

**Meeting:** COUNCIL  
Portfolio Area: Resources / Housing

**Agenda Item:**

**5B**

**Date:** 26 FEBRUARY 2014

## **2014/15 FINAL CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE**

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### **1. PURPOSE**

- 1.1 To approve revisions to the 2013/2014 General Fund and Housing Revenue Account Capital Programme and approve the Final Capital Programmes for 2014/2015 as recommended by the Executive.
- 1.2 To provide Members with an update on the Council's Final 5 Year Capital Strategy and the resources available to fund the Capital Strategy.

### **2. RECOMMENDATIONS**

- 2.1 That the revised 2013/14 and the final 2014/15 General Fund Capital programme, as detailed in Appendix A and Appendix B of the report be approved.
- 2.2 That the 2013/14 and the final 2014/15 Housing Revenue Account (HRA) Capital Programme as detailed in Appendix A and Appendix B of the report be approved.
- 2.3 That only General Fund essential works will be undertaken in 2014/15 until such time that the programme is fully funded.
- 2.4 That the updated forecast of resources as summarised in Appendix A of the report be approved.
- 2.5 That it be noted that the Leader's Services Priority Group (LSPG) is to be reconvened to review and challenge the General Fund Capital Strategy and 15 Year Investment Plan.

### **3. BACKGROUND**

- 3.1 The Council currently maintains a rolling 15 Year Capital Strategy that outlines the approved programme, forecast expenditure requirements for subsequent years and the anticipated resources.
- 3.2 The Strategy was last reported to the Executive in January 2014 as part of the budget and policy framework. The Executive approved a General Fund Capital Programme of £4,413,530 and £5,753,770 for 2013/14 and 2014/15 respectively

which was considered by the Overview & Scrutiny Committee held on the 23 January 2014. The HRA programme of £22,009,730 and £27,347,700 for 2013/14 and 2014/15 respectively was also considered at that meeting.

- 3.3 The January Executive report updated Members on the debt cap set by the Strategic Director (Resources) which set the maximum level of borrowing the General Fund can afford, which has been currently calculated at £1.5Million revenue impact by 2017/18 and beyond. The amount of borrowing that this 'buys' will vary based on interest rates and the estimated life of any assets purchased.
- 3.4 The January Capital Strategy Update identified additional pressures for the General Fund programme from recent stock condition surveys, which for the period 2013/14 to 2017/18 would potentially add a further £3,592,970 in capital investment needed for garages and leisure buildings, which is not yet reflected in the Strategy. Further stock condition data relating to other assets was not available at the time of writing the report in January and Members are updated in this report.
- 3.5 The January report concluded that the General Fund programme in its current format and with the additional stock condition pressures already identified is unsustainable even in the medium term as the borrowing costs identified to support the programme would be in excess of the debt cap set by for borrowing costs of £1.5Million.
- 3.6 The HRA programme is financed in the main from the HRA revenue account (depreciation and revenue contributions to capital). Although not explicitly mentioned in the January Capital report the HRA programme to will also become increasingly unaffordable over the life of the HRA 30 year Business Plan as a result of the increased number of right to buy sales (also referenced in the HRA final budget report to the January Executive).
- 3.7 The Council's HRA also has a new build programme and in 2014/15 £3.5Million still requires the identification of schemes (new build, buy off plan, buy on the open market). Officers are currently identifying options to bring forward to Members for approval.

#### **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

##### **4.1 Capital Programme – General Fund**

- 4.1.1 The 2013/14 revised General Fund capital programme is projected to be £3,331,530 which is £1,082,000 lower than the working budget approved at the January Executive of £4,413,530. The changes to the current year programme are detailed in Table One overleaf, and explained in Appendix B.

| <b>Table One – 2013/14 General Fund Programme Changes</b> |                             |                  |
|---|-----------------------------|------------------|
|   | <b>Reasons for change</b>   | <b>2013/14</b>   |
| Working Budget  |                             | <b>4,413,530</b> |
| Slippage  | Budget not spent in 2013/14 | (936,000)        |
| Budget reductions   | See Appendix B              | (146,000)        |
| <b>Total Proposed 2013/14 Budget (February)</b>           |                             | <b>3,331,530</b> |

## 4.2 Capital Programme – Housing Revenue Account

4.2.1 As with the General Fund the HRA capital programme has been reviewed for slippage. The 2013/14 revised HRA capital programme remains unchanged from the January projection of £22,009,370.

## 4.3 2014/15 Onwards General Fund Capital Programme

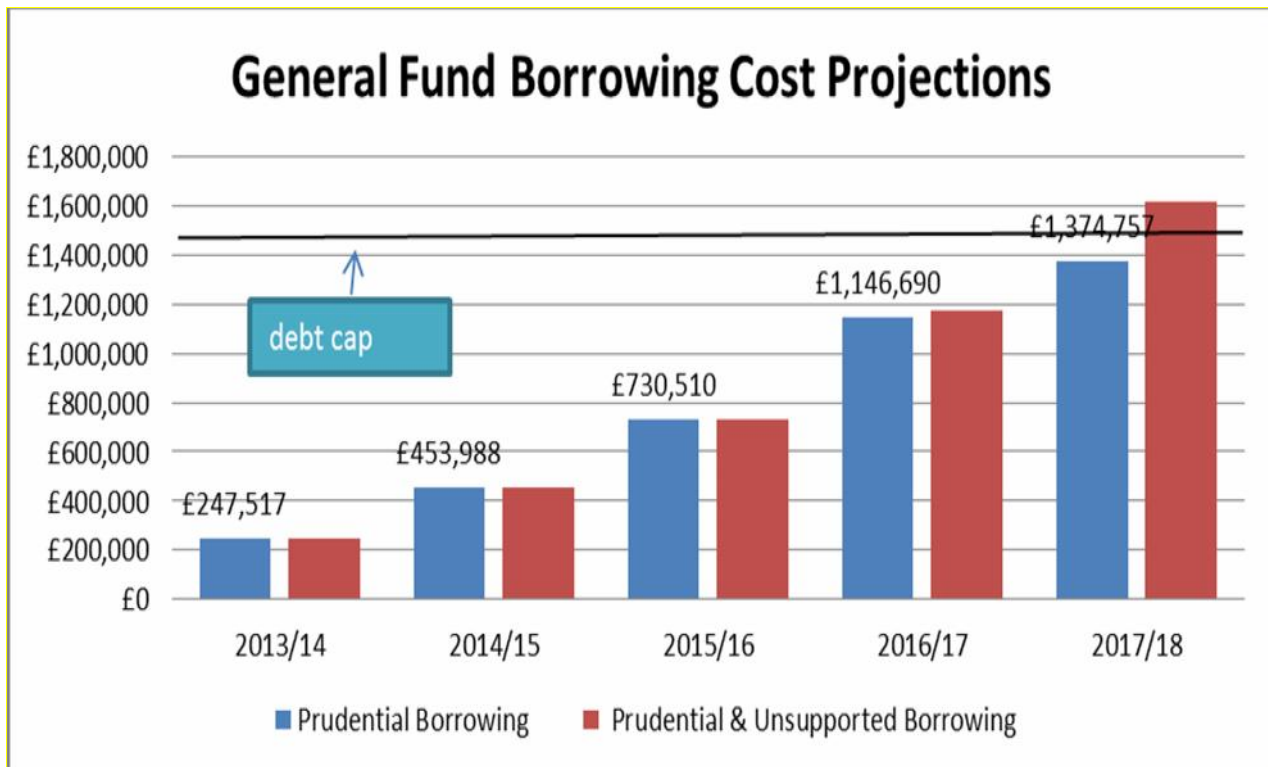
4.3.1 **The 2014/15 General Fund programme** as shown in Appendix A totals £6,689,770 which is £936,000 higher than reported in January due to 2013/14 reported slippage in the programme.

4.3.2 Further stock condition survey information has been analysed and combined with the additional costs identified in the January report now totals £6.6Million. These costs have currently not been included in the strategy recommended for approval by Members (Appendix A), until they have been challenged by the Leader's Services Priority Group (LSPG) as recommended in the January Executive report. The additional investment needs are summarised below

|   | <b>2013/14</b> | <b>2014/15</b>   | <b>2015/16</b>   | <b>2016/17</b>   | <b>2017/18</b>   | <b>Total</b>     |
|---|----------------|------------------|------------------|------------------|------------------|------------------|
|   | <b>£</b>       | <b>£</b>         | <b>£</b>         | <b>£</b>         | <b>£</b>         | <b>£</b>         |
| <b>Garages:</b>                                   |                |                  |                  |                  |                  |                  |
| Current Budget                                    | 299,990        | 225,000          | 200,000          | 250,000          | 250,000          | 1,224,990        |
| Including stock condition survey                  | 299,990        | 598,860          | 1,503,450        | 2,196,250        | 165,840          | 4,764,390        |
| Increase/(decrease)                               | <b>0</b>       | <b>373,860</b>   | <b>1,303,450</b> | <b>1,946,250</b> | <b>(84,160)</b>  | <b>3,539,400</b> |
| <b>Leisure Buildings:</b>                         |                |                  |                  |                  |                  |                  |
| Current Budget                                    | 193,000        | 310,000          | 136,000          | 314,000          | 346,000          | 1,299,000        |
| Including stock condition survey                  | 193,000        | 485,700          | 243,550          | 190,200          | 240,120          | 1,352,570        |
| Increase/(decrease)                               | <b>0</b>       | <b>175,700</b>   | <b>107,550</b>   | <b>(123,800)</b> | <b>(105,880)</b> | <b>53,570</b>    |
| <b>Other Buildings (Offices, commercial etc):</b> |                |                  |                  |                  |                  |                  |
| Current Budget                                    | 634,060        | 669,500          | 1,085,000        | 925,000          | 750,000          | 4,063,560        |
| Including stock condition survey                  | 634,060        | 3,407,000        | 829,500          | 1,717,000        | 491,000          | 7,078,560        |
| Increase/(decrease)                               | <b>0</b>       | <b>2,737,500</b> | <b>(255,500)</b> | <b>792,000</b>   | <b>(259,000)</b> | <b>3,015,000</b> |
| <b>Total Increase required</b>                    | <b>0</b>       | <b>3,287,060</b> | <b>1,155,500</b> | <b>2,614,450</b> | <b>(449,040)</b> | <b>6,607,970</b> |

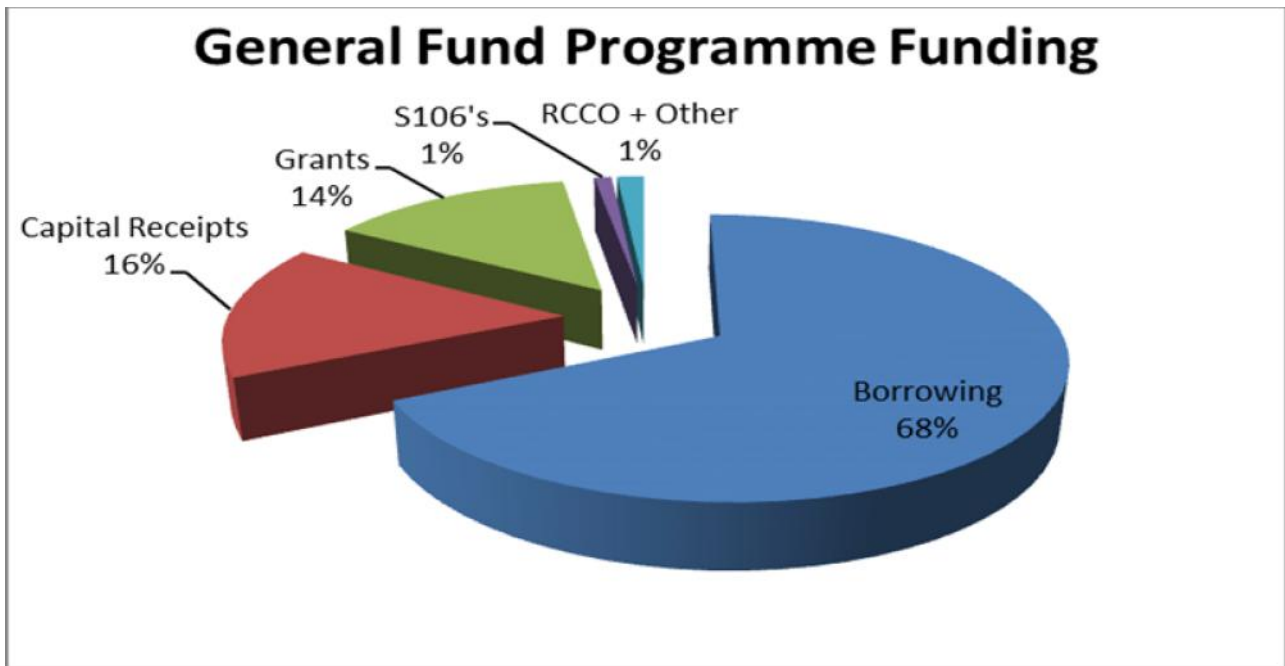
4.3.3 As a result of the changes identified in the report (but excluding the impact of stock surveys) the cost of the borrowing impact on the General Fund has been

recalculated. The projected General Fund prudential borrowing cost for 2014/15 is now estimated to be £453,988 which is also reflected in the Final General Fund budget. The total prudential borrowing cost is estimated to be below the debt cap by 2017/18. However, the additional unsupported borrowing currently required to support the General Fund programme breaches the debt cap in 2017/18, requiring a reduction in the approved programme or an increase in General Fund savings to enable the borrowing costs to be affordable. The cost of borrowing is summarised in the graph below. These costs do not include financing the £6.6Million pressure from stock condition surveys.



4.3.4 There are currently no alternative funding sources identified for the capital programme beyond 2017/18 which would mean an increasing reliance on borrowing and an inevitable increase in the cost to the General Fund (in excess of the debt cap), unless an alternative approach is implemented. The Strategic Director (Resources) will be bringing a paper for consideration by Members on options to address the funding gap issues.

4.3.5 A summary of the 2013/14 to 2017/18 capital resources in Appendix A shows that 68% of the programme is funded from borrowing (approved or otherwise), this is shown in the chart overleaf below.



4.3.6 As a result of the issues identified above and as trailed in the January Draft Capital Strategy report, the 2014/15 General Fund capital programme is recommended for approval on the proviso that only essential works will be at this stage. This measure is in place until such time that the programme is funded and it is recommended that LSPG is reconvened and the work is started in March 2014.

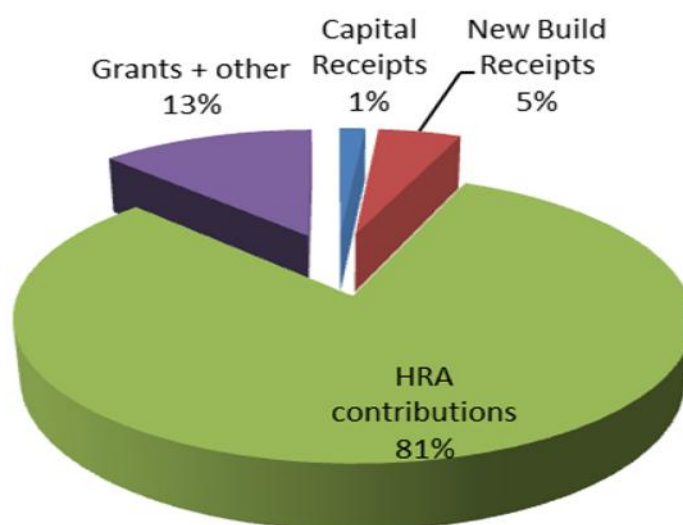
#### 4.4 2014/15 Onwards HRA Capital Programme

4.4.1 The HRA programme remains unchanged from the January report to Members and totals £27,347,700.

4.4.2 The HRA programme beyond 2014/15 will be revisited as part of the comprehensive review of the housing assets (through Ark consultancy). The findings and proposals from which are due to be presented to Members in April 2014. Officers also intend to refresh and re-present the HRA Business Plan in July 2014 which will incorporate these changes. Initial work on the HRA investment need (by Ark) has already identified a £41Million shortfall in the investment required in the next ten years.

4.4.3 The HRA programme is currently shown as funded with the majority of funding coming from the HRA (81%). A summary of the 2013/14 to 2017/18 HRA capital resources is shown in the chart overleaf.

## HRA Programme Funding



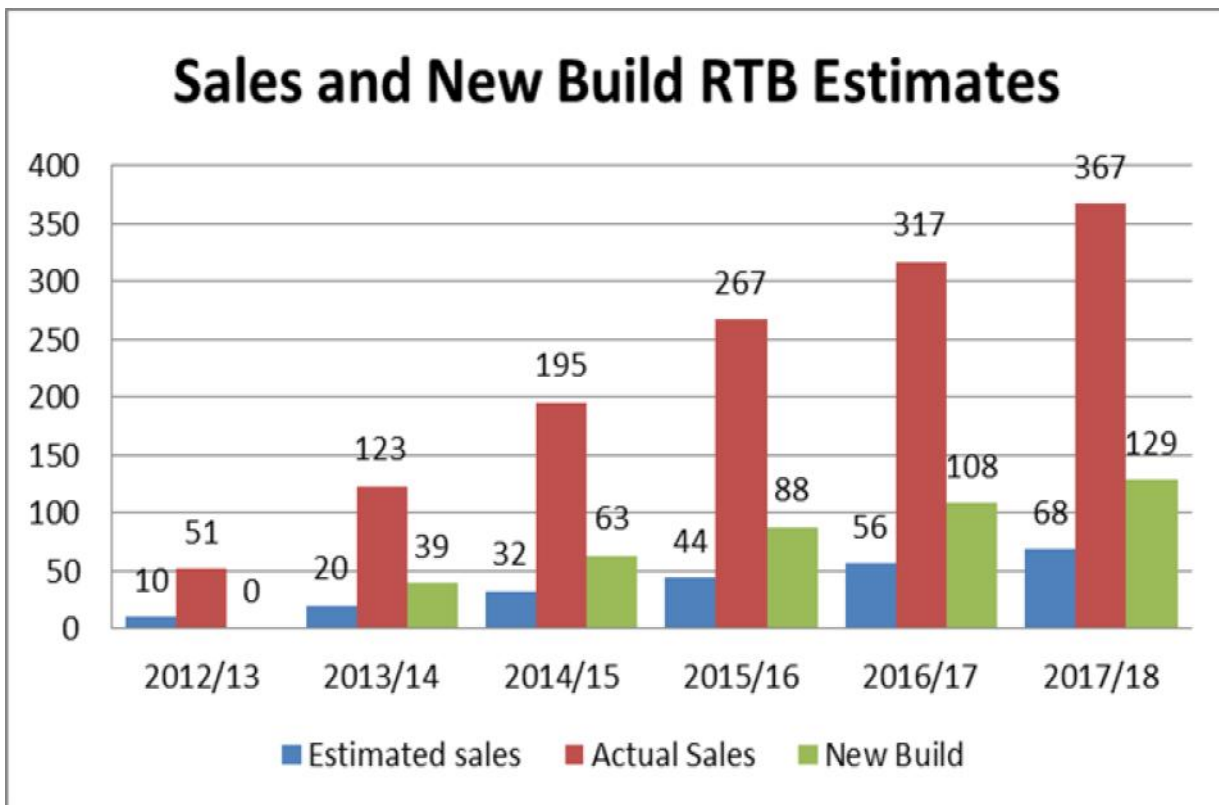
4.4.4 The final 2014/15 HRA revenue budget report to the January Executive showed the impact of increased right to buys (offset by new build properties) to be a loss of rental income of £110Million over the life of the 30 year Business Plan. This loss of income will have a direct impact on the affordability and size of the future HRA capital programme and officers are currently working on the impact and will be reporting the findings to Members by July 2014.

### 4.5 HRA New Build Programme

4.5.1 A new build programme became possible with the introduction of HRA self-financing in 2012/13. This was because the actual self-financing borrowing costs were lower than those originally assumed within the Business Plan. A new build programme of £2Million a year was introduced for the first time in 30 years in Stevenage. Additional resources were approved by Members and added to the programme to enable the completion of two schemes in Wedgewood Way and Hertford Road, resulting in 39 Council properties built in 2013/14-2014/15 and a further scheme has also been approved in Archer Road.

4.5.2 The new build budgeted programme (as summarised in Appendix A) is estimated to spend £5.835Million of new build receipts for the period 2012/13 to 2017/18 with an estimated £11.7Million new build receipts being received for the same period. Contained within the 2014/15 new build programme is £3.5Million of potential spend, that still needs to be allocated to schemes. Officers are currently identifying options and will be updating Members during 2014/15.

4.5.3 Officers have estimated that by 2017/18, 367 council houses will have been sold compared to the estimated 68 in the HRA business plan. This is an increase of 299 properties, with only 129 replacement properties being built. This means that by 2017/18 an additional 170 properties would need to be built to address the shortfall of houses at an estimated cost of £23.8Million, which is currently not included in the HRA capital programme.



#### 4.6 Capital Resources Available To Fund the Capital Strategy-General Fund

4.6.1 The General Fund **capital receipts** included in the Final Capital Strategy have been updated to reflect some additional miscellaneous sales received in 2013/14 (£67,637) and a further land disposal in 2015/16 estimated at £1Million, this has reduced the cost of borrowing to the General Fund by £1,067,637.

4.6.2 **Borrowing** -The cost of borrowing to fund the resources shortfall will be accessed from the Public Works Loan Board (PWLB). A provision for interest and a minimum revenue provision of £453,988 (excluding the town Square purchase) has been included in the General Fund budget for 2014/15. The cost of borrowing for 2014/15 is within the debt cap of £1.5Million set for the General Fund. However the debt cap would be breached if the issue of unsupported borrowing and stock condition survey pressures are not addressed, (see paragraph 4.3.2-4.3.3).

4.6.3 The Council currently has £1,002,655 available in Section 106 contributions of which £52,284 were received in the current year. The receipts are regularly reviewed but must meet strict criteria for use and as such cannot be applied arbitrarily to the capital programme.

4.6.4 A review of General Fund earmarked reserves has resulted in an increase in revenue contributions to fund the capital programme which reduces the borrowing requirement in the Strategy by £142,840 and is as follows:

- Capital Deminimus Reserve contribution of £32,840 and £60,000 in 2013/14 and 2014/15 respectively
- ICT Reserve contribution of £50,000 in 2014/15

- 4.6.5 Contributions of £22,413 have been received in 2013/14 from Stevenage Leisure Limited relating to the works to the chiller and external steps at the leisure centre. This has reduced the borrowing requirement in the programme by the same amount.
- 4.6.6 The total estimated grant contributions for 2014/15 remains unchanged from the January Executive report and relates to Growth Area Fund (GAF) and Disabled Facilities Grant.

#### 4.7 Capital Resources Available To Fund the Capital Strategy-HRA

4.7.1 The 2013/14 Housing Revenue Account Right To Buy (RTB) forecast receipts, remain higher than the original estimates in the Business Plan (see paragraph 4.5.3). There were 53 RTB disposals as at the 27 January with 72 sales predicted for the whole year. The estimated retained capital receipts for 2013/14 are estimated as £4,362,561, with a further £4,398,561 in 2014/15, based on 72 sales for both years.

4.7.2 The Local Government Minister recently announced a further change to RTB sale eligibility, the changes were an

- Increase in the discount for houses from 60% to 70% for houses (in line with flats)
- Increase in the £75,000 maximum discount cap each year

Officers have calculated that the changed increase to the discount cap for houses would not have reduced the receipts received by the Council in 2012/13 and the current year to date. The total retained RTB receipts for 2013/14 and 2014/15 are shown in the table below.

| Retained RTB Receipts       | 2013/14 £        | 2014/2015 £      |
|-----------------------------|------------------|------------------|
| Right to Buy (25%) Receipts | 296,000          | 332,000          |
| New Build Receipts          | 2,291,771        | 2,291,771        |
| Debt Provision Receipts     | 1,774,790        | 1,774,790        |
| <b>Total</b>                | <b>4,362,561</b> | <b>4,398,561</b> |

#### 4.8 Feedback from Overview & Scrutiny Committee

4.8.1 The Overview and Scrutiny Committee considered the draft Capital Strategy at its meeting held on the 23 January 2014. Members raised a number of questions which included :

- What has happened to the capital receipts?
- Is there any other capital receipts the Council could realise?
- What interest rate assumptions have been made?

4.8.2 The Assistant Director (Finance) and Strategic Director (Resources) advised the Committee that the Council had used all of its capital receipt reserves on funding the capital programme in previous years and that all the remaining unsold sites



earmarked for disposal are now included in the capital programme. Members were also advised that estimates had been made of assumed borrowing rates for the next five years which would be subject to changes in the PWLB rates.

#### **4.9 Deminimus Level for Capital Expenditure 2014/15**

4.9.1 Accounting best practice recommends that the Council approves a de minimus level for capital expenditure, or a value below which the expenditure would not be treated as capital. This would mean that it would not be recorded on the asset register and would not be funded from capital resources.

4.9.2 The limit set in 2012/13 was £5,000, this applies to a scheme value rather than an individual transaction. A £5,000 limit is also recommended for 2014/15.

4.9.3 The HRA also has a budget in 2014/15 of £25,000 contained within the final HRA rent setting and budget proposals (to this meeting) to fund HRA non qualifying expenditure.

#### **4.10 Contingency Allowance for 2014/15**

4.10.1 The contingency allowance for 2013/14 is £250,000 per Fund to reflect the resourcing pressures facing the capital programme. The contingency proposed for 2014/15 remains at £250,000, for schemes funded from capital receipts or borrowing. This is due to the need to manage the deficit on the programme. This contingency sum constitutes an upper limit 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.

#### **5.3.1 Policy Implications**

5.3.2 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.

#### **5.4.1 Equality and Diversity Implications**

5.4.2 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.

### **5.5.1 Risk Implications**

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

5.5.3 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, however, it cannot be forecast fully.

5.5.4 There is a significant risk that the additional pressure on the Capital Strategy from the stock condition surveys will not be funded causing an unsustainable pressure on the General Fund.

5.5.5 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.

## **BACKGROUND DOCUMENTS**

- BD1 - Capital Strategy Update January 2014 (Executive)

## **APPENDICES**

- Appendix A – 5 Year Capital Strategy
- Appendix B- Reductions and Additions as a result of the Review of the Capital Strategy