

Meeting EXECUTIVE/COUNCIL
Portfolio Area Resources
Date 9 FEBRUARY/24 FEBRUARY 2022



DRAFT CAPITAL STRATEGY 2021/22-2025/26

KEY DECISION

Authors Belinda White x2515
Contributors Senior Leadership Team
Lead Officers Clare Fletcher
Contact Officer Clare Fletcher

1. PURPOSE

- 1.1 The purpose of the report is to seek revisions to the 2021/22 General Fund and Housing Revenue Account Capital Programme and approve the final Capital Programme for 2022/23.
- 1.2 To provide Members with an update on the Council’s 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

That the following proposals be recommended to Council on 24 February 2022:

- 2.1 Final General Fund Capital Growth Bids for 2022/23 as detailed in Appendix A (and incorporated into Appendix C) to the report be approved.
- 2.2 The revisions to the 2021/22 General Fund budget as incorporated into Appendix C to the report be approved.
- 2.3 The Final 2022/23 General Fund Capital Programme as detailed in Appendix C to this report be approved, together with the recommended resourcing.
- 2.4 That the CFO brings a report forward during the 2022/23 financial year setting out the Council’s key capital regeneration and community asset ambitions and

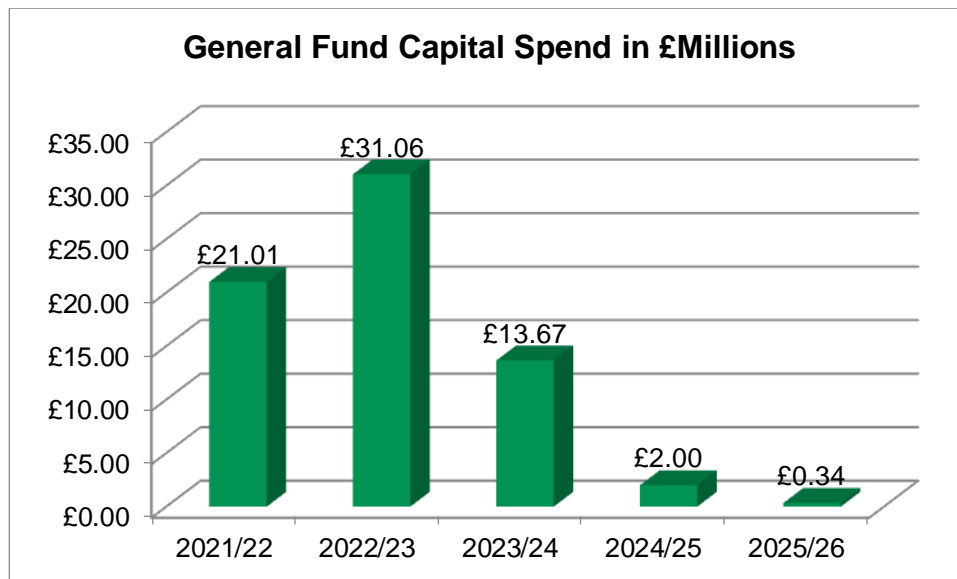
key land and asset disposals, not currently in the capital strategy to determine a funding strategy to meet these Corporate priorities.

- 2.5 That the Final HRA budget requests for 2022/23 as detailed in Appendix B (and incorporated into Appendix D) to the report as approved at the 26 January Council be noted.
- 2.6 That the Final 2022/23 HRA Capital Programme as detailed in Appendix D to the report be approved.
- 2.7 That the updated forecast of resources 2022/23 as detailed in Appendix C (General Fund) and Appendix D (HRA) to the report be approved.
- 2.8 That the Council's investment strategy for non-treasury assets as detailed in Appendix E be approved for consideration by the Executive.
- 2.9 That the funding increase requested for the Bus Interchange scheme as set out in paragraph 4.1.2 be approved.
- 2.10 That the Executive be given delegated authority to approve all of the On Hold schemes, so that they can go ahead depending on the outcome of the work identified as set out in paragraph 4.3.1.
- 2.11 That the 2022/23 de-minimis expenditure limit, as set out in section 4.11 of the report, be approved.
- 2.12 That the 2022/23 contingency allowances respectively in paragraphs 4.12.1 and 4.12.2 of the report be approved.
- 2.13 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 approved.

3. BACKGROUND

3.1 Introduction

- 3.1.1 This report is an update on the Council's Draft General Fund and HRA capital strategy 2021/22- 2025/26 presented to the January 2022 Executive meeting. This report updates Members on any changes to the capital programme previous presented for 2021/22- 2025/26 and the resourcing for both the General Fund and HRA programme.
- 3.1.2 The draft General Fund capital programme totalled £68.1Million and is summarised in the graph below.



- 3.1.3 The purpose of the Capital Strategy is to outline how the Council determines its priorities for capital investment and how much it can afford to borrow as well as setting out any associated risks. The Leaders Financial Security Group have reviewed the capital bids for 2022/23 contained within the draft Capital Strategy and the results of that review are included in this report.
- 3.1.4 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.
- 3.1.5 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.
- 3.1.6 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 the revenue impact of borrowing costs. Accordingly the council applied a 'fix on fail' approach to assets with no significant asset improvements being included in the capital programme, with the exception of a few schemes which have been funded through New Homes Bonus i.e. play ground improvements, or where there has been a need to protect revenue income streams such as the garage improvement programme funded from a combination of borrowing, disposals and available capital resources.
- 3.2.2 The Asset Management Strategy approved by the Executive 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. To date a number of land sites have been identified for disposal and those receipts included in the capital programme and so reducing the use of revenue contributions to capital. The remaining review of the Councils community assets is on-going.
- 3.2.3 Condition Surveys of the Councils assets was completed in 2019 and they were used to inform growth bids approved in this and 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	
Contribution to Capital Reserve	£250,000	£177,588
Total Expenditure	£594,980	£242,615
Balance in NHB reserve	£837,595	£242,615
In year Funding		
Expenditure in year	£ 594,980	£242,615
Balance remaining in NHB available	£242,615	£0

- 3.2.5 The Capital Strategy includes key priorities such as '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 additional revenue cost this has 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 (MYMC) ambitions. The issue of affordability has been exacerbated in recent times by the impact of the coronavirus pandemic on the Council's finances and as set out in the General Fund report to this Executive.
- 3.2.7. The Council has previously approved land and asset disposals and an updated schedule of these (net of disposal fees) is set out in table two. In addition to these are a few key sites to be included in a report by the CFO, together with the Council's key regeneration ambitions during the 2022/23 financial year.

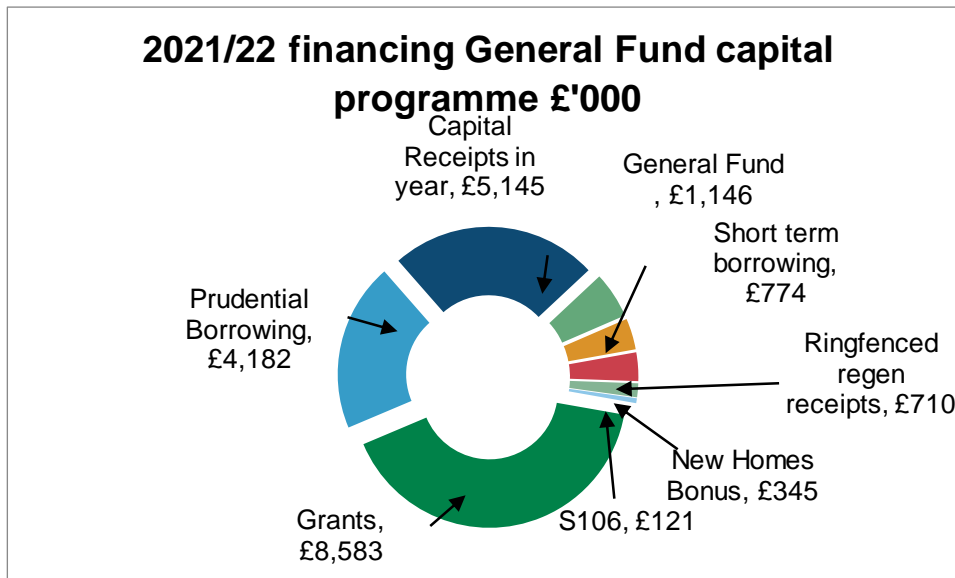
Table 2: 2020/21 Disposal Schedule (General Fund)			
Forecast receipts	January Draft	February Final revised	Variance
	£	£	£
Total 21/22 Capital Receipts Estimate	(5,183,715)	(5,523,676)	(339,961)
Total 22/23 Capital Receipts Estimate	(5,736,816)	(5,455,560)	281,256
Total 23/24 Capital Receipts Estimate	(10,172,500)	(10,172,500)	0
Total 24/25 Capital Receipts Estimate	0	0	0
Major Capital Receipts Programme	(21,093,031)	(21,151,736)	(58,705)

- 3.2.8 The receipts included in this report do not include SG1 receipts (other than receipts estimated to be due in 2022/23 which are ring fenced to fund the Public Sector Hub), other ring-fenced Regeneration receipts and Locality receipts.
- 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

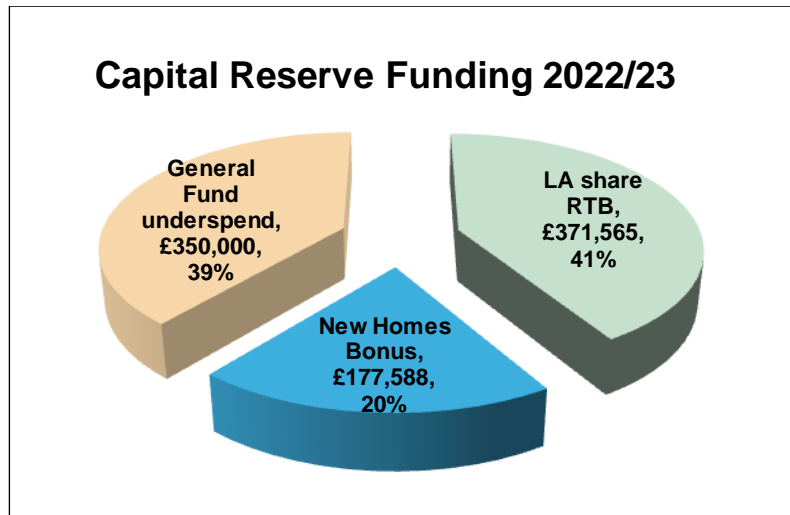
Table 3: S106 Update				
Available for financing		2021/22 Forecast use	Budgeted in Future Years	remaining
	£'s	£'s	£'s	£'s
Biodiversity Net Gain	45,867	0	0	45,867
Pedestrian Link	35,000	0	0	35,000
Household Surveys	15,990	0	0	15,990
Air Quality	5,335			5,335
Total	657,842	407,105	0	255,947

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 some slippage in programmes 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 includes a NHB contribution of £178K in 2022/23 along with a forecasted £350K from General Fund 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 Since then the programme has been increased 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 The 2022/23 growth for the HRA Capital Strategy was approved at the January 2022 Council as part of the 2022/23 Rent Setting and HRA budget report 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 Regeneration Assets Reserve monies. 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 Regeneration Assets Reserve.

4.1.3 A summary of the 2022/23 growth bids presented in the Draft Capital Strategy to January Executive is summarised in table four below, and is set out in full in Appendix A (Growth bids) and Appendix C (General Fund Capital Strategy).

	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Total £
SLIPPAGE	(2,107,310)	2,107,310	0	0	0	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. These bids totalled £4.863Million over the period 2022/23 - 2025/26, the profile of the expenditure is shown in the table below and detailed in Appendix A:

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 In the draft Capital strategy it was recommended that all the bids be agreed in principle by the Executive, subject to a review by Leaders Financial Security Group. This has been completed and the scoring and prioritisation is detailed in Appendix A.

4.2.3 The result is that based on the majority scoring ,LSFG recommend the removal of the following items from the draft capital programme:

Table 6: Update to 2022/23 Bids following challenge process					
Scheme	Priority	2022/2023	Service	Average Score	Outcome
		Growth Bid			
		£			
Provision for maintenance works at closed cemeteries	3	50,000	SDS	0.2	Not Supported
Water Tank and system, Shephalbury Bowls	4	15,000	SDS	0.4	Not Supported
SBC grants to businesses to reduce their carbon emissions	8	8,000	P&R	0.4	Not Supported
TOTAL		73,000			

It should be noted that although these bids were not supported by LFSG, the service could bid from the Deferred Works Reserve if the works become required.

4.2.4 The following items were also not recommended for the reasons outlined below. The Deferred Works Reserve has been increased by the sum of £535K, so that the schemes could go ahead if a health and safety need arises or the bid is subsequently supported.

Table 7: Update to 2022/23 Bids following challenge process					
Scheme	Priority	2022/2023 Growth Bid	Service	Outcome	LFSG Reason
		£			
Daneshill fire doors	3	150,000	F&E	On Hold	Not all doors may need replacing, Officers to confirm if this requires stairwell doors or all doors. Decision deferred pending the outcome
Bedwell Community Centre roof fascia replacement	3	50,000	F&E	On Hold	Survey results needed first, hold £ in the reserve
St Nicholas Pavilion reroofing	4	150,000	F&E	On Hold	defer until Locality review results and potential use of the building
St Nicholas Pavilion replace windows	4	75,000	F&E	On Hold	defer until Locality review results and potential use of the building
Chells Manor - boiler replacement and hot water works	4	50,000	F&E	On Hold	defer until Locality review results and potential use of the building
St Nicholas play centre roof	4	30,000	F&E	On Hold	defer until Locality review results and potential use of the building. Roof works anticipated to last longer than the life of the building
The Oval reroofing ('youth wing')	4	30,000	F&E	On Hold	The Oval is a Housing Development regeneration site included in the HRA Business Plan
TOTAL		535,000			

4.2.5 The growth bids submitted for future years, totalling £2.823Million for the period 2023/24 - 2025/26, are included in Appendix A and C but are indicative only. These 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 previously been included at the level of £200k per annum. However due to the bids that have been placed on hold as per paragraph 4.2.4 and set out in table seven, and other potential larger pieces of work for which there is currently insufficient information available as per paragraph 4.6.3, it is recommended that the Deferred Works Reserve for 2022/23 be increased as set out in the table

below. This includes an amount to protect key income streams in 2022/23 for parking and garages

Table 8: Deferred Works Reserve 2022/23	
Purpose	£
General Deferred Works Reserve for urgent in-year requests	200,000
To fund 'On Hold' schemes depending on the outcome of the work identified	535,000
Potential larger areas of work such as Garages Asbestos and MSCP	300,000
TOTAL	1,035,000

It is also recommended that Executive be given delegated authority to approve all of the On Hold schemes, so that they can go ahead depending on the outcome of the work identified. This would be in addition to the usual contingency allowance delegation of £250,000 to Executive.

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%. There have been a number of site issues but the Estates Team are progressing this work. The value of sites will be monitored to determine target value versus actual, however currently the overall value is estimated to be lower, which may impact on the General Fund in future years.
- 4.4.4 A schedule of the forecast receipts (net of disposal fees) and the timing of these is set out in table nine below:

Table 9: 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.

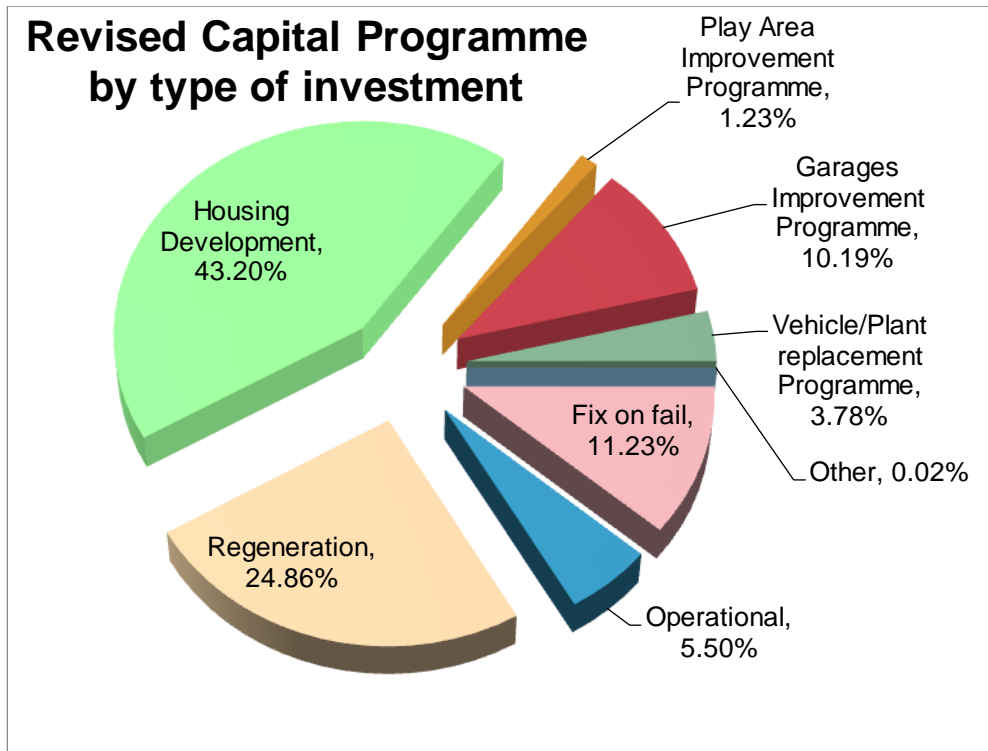
Table 10: Towns Fund profile (summary)						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£	£	£	£	£	£
Capital	650,000	8,100,000	12,100,000	9,150,000	7,400,000	37,400,000
Revenue	50,000	50,000	-	-	-	100,000
Total	700,000	8,150,000	12,100,000	9,150,000	7,400,000	37,500,000

4.6 Summary Capital Programme 2021/22-2025/26

- 4.6.1 The revised Capital Strategy for 2021/22-2025/26 totals £68.0Million, including the approved 2022/23 and indicative future years growth bids totalling £3.991Million. This is summarised in table 11 below, and in detail in Appendix C.

Table 11: Revised Capital Programme						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000	£000	£000	£000	£000	£000
Stevenage Direct Services	2,684	4,669	4,326	265	133	12,078
Housing Development	7,051	13,257	8,504	575	0	29,386
Finance and Estates	1,650	1,770	780	365	135	4,700
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	270	365	365	0	1,418
Deferred Works Reserve	83	1,035	200	200	0	1,518
TOTAL	20,929	30,510	14,369	1,939	283	68,030

- 4.6.2 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 As set out in paragraph 4.3.1, the revised capital programme set out above and in Appendix C does not include a number of potential items that may require additional capital expenditure. Those for which some information is available are set out in the following table:

Table 12: Risk of potential additional capital financing requirements	
Purpose	£000
Refurbishment needs for remedial works for garage impacted by asbestos	TBA
Funding for both the estate and fleet in order to help meet the Council's commitment to be carbon zero by 2030	TBA
Digital interventions to support the transformation programme	TBA
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	TBA
Smaller 180 Litre residual bins for general household waste may need to be purchased, due to the potential for introducing weekly recycling as part of the roll out of separate food waste collections, if there is an increase recycling and reduction in residual waste.	600
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	900
TOTAL	1,500

The programme will remain fix-on-fail too, leading to the potential need to incur expenditure on Council-owned buildings and other assets. Where additional

capital expenditure is needed the information will be brought to Members for consideration in subsequent reports.

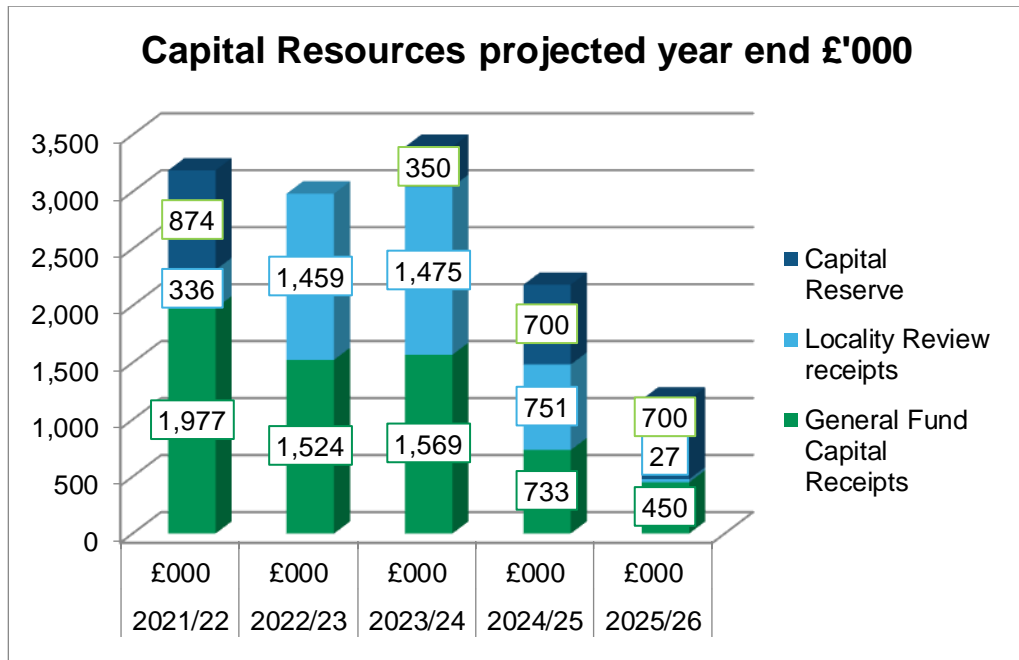
4.7 Capital Resources for the General Fund Capital Strategy

4.7.1 The projected resources used to fund the Capital Strategy totalling £68.0Million, including the approved 2022/23 and indicative future years growth bids totalling £3.991Million. This is summarised in table 13 below, and detailed in Appendix C.

Table 13: Revised Capital Programme						
	21/22	22/23	23/24	24/25	25/26	Total
	£000	£000	£000	£000	£000	£000
Capital Receipts	3,997	5,135	7,074	836	283	17,325
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
RCCO	0	0	0	0	0	0
Reserves	280	0	0	0	0	280
Ringfenced 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	20,929	30,510	14,369	1,939	283	68,030

4.7.2 The 2023/24 capital programme now includes the capital bid to fund food waste collection costs, that should be met from government new burdens funding. However no 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.

4.7.3 The use of capital receipts is dependent on delivery of the disposal sites to the market. 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 (before any assumptions about unbudgeted revenue contributions to capital of £350K. 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,

The balance was forecast to be £842K at the end of 2022/23 in the draft capital strategy. Following the review by Leaders Financial Security Group, the balance is now forecast to be £1.459 excluding Locality receipts used in future years at the end of 2022/23. There is a £350K unbudgeted revenue underspend in 2022/23 built into the capital financing assumptions. If this does not arise the remaining balances would be £2.633Million. The CFO considers this to be a sufficient year-end balance

4.7.5 The other main risks to the capital programme are:

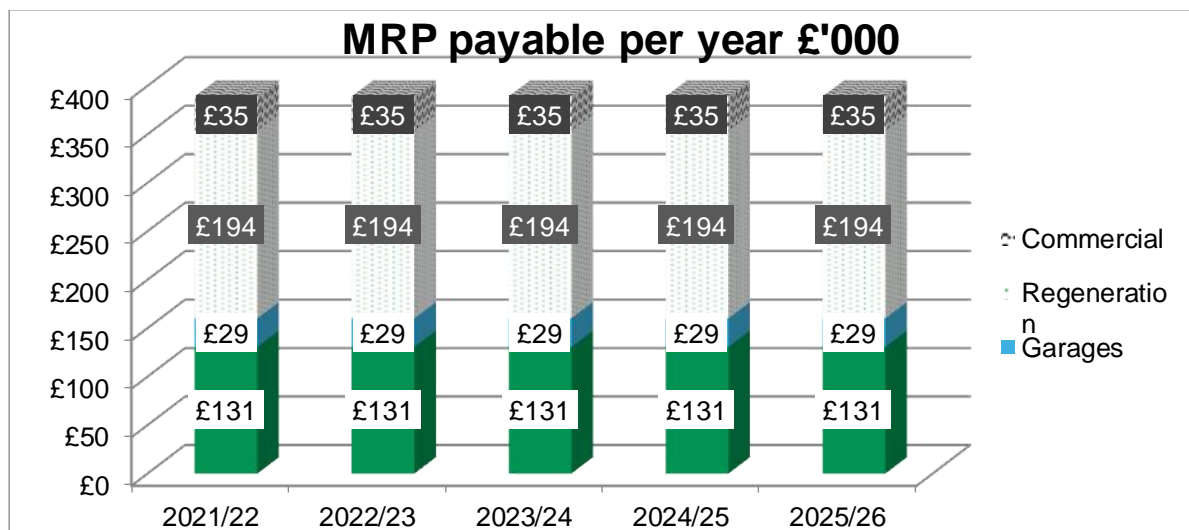
- Potential for scheme overspends
- Insufficient funding for new projects such as the wider town regeneration of assets including neighbourhoods, leisure centre and community assets or for emerging issues not currently in the capital programme
- Potential not to spend any remaining Local Enterprise Partnership (LEP) monies by the deadline and therefore some costs falling on the Council's resources
- Potential for delay in realising capital receipts – there are £7.8Million 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 may not be sufficient to fund any schemes not currently funded in the Strategy due to the ongoing fix-on-fail approach.
- Potential for additional costs required for Major Regeneration schemes, therefore some costs may fall on the Council's resources
- 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 Business Case Assurance Panel and the Stevenage Development Board also need to ensure that external funding is maximised to reduce risks to the Council's finances.

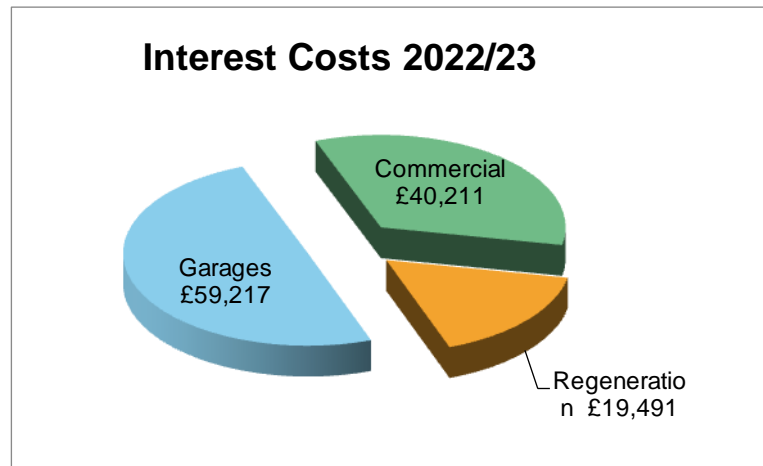
4.7.7 If there is a shortfall in funding borrowing can be considered to fund capital expenditure. In the recent past borrowing has been used when the costs of borrowing have been funded from receipts generated, e.g. commercial property purchases or the business case has determined that the borrowing 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.

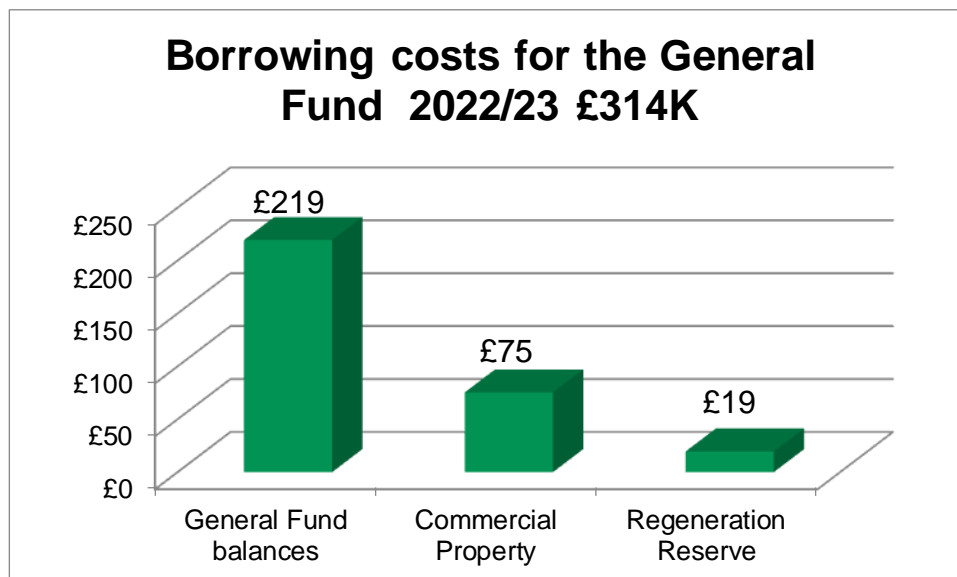


4.7.9 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets, as would any borrowing costs relating to the Housing Wholly Owned Company when the company draws down borrowing from the Council. MRP is payable regardless of whether the borrowing 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 from a combination of borrowing, third party funding i.e. LEP and SBC resources. 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.

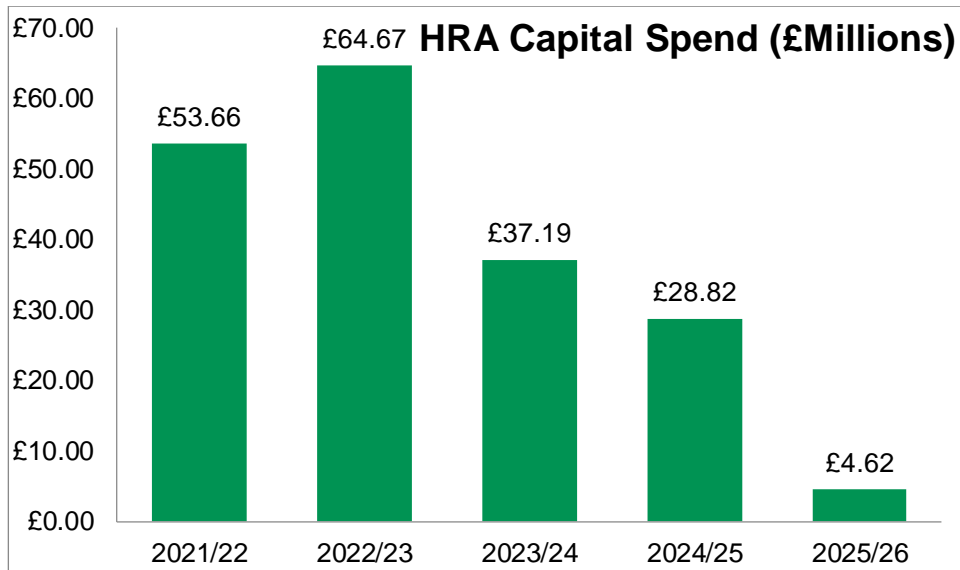
- 4.8.2 The Council undertook a long term finance lease for a mixed development scheme on Queensway in the town centre. This is a lease arrangement and falls outside the scope of capital investment. Prior to the decision to proceed being made a risk assessment was undertaken and presented to Members. 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)

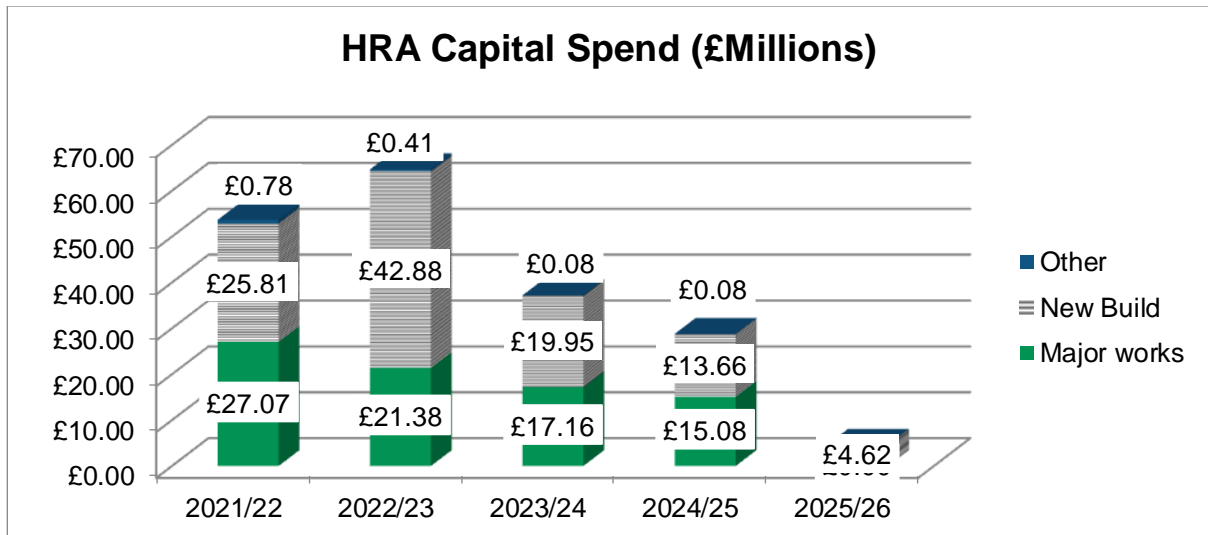
- 4.9.1 The HRA business plan identified an increase in borrowing and a reduction in revenue contributions to capital (see also section 3.3). Some of the borrowing identified has been taken externally, the remainder has utilised internal balances.
- 4.9.2 Alongside the General Fund exercise set out in paragraph 4.1.1, officers have also identified some slippage in the HRA capital programme of £202K from 2021/22 to 2022/23 and the January 2022 Council meeting approved growth totalling £2.850Million for decarbonisation in 2022/23. The Council has made a bid to the Government's Public Sector Decarbonisation Scheme, with a total value of £2.850Million if the bid is successful, with a third of the scheme 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 was approved at the January 2022 Council to secure the £1.9Million of grant. The Council has not been told whether the bid has been successful yet. 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 14: 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.

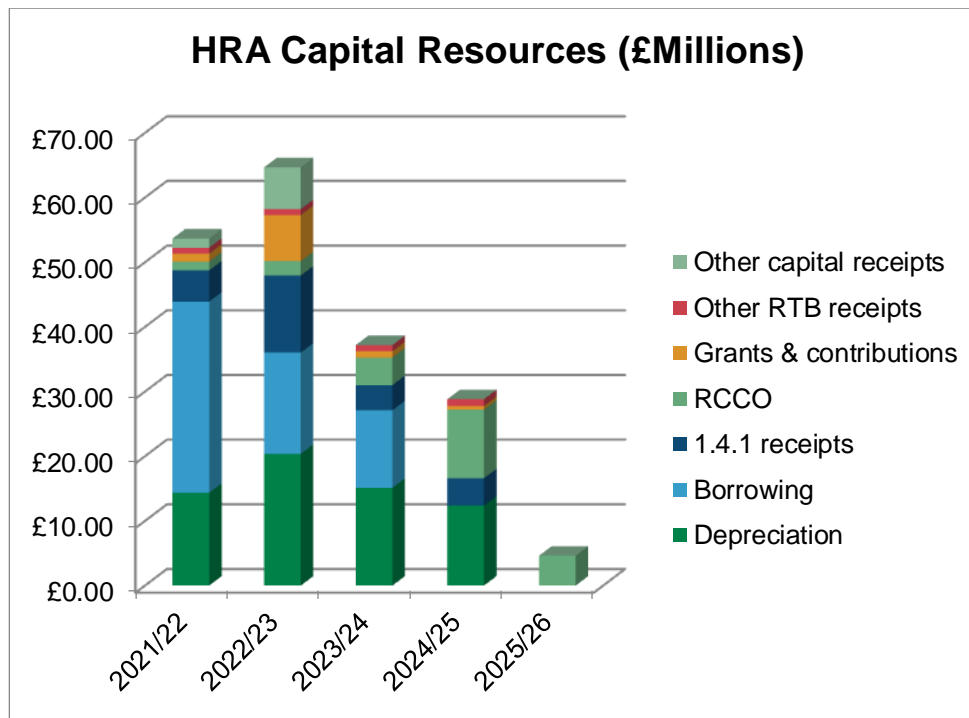


4.9.4 The split between major works, new build and other is shown in the following chart.

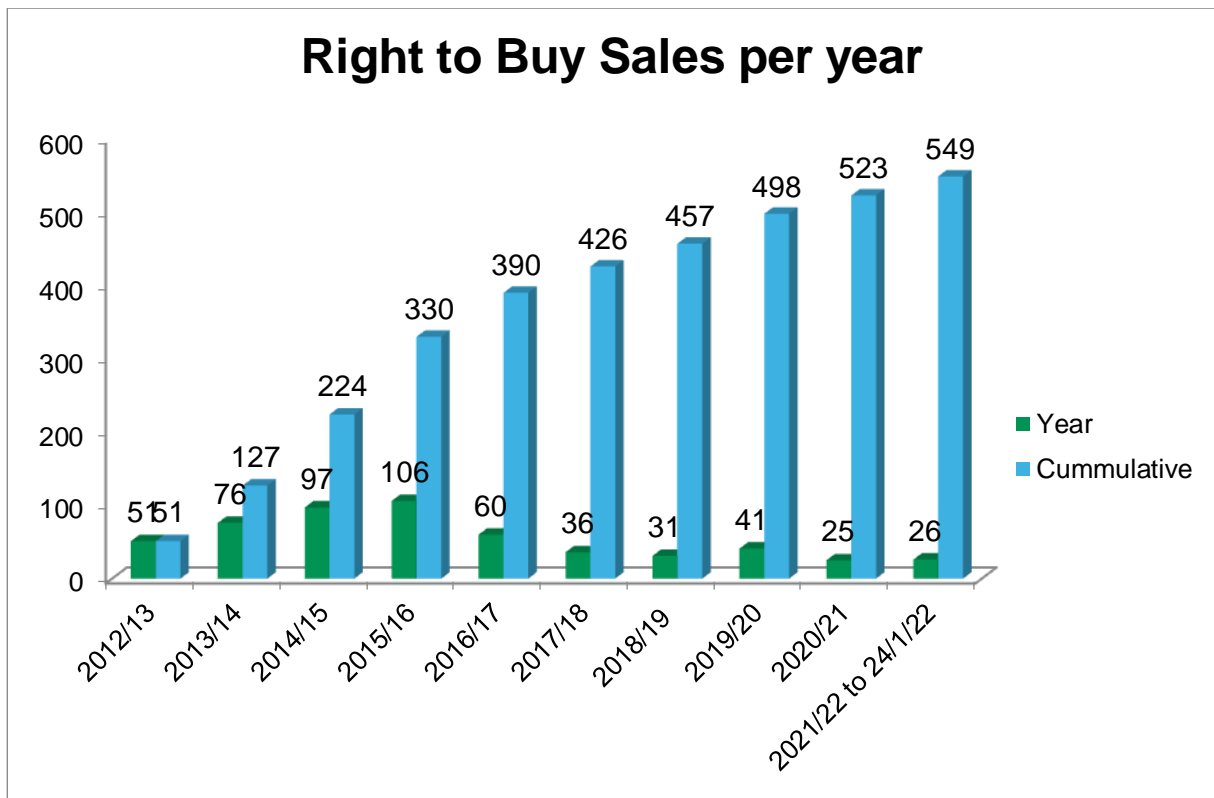


4.10 Capital Programme – HRA Resources (2021/22-2025/26)

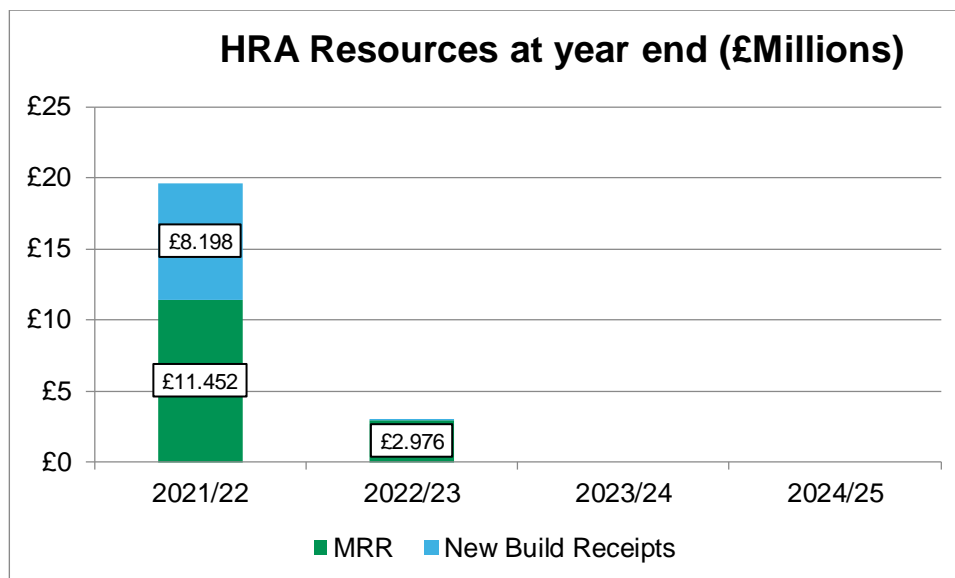
4.10.1 The resourcing of the current HRA capital programme funding is summarised in the following chart. The largest percentage is funded by the Major Repairs Reserve (MRR) via depreciation charges (33%) followed by borrowing (30%). Capital receipts from right to buy sales of council houses (New Build 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 will form part of the 2022 HRA BP review as the HRA BP needs rebalancing.
- 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 26/1/2022) there have been 26 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 four 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 2022 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 is the restricted use 1-4-1 receipts as shown in the following chart, the level of restricted 1.4.1 receipts has significantly reduced due to lower RTB's, a higher new build programme and a change to the 1.4.1 regulations. 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 Draft Capital Strategy (January 2022 Executive)
- 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
- B - HRA Capital Bids
- C - General Fund Final Capital Strategy
- D - HRA Final Capital Strategy
- E - Service and Commercial Investment Strategy