Part I – Release to Press

Meeting:	**EXECUTIVE**	**Agenda Item:**	**9**
Portfolio Area:	Resources / Housing		
Date:	**21 JANUARY 2014**		

2014/15 DRAFT CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

Author – Clare Fletcher Ext 2933
Contributor – Lee Busby Ext 2730
Lead Officer – Scott Crudgington Ext 2185
Contact Officer –Clare Fletcher Ext 2933

1. PURPOSE

1.1 To approve revisions to the 2013/2014 General Fund and Housing Revenue Account Capital Programme and approve the draft Capital Programmes for 2014/2015 for consideration by the Overview & Scrutiny Committee.

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

2. RECOMMENDATIONS

2.1 That Members approve the revised 2013/14 and the draft 2014/15 General Fund Capital programme, as detailed in Appendix A and Appendix B, for consideration by the Overview & Scrutiny Committee.

2.2 That Members approve the revised 2013/14 and the draft 2014/15 Housing Revenue Account (HRA) Capital Programme as detailed in Appendix A and Appendix B, for consideration by the Overview and Scrutiny Committee.

2.3 That it be agreed 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 be approved.

2.5 That the Leaders Services Priority Group (LSPG) 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.

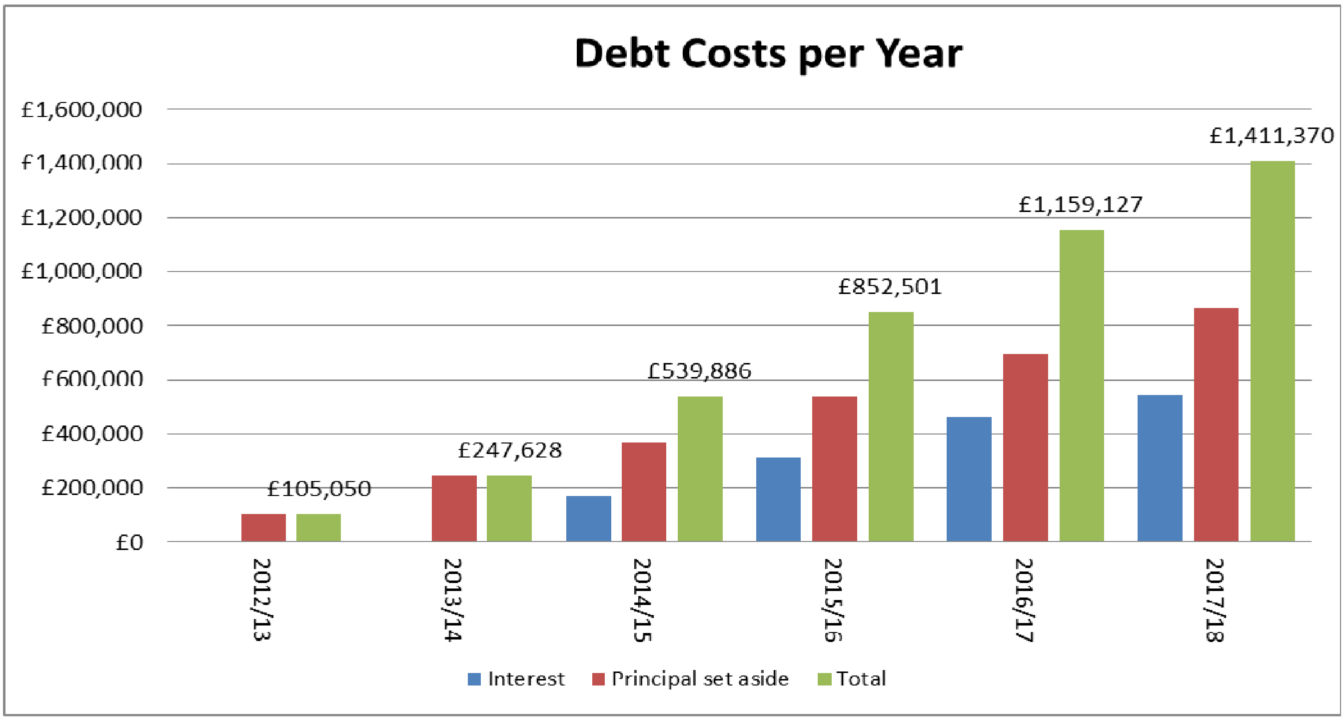
3.2 The Strategy was last reported to the Executive in September 2013 with a General Fund Capital Programme of £6,172,030 and a HRA programme of £25,739,230 totalling £31,911,260 for 2013/14. A further addition to that programme was agreed with the approval of the Archer Road redevelopment scheme at the same meeting.

3.3 While the HRA capital programme's funding is secured through depreciation and budgeted contributions to capital, the General Fund relies mainly on prudential borrowing and this was estimated in September to cost the General Fund £1.9Million by 2017/18. This did not include a further £7,722,990 of unsupported borrowing from 2015/2016 onwards which is currently not included in the Council's General Fund Medium Term Financial Strategy (MTFS). The table below is an extract from the September Capital update report.

Year	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Borrowing Requirement	3,266,156	2,693,795	3,265,820	2,663,310	0
Impact on General Fund	656,935	1,088,359	1,357,301	1,663,927	1,916,170

3.4 During May to July 2013 the Leader's Services Priority Group (LSPG) met to review the capital strategy. This process involved challenging officers on future budget assumptions (2014/15 onwards). As a result a number of changes were made to the capital programme and reported in the July and September Capital reports, reducing the total cost of borrowing to the General Fund.

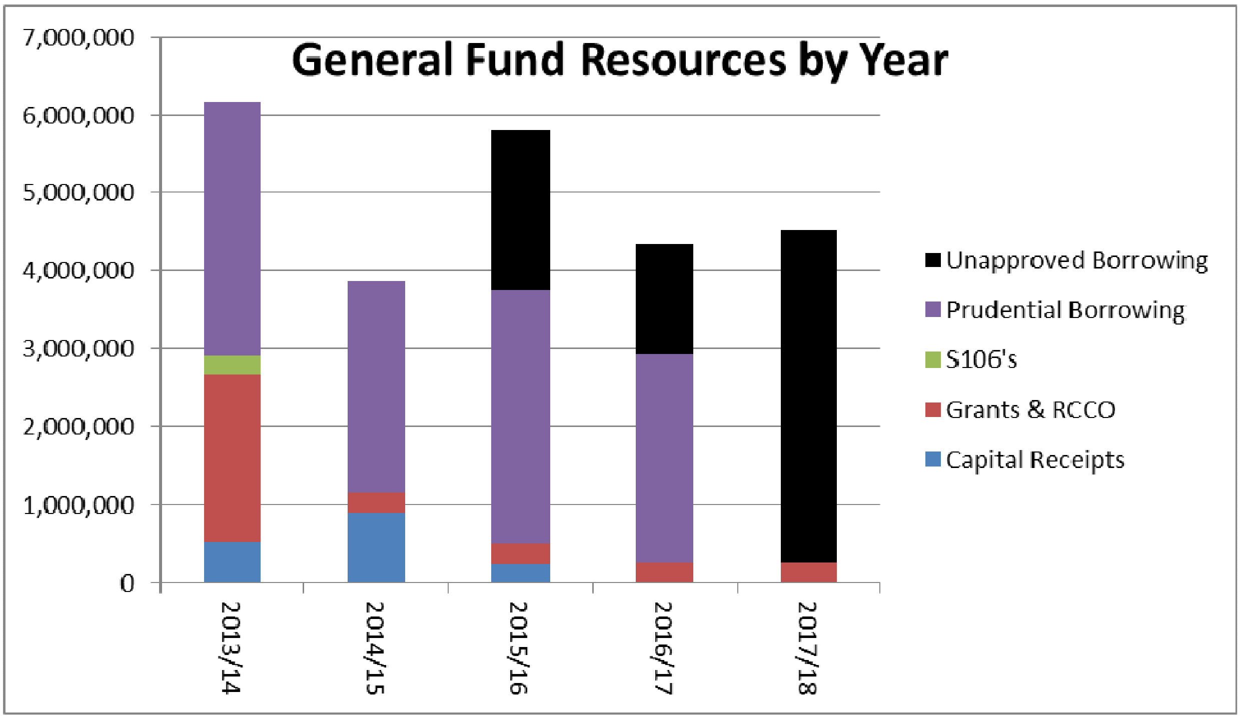
3.5 The cost of borrowing, (before any further changes to the programme included in this report) currently anticipated within the General Fund budget and included in the latest MTFS (January draft General Fund report), is estimated to be £1,411,370 by 2017/18,This does not include the cost of unsupported borrowing. (The Town Square borrowing cost are also excluded as they are funded from rental income). The 2017/18 borrowing costs below represent 15% of the projected General Fund net budget for that year.



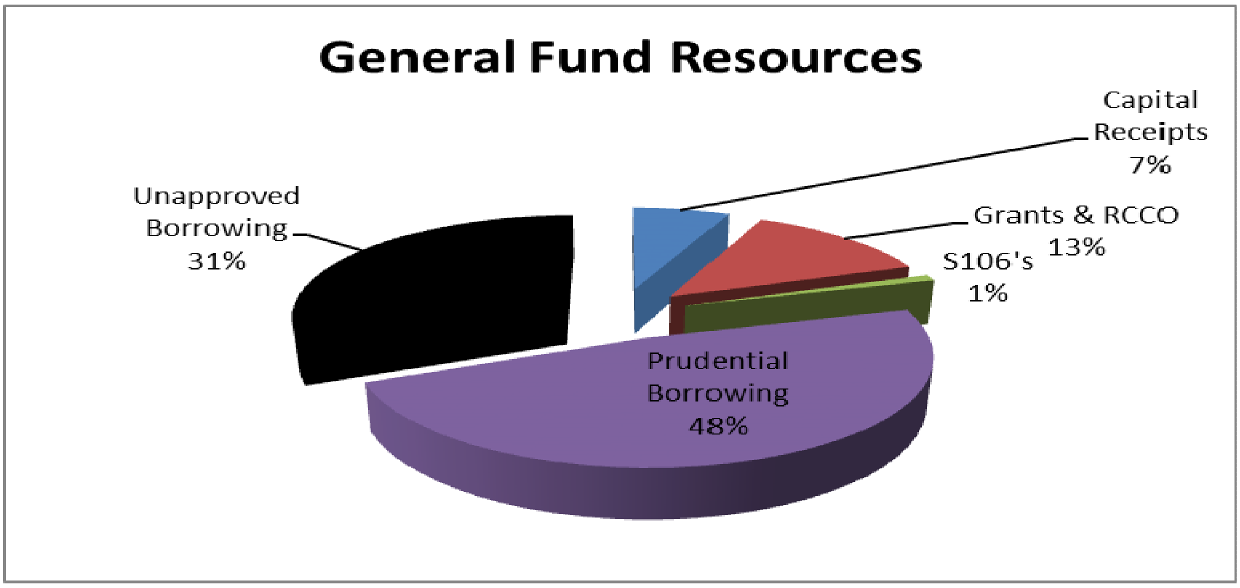
4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – General Fund

4.1.1 The graph below summarises the General Fund capital programme resourcing as reported in the September Executive report.



4.1.2 A review of the resources for the period 2013/14 to 2017/18 shows that 48% of the programme is funded from prudential borrowing with a further 31% of required borrowing which has not been funded in the Council's MTFS.



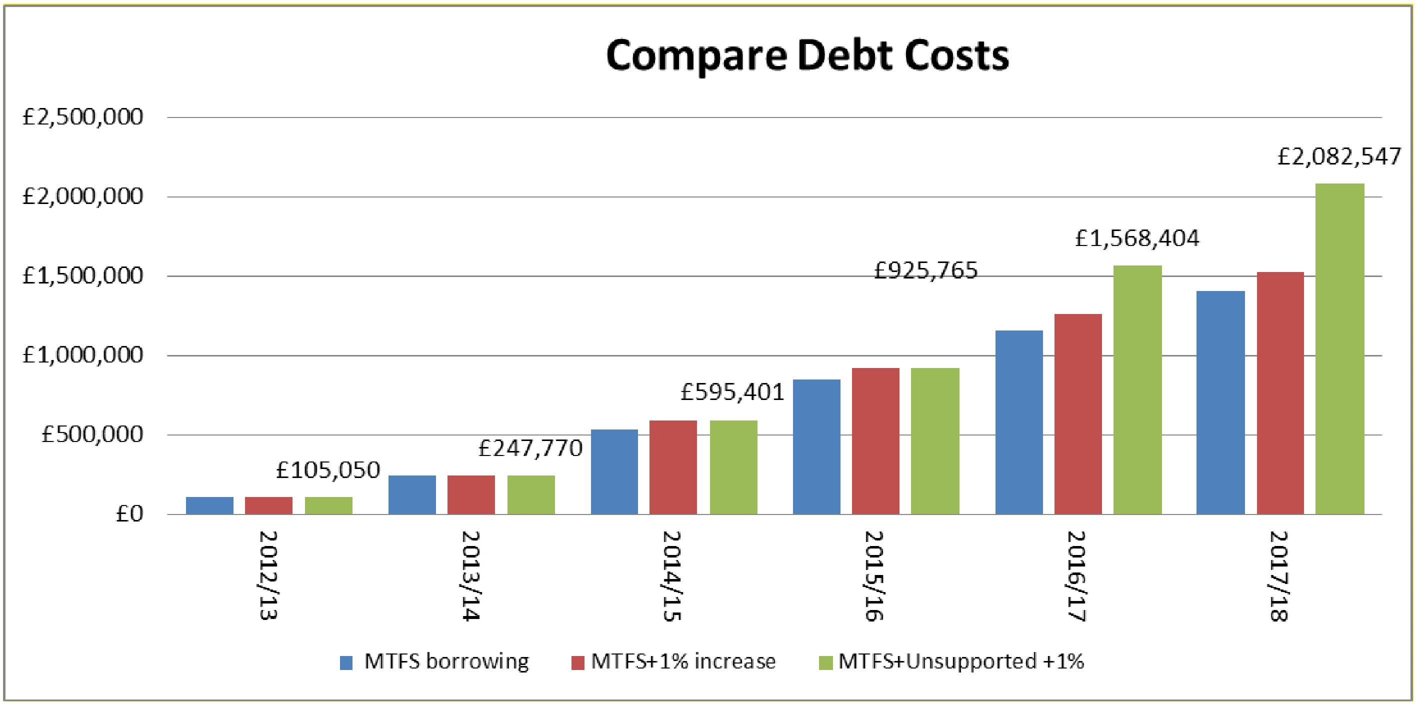
4.1.3 The Council had over the last few years reduced its capital programme in line with diminishing capital resources, however the remaining programme did not capture the Council's future years liability for its fixed assets. This resulted in a distorted and incomplete picture of our on-going investment liabilities over the medium to long term. As a result the Strategic Director (Resources) commissioned the completion of a 15 year investment need review which included all of the Council's assets and infrastructure. The investment need review is, in part, based on stock condition surveys for buildings.

4.1.4 As Members will know the Council's revenue budgets require savings targets and a Priority Based Budgeting Process has been implemented and the Council's officer group, Challenge Board met in December 2013 where they concluded that a similar process is now also required for the Capital programme.

4.1.5 The Strategic Director (Resources) to this end has set a debt cap for the maximum level of borrowing the General Fund can afford, which has currently been set at £1.5Million revenue impact per year by 2017/18. The amount of borrowing that this 'buys' will vary based on interest rates and the estimated life of any assets purchased. A number of scenarios have been modelled including:

- Impact of a 1% increase in borrowing costs
- Funding the unsupported borrowing in the General Fund
- Funding the unsupported borrowing in the General Fund with a 1% increase in borrowing rates.

The impact on the General Fund is shown in the graph below. This shows the cost of all required borrowing, at say 1% above the interest rates assumed in the MTFS. This would cost the Council £2,082,547 per year which is £582,547 above the debt cap limit of £1,500,000. The impact on the General Fund would be a required increase in the savings target in 2016/17 of £68,404 and a further £514,143 in 2017/18.



4.1.6 In response to the debt cap outlined above the Council's Officer group who deal with Capital, the Corporate Capital Review Group (CCRG) met in December and have undertaken a review of the capital programme taking into account the following questions:

- Review of 2013/14 slippage currently projected, can this be deleted from the capital programme?

- Are the assumptions contained with the Strategy aligned with current stock condition information and condition of vehicles?
- What can realistically be delivered within existing staffing levels?

4.1.7 The results of the review of the current years capital slippage and the 15 year capital programme has not been completed at the time of writing this report as a number of budgets have not been reviewed. However a reduction of £1,726,500 has been recommended for deletion over the five years of the Capital Strategy, as detailed in Appendix B. These reductions result from 2014/15 General Fund savings options recommended for approval and a review of the ability to deliver a level of programme within existing staffing levels.

4.1.8 However some updated stock condition survey results have not been added to the capital strategy for leisure buildings and garages and it is recommended that the results from these surveys are reviewed by LSPG as they identify an additional £3,592,970 is required to be spent on these assets over the next five years as detailed below.

	2013/2014 £	2014/2015 £	2015/2016 £	2016/2017 £	2017/2018 £	Total £
Garages:						
Current Budget	299,990	225,00	200,000	250,000	250,000	1,224,990
Including stock condition survey	299,990	598,860	1,503450	2,196,250	165,840	4,764,390
Increase/(decrease)	**0**	**373,860**	**1,303,450**	**1,946,250**	**(84,160)**	**3,539,400**
Leisure Buildings:						
Current Budget	193,000	310,000	136,000	314,000	346,00	1,299,000
Including stock condition survey	193,000	485,700	243,550	190,200	240,120	1,352,570
Increase/(decrease)	**0**	**175,700**	**107,550**	**(123,800)**	**(105,880)**	**53,570**
Total Increase required	**0**	**549,560**	**1,411,000**	**1,822,450**	**(190,040)**	**3,592,970**

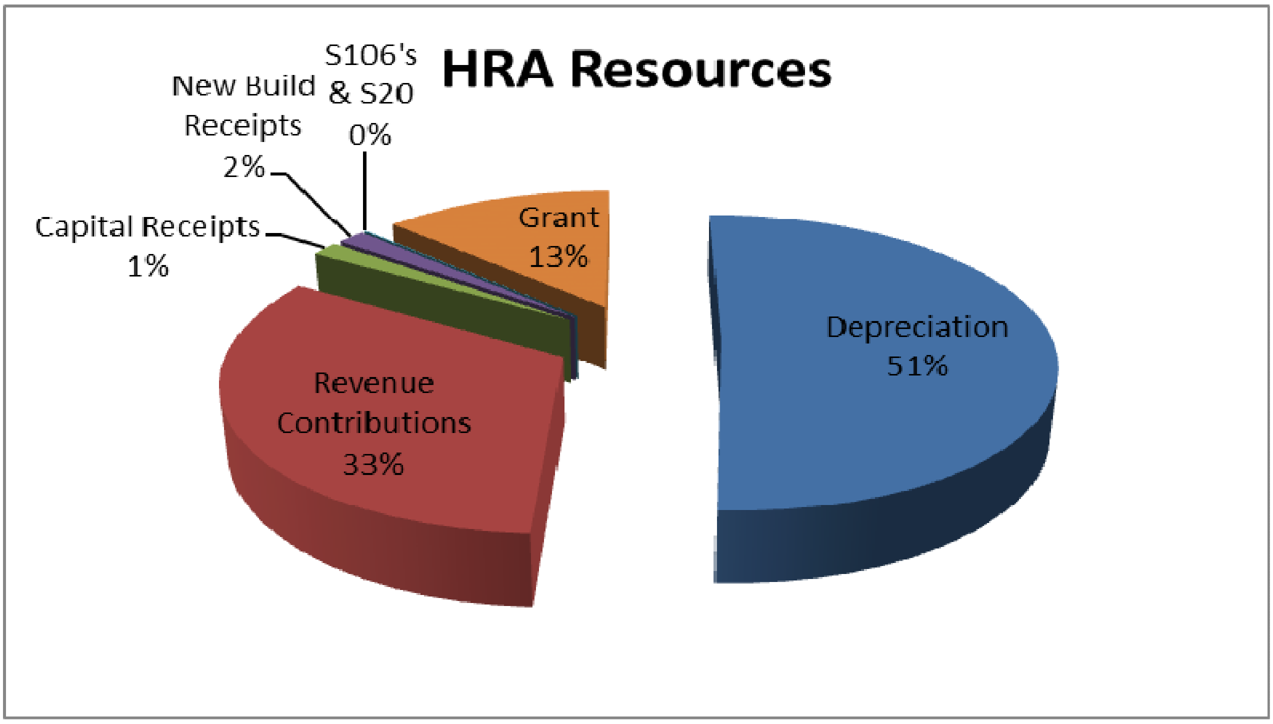
4.1.9 The 2013/14 revised General Fund capital programme is projected to be £4,413,530, which is £1,771,890 lower than the working budget approved in September. The changes to the current year programme are detailed in Table One below, and explained in Appendix B. Members should note that the programme increases of £272,010 have been funded via grant or budgeted revenue contributions to capital.

Table One – 2013/14 General Fund Programme Changes

	Reasons for change	2013/14
Working Budget		**6,185,420**
Slippage	Budget not spent in 2013/14	(1,935,900)
Budget reductions	See Appendix B	(108,000)
Budget increases	See Appendix B	272,010
Total Proposed 2013/14 Budget (January)		**4,413,530**

4.2 Capital Programme – Housing Revenue Account

4.2.1 The HRA capital programme is mainly funded via contributions from housing revenues. A review of the resources (approved at the September Executive) for the period 2013/14 to 2017/18 shows that 84% of the programme is funded via this source which is made up of depreciation and revenue contributions. Depreciation is a direct charge to the HRA (unlike the General Fund), introduced under self-financing and is calculated based on the valuation of HRA's properties, plus cost of significant components kitchens etc., divided by the life of a property/component. This calculation replaced the Major Repairs Allowance (MRA) given under the subsidy system. The new calculation is audited as part of the Council's year end accounts.



4.2.2 The HRA's ability to fund the majority of the capital programme is reliant on the excess revenue resources being available after the HRA's debt and management costs have been met. The basis for the current HRA capital programme is the HRA's 30 year Business Plan approved as part of self-financing.

4.2.3 As with the General Fund the HRA capital programme has been reviewed for slippage and the 2014/15 programme updated. The 2013/14 revised HRA capital programme is projected to be £22,009,370. This has changed by £3,729,500 from the working budget. The majority of the slippage relates to roofing works to non-traditional properties, new build and cavity and loft insulation.

4.2.4 The results of the review of the current year's capital slippage and future years' capital programme are detailed in Appendix A and summarised in the table overleaf.

Table Two – 2013/14 HRA Programme Changes

	Reasons for change	2013/14
Working Budget		£25,739,230
Slippage	Budget not spent in 2013/14	(3,733,660)
Budget increases	See Appendix B	4,160
Total Proposed 2013/14 Budget (January)		**22,009,730**

4.2.5 At the end of December the total actual expenditure (paid invoices) was £14,493,945 representing 65% of the revised budget for approval. The percentage of properties made decent as at the end of November 2013 was 82.8% with a projected 83.1% by 31 March 2014. The completed works by volume at the end of November and projections for the remainder of the year are shown in Table Three below:

Table Three – Northgate Completed Works as at 30 November 2013 and projections to 31st March 2014.

Month	Heating	Electrics	Kitchens	Bathrooms	Roofing	Doors	No of Props Works Completed
Completed:							
April	5	5	9	9	0	110	126
May	150	41	54	58	0	153	366
June	90	40	60	87	0	348	501
July	31	17	46	62	0	226	301
August	146	76	117	113	0	105	202
September	62	45	100	78	0	137	293
October	65	35	41	56	0	166	279
November	121	35	53	47	0	234	413
Estimated:							
December	5	5	5	5	0	106	116
January	10	10	20	30	0	90	128
February	15	15	35	33	0	200	238
March	15	25	44	40	0	100	179
Total	715	349	584	618	0	1975	3142

4.3 HRA New Build Programme

4.3.1 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.

4.3.2 Since the introduction of self-financing the Council is able to retain a proportion of right to buy (RTB) receipts for the provision of providing new Council houses. This receipt is generated when the Council sells more RTB's than included within the HRA Business Plan. Sales have dramatically increased, (it is assumed) as a result of the Government changing the maximum discount value applied to RTB sales, which increased from £34,000 to £75,000 on the 1 April 2012. New build receipts can be applied to 30% of new build costs with the Council having to provide the remaining 70%. Failure to use the receipts within three years of receipt would mean returning the receipts to the Government with interest at the base rate plus 4%.

4.3.3 The table below show the projected RTB new build receipts based on the current level of assumed sales (72- 2013/14-2014/15 and 50 sales thereafter).

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total £'000
New Build Receipts	(1,650)	(2,292)	(2,292)	(2,292)	(1,592)	(1,592)	(11,709)
Receipts used	£387	£1,668	£1,209	£857	£857	£857	£5,835
Cumulative Receipts as at 31 March	(1,263)	(1,887)	(2,970)	(4,405)	(5,139)	(5,873)	

4.3.4 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. There is a 2014/15 growth bid approved by Members in the final HRA budget to increase officer capacity to facilitate regeneration and development. 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.

4.4 2014/15 Capital Programme onwards

4.4.1 The 2014/15 General Fund programme as shown in Appendix A still requires resources which would be above the 'debt cap' (paragraph 4.1.5). The review of the programme as outlined in paragraph 4.1.6 is not complete for all capital budgets and Members are asked to approve above the 2014/15 capital programme with the proviso that only essential works will be at this stage. This measure is in place until such time that the programme is funded.

4.4.2 With the changes identified above the total value of unsupported borrowing included in the General Fund capital programme is £5,775,922 which is lower than the £7,722,990 included in the September report. However the impact of the stock condition surveys identified in paragraph 4.1.8 more than outweigh this reduction.

4.4.3 Members will be asked to challenge the capital programme and assumptions made by officers. It is recommended that LSPG is reconvened and the work is started in March 2014.

4.4.4 The HRA programme beyond 2014/15 will be reviewed as part of the comprehensive review of the housing assets (through Ark consultancy). The findings and proposals from which are due to be presented in March / April 2014. Officers also intend to refresh and re-present the HRA Business Plan in June / July 2014 which will incorporate these changes.

4.4.5 The new build programme has been increased to reflect the use of 30% of new build receipts which increases the base budget of £2,000,000 to £2,857,140 per year, based on the current projections of new build receipts.(See also paragraph 4.5.6).

4.5 Capital Resources Available To Fund The Capital Strategy

4.5.1 The General Fund capital receipts have been updated to reflect the output from the Asset Management review. A total of £1,886,400 receipts for the period 2013/14-2017/18 are now forecast, this however only represents 8% of total resources required to fund the 5 year General Fund programme.

4.5.2 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 are included in the General Fund budget for 2014/15.

4.5.3 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.

4.5.4 The total estimated grant contributions for 2014/15 have increased by £9,542, reflecting the Council's grant allocation for Disabled Facility Grants (DFG's) for the following year. The remaining grant in the 2014/15 General Fund capital programme is Growth Area Fund (GAF).

4.5.5 The 2013/14 Housing Revenue Account Right To Buy (RTB) forecast receipts, remains higher than budgeted for to date. There were 48 RTB disposals as at the end of December with 72 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.

4.5.6 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
Total	**4,362,561**	**4,398,561**

4.6 Deminimus Level for Capital Expenditure 2014/15

4.6.1 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.

4.6.2 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.

4.6.3 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.

4.7 Contingency Allowance for 2014/15

4.7.1 The contingency allowance for 2013/14 is £250,000 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

5.1.1. Financial Implications

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

5.2.1 Legal Implications

5.2.2 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 and as shown below.

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 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 September 2013 (Executive)

APPENDICES

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