

Meeting EXECUTIVE
Portfolio Area Resources
Date 19 JANUARY 2022



DRAFT CAPITAL STRATEGY 2021/22-2025/26

KEY DECISION

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1. PURPOSE

- 1.1 The purpose of the report is:
 - (1) to seek approval for the proposed revisions to the 2021/22 General Fund and Housing Revenue Account Capital Programme and;
 - (2) to outline the draft Capital Programme for 2022/23 for consideration.
- 1.2 To provide Members with an update on the Council’s draft five year capital strategy and the resources available to fund the Capital Strategy.
- 1.3 To provide Members with an update on the Council’s investment strategy as required by the updated prudential code.
- 1.4 To set out the Council’s approach to funding its key Future Town Future Council Cooperative Corporate Plan priorities.

2. RECOMMENDATIONS

It is recommended that the:

- 2.1 Draft General Fund Capital Budget for 2022/23 of £31.1Million, as set out in Appendix C to the report, be proposed for consultation purposes (subject to review by Leaders Financial Security Group) .
- 2.2 CFO brings a report forward during the 2022/23 financial year setting out the Council’s key capital regeneration and community asset ambitions and key land and asset disposals, not currently in the capital strategy which could be used to meet these Corporate priorities.

- 2.3 Draft HRA Capital Budget for 2022/23 of £64.7Million, as set out in Appendix D to the report, be proposed for consultation purposes.
- 2.4 HRA Capital Budget be brought back to Executive in 2022/23 as part of the HRA Business Plan refresh.
- 2.5 Updated forecast of resources 2022/23 as detailed in Appendix C (General Fund) and Appendix D (HRA) to the report be approved subject to the consultation process.
- 2.6 Council's investment strategy for non-treasury assets as detailed in Appendix E be approved for consideration by the Executive.
- 2.7 Approach to resourcing the General Fund capital programme as outlined in the report be approved.
- 2.8 Funding increase requested for the Bus Station project as set out in paragraph 4.1.2 be approved.
- 2.9 Progress on Locality Reviews be noted.
- 2.10 Progress on Towns Fund be noted.
- 2.11 General Fund growth bids identified for inclusion in the Capital Strategy (paragraph 4.2.2, table five and Appendix A to the report) be approved in principle, This is subject to further review work on Capital Priorities being undertaken by officers and the Leaders Financial Security Group (LFSG).
- 2.12 HRA budget increases identified for inclusion in the Capital Strategy (paragraphs 4.9.2, table ten and Appendix B to the report) be approved.
- 2.13 2022/23 de-minimis expenditure limit (section 4.11 of the report) be proposed for consideration by the Executive.
- 2.14 2022/23 contingency allowances respectively in paragraphs 4.12.1 and 4.12.2 of the report be proposed for consideration by the Executive.
- 2.15 That the Executive delegation set out in paragraph 4.12.3 of the report, allowing Executive to approve increases to the capital programme for grant funded projects, be proposed for consideration by the Executive.

3. BACKGROUND

3.1 Introduction

- 3.1.1 The purpose of the Capital Strategy is to outline how the Council determines it's priorities for capital investment and how much it can afford to borrow as well as setting out any associated risks.
- 3.1.2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:
 - affordable, prudent and sustainable and that:
 - treasury management decisions are taken in accordance with good professional practice;

- local strategic planning, asset management planning and proper option appraisal are supported.
- 3.1.3 The Government issued guidance on the disclosures required in the Capital Strategy from 1 April 2018 onwards which includes:
- an Investment Strategy;
 - disclosure of other investments and their contribution to service delivery objectives and/or place making role;
 - indicators that allow Members and the public to assess a local authority's total risk exposure as a result of investment decisions, including how these investments have been funded, rate of return and additional debt servicing costs taken on;
 - the approach to assessing the risk of losses being made before entering and whilst holding an investment; and
 - the steps taken to ensure that elected Members and Statutory officers have the appropriate skills and governance.
- 3.1.4 Some of these disclosures may be outlined in the Treasury Management Strategy instead of the Capital Strategy.

3.2 General Fund Investment Strategy

- 3.2.1 For a number of years capital spend has been prioritised due to the limited availability of capital receipts and the Council's ability to afford borrowing costs. Accordingly the council applied a 'fix on fail' approach to assets with no significant asset improvements being funded, with the exception of those supported through external funding or partially through external funding (for example Garage and Play Improvement programmes).
- 3.2.2 The Asset Management Strategy approved by the Executive at its meeting on the 11 July 2018 included a key action for the Council to undertake locality reviews of its current land and buildings. The locality reviews would seek to generate new opportunities for better use of existing buildings, to identify potential sites to release for sale along with land options for the Council's own home building programme. This was consistent with seeking to meet a range of Council priorities.
- 3.2.3 Condition Surveys were completed in 2019 and they were used to inform growth bids approved in previous Capital Strategies. It should be noted though that the surveys were focused on keeping existing sites operational rather than making improvements or future proofing them.
- 3.2.4 The Council plans to utilise New Homes Bonus (NHB) to fund the playground improvement programme along with some, other capital projects and the Capital Reserve as follows:

Table 1: New Homes Bonus	2021/22	2022/23
Play & Bins (Capital) CNM	£342,000	£65,027
Electric Car Charging Points	£2,630	
Town Centre Ramps Improvements	£350	

Table 1: New Homes Bonus		2021/22	2022/23
Contribution to Capital Reserve		£250,000	£177,588
Total Expenditure		£594,980	£242,615
Balance in NHB reserve		856,066	261,086
In year Funding			
Expenditure in year		594,980	242,615
Balance remaining in NHB reserve		261,086	18,471

- 3.2.5 The remaining schemes within the Capital Strategy include ‘Transforming our Town’ projects, Housing Development initiatives and IT investment (predominantly related to schemes identified through the joint ICT Partnership Strategy between East Herts District Council and Stevenage Borough Council).
- 3.2.6 Prudential Borrowing remains an option to fund capital schemes, but due to the on-going net cost to the General Fund, any such proposals would require a business case to be completed to determine the benefit to the Council. Generally this approach would be used to fund income generating schemes which support the Making Your Money Count ambitions. The issue of affordability has been exacerbated by the continued impact of the coronavirus pandemic on the Council's finances.
- 3.2.7. The Council has approved some land and asset disposals and an updated schedule of these (net of disposal fees) is set out in table two. There are some further key disposal assets and consideration will have to be given as to how these assets are used to meet the Council's Cooperative Corporate priorities. The CFO will bring a report setting out some specific proposals during the 2022/23 financial year.

Table 2: 2020/21 Disposal Schedule (General Fund)			
Forecast receipts	Q2 Working Budget	January Draft Revised Position	Variance
	£	£	£
Total 21/22 Capital Receipts Estimate	(5,851,275)	(5,183,715)	667,560
Total 22/23 Capital Receipts Estimate	(5,081,256)	(5,736,816)	(655,560)
Total 23/24 Capital Receipts Estimate	(10,172,500)	(10,172,500)	0
Total 24/25 Capital Receipts Estimate	0	0	0
Major Capital Receipts Programme	(21,105,031)	(21,093,031)	12,000

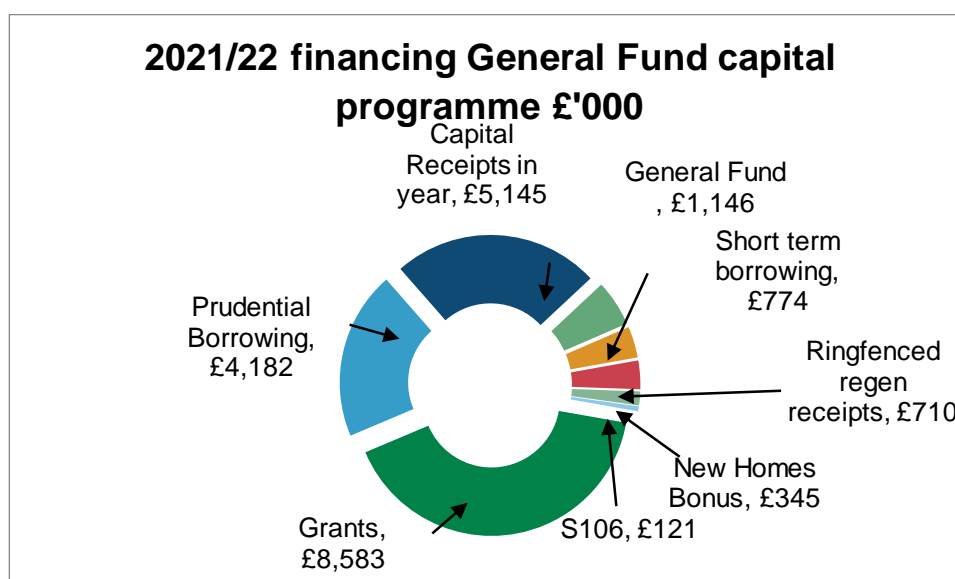
- 3.2.8 In addition to these there are SG1 receipts identified for the Public Sector Hub, other ring-fenced Regeneration receipts and Locality receipts. The potential land disposals identified through the Locality Reviews will help maintain the resilience of General Fund balances, reducing the revenue contribution to capital and to fill

in the gap of NHB funding to the capital reserve. Locality reviews are discussed further in section 4.4 of this report.

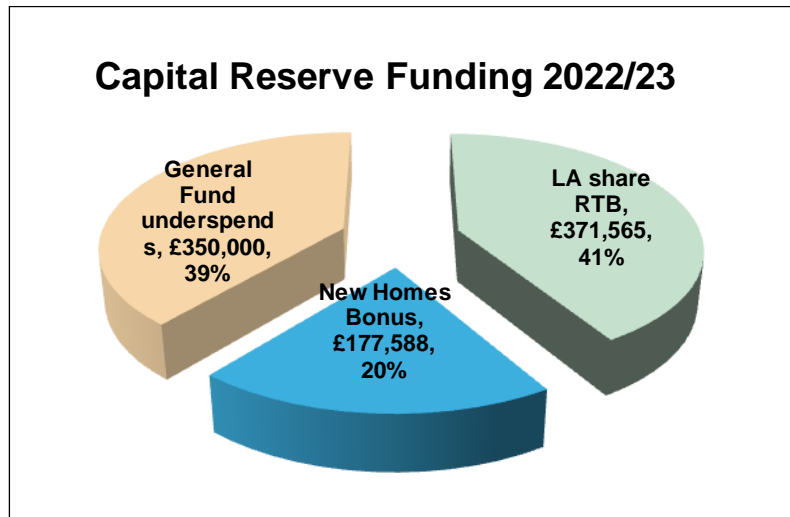
3.2.9 The capital strategy includes the use of Section 106 (S106) monies that have been earmarked to support current and future capital schemes. The table below shows the current anticipated usage of these:

Table 3: S106 Update				
Available for financing		2021/22 Forecast use	Budgeted in Future Years	remaining
	£'s	£'s	£'s	£'s
Affordable Housing	302,825	302,825	0	0
Children's Play space	14,986	14,986	0	0
Outdoor Sports/Open Space Facilities	18,957	18,957	0	0
Community / Greenspace / Ecological Infrastructure	70,338	70,338	0	0
Parking / Transport	118,550	0	0	123,760
Gardening Club	4,576	0	0	4,576
Arboretum	25,420	0	0	25,420
Biodiversity Net Gain	45,867	0	0	45,867
Pedestrian Link	35,000	0	0	35,000
Household Surveys	15,990	0	0	15,990
Air Quality	5,335			5,335
Total	657,842	407,105	0	255,947

3.2.10 The current capital programme (approved February 2021 and as subsequently amended through the quarterly monitoring and supplementary reports), is fully funded and shown in the following chart which reflects the Quarter one and two monitoring report to the October 2021 Executive. The Grants figure includes £3.7Million of LEP funding.



- 3.2.11 The level of General Fund resources available at the end of 2021/22 in the Quarter one and two report was £1.5Million (all from Capital Receipts) which increased to £4.8Million in 2022/23. However this position has been updated and is now as set out in paragraph 4.1.3 table four and reflects the slippage identified during the budget setting process.
- 3.2.12 The Capital Reserve has been a significant source of the programme funding in prior years. It will receive a NHB contribution of £178K in 22/23 along with a forecasted £350K from revenue underspends and £372K from the Local Authority Share of Right to Buy receipts, as shown in the following chart.



3.3 Housing Revenue Account (HRA) Investment Strategy

- 3.3.1 **Background:** The HRA capital programme was revised as part of the HRA Business Plan (BP) update to the December 2019 Executive. The 30 year HRA capital programme included £1.485Billion with additional borrowing.
- 3.3.2 The 2019/20 HRA BP included more borrowing than in the 2018 HRA BP, a more ambitious new build programme and an increase in capital works to existing homes. The new borrowing in the 2018 BP totalled £116.6Million, however the 2019 update included new borrowing of £322.2Million.
- 3.3.3 The additional capital expenditure that was approved as part of the HRA BP over the 30 years included £201Million of projected capital expenditure as well as revenue growth which funded planned maintenance, anticipated changes relating to the Hackett review and decent homes works.
- 3.3.4 The new build programme increased from £582Million to £645.6Million in the 2019 HRA BP, with 2,433 new build homes in total over the life of the Business Plan and an additional 175 units in the first 10 years of the programme.
- 3.3.5 Subsequently a number of delegated approvals were taken by the Executive including an increase of £11.3Million for the Kenilworth scheme procurement (reported to the Executive in January 2020), the updated figures for which were included in the Final Capital Strategy approved by the Executive and Council in February 2020. The net change to the approved budget for the period 2019/20 to 2024/25 was £10.2Million.

3.3.6 A refresh of the first 5 years of the HRA BP has recently been undertaken and a full review will take place in 2022.

3.4 Budget and Policy Framework

3.4.1 The process for approving capital budgets is set out in the Budget and Policy Framework in the Constitution. This includes a consultation period and the timescale required to implement this is outlined below:

Date	Meeting	Report
Jan-22	Executive	Draft 2021/22 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2021/22 General Fund and HRA Capital Strategy
Feb-22	Executive	Final 2021/22 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2021/22 General Fund and HRA Capital Strategy
	Council	Final 2021/22 General Fund and HRA Capital Strategy

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – 2021/22-2022/23 General Fund

4.1.1 Due to the ongoing financial pressures arising from the COVID pandemic and the need to focus on improving General Fund resilience, the CFO recommended adopting the following approach to officers with regards to submitting Capital Bids for 2022/23:

- Review existing budgets in the Capital Strategy for completeness and to advise if circumstances have changed, and
- Only submit bids that are urgent or support the delivery of a top priority as funding is limited

A full review of the Strategy is planned to be carried out for 2023/24 onwards.

4.1.2 For 2021/22 £300K additional funding has been requested for the Bus Interchange scheme. This funding is required to complete works by mid-March 2022 and it will be funded by underspends from another project, town centre reserves/general receipts, and ring-fenced Town Centre Transformation receipts. The additional funding is required due to an expansion of the scope of the original scheme to include additional elements such as enhancement of the public realm connection between the Town Square and the Bus Interchange. This funding will also allow for an element of contingency to be retained, as the existing contingency has been utilised due to the impacts of carrying out construction during the Covid-19 pandemic. Any unspent monies will be returned to the ring-fenced Town Centre Transformation receipts.

4.1.3 The result of this exercise is summarised in table four below, and is set out in full in Appendix A (Growth bids) and Appendix C (General Fund Capital Strategy).

Table 4: Update following 2022/23 Capital Bids process						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£	£	£	£	£	£
SLIPPAGE	(2,107,310)	2,107,310	0	0	0	0
SAVINGS						0
GROWTH BIDS		2,800,115	1,075,720	646,000	341,000	4,862,835
TOTAL	(2,107,310)	4,907,425	1,075,720	646,000	341,000	4,862,835

(reduction)/increase in forecast expenditure

4.2 Capital Bids Included in the Capital Programme

- 4.2.1 The capital growth bids received have been classified against a number of different categories, as set out in table five below and are detailed in Appendix A. These bids total £4.863Million over the period 2022/23 - 2025/26, £2.8Million of which falls in 2022/23.

Table 5: Update following 2021/22 Capital Bids process						
		22/23	23/24	24/25	25/26	Total
		£	£	£	£	£
Priority 3	Mandatory requirements (including Health & Safety)	810,000	415,500	170,000	65,000	1,460,500
Priority 4	Schemes to maintain operational efficiency	977,115	459,220	275,000	135,000	1,846,335
Priority 8	Schemes that further the Council's Corporate Plans	223,000	201,000	201,000	141,000	766,000
Priority 11	New Burdens	790,000	0	0	0	790,000
Total		2,800,115	1,075,720	646,000	341,000	4,862,835

- 4.2.2 It is recommended that all of the bids totalling £4.863Million are noted by the Executive for the Draft Capital Strategy, subject to a review by Leaders Financial Security Group which has started and due to be completed for the Final Capital Priorities being undertaken by Members. Scoring and prioritisation will be Strategy in February 2022.
- 4.2.3 It should be noted that the bid of £100K in 2022/23 for Ridlins Athletics represents the minimum work required to maintain operational integrity. There could be a requirement for major capital expenditure within the next three years of circa £900K depending on a long-term review of the site and facilities.
- 4.2.4 It is recommended that the growth bids submitted for future years, totalling £2.063Million for the period 2023/24 - 2025/26, should form part of the full review of the Strategy planned as per paragraph 4.1.1, at which time the capital receipts position will be reviewed again to consider the availability of capital resources.

4.3 Capital Contingency

- 4.3.1 As in previous years, it is recommended that a contingency allowance (the Deferred Works Reserve) should be included in the capital strategy in the event

that any works become unavoidable during the financial year. This has been included at the previous level of £200k per annum.

4.4 Locality Review Update

- 4.4.1 A key recommendation from the June 2020 MTFS COVID recovery report was that a pipeline of land disposals be identified from Locality Reviews to help maintain the resilience of General Fund balances, by removing the revenue contribution to capital. There was also a need to generate additional capital receipts to help fund any shortfalls from the reduction or cessation of New Homes Bonus (NHB).
- 4.4.2 The Council's Estates Team has reviewed the sites identified and reported to the Locality Review Board, which has been meeting regularly and is sponsored by the Strategic Director (CFO). The Board includes officers from different business units who use or manage the Council's assets.
- 4.4.3 It was previously estimated that the potential sales should generate around £4.5Million in receipts, after taking into account disposal fees of approximately 4%. A number of site issues have come to light while the Estates Team has been progressing this work and as a consequence some of these sites have been removed from the disposals list while the estimated receipt value of others has changed.
- 4.4.4 A schedule of the forecast receipts (net of disposal fees) and the timing of these is set out in table six below:

Table 6: Locality Review Site Disposals	
Tranche	Estimated receipt
Tranche 1 – Year 1 2021/22	£336,000
Tranche 2 – Year 2 2022/23	£2,361,600
Tranche 3 – Year 3 2023/24	£960,000
Total Forecast Locality Review Receipts	£3,657,600

4.5 Towns Fund Update

- 4.5.1 The most recent report to Members relating to the Towns Fund were Item 5 'Towns Fund - Station Gateway report' and Item 6 'New Station North MSCP report' to Executive on 8 December 2021. Further reports are due to be taken to Special Executive meetings scheduled for 2 February 2022 and 4 March 2022 to consider business cases for other Towns Fund schemes. The profile shown below is indicative based on the content of the submission, which will be reviewed following the submission of all of the business cases. The profiling of the full £37.5Million at project level will be included in the Final Capital Strategy, once all business cases are completed.

Table 7: Towns Fund profile (summary)						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£	£	£	£	£	£

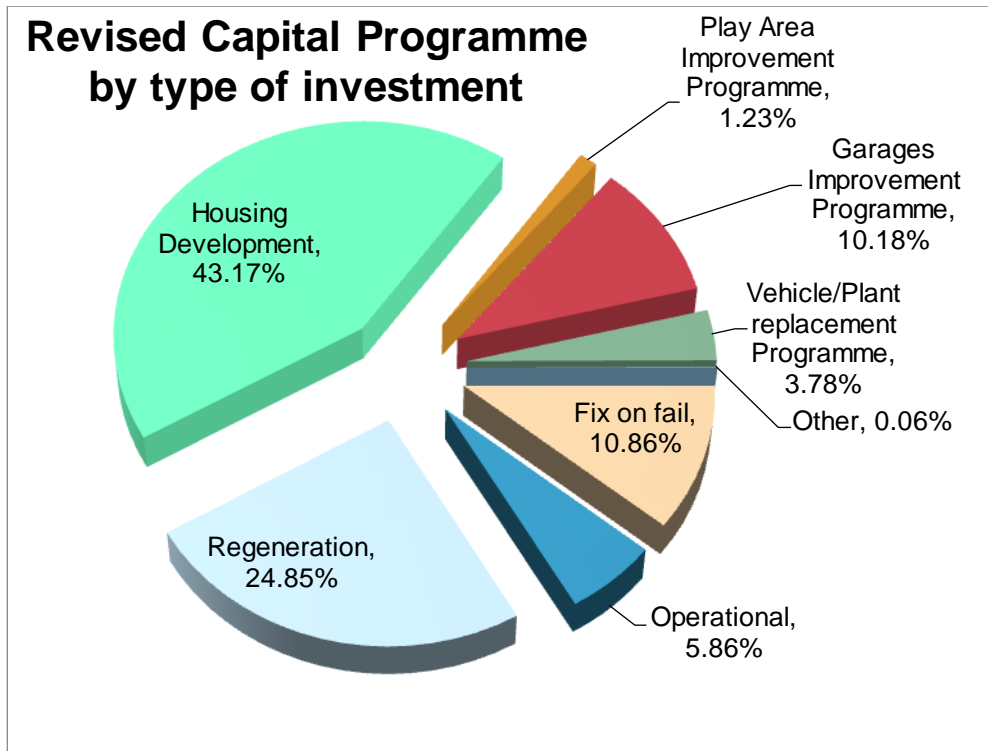
Table 7: Towns Fund profile (summary)						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£	£	£	£	£	£
Capital	650,000	8,100,000	12,100,000	9,150,000	7,400,000	37,400,000
Revenue	50,000	50,000	-	-	-	100,000
Total	700,000	8,150,000	12,100,000	9,150,000	7,400,000	37,500,000

4.6 Summary Capital Programme 2021/22-2025/26

4.6.1 The revised Capital Strategy for 2021/22-2025/26 totals £68.1Million, including the growth bids totalling £4.863Million. This is summarised in table eight below, and in detail in Appendix C.

Table 8: Revised Capital Programme						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000	£000	£000	£000	£000	£000
Stevenage Direct Services	2,762	5,447	3,586	315	183	12,293
Housing Development	7,051	13,257	8,504	575	0	29,386
Finance and Estates	1,650	2,365	810	365	135	5,325
IT & Digital	399	674	104	104	0	1,282
Regeneration	8,279	8,100	0	0	0	16,379
Communities and Neighbourhoods	364	735	90	65	15	1,269
Planning and Regulatory	418	278	373	373	8	1,450
Deferred Works Reserve	83	200	200	200	0	683
TOTAL	21,006	31,055	13,667	1,997	341	68,067

4.6.2 As set out in section 3.2, the General Fund Investment Strategy has been to maintain existing assets in their current condition by following a fix-on-fail approach, incurring expenditure as necessary for operational purposes and with limited improvements via Regeneration activities, new Housing Development and the improvement programmes covering Play Areas, Garages and Vehicle/Plant. This has been the case due to necessity as a result of their being limited resources. The figures in Table eight have been converted into a pie chart below to outline the relative capital investment in these different areas and which shows the limited amount of added value in the current capital programme.



4.6.3 The revised capital programme set out above and in Appendix C does not include items such as: a requirement for additional capital expenditure relating to:

- Refurbishment needs for remedial works for garage impacted by asbestos;
- Funding for both the estate and fleet in order to help meet the Council's commitment to be carbon zero by 2030;
- Digital interventions to support the transformation programme,
- Actions arising from the SOCITM review due to conclude in March 2022 and a refresh of the IT Strategy and which would be subject to business cases.

The programme will remain fix-on-fail too. There is currently insufficient information available on these and other areas where additional capital expenditure may be needed, so they will be brought to Members for consideration in subsequent reports.

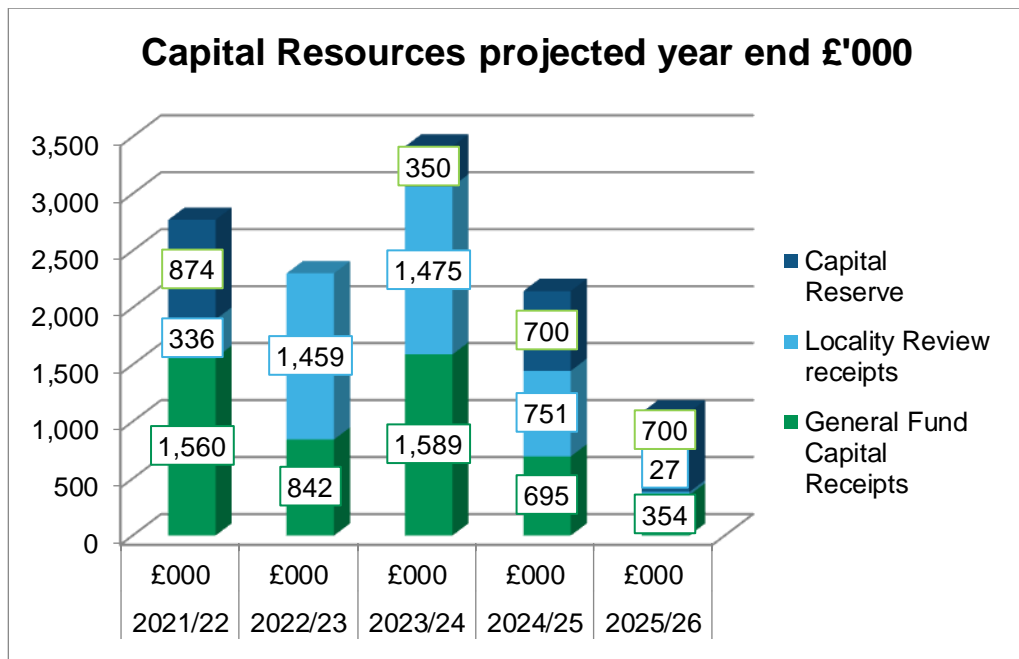
4.7 Capital Resources for the General Fund Capital Strategy

4.7.1 The projected resources used to fund the Capital Strategy totalling £68.1Million, including the growth bids totalling £4.863Million. This is summarised in table nine below, and detailed in Appendix C.

Table 9: Revised Capital Programme						
	21/22	22/23	23/24	24/25	25/26	Total
	£000	£000	£000	£000	£000	£000
Capital Receipts	4,075	5,680	6,372	894	341	17,362
Locality Review Receipts	0	1,239	944	724	0	2,907
Grants and other contributions	4,908	4,746	3,916	0	0	13,570
S106's	121	0	0	0	0	121
LEP	3,674	0	0	0	0	3,674

Table 9: Revised Capital Programme						
	21/22	22/23	23/24	24/25	25/26	Total
	£000	£000	£000	£000	£000	£000
RCCO	88	0	0	0	0	88
Reserves	192	0	0	0	0	192
Ring-fenced regeneration receipts	710	1,050	0	0	0	1,760
SG1 receipts	800	5,000	0	0	0	5,800
Capital Reserve (Housing Receipts)	271	534	375	379	0	1,559
Capital Reserve (Revenue Savings)	866	1,240	0	0	0	2,106
New Homes Bonus	345	65	0	0	0	410
Prudential Borrowing Approved	4,182	8,448	2,060	0	0	14,689
Short Term borrowing and funded from private sale	774	3,054	0	0	0	3,828
Funding Gap	0	0	0	0	0	0
TOTAL	21,006	31,055	13,667	1,997	341	68,067

- 4.7.2 The limited capital receipts have been further reduced by the capital bid to fund food waste collection costs, that should be met from new burdens. However no such government announcements have been made thus far, which effectively reduces the capital receipts the council has available to spend. The relevant growth bids included in the revised capital strategy are £630K for 5 Food Collection Vehicles and £160K to meet the cost of the receptacles for the new rounds, both in 2022/23.
- 4.7.3 The use of capital receipts is dependent on delivery of the disposal sites to the market. Assuming that all the General Fund Growth Bids in Appendix A are approved, the revised capital strategy leaves balances remaining at the end of the years as summarised in the chart below, which includes both General Capital Receipts and Locality Review Receipts as they are available for use in the Capital Programme. Ring-fenced Town Centre Transformation and SG1 receipts have been excluded.



4.7.4 The yearend level of capital receipts/capital reserve balances estimated to be required by the CFO is a minimum £800K-£1 Million. Based on an assessment of the profile of sites in the disposal programme, (noting that there are a small number of high value sites) and considering:

- A delay in the disposal of individual sites
- Capital receipt values being less than currently forecast.
- The Locality Review Receipts are required for future years
- The Capital Reserve balance relies on unbudgeted revenue underspends,

If all the growth bids set out in Appendix A are approved, the balance is forecast to be £842K at the end of 2022/23, which includes £350K unbudgeted revenue underspend in 2022/23. If this does not arise the remaining balances would only be £492K. LFSG have taken this into consideration when reviewing the growth bids and recommending them for approval in February.

4.7.5 The other main risks to the capital programme are:

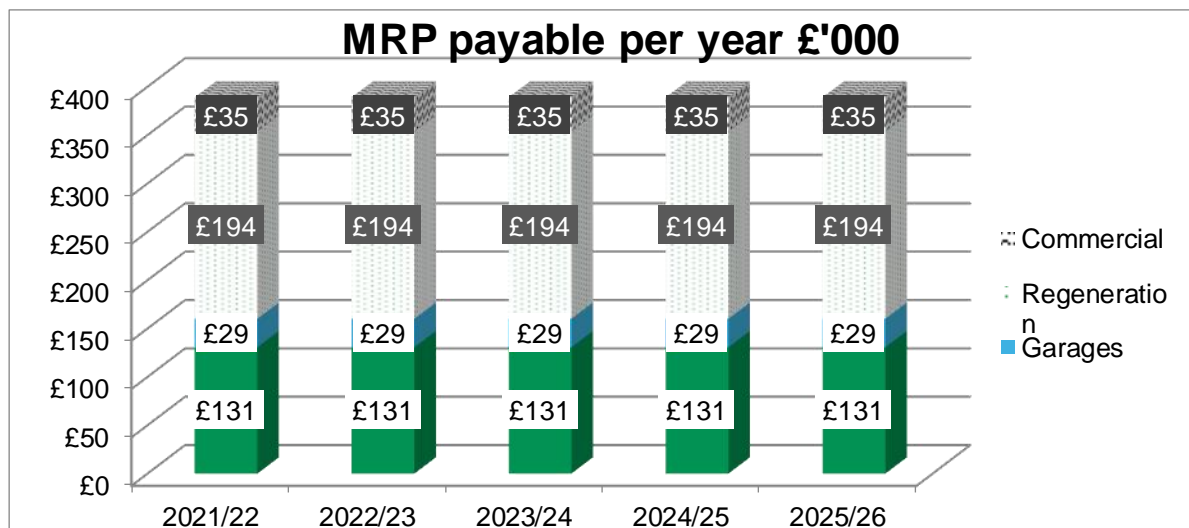
- Potential for scheme overspends
- Insufficient funding for new projects such as the wider town regeneration of assets including neighbourhoods, leisure centre and community assets or for emerging issues not currently in the capital programme
- Potential to not spend all the Local Enterprise Partnership (LEP) monies by the deadline and therefore some costs falling on the Council's resources
- Potential for delay in realising capital receipts – there are £8.1Million of land/asset sales to be achieved in 2022/23 as shown in tables two and six, however the Locality Review Receipts are required for later years
- The deferred works budget of £200K may not be sufficient to fund any schemes not currently funded in the Strategy due to the ongoing fix-on-fail approach.

- Potential for General Fund underspends not materialising (£350K). The Capital Reserve had been reliant on General Fund underspends of £350K per year (not included in General Fund projected year end balances), although due to the impact of the coronavirus pandemic on the Council's finances this was not included in 2020/21 or 2021/22.
- Potential for not spending all of the Towns Fund monies in accordance with the financial profile and/or by the deadline, therefore some costs may fall on the Council's resources
- Potential for money spent as capital on some Towns Fund projects to revert to a future revenue liability if projects do not progress to physical completion, e.g. only feasibility and early design are completed
- Cost volatility and increased client risk in construction projects due to the impact of Covid-19, which has resulted in supply chain pressures and significant price increases across the construction sector

4.7.6 The officer Strategic Town Centre Transformation Board and the Stevenage Development Board also need to ensure that external funding is maximised to reduce risks to the Council's finances.

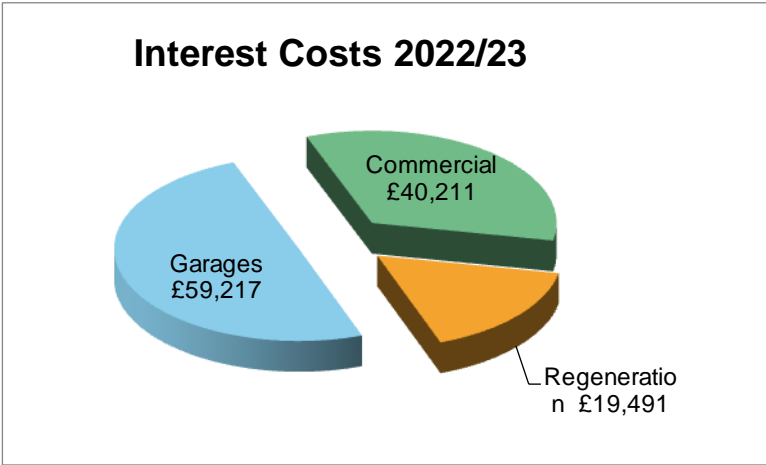
4.7.7 The alternative is to consider borrowing to fund capital expenditure. In the recent past borrowing has been used when the costs of borrowing have been funded from receipts generated, e.g. commercial property purchases or the business case has determined that the borrowing costs are in the main, funded as was the case in relation to the garage investment programme.

4.7.8 The use of borrowing would place an on-going pressure on the General Fund and would require an increase in the level of Financial Security savings required in future years. The current level of Minimum Revenue Provision (MRP) paid in the General Fund is shown in the following chart.

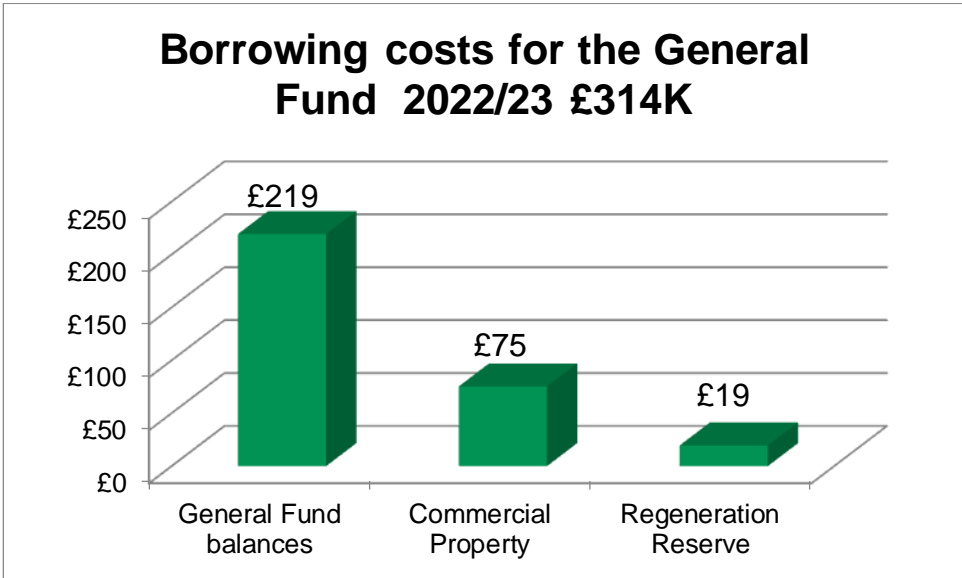


4.7.9 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets, as would any borrowing costs relating to the Housing Wholly Owned Company when activity commences. MRP is payable regardless of whether the borrowing is taken externally or whether internal investment balances are used.

4.7.10 The 2022/23 projected interest costs on borrowing is estimated to be £118,919 (2021/22 £123,750).



4.7.11 The total cost of borrowing in 2022/23 is £314K or an estimated 1% of gross General Fund expenditure. However the majority of this cost is met from within the income generated from assets as shown below.



4.7.12 Interest rates were 2.07% for a 25 year loan as at 5/1/2022 which would mean a cost per £million (based on assets with a 25 year life) of £60,700 (interest and MRP). An annual use of borrowing would represent an incremental increase in General Fund costs, which would need to be met from increasing the Making Your Money Count Target for the General Fund.

4.8 Other capital investments and Finance Lease

4.8.1 The Council purchased a number of properties in the town centre to enable it to meet its regeneration aims. These properties were purchased using LEP funding. These properties have been purchased for regeneration purposes and therefore do not fall under the Property Investment Strategy. Prior to making these strategic acquisitions full risk assessments were undertaken to ensure the cost of

carrying these assets in the short to medium term could be met by the Council. The Regeneration Asset allocated reserve has been setup specifically to cover these costs.

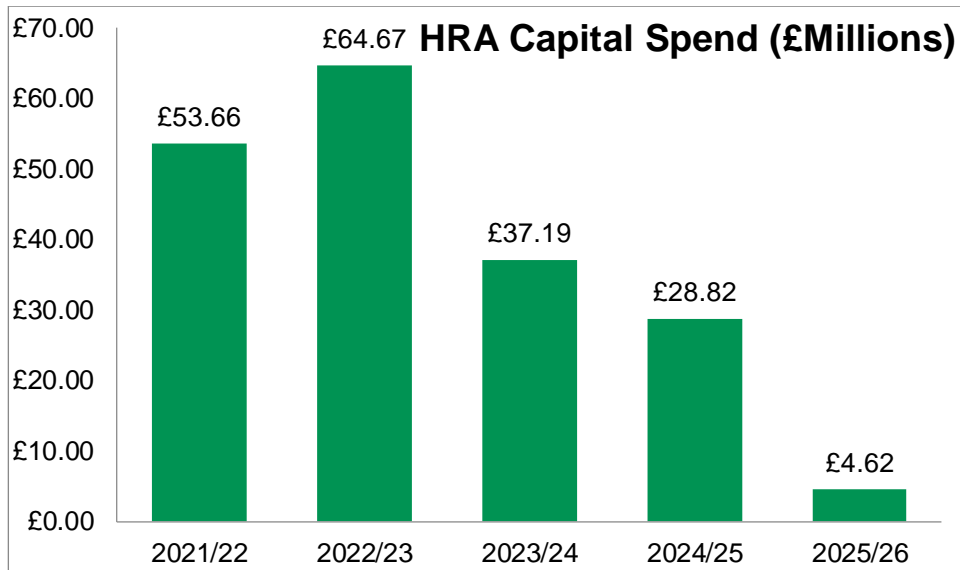
- 4.8.2 The Council undertook a long term finance lease for a mixed development scheme on Queensway in the town centre. This is a lease arrangement and falls outside the scope of capital investment. Prior to the decision to proceed being made a risk assessment was undertaken and presented to Members. Key Officers were given training on their roles and responsibilities for the new governance arrangements associated with the Limited Liability Partnership.
- 4.8.3 Links to the Council's Cooperative Commercial and Insourcing Strategy - The Council's investment in loans, shares and commercial property plays a part in the more commercial approach to the Council's activities, including its work with businesses and community partners. The Service and Commercial Investment Strategy at Appendix E sets out the investment activity and risk management processes which support this.
- 4.8.4 External legal, financial and commercial advice is procured to ensure the validity and viability of business cases presented to Members.

4.9 Capital Programme - Housing Revenue Account (2021/22-2025/26)

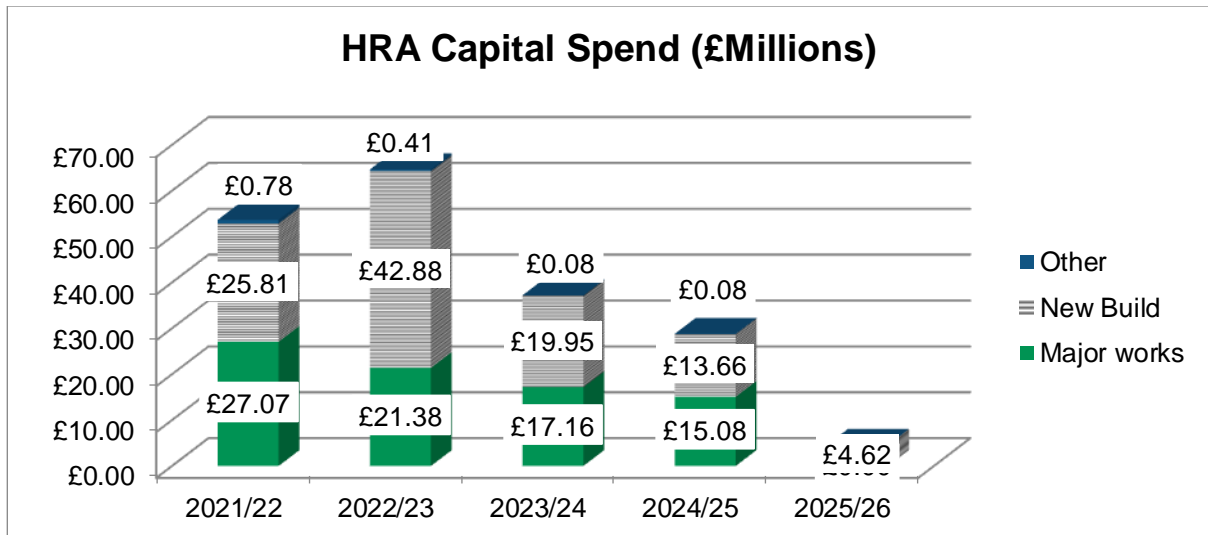
- 4.9.1 The HRA business plan identified an increase in borrowing and a reduction in revenue contributions to capital (see also section 3.3). Some of the borrowing identified has been taken externally, the remainder has utilised internal balances.
- 4.9.2 Alongside the General Fund exercise set out in paragraph 4.1.1, officers have also identified some slippage in the HRA capital programme of £202K from 2021/22 to 2022/23 and have requested consideration of an HRA budget increase totalling £2.850Million for decarbonisation in 2022/23. The Council has made a bid to the Government's Public Sector Decarbonisation Scheme. The total value of the capital works to the housing stock would be £2.850Million if the bid is successful, but a third of the scheme must be funded by the Council to meet the grant requirements. As these works were not anticipated in the business plan, an additional revenue contribution to capital of £950K has been included in the budget to secure the £1.9Million of grant. The Council has not been told whether the bid has been successful yet, but budget provision must be included in order to allow the scheme to proceed if it is. This additional use of reserves will need to be re-balanced when the HRA Business Plan is reviewed in the summer, but will only be needed if the bid succeeds. The changes are set out in the table below.

Table 10: Update from the 2022/23 Capital Bids process						
	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	Total
	£	£	£	£	£	£
SLIPPAGE	(201,610)	201,610	0	0	0	0
GROWTH BIDS	0	2,850,000	0	0	0	2,850,000
TOTAL	(201,610)	3,051,610	0	0	0	2,850,000

- 4.9.3 The revised draft capital strategy budget for 2021/22 - 25/26 totals £188.9Million is set out in Appendix D and summarised below.

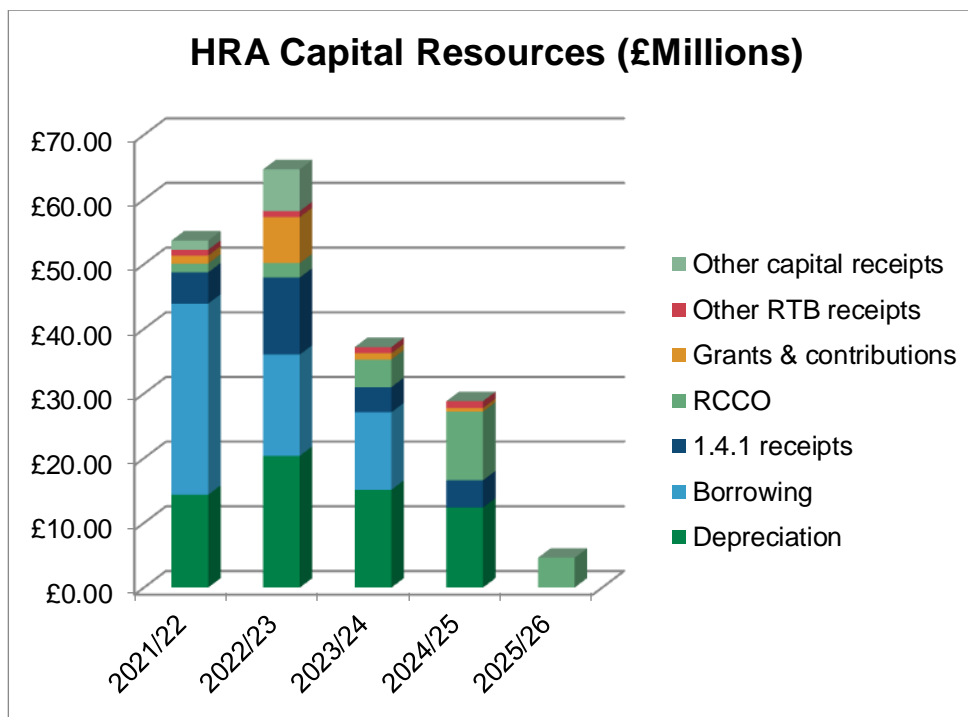


4.9.4 The split between major works, new build and other is shown in the following chart.

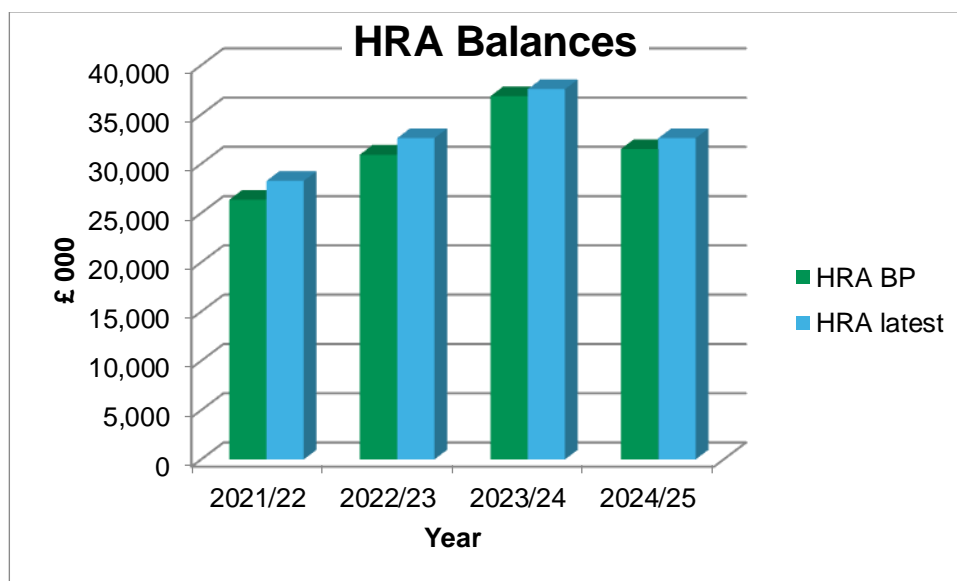


4.10 Capital Programme – HRA Resources (2021/22-2025/26)

4.10.1 The resourcing of the current HRA capital programme funding is summarised in the following chart. The largest percentage is funded by the Major Repairs Reserve (MRR) via depreciation charges (33%) followed by borrowing (30%). Capital receipts from right to buy sales of council houses (New Build 1-4-1 receipts) forms 13% of total funding; however as Members are aware the 1.4.1 receipts have restricted use.

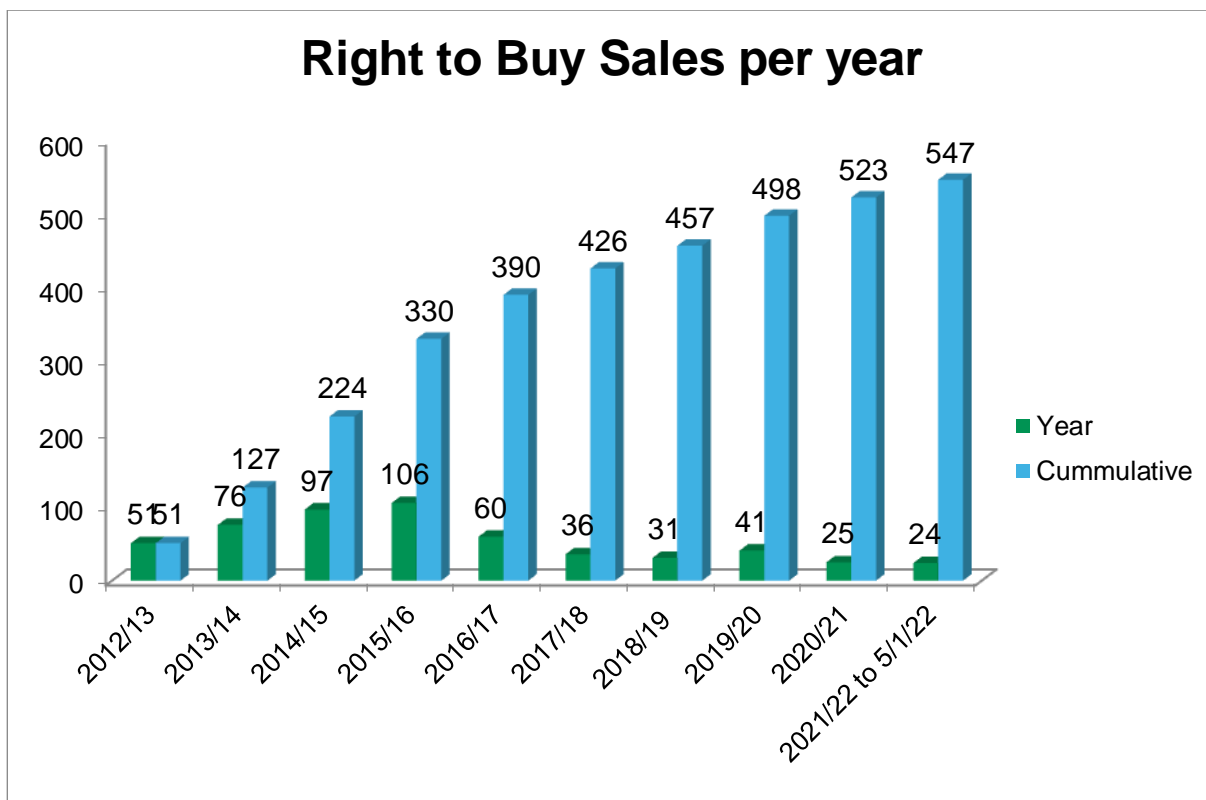


4.10.2 The closing HRA balances for the period 2021/22-2024/25 are set out in the chart below. The next HRA BP will review the full 30 year projection.

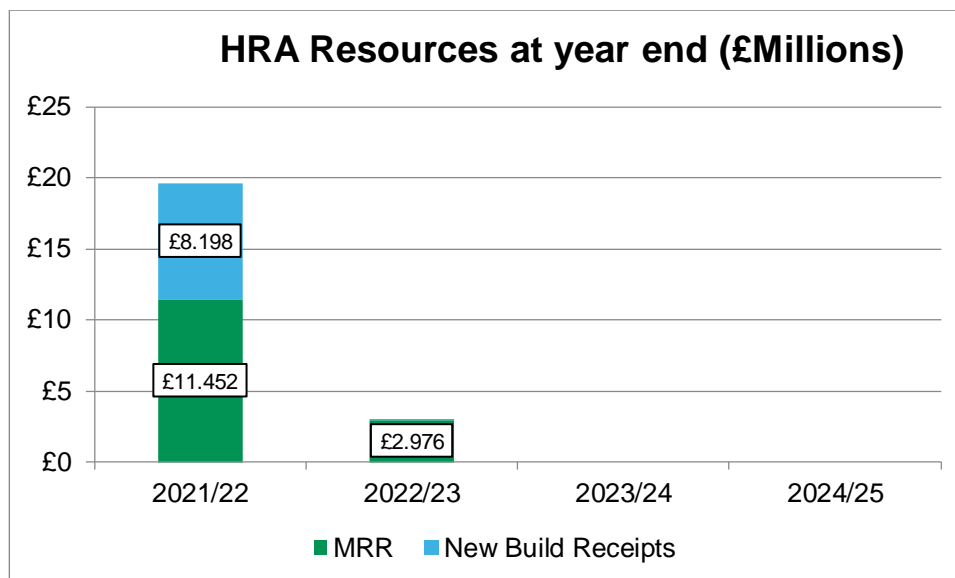


4.10.3 The HRA risk assessment of balances reflects the need to hold higher reserves to fund interest rate fluctuations and a Water Rates provision. £5.7Million has set been aside in allocated reserves for these purposes. The recent HRA MTFS set the minimum level of balances for the HRA as £2.985Million.

4.10.4 The HRA capital programme funding has been based on 35 Right To Buy (RTB) sales per year (2019/20 onwards) although it was reduced for 2020/21 due to a reduction in house sales following restrictions under the first period of lockdown during the coronavirus pandemic. RTB's have fluctuated since self-financing was introduced and in 2021/22 (up to 5/1/2022) there have been 24 RTB sales.



- 4.10.5 There has been one government policy change impacting upon the HRA since the last capital strategy was set. There is now a five year deadline to spend the one for one balance of the HRA Right to Buy receipts. If not spent the receipt must be returned to the government with interest (calculated at 4% above base rate). Under the new regulations, spending on open market acquisitions is now restricted. These restrictions will be phased in over the next 4 years and from 2024/25, will only permit 30% of these properties to be funded from receipts. However, the cap does not apply to the first 20 properties delivered in any one year. The phasing of RTB funded build schemes will be reviewed as part of the refresh off the HRA Business Plan.
- 4.10.6 The capital expenditure financed by borrowing for 2019/20 was £7.057Million, of which £4.010Million external borrowing was taken. There was further slippage of external borrowing in 2020/21, as external borrowing of £10.0Million was taken compared to financing of £20.857Million. None of the 38.594Million planned borrowing for 2021/22 has been taken externally to date but is still planned to be taken before the end of the financial year.
- 4.10.7 A variable element of the resources available at year end are restricted use 1-4-1 receipts as shown in the following chart. As set out in paragraph 4.10.5, the government changed the deadline by which these receipts needed to be spent or returned with interest. The following chart sets out the current forecast position.



4.10.8 Given the slippage identified and the level of unrestricted HRA resources available it is recommended that the budget increases are approved. The revised Capital Strategy for 2021/22-2024/25 including the slippage identified and the budget increases is set out in detail in Appendix B and Appendix D.

4.11 De Minimis Level for Capital Expenditure 2022/23

4.11.1 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.

4.11.2 The limit set for 2022/23 remains unchanged at £5,000 in the Draft Capital Strategy; this applies to a scheme value rather than an individual transaction.

4.12 Contingency Allowance for 2022/23

4.12.1 The contingency allowance for 2021/22 is £250,000, the contingency proposed for 2022/23 remains at £250,000, for schemes requiring funding from existing capital resources. A limit of £250,000 is also set for schemes for each Fund that have new resources or match funded resources identified in addition to those contained within this report. 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.

4.12.2 The contingency allowance for 2021/22 is £500,000 in relation to the use of restricted use or 1.4.1 receipts for registered providers to ensure that the Council achieves nominal rights and doesn't have to return 1.4.1 receipts to the government. This contingency allowance is a recommended to remain at the same level of £500,000 for 2022/23.

4.12.3 Separate to the contingency allowance in paragraph 4.11.1, is the delegation to Executive or Portfolio Lead/Leader of the Council to approve increases to the capital programme for grant funded projects, when external funding sources have

been secured. Officers propose that this contingency allowance remains as £5,000,000 where a scheme is fully funded from 3rd party contribution/grant.

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 Equality and Diversity Implications

5.3.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund 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.

5.3.2 Schemes contained within the capital programme will have an EQIA particularly those relating to housing schemes.

5.4 Risk Implications

5.4.1 The significant risks associated with the capital strategy are largely inherent within this report.

5.4.2 There is a risk that the value of land sales is not realised due to the impact of COVID on the confidence on the market or prices are lower than anticipated due to higher material costs as set out in paragraph 4.7.5 linked to BREXIT/COVID.

5.4.3 The 2021/22 year end level of available receipts is low in comparison to the size of the programme and is reliant on the delivery of key sales which could be impacted as set out above. Should this happen, in-year action may be required to hold expenditure or prudential borrowing may be required increasing the burden to the General Fund.

5.4.4 The Council manages this risk by reviewing and updating the Strategy quarterly, including resources where a sale is likely to complete. This will enable action to be taken where a receipt looks doubtful.

5.4.5 A significant risk exists that works deferred due to lack of funding become urgent in year, requiring completion on grounds of health and safety. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum, and these schemes are monitored by Assets and Capital Board.

5.4.6 The risk in achieving the level of qualifying HRA spend to fully utilise retained one for one receipts has been reduced (unlike in previous years) with the change to the one for one receipt rules as set out in this report.

5.5 Climate Change Implications

- 5.5.1 In their current form the Council's buildings do not currently support the climate change agenda in terms of energy efficiency or divestment of use of fossil fuels.
- 5.5.2 However, there is an opportunity through the local asset review programme to build in design principles to improved / future assets in terms of energy efficiency and sustainable energy sources. This should be a core principle of any future designs arising from the local asset reviews. There would be a further benefit of reduced energy costs.
- 5.5.3 The climate change agenda is far wider than the buildings the Council uses. For example the Council is also examining the vehicle fleet and consideration will be given to reducing its carbon impact.

BACKGROUND DOCUMENTS

- BD1 Quarter 1 and 2 monitoring report (Executive, 20 October 2021)
- BD 2 Final Housing Revenue Account Rent Setting & Budget report 2022/23 (January 2022 Executive) – elsewhere on this agenda
- BD 3 Medium Term Financial Strategy: Housing Revenue Account – Business Plan Review (including 1st and 2nd Quarter HRA Revenue Budget Monitoring 2021/22) (November 2021 Executive)
- BD 4 HRA Business Plan 2020 update (December 2019 Executive)

Appendices

- A - General Fund Capital Bids for consideration
- B - HRA Capital Bids for consideration
- C - General Fund Capital Strategy
- D - HRA Capital Strategy
- E - Service and Commercial Investment Strategy