholders.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – 2016/17 General Fund

4.1.1 The 2016/17 programme is now projected to be £8,145,400. The main variances are summarised in Appendix A and included in the table below.

Summary of General Fund Capital Programme changes	2016/17 £	Reason
Swingate House Heating	(40,000)	Remove the £40k provision in 2016/17 as the works have been deferred following the review of the Capital Strategy (section 4.2 refers).

Summary of General Fund Capital Programme changes	2016/17 £	Reason
Building demolition Eliot Road	20,000	Building not secure recommend funding from the deferral budget in 2016/17.
Reduction in deferral budget	(20,000)	see above
2017/18 Growth bids C9-C10 play centre equipment	25,700	Four pieces of play equipment are broken and officers requested that the bid be included in 2016/17 to allow installation by Easter 2017. LFSG agreed
Campshill Bridge	8,000	In the Qrt 2 report to the November Executive, officers identified a potential increase cost of the safety works to the bridge (Original budget £30K).
Total General Fund changes	**(6,300)**	**Reduction in 2016/17 budget**

4.1.2 There were two 2017/18 capital bids for play equipment at Pin Green and St Nicholas play centres. The equipment has been closed down since a safety inspection carried out in July 2016. At St Nicholas four of the five large pieces are closed and at Pin Green one of four large pieces of equipment is closed and one is partially closed. The service requested and LFSG agreed that if the bid were included in the 2016/17 programme then taking into account lead times the equipment could be ordered before Easter 2017.

4.1.3 As at 9 December 2016, 27% (£2,219,274) of the working General Fund programme had been invoiced.

4.2 Capital Programme – 2017/18 General Fund

4.2.1 Officers have been asked to zero base the Capital Strategy and bid for all proposed works. The Senior Management Board (SMB) met and reviewed the bids and set some principles regarding the bids based on the value of the original bids (£27.935Million) and the affordability going forward of this level of capital expenditure. These were that:

1. Assets due for regeneration should have only essential works carried out
2. Re-profile spend to later years if reviews of the service were due
3. Include only the initial works to schemes which if the business case were proven would have financial benefits which should be considered together with the cost
4. Include the Senior Officer recommended option for Play Area improvements on affordability.

Summary of deferred schemes	Reason	2017/18 £	2018/19 £	2019/20 £	Later years £	Total £
Council Offices	Assets due for regeneration	299,500	165,000	110,000		574,500
Swingate House	Assets due for regeneration	100,000	0	0		100,000
Town Centre carriage works	Assets due for regeneration	41,000				41,000
Works to bus shelters	Assets due for regeneration	22,000				22,000
works to Town Centre assets	Defer until business case proven	0	1,303,000	600,000		1,903,000
Scheme to upgrade Town centre toilets	Defer regeneration scheme proposed	221,000	0	0		221,000
Energy Audit works	Defer until phase one results known	63,000	0	0		63,000
reprofile non-essential Community Centre spend	Put in later years until review of Community Centres	80,000	(40,000)	(40,000)		0
Play Area improvement works	Put in programme based on affordability and recommended option (report to the February Executive)	(142,100)	2,700	(238,950)	(189,020)	(567,370)
Total General Fund changes		**684,400**	**1,430,700**	**431,050**	**(189,020)**	**2,357,130**

4.2.2 The revised bids were then considered by Leaders Financial Security Group and a summary of the bids considered is shown in the table below which shows that 60% of the capital bids put forward are FTFC related, with a further 30% being required for operational efficiency. All General Fund bids are detailed in Appendix B.

Bids £'000	2016/17-2017/18	2018/19	2019/20	2020/21	2021/22	Total	%
FTFC:							
Co-operative Neighbourhood Mgmt.	£597.8	£348.7	£320.0	£324.0	£374.5	£1,965.0	8.0%
Co-operative Neighbourhood - garages	£1,032.9	£2,593.4	£2,815.7	£2,105.2	£375.0	£8,922.2	36.3%
Connecting to our Customers	£712.0	£142.0	£100.0	£0.0	£0.0	£954.0	3.9%
Regeneration	£527.0	£500.0	£500.0	£500.0	£0.0	£2,027.0	8.3%
Financial security	£418.5	£250.0	£0.0	£0.0	£0.0	£668.5	2.7%
Total FTFC	**£3,288.2**	**£3,834.1**	**£3,735.7**	**£2,929.2**	**£749.5**	**£14,536.7**	**59.2%**
Operational:							
Mandatory (3)	£350.0	£350.0	£350.0	£350.0	£350.0	£1,750.0	7.1%
Operational efficiency (4)	£3,437.0	£2,560.8	£1,488.3	£115.5	£51.5	£7,653.0	31.2%

Bids £'000	2016/17-2017/18	2018/19	2019/20	2020/21	2021/22	Total	%
Total Operational	**£3,787.0**	**£2,910.8**	**£1,838.3**	**£465.5**	**£401.5**	**£9,403.0**	**38.3%**
Match funded (5)	£625.0	£0.0	£0.0	£0.0	£0.0	£625.0	2.5%
Total Match funded	**£625.0**	**£0.0**	**£0.0**	**£0.0**	**£0.0**	**£625.0**	**2.5%**
Total	**£7,700.2**	**£6,744.8**	**£5,574.0**	**£3,394.7**	**£1,151.0**	**£24,564.7**	**100.0%**

4.2.3 Leaders Financial Security Group scored the bids on a 0 to 3 scale, with 0 being the lowest score and not recommended. An average score was then given to each bid which is detailed in Appendix B, all bids scoring 2 or above have been recommended for approval. A summary of the bid classifications is shown in the chart below.

Bids £'000	2016/17-2017/18	2018/19	2019/20	2020/21	2021/22	Total	%
Recommended for Approval (score 2+)	£6,912.0	£6,333.8	£5,504.0	£3,394.7	£1,151.0	£23,295.5	94.8%
Recommended for Approval by SMB	£412.7	£156.0	£70.0	£0.0	£0.0	£638.7	2.6%
Not Recommended	£375.5	£255.0	£0.0	£0.0	£0.0	£630.5	2.6%
	£7,700.2	**£6,744.8**	**£5,574.0**	**£3,394.7**	**£1,151.0**	**£24,564.7**	**100.0%**

4.2.4 The following bids which LFSG did not approve (totalling £ 630,000), were:

- **Above Ground or Walled Burials (mausoleum) (C30)**- LSFG requested to see the business case before making any allocation in the programme.
- **Daneshill Courtyard Barrier (C67)-** LSFG consider alternative solution of signage and enforcement signs due to the cost of the barrier.
- **Oval car park (C85)-** the car park was not well used and the site may be considered for redevelopment in the future (£45,000).
- **Desks and chairs (C51)** – LFSG perceived that there was a store of furniture which also includes surplus furniture from recent refurbishments (£13,000).
- **Site disposal costs (C59)** - LFSG thought the cost to the site was significant in relation to the projected receipt and asked that the Head of Property and Estates look at alternative solutions for the site (£306,000).

4.2.5 As a result of the deferrals referred to paragraph 4.2.1 and the works not recommended in 4.2.4 the Assistant Director (Finance and Estates) proposes a deferral budget of £500,000 in 2017/18 to fund any works which become urgent and need to be carried out. The Asset and Capital officer group (chaired by the Strategic Director Environment) will recommend the use of this fund to Members and will be included as part of the capital quarterly reports presented to Members.

4.2.6 Included in the proposed bids for 2017/18 onwards is significant investment into the FTFC priority ‘Connected to our Customers’, this spend relates to both the General Fund and the HRA and is seen as essential in improving digital services to customers. The total cost is £2.114Million (£954K General Fund and

£1.16Million for the HRA) and will enable customers to access a wide range of high quality digital services that are simple and convenient to use.

4.2.7 The council is already responding to the digital challenge through the introduction of new technologies. However, to fully realise the benefits that digital technology can bring the council needs to dramatically increase the scope of its digital transformation programme and increase the pace of delivery. The required resources will enable officers to implement a number of technologies that will provide customers with a personalised and integrated set of online services. Information will also be tailored around an individual's specific needs and requirements. Much of this will be delivered through a unified customer platform to provide a consistent and highly functional service to customers.

4.2.8 Over half of the contacts made to the Customer Service Centre currently relate to housing services, and tenants are proportionally more likely to use our non-housing services than non-tenants. That is why the council's housing services will be prioritised for digital investment over the next three financial years. Enabling customers to self-serve online will free up resource and enable services to focus their support to customers who have more complex needs. The technology will help create a digital workforce that is agile, mobile and one that uses technology to improve service quality and enhance the customer experience. It will also make better use of data for evidence lead decision making.

4.2.9 To meet the digital ambitions of both Stevenage and East Herts both local authorities need to invest in a strong IT infrastructure to support it, with the right performance, reliability and resilience for the next five years. Without the investment, the council will have limited capacity for new online services and risk operating slow and unreliable technology for both our customers and staff. A comprehensive refresh of both the server and VDI environments are therefore needed. The cost of doing this will be shared 50/50 with East Herts Council.

4.2.10 The digital spend outlined above is significant to both funds at a time of limited resources but deemed as essential by officers and will be based on a number of business cases (excluding the infrastructure total costs of £450K) which should lead to resourcing efficiencies which will contribute to both the Financial Security targets of the General Fund and the HRA. Assumed efficiencies from the business cases will be tracked by both the officer and Member Financial Security groups. The programme is summarised in the graphic below.

Digital Stevenage

Connecting with our Customers

Digital Customer Service

"Enabling customers to access services and information online." This means providing information and services online to customers in a user friendly way.

Online Services and Customer Account

- Get a balance or a statement
- Update contact and other personal details
- Book an appointment for a housing repair
- Buy or renew a car park season ticket
- Request a new recycling bin
- Complete an application for council housing

Digital Workforce

"Staff will have the digital tools and skills to deliver services effectively and efficiently." This means delivering positive customer outcomes by providing staff access to the data they need and the best available technology, ensuring they have the skills to use it efficiently.

Technology and skills

- Increase mobility through use of portable devices to access and update information
- Enhance access to information with Document Management
- Improve business process through adoption of workflow systems
- Create new business insights through better use of data and analytics

Building sustainable foundations

"Our online services are trusted and protect the identities of the customers using them." This means having IT systems that are reliable and secure for our customers and staff

Infrastructure and Security

- Improve capacity, performance and resilience of council's shared data centre
- Threat and vulnerability mitigation
- Increase staff awareness
- Improve information governance

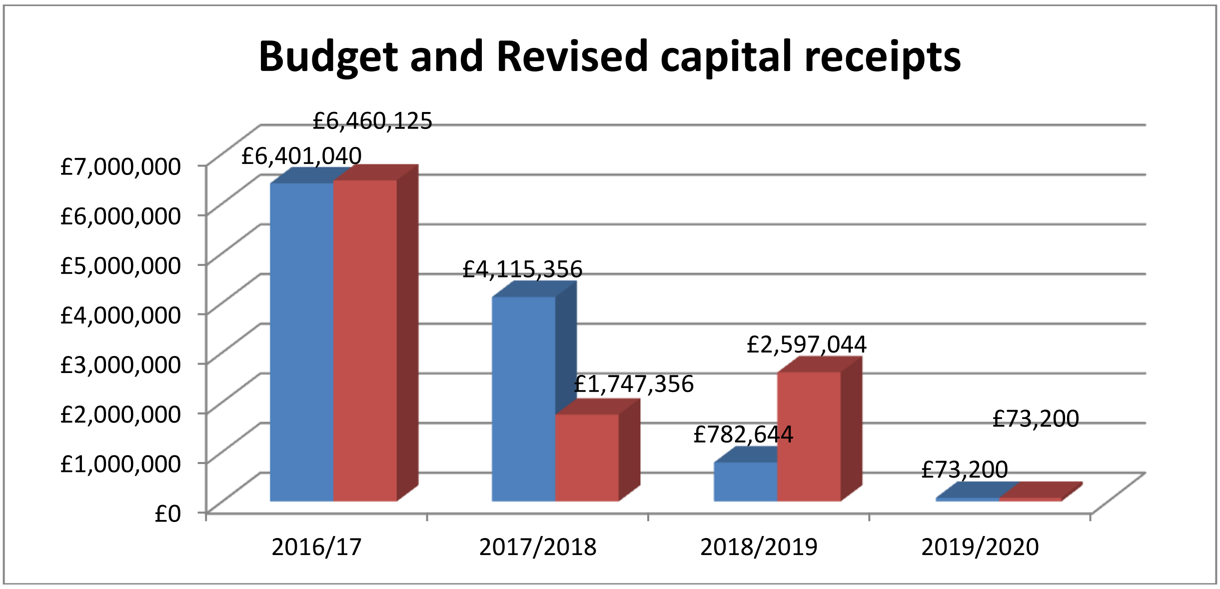
4.3 Capital Programme – General Fund Resources

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

4.3.2 The Capital Reserve is funded from a number of sources including New Homes Bonus (£250,000), General Fund contributions (£515,000) and Right to Buy Receipts (£360,000). 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.

4.3.3 Included within the projected 2016/17 resources for the capital reserve is £95,090 relating to the cost of borrowing for loans not yet taken. It is recommended that this budget is transferred to the Capital Reserve as there are no plans to take external borrowing in 2016/17.

4.3.4 Capital receipts are generated from the sale of assets (mainly land) agreed by Members for disposal. The value of sales approved for disposal total £10,878Million a reduction of £0.495K over that reported in the 2nd quarter monitoring report. The reduction is due to one sale being withdrawn as part of the October disposals report to the Executive and one 2017/18 sale has been delayed until 2018/19. The chart below shows the totals by year.



4.3.5 There are no significant receipts identified after 2018/19 and a review of potential land and building disposals will be carried out as part of the Asset Management Strategy review.

4.3.6 Members should note that the projected capital resources not utilised by 31 March 2022 is only £2.874Million, which includes an assumption of £350K per year underspends from the General Fund or £2.1Million being available. If underspends are not generated annually then there is only £774K of resources remaining requiring all of the sales to be realised and as profiled.

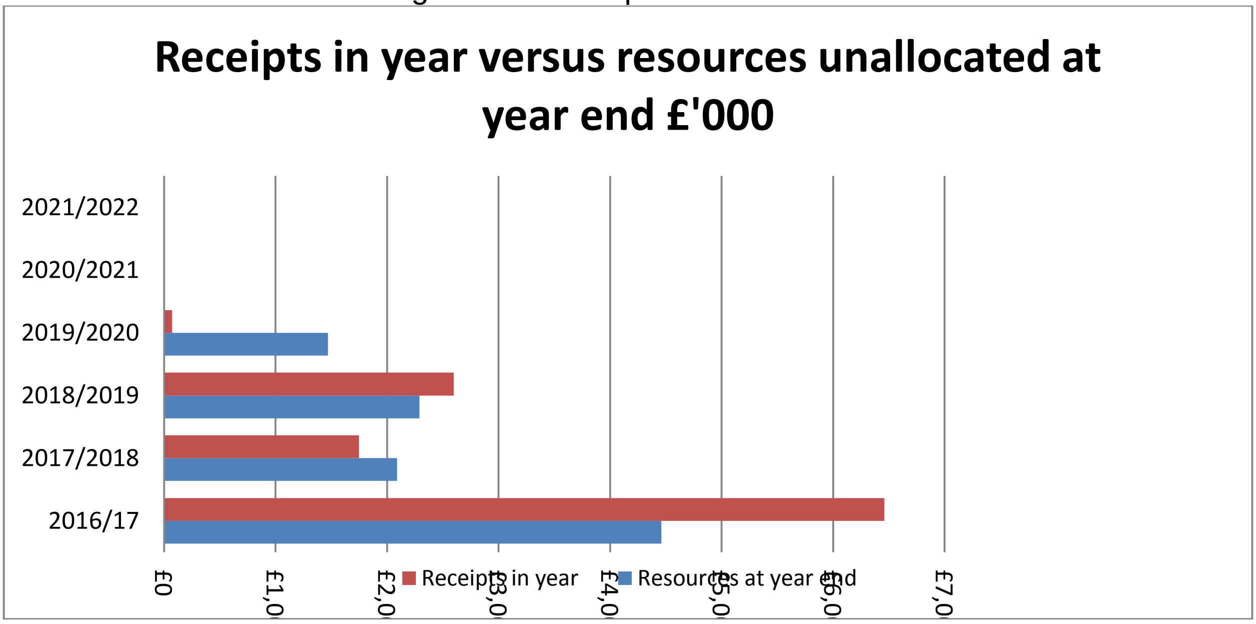
4.3.7 In addition to the resources identified above New Homes Bonus monies of £430,000 has been ring fenced to support the Neighbourhood improvement programme ('Future Town Future Council' priority). In the main this enables funding of the playground improvement programme (£372,500 in 2017/18, subject to approval of the Play Strategy in February 2017).

4.3.8 The proposed Capital Strategy is balanced with the resources outlined in paragraph 4.3.6. However, there are significant risks:

1. Deferred or not recommended schemes which may need to be funded
2. There is no guarantee that anticipated capital receipts will be realised.
3. The council may need/want to use its own resources to meet its regeneration ambitions.
4. The Capital Strategy will identify more bids for future years
5. The level of future projected receipts is low beyond 2018/19

4.3.9 The Council has the ability to prudentially borrow to fund the capital programme however this is not currently built into the General Fund MTFS except for the Garage Strategy investment approved in 2016. The General Fund MTFS identifies a Financial Security target of £1Million for the period up to 2019/20 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 need to be included in future updates of the MTFS.

4.3.10 The resources available to the Capital Strategy and the receipts projected per year is summarised in the table below and shows the programme requires the capital receipts to stay funded. In addition resources used in the programme include New Homes Bonus funding of £430,000 in 2017/18 and a further £900,000 in total between 2018/19 and 2021/22 to fund mainly the playground refurbishments and other neighbourhood improvements.



4.3.11 It is the Chief Financial Officer's view that the capital reserve needs to build up balances to take account of unexpected capital items and a fluctuating capital programme. There will be further future growth bids for which, there will not be sufficient resources to fund them.

4.3.12 Since 2011/12 the Council has required £13,542,260 of **borrowing** to fund its capital programme with a further £370,130 approved for garages in 2017/18. The Treasury Team have only taken loans of £4,000,000 and the General Fund will have already set aside £3,265,580 of Minimum Revenue Payment (MRP) to meet the borrowing cost by 31 March 2018.

Financial Year	General £	Regeneration Initiatives £	Total £	MRP repaid £	MRP remaining £
2011/12	1,803,028		1,803,028	606,643	1,196,385
2012/13	1,560,314	7,039,448	8,599,762	2,166,093	6,433,669
2013/14	1,802,457	28,317	1,830,774	313,990	1,516,784
2014/15	0	1,308,696	1,308,696	178,853	1,129,843
2017/18	370,130	0	370,130	0	370,130
Total	**5,535,929**	**8,376,461**	**13,912,390**	**3,265,580**	**10,276,680**

4.3.13 There are a number of initiatives officers are working on which meet the Council's FTFS priorities which will/may require borrowing. The Assistant Director (Finance and Estates) will be developing an overarching Investment Strategy for such schemes to ensure that the council is not exposed to undue risk from increased levels of borrowing.

4.3.14 If capital receipts assumed in paragraph 4.3.4 do not materialise or for a lesser amount, the programme will need to be reviewed to defer further expenditure or assess the cost of borrowing versus the impact of deferring the works.

4.4 **Capital Programme – 2016/17 Housing Revenue Account**

4.4.1 The 2016/17 programme is now projected to be £26,857,030 a reduction of £195,400. The main variances are summarised in Appendix C and included in the table below.

Summary of HRA Capital Programme changes	2016/17 £	Reason
Contingent Major Repairs	(39,000)	Reduction included in the Revised 2016 business plan relating to works to properties due for redevelopment
Asset Review Challenging Assets	(400,000)	Reduction included in the Revised 2016 business plan approved at the November Executive.
New Build Programme	137,500	Increased costs associated with new build programme funded overall from additional S106 monies
Repairs and Voids store set up costs	106,100	This cost is funded from revenue and is the cost of setting up the stores at the depot. (see also Final HRA report to this Executive).
Total HRA changes	**(195,400)**	

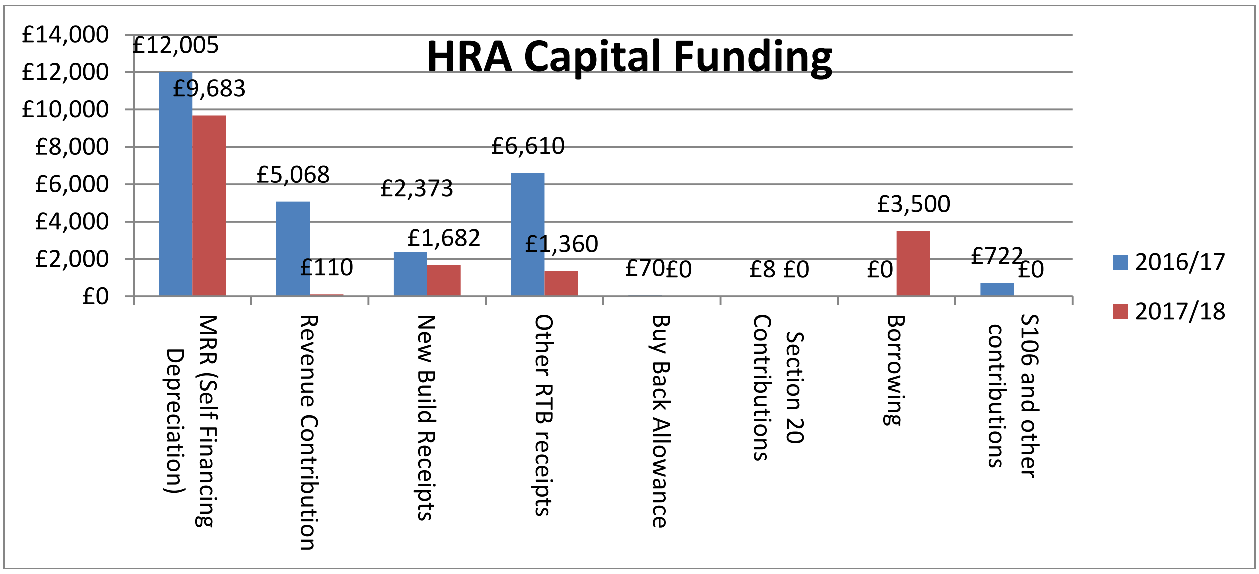
4.4.2 As at 9 December 2016, 50% (£13,413,997) of the working HRA programme had been invoiced. Further works will have been completed but not yet invoiced.

4.5 Capital Programme – 2017/18 HRA

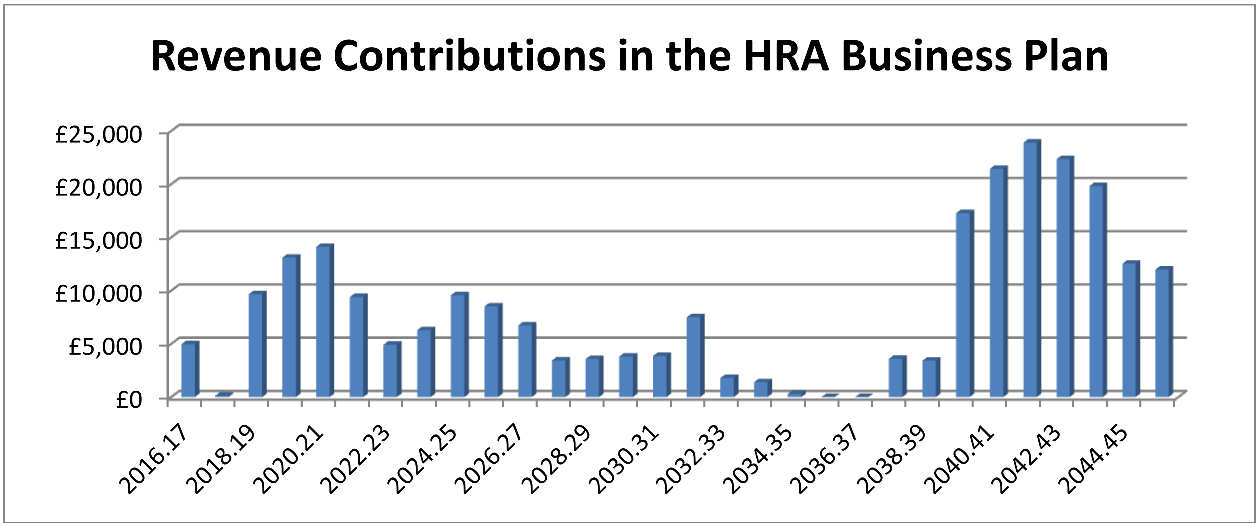
4.5.1 The HRA's 2016/17 and 2017/18 programme are as approved at the November Executive as part of the HRA Business Plan, revised for the change regarding higher voids value and the proposed additional capital bids included in **Appendix D**. The programme has been updated and is detailed in **Appendix C.**

4.6 Capital Programme HRA Resources

4.6.1 The revised Business Plan assumes the following funding for the 2016/17 and 2017/18 capital programmes in total, as shown in the chart below.

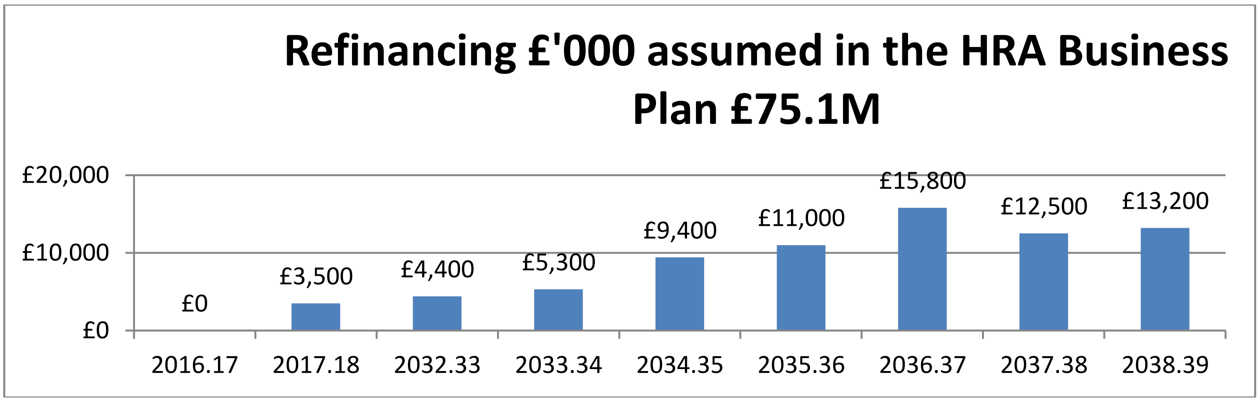


4.6.2 The majority of funding for the HRA programme comes effectively from the rental income in the form of depreciation charged to the HRA and revenue contributions. The Major Repairs Reserve (MRR) balances have all been used by 31 March 2019 and the capital programme relies on higher revenue contributions between 2018/19-2021/22 as shown in the chart below.



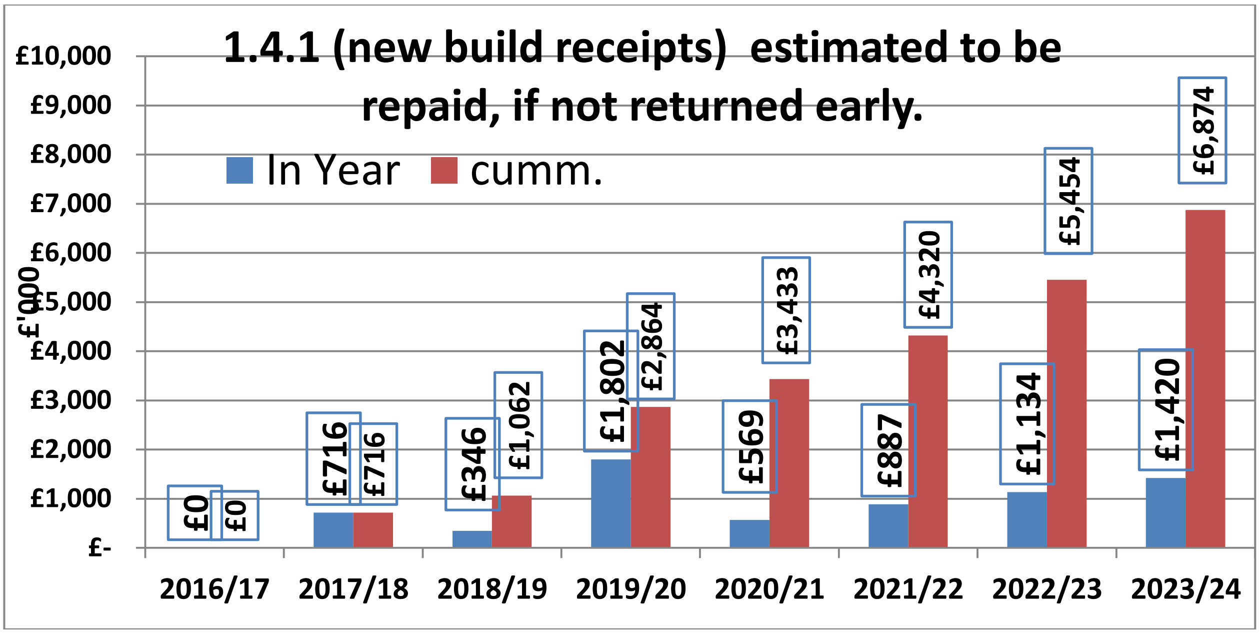
4.6.3 The number of right to buy (RTB) sales to 10 January was 49 which means the 2016/17 projection of 50 sales is now projected to be 61 for the year. This will be reviewed again as part of the 3rd quarter monitoring report together with the impact on rental income and RTB receipts. The projection for 2017/18 remains unchanged at 50 for the year.

4.6.4 The November 2016 revised HRA business plan required additional borrowing of £75Million over the 30 years to ensure the programme was funded. There is an assumption that £3.5Million will be refinanced in 2017/18. The chart below shows the profile of the refinancing.



4.6.5 The amount of borrowing for the HRA capital programme will be reviewed annually based on the level of risk facing the HRA and affordability.

4.6.6 The estimate of RTB 1.4.1 receipts not used within the three year deadline is summarised below. The receipts due for return in 2017/18-2018/19 are projected to spent with a Registered Housing Providers in return for nomination rights. The level of returnable receipts is dependent not only on the number of sales but also on the valuation of the properties.



4.7 De Minimis Level for Capital Expenditure 2017/18

4.7.1 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.

4.7.2 The limit set for 2017/18 remains unchanged at £5,000, this applies to a scheme value rather than an individual transaction. This will be reviewed during 2017/18 in readiness for early closure of the accounts and recording capital expenditure.

4.8 Contingency Allowance for 2017/18

4.8.1 The contingency allowance for 2016/17 is £250,000 reflecting the resourcing pressures facing the capital programme. The contingency proposed for 2017/18 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 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.

5.5.3 The General Fund programme is funded from an assumption that £350,000 of underspends will be available to fund the programme each year. If they do not materialise there would be a shortfall of £1.750Million over a five year period, which would necessitate a reduction in the programme or borrowing.

5.5.4 There are a number of deferrals in the capital programme as outlined in 4.2.1 and schemes not approved in Appendix B. An amount of £500,000 has been added to the General Fund programme to address any additional unavoidable capital spend, however there is a risk that this may not be sufficient.

5.5.5 There are potential contractual risks around tendering contracts in the current market conditions which indicate increased costs of materials and trades as a result of higher inflationary pressures.

5.5.6 There is considerable uncertainty about the future of Higher Value Voids levy and the impact of this from 2018/19 onwards. This compounded by unforeseen HRA capital spend and increase prices could mean the HRA capital programme needs to be reduced further or/and the need for further borrowing reviewed.

BACKGROUND DOCUMENTS

- BD1 - Capital strategy Update November 2016 (Executive)

- BD2- HRA Business Plan November 2016 (Executive)

- **APPENDICES**

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