Part I – Release to Press

Stevenage BOROUGH COUNCIL

Agenda item: 5

Meeting	**EXECUTIVE/COUNCIL**
Portfolio Area	Resources
Date	**23 FEBRUARY 2019/27 FEBRUARY 2019**

FINAL CAPITAL STRATEGY 2018/19-2023/24

KEY DECISION

Authors	Clare Fletcher x 2933
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1. PURPOSE

1.1 To approve any revisions to the 2018/19 General Fund and Housing Revenue Account Capital Programme and approve the draft Capital Programme for 2019/20.

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

1.3 To provide Members with an update on government changes to prudential borrowing requirements.

1.4 To provide Members with an update on the Council's investment strategy as required by the updated prudential code.

1.5 To set out the Council's approach to funding its key Future Council priorities.

1.6 To update Members on the work of the Leader's Financial Security Group (LFSG) in reviewing all General Fund capital bids prior to inclusion in the draft 2019/20 onwards Capital Strategy.

2. RECOMMENDATIONS

EXECUTIVE:

That the following proposals be recommended to Council on 27 February 2019:

2.1 That the revised General Fund and HRA 2018/19 capital programme, as detailed in Appendix B and Appendix C to the report be approved.

2.2 That the draft 2019/20 General Fund Capital Programme as detailed in Appendix B to the report be approved.

2.3 That the draft 2019/20 HRA Capital Programme as detailed in Appendix C to the report be approved.

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

2.5 That the Council's investment strategy for non-treasury assets (section 3.2) be approved.

2.6 That the approach to resourcing the General Fund capital programme as outlined in the report be approved.

2.7 That the actions required to ensure the General Fund programme is funded as outlined in paragraph 4.3.11-4.3.12 be noted.

2.8 That Members approve the 2018/19 increase in the year end underspends contribution from the General Fund to the Capital Reserve if they are realised, (paragraph 4.3.13).

2.9 That the approach to funding the cost of the bus station prior to the release of GD3 monies as outlined in section 4.4 be approved.

2.10 That the growth bids identified for inclusion in the Capital Strategy (Appendix A to the report) be approved.

2.11 That the return of Right to Buy one for one receipts as outlined in section 4.10 be noted.

2.12 That the 2019/20 de-minimus expenditure limit (section 4.11 of the report) be approved.

2.13 That the 2018/19 contingency allowance (section 4.8 of the report) be approved.

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

3. BACKGROUND

3.1 Introduction

3.1.1 The purpose of the Capital Strategy is to show how the Council determines it priorities for capital investment, how much it can afford to borrow and setting out any associated risks. As a result of changes to the Prudential Code this Strategy now shows how capital financing and treasury management activity contribute to the provision of services and implications for future financial sustainability.

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;
- that treasury management decisions are taken in accordance with good professional practice; and
- that local strategic planning, asset management planning and proper option appraisal are supported.

3.1.3 The Government has issued guidance revising the disclosures required in the Capital Strategy, these include:

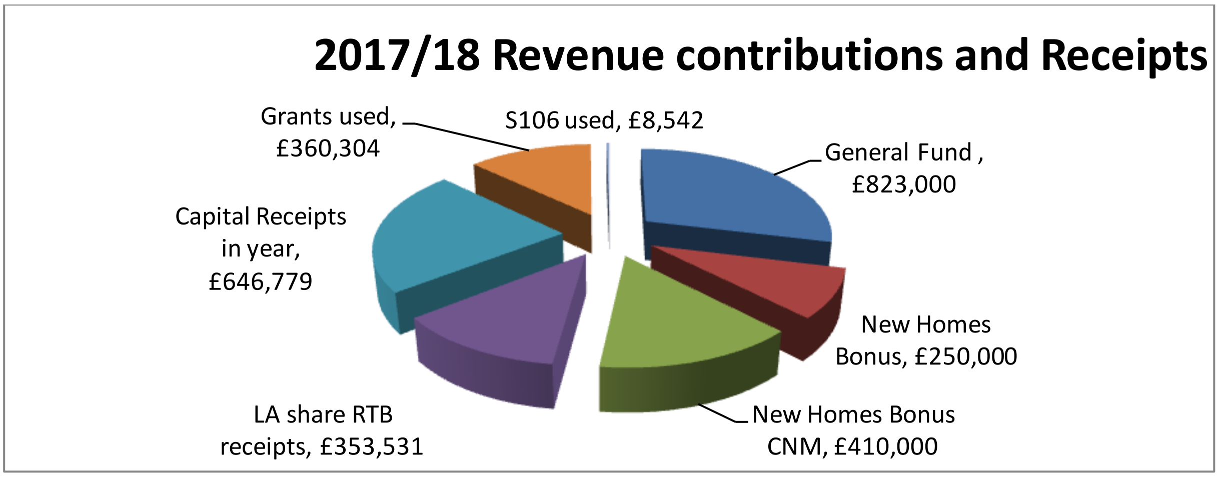
- an Investment Strategy
- disclosure of other investments (other than held for treasury management purposes) contribution to service delivery objectives and/or place making role
- indicators that allow Members and the public to assess a local authority's total risk exposure as a result of investment decision, including how these investments have been funded, rate of return and additional debt servicing costs taken on
- the approach to assessing risk of loss before entering and whilst holding an investment
- The steps taken to ensure that elected Members and Statutory officers have the appropriate skills and governance

3.1.4 This revision to the Prudential Code came into force from 1 April 2018 and requires the Capital Strategy to be approved by Full Council. This will be the first revision of the Strategy to be presented to the February Council. Some of these disclosures may be shown in the Treasury Management Strategy instead of the Capital Strategy.

3.2 General Fund Investment Strategy

3.2.1 **General Fund** – The capital programme has had to be rationalised over previous years, as capital resources have remained scarce with limited capital receipts and the General Fund and New Homes Bonus (NHB) funding a significant proportion of the programme. General use of borrowing to fund capital has not been considered as an alternative due to the pressure this puts on the General Fund revenue resources (Minimum Revenue Provision (MRP) and interest payments) as the fund has faced funding cut pressures from central government.

3.2.2 The level of General Fund revenue contributions to the Council's capital reserve in 2017/18 was £823K, in addition a contribution of £250K was made to the reserve from NHB for the Co-operative Neighbourhood Programme (CNM), with a further £410K contribution to CNM programme.



3.2.3 The level of NHB the Council has received over the last two years has significantly reduced and if reduced/removed this would put an increased funding strain on the capital programme. The CFO will be monitoring the level of receipts available and will make adjustments to the Strategy. In addition further reductions in central funding through any changes to the fair funding review could also impact on revenue resources available for capital.

3.2.4 The Council has currently identified limited disposal opportunities for future receipts, with the competing demand of one of the Council's top 'Future Town Future Council' priorities, Housing Development. Unless the Asset Management Strategies 'Locality Reviews' can identify additional sites, alternative funding resources will be needed or the capital programme reduced.

3.2.5 Capital bids are assessed on a set of criteria, in an attempt to ensure scarce resources are targeted, which has been updated to reflect the Future Town Future Council (FTFC) corporate priorities, as set out below;

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

3.2.6 Prudential borrowing would only 'normally' be used to support category 2 schemes (Income generating asset schemes -Financial Security), with capital receipt, external grants and the new revenue reserve for capital being used to fund the other categories. The following principles have been applied to new bids:

- Assets due for regeneration should have only essential or health and safety growth bids.
- Re-profile spend to later years if reviews of the service are due.
- Include only the initial works to schemes until the business case is proven.

3.2.7 The Council has recognised that a "fix on fail" with no improvement to assets is not a sustainable position and has introduced the Co-operative

Neighbourhood Management programme, (a ‘Future Town Future Council’ (FTFC) priority). This was implemented to improve the ‘whole place’ by improving the assets within a given ward area at the same time. The asset improvements include the playground improvement programme (February 2017 £1.49Million) and the garage improvement programme (July 2016, £9.24Million).

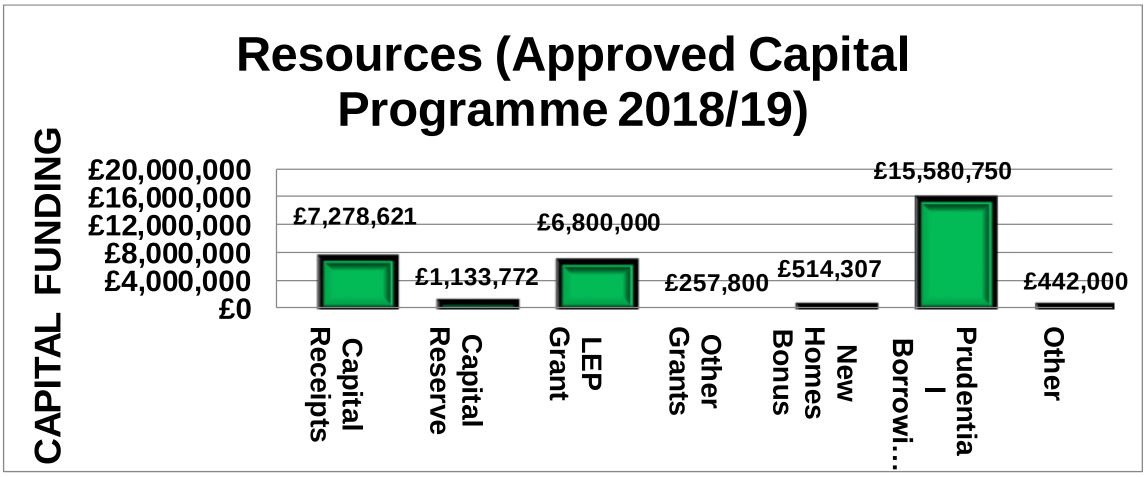
3.2.8 In determining the playground improvement programme, officers recommended to Members which facilities should be provided within Stevenage, based on mapping of need/location. Although some play sites were rationalised, a more imaginative approach has been taken to decommissioned sites which has/will allow significant improvements to a smaller number of play areas, while ensuring decommissioned sites are appropriately landscaped.

3.2.9 The timing of the ward works is summarised below.

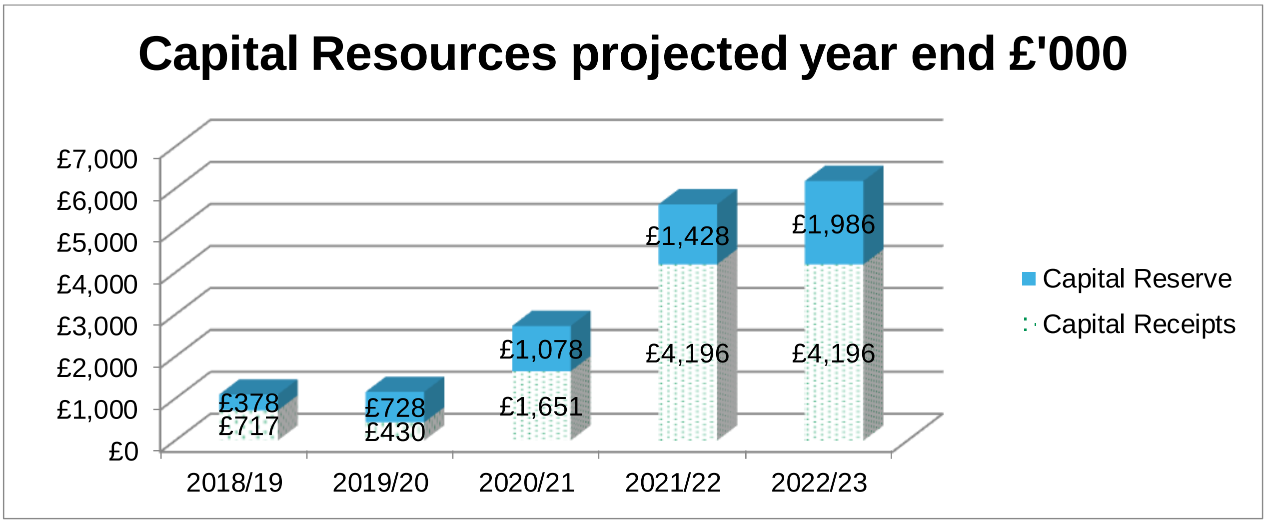
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Wards:	Pin Green	St Nicks	Bedwell	Old Town	Symonds Green	Woodfield
	Shephall	Martins Wood	Longmeadow	Roebuck	Manor	Bandley Hill
						Chells

3.2.10 The remaining schemes within the existing Capital Strategy (with the exception of regeneration schemes) are still based on high priority works to keep existing assets operational (without improvement) and the replacement of vehicles over an extended life cycle of seven years. The works to community assets are based on priority works to keep buildings operational until the Community Centre review and the Locality reviews (approved as part of the Asset Management Strategy) are completed. This approach has been taken so as not to invest scare resources in assets which may be redeveloped or consolidated as part of the outcome of the reviews. This means the current programme has not been developing this type of asset to future proof them, or provide new assets.

3.2.11 The capital programme (approved February 2018 and as amended by quarterly monitoring and supplementary reports) was fully funded and shown in the following chart, (prior to Draft Capital Strategy).



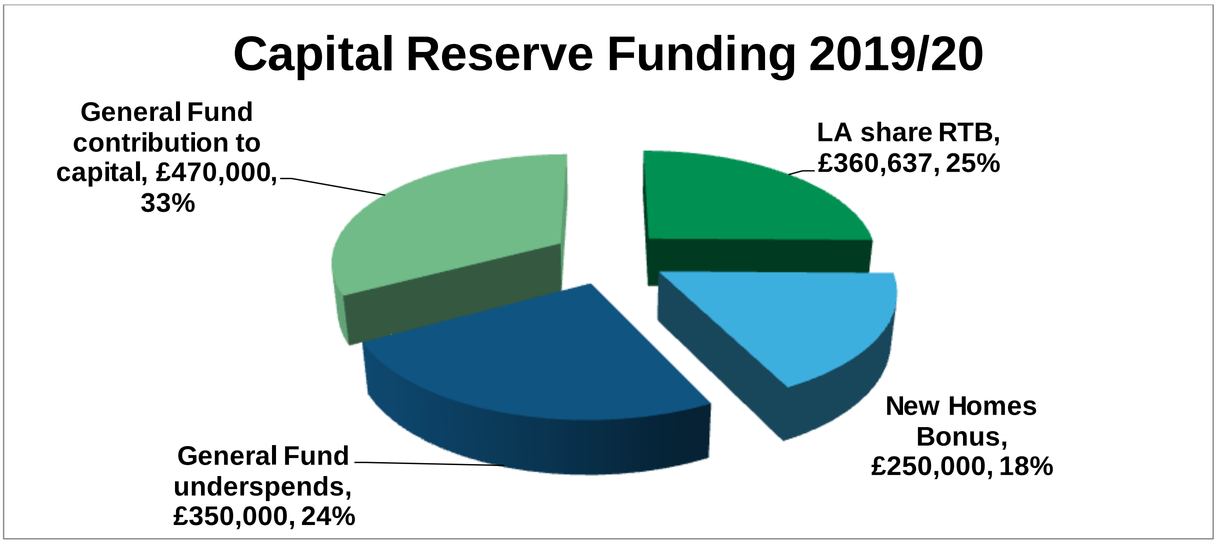
3.2.12 The level of resources available is also summarised in the chart below.



3.2.13 The level of capital resources projected at year end on the current capital programme before any growth bids are considered is circa £1Million for 2018/19-2019/20, however the capital programme spend for the period 2020/21-2022/23 is significantly less than in previous years and new growth bids contained within this report erode these balances.

3.2.14 The 1st quarter capital resource projections identify no new receipts after 2021/22 and rely on a contribution from New Homes Bonus of £250K per year in addition to the funding for the CNM programme.

3.2.15 The Capital Reserve, which is a main source of the capital programme funding, will receive a 2019/20 budgeted £470K contribution from the General Fund with potentially up to £350K underspends, (identified at year end), giving a General Fund maximum contribution of £820K . NHB contributes £250K and £360.6K from the Local Authority Share of Right to Buy receipts as shown in the following chart.



3.2.16 The current General Fund programme includes financial provision for SBC funding elements of the town centre regeneration (SG1). However this does not include the bus station which is currently situated in the centre of the SG1 redevelopment area. Its relocation is pivotal to enable the transformation of the town centre. There has been £8Million of GD3 funding earmarked for this but the monies have not been released as revised governance arrangements submitted to central government have not been approved. No formal response has been provided to Hertfordshire LEP and if funding is not released, SBC will need to allocate a budget of £6.5Million (£5million construction costs and £1.5Million for fees and contingency) which is not currently shown in the capital strategy, nor reflected in the use of resources available, with the exception of £416K of costs already funded in 2018/19.

3.2.17The Council has ambitions to deliver generational change in Stevenage while at the same time managing diminishing resources for both its General Fund and HRA, as government funding is withdrawn and legislative changes impact on income.

3.2.18 To determine spending priorities in line with the Council's priorities, the Leader's Financial Security Group (LFSG) met in November and December to review all General Fund capital bids (2019/20 onwards) and made a number of recommendations and these are contained within this report and summarised in Appendix A.

3.3 Housing Revenue Account (HRA) Investment Strategy

3.3.1 The HRA capital programme was revised as part of the HRA Business Plan update to the November Executive. The 30 year HRA capital programme totalled £1,283Million, with £483Million being spent over the next 15 years using a projected £105Million of revenue resources. The BP plan was produced prior to the lifting of the debt cap and revenue receipts were utilised as opposed to borrowing, because the HRA had very little room to borrow with the government prescribed debt cap in place.

3.3.2 With the announcement in late 2018 to lift the debt cap, there is scope to convert revenue to borrowing and so increase the size of the capital programme, based on identified need and affordability. As part of the November BP update Members approved an action plan which will come back to Members during 2019/20.

3.4 Budget and Policy Framework

3.4.1 The approval for capital budgets is set out in the Budget and Policy Framework Procedure Rules in the Constitution, which prescribes the Budget setting process. This includes a consultation period. The timescale required to implement this process is outlined below:

Date	Meeting	Report
Jan-19	Executive	Draft 2019/20 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2019/20 General Fund and HRA Capital Strategy

Date	Meeting	Report
Feb-19	Executive	Final 2019/20 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2019/20 General Fund and HRA Capital Strategy
	Council	Final 2019/20 General Fund and HRA Capital Strategy

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – 2019/20 General Fund

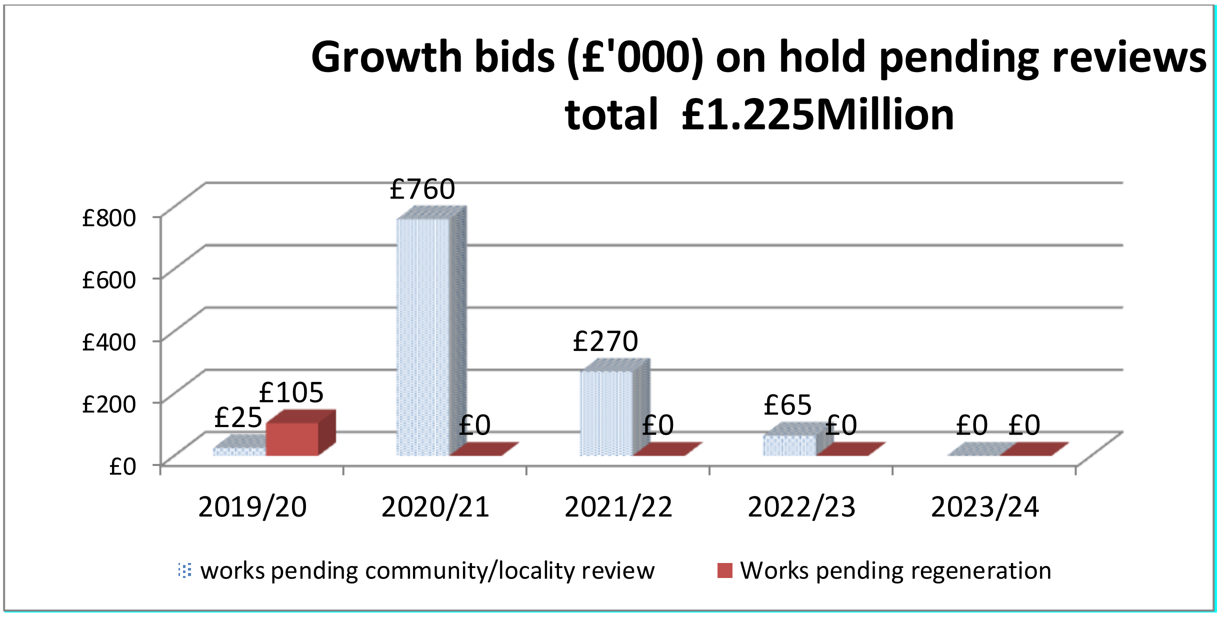
4.1.1 As in previous years the capital programme has been zero based so that Members can consider the on-going relevance of schemes in the programme and manage scarce resources. There were a few exceptions to this which were:

- Schemes with previous specific approvals, e.g. garage programme, playground improvements and ICT digital strategy.
- Vehicles which are on a seven year replacement programme (the programme has been reviewed but did not require bids to be submitted).
- Regeneration schemes already approved as part of SG1, (funded from allocated reserves and LEP funding).
- Works which had commenced in 2018/19 and where part of the scheme spend is due in 2019/20.

4.1.2 Officers were required to submit capital bids with supporting rationale, these are summarised in Appendix A to this report. The bids were reviewed by the Assets and Capital Board (officer group), before being considered by the Leader's Financial Security Group (LFSG). These remain unchanged from the January report. No changes were made following consideration of the report by the Executive and Overview and Scrutiny at their respective January meetings.

4.1.3 The LFSG reviewed and assessed all the capital bids and scored all options between zero (not supported at all) up to three (strongly supported) based on the principles set out in paragraph 3.2.5-3.2.6. All scores were averaged and scores of two or more were considered as supported by the group and are recommended to the Executive for inclusion in the Capital Strategy.

4.1.4 There were some options that were not supported or required further reviews of assets prior to their inclusion in the programme. Options on hold pending review are summarised below and included in Appendix A. These remain unchanged from the January report.



4.1.5 In addition there are a further capital bids totalling £447K which are not recommended for approval and these are summarised below and included in Appendix A.

	Growth bid in £'000				
	2019/20	2020/21	2021/22	2022/23	2023/24
Home improvement grants- budget not often required- LFSG recommend fund from deferred works reserve	£18	£10	£10	£10	£10
Green Space Furniture- LFSG recommend fund from locality budgets	£8	£8	£8	£0	£0
Stevenage Golf Centre- not supported in 2018/19	£260	£0	£0	£0	£0
Stevenage Golf Centre - Pond-not supported	£80	£0	£0	£0	£0
Parking restrictions- not supported	£0	£0	£0	£0	£25
Total	**£366**	**£18**	**£18**	**£10**	**£35**

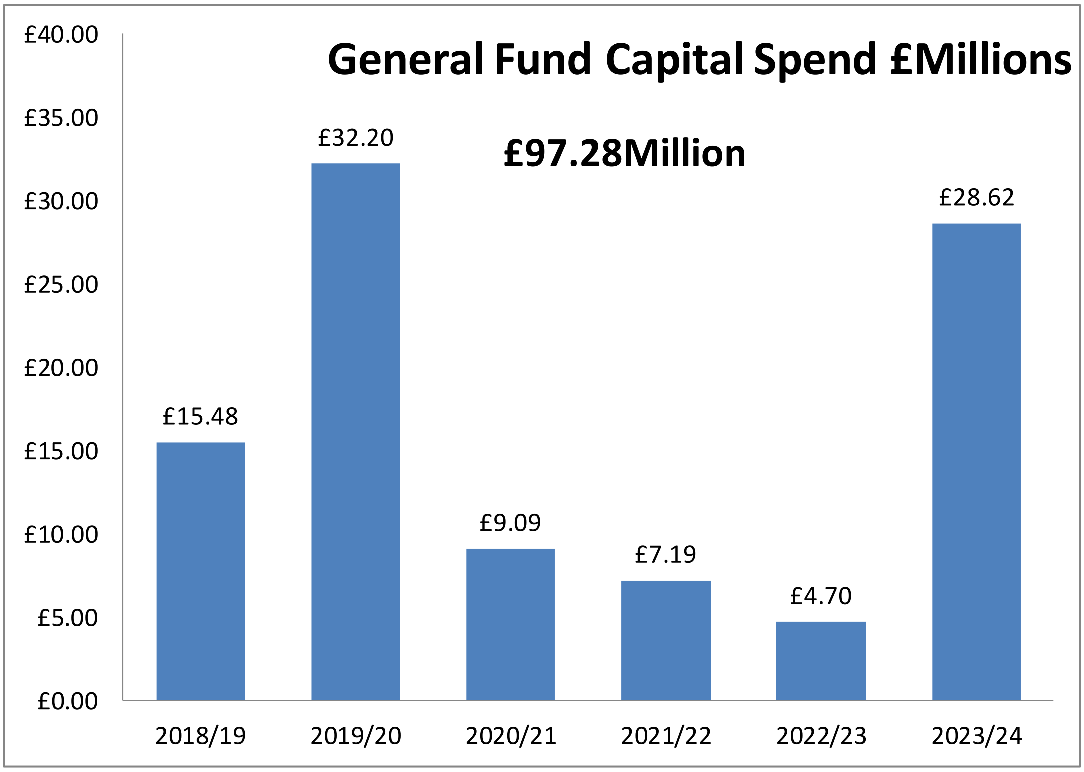
4.1.6 A total of £1.672Million growth bids were not recommended of which the majority (£1.225Million) related to the review of community assets and have been deferred pending the community review outcomes (as outlined in paragraph 4.1.4.). These remain unchanged from the January report.

4.1.7 A capital bid which was approved for cladding improvements to the multi storey car park on St Georges way (£1Million) by LSFG, however in recognition of the funding pressures on the Capital Strategy, the **S151 Officer and LFSG recommend that this scheme should not be progressed until suitable funding has been identified**. This scheme is currently not included in the 2019/20 onwards Capital strategy.

4.1.8 The 2018/19 capital programme included a sum of £108,450 for deferred works. This report updates the assessment for a deferred works budget as outlined in paragraph 4.3.14.

4.1.9 The ICT programme is based on the previous approved budgets up to and including 2018/19. For future years a sum of £300,000 has been included annually, match funding the amount the Council's shared ICT partner, East Herts. It is expected that further bids will be brought forward to build ICT resilience and facilitate the Council's Future Town Future Council agenda and will be based on business cases.

4.1.10 The General Fund capital programme recommended for 2018/19-2022/23 totals £97.28Million and is detailed in Appendix B and summarised below.



4.1.11 The chart above shows that the programme has significant spend in the first two years of the programme. A summary of the larger spend areas is summarised in the table below.

`	Capital Programme £'000					
Major Areas of Spend	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Bus Station	£416	£4,500	£1,600	£0	£0	£0
Public Sector Hub	£0	£1,100	£0	£1,179	£1,295	£26,768
Regeneration schemes (other)	£6,883	£4,300	£1,200	£2,400	£0	£0
Commercial Property Fund	£0	£13,244	£0	£0	£0	£0
Housing development	£0	£3,020	£1,704	£190	£0	£0
Garages programme	£1,054	£2,047	£1,957	£1,952	£1,952	£375
Vehicle & plant replacement	£1,873	£774	£210	£149	£175	£705
ICT investment	£848	£521	£300	£300	£300	£300
Other	£4,411	£2,711	£2,119	£1,016	£999	£475
Total	**£15,485**	**£32,217**	**£9,090**	**£7,186**	**£4,721**	**£28,623**

4.1.12 There is a likelihood that further bids will be identified for 2020/21 onwards as the programme looks understated in future years beyond 2020/21. Further to the approved capital programme and identified growth bids there are a number of other areas that have not been included/fully costed but can/will put additional pressure on capital resources as detailed below:

- Outcomes from asset management strategy and stock condition surveys (including works to community assets £1.2Million as identified in para 4.1.4)
- Works to St Georges Way multi-storey carpark (£1Million awaiting regeneration funding receipt para 4.1.7)
- Funding required to enable Town Centre regeneration (SG1) or GD3 funding for bus station relocation (£6.1Million required in 2019/20-2020/21 see section 4.4)
- Housing Development company activity for the private rented sector (to be presented to the Executive in a separate report)
- Future ICT growth bids.
- Future funding for leisure facilities as part of the Council's regeneration aims
- Further reduction of New Homes Bonus

4.2 Capital Programme – 2018/19 General Fund

4.2.1 The 2018/19 programme was reviewed and updated as part of the Draft Capital Strategy update to the January Executive. The only change to the 2018/19 budget approved at the January Executive is a revision to the deferred works reserve, the change is summarised in the following table.

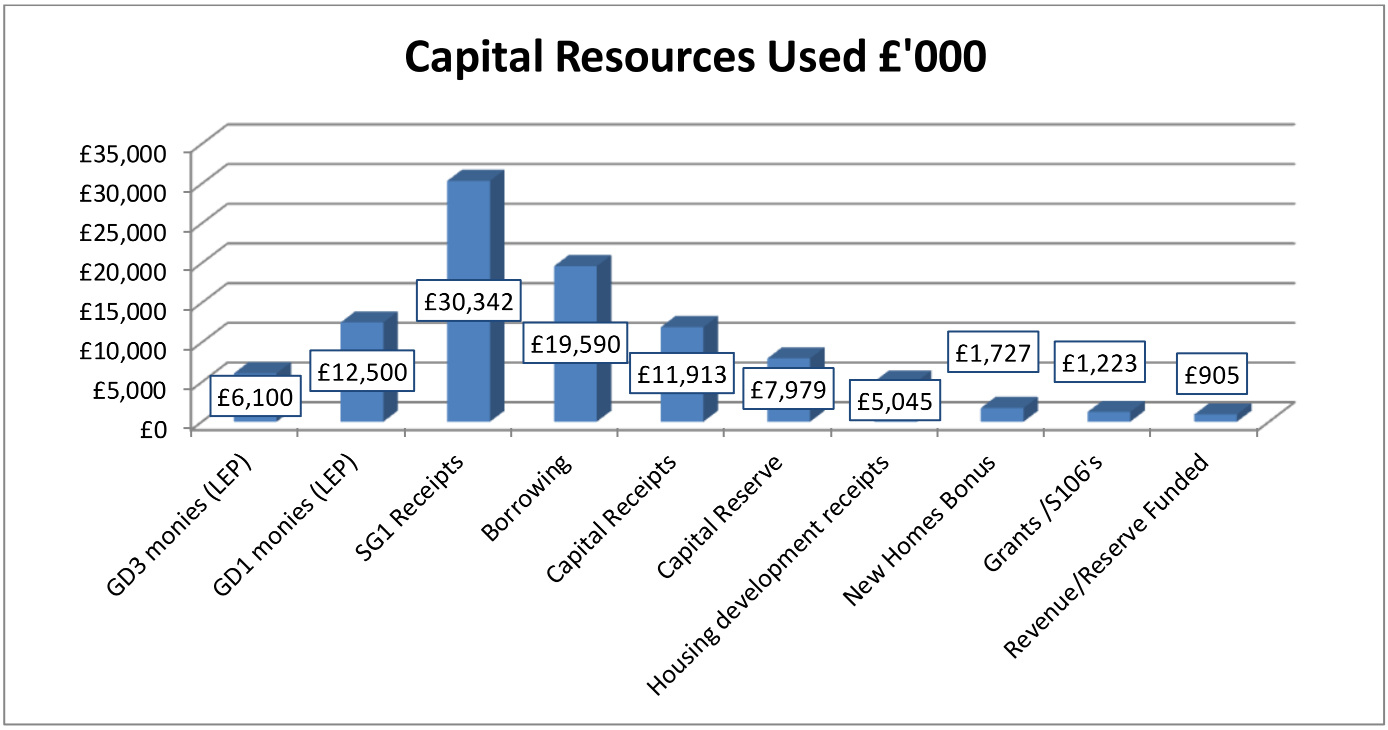
Summary of General Fund Capital Programme changes	2018/19 £	Reason
January Capital Strategy	15,573,330	
Proposed amendments:		
Deferred Works Reserve	(88,450)	The deferred works reserve has been recalculated for future years and a sum of £20K has been assumed in the programme for the remainder of the year.
Total changes	**(88,450)**	**Decrease in 2018/19 budget**
Total General Fund changes	**15,484,880**	

4.3 Capital Programme Investment Strategy Update- Resources (2018/19-2023/24)

4.3.1 The General Fund Capital Strategy has a number of funding resources with £18.6Million relates to LEP or regeneration projects (including £6.4Million of assumed GD3 monies for the bus station) and £30.3Million relating to estimated land value receipts to facilitate the public sector hub, part of the SG1 scheme.

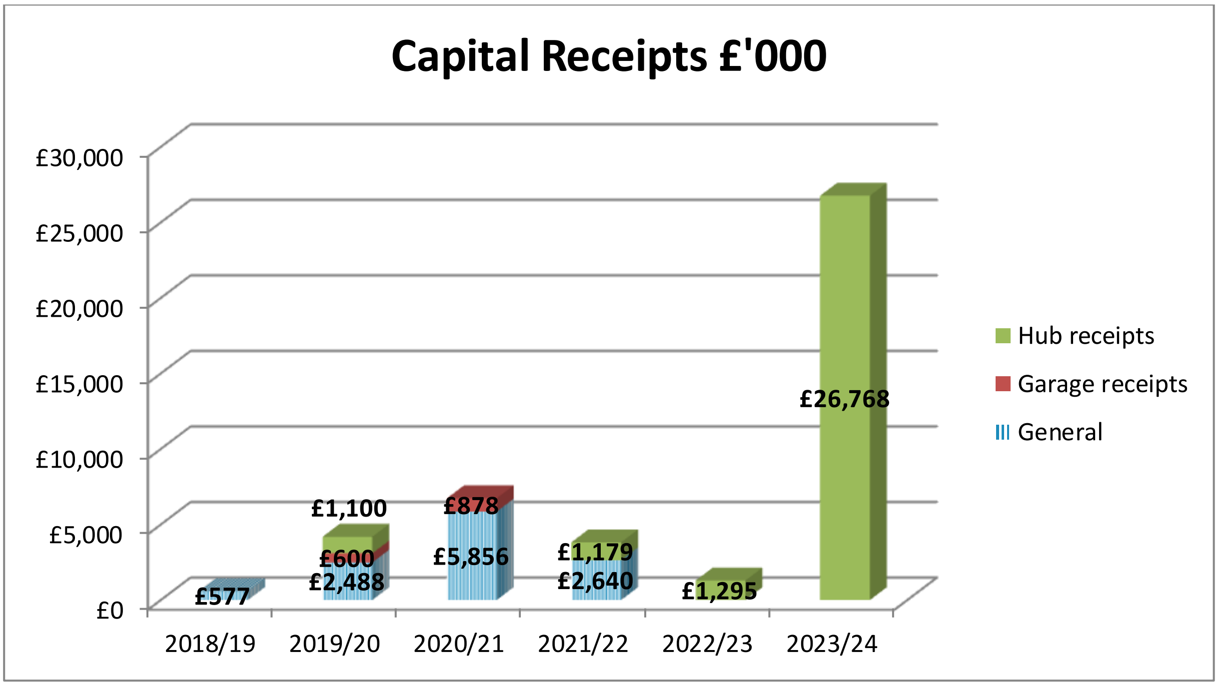
4.3.2 The programme also includes £19.6Million borrowing for the commercial property investment Strategy (£13.2Million) and for the garage programme (£6.4Million).

4.3.3 The rest of the programme is funded from two main funding sources: capital reserve (£7.9Million), (see also paragraph 3.2.15) and capital receipts (£12Million). These remain largely unchanged from the January Capital Strategy report.



4.3.4 There is potential future risk to the level of Capital Reserve available if NHB funding or rationale for allocation is changed in the future. The government has signalled further changes may be made to NHB which may jeopardise the £250K NHB contribution to the fund. The **Capital Reserve** is also reliant on General Fund underspends of £350K per year (not included in General Fund projected year end balances).

4.3.5 The use of **capital receipts** is also dependent on delivery of the sites to the market and the capital strategy currently assumes sale receipts as set out in the chart below (excluding regeneration ring fenced receipts).



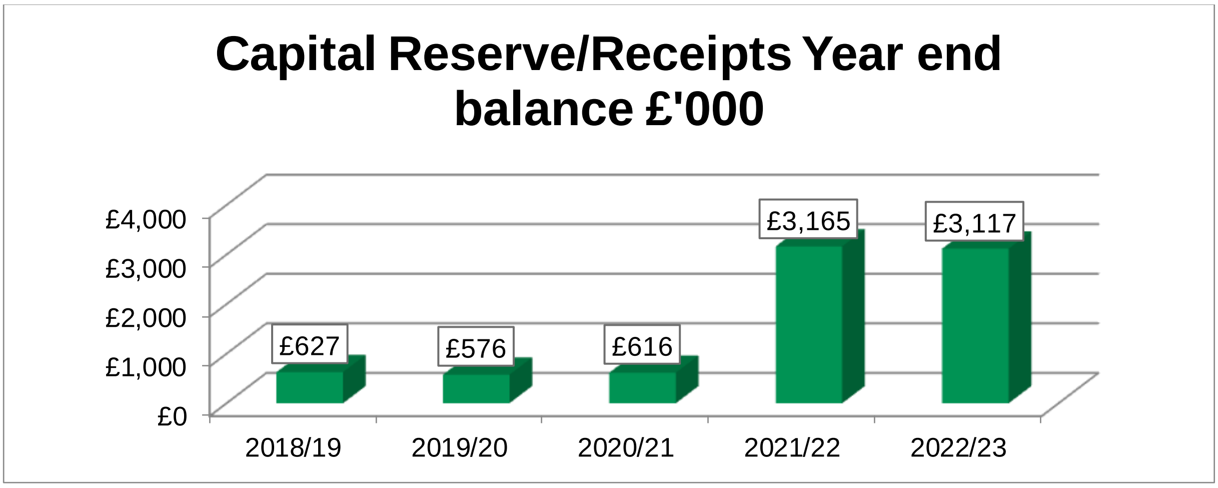
**hub receipts have been matched to spend until the land sales receipt profile is know and the DA signed*

4.3.6 The programme also now includes General Fund cost and receipts from Housing Developments, which assume short term borrowing until the sale receipts are realised. This approach has been tested with the Council's External Auditors and may need to be modified based on the final outcome of discussions between the CFO and the External Auditors.

4.3.7 Projected 2019/20 year end unallocated capital resources are estimated to be £576K (January Report £496K). This includes assumptions that:

- General sale receipts will be realised of £4Million, (in 2019/20).
- General Fund revenue underspends of £350,000 in both 2018/19 and 2019/20, which will be transferred to the capital reserve.

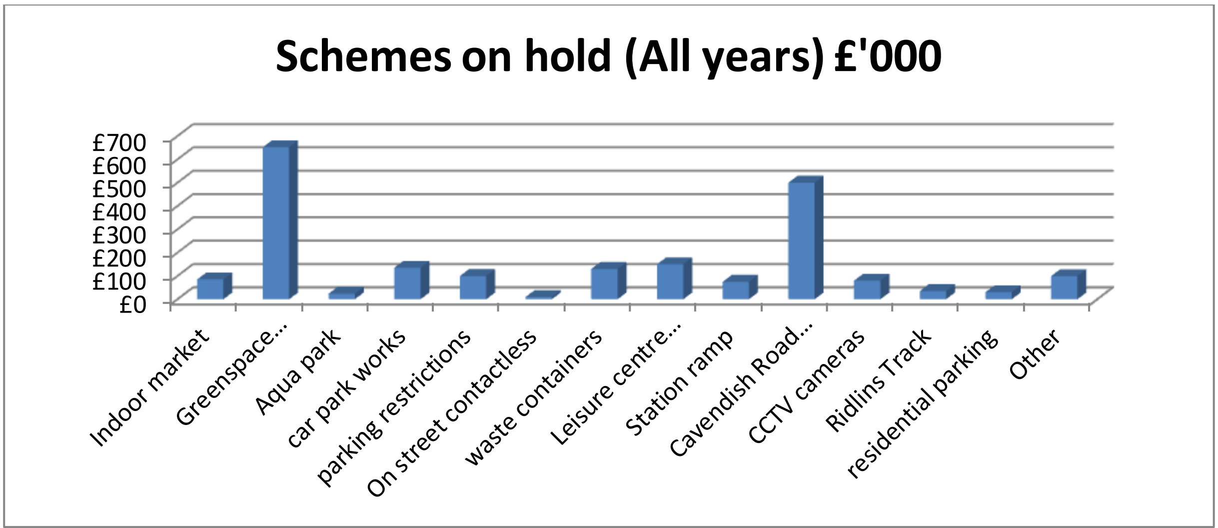
4.3.8 A summary of year end capital resources are shown in the chart below.



4.3.9 If underspends are not identified and all the projected assets sold in year, there would be a significant shortfall of resources at the end of 2019/20. This further underlies the impact on the Capital Strategy of any unplanned spend or need to self-fund schemes such as the bus station.

4.3.10 The amount of available resource increases from 2021/22 but this is dependent on one housing development sale and a significant land disposal in year, in addition Capital Strategy expenditure in later years looks understated.

4.3.11 To partly mitigate the Council against some of the risks outlined above, which if occurred would mean stopping capital spend or borrowing, the CFO recommends that part of the capital programme for 2019/20 is put on hold until sufficient receipts are realised or on track to be delivered. The schemes held have been identified in conjunction with the Strategic Leadership Team and are summarised below (and are identified in the Capital Strategy). This Capital Strategy now includes schemes on hold awaiting disposal receipts totalling £2Million (£368K in 2019/20)



4.3.12 The spend identified above does not include any garage programme spend, however in support of the garage refurbishment programme there is £600K and £878K of disposal receipts for 2019/20 and 2020/21 respectively**. It is recommended that should these receipts be projected not to be realised in year, garage works equivalent to that value are held pending realisation of the receipts**.

4.3.13 In addition to the measures outlined above, **the CFO recommends that additional General Fund year end underspends over and above the £350,000 already approved are transferred to the Capital Reserve for 2018/19 up to a value of £500,000**.

4.3.14 There is a further risk that the works not approved, (pending locality/community reviews/regeneration) become a priority, to keep buildings or services operational. To mitigate this, an assessment has been made of the amounts that should be included in the Strategy each year that could be drawn down on (via the deferred works reserve) in this event, this is summarised in the table below.

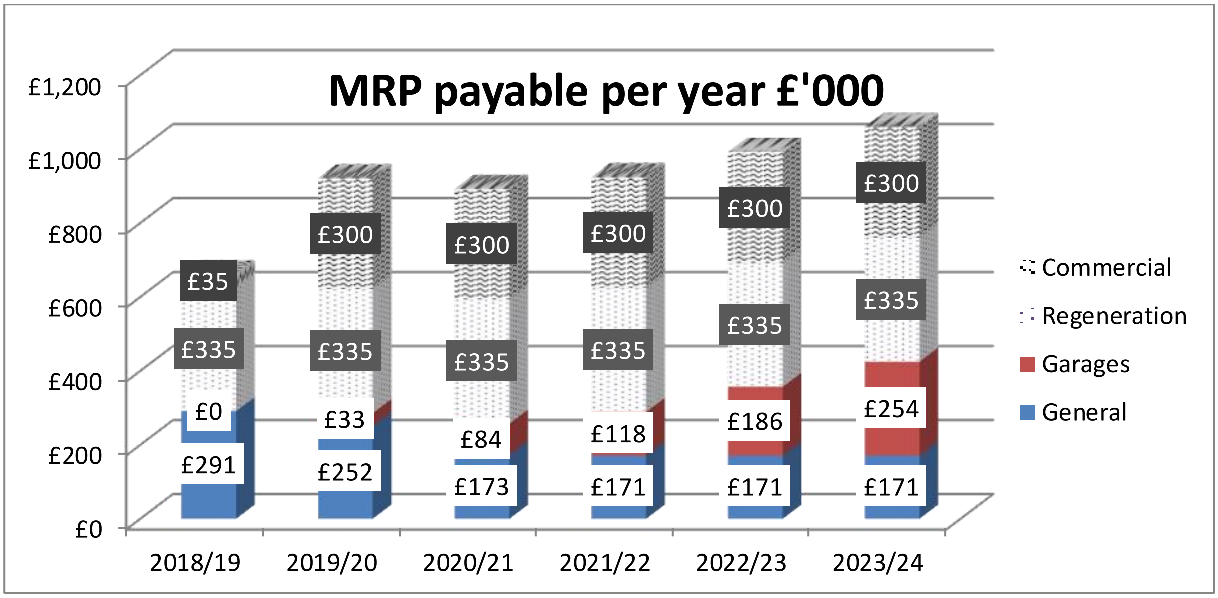
Works on Hold not in programme	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
On hold pending community/locality reviews/Regeneration	£130,000	£760,000	£270,000	£65,000	**£0**
Improvement grants	£18,000	£10,000	£10,000	£10,000	**£10,000**
Total	**£148,000**	**£770,000**	**£280,000**	**£75,000**	**£10,000**
Deferred Works @ 20%	**£29,600**	**£154,000**	**£56,000**	**£15,000**	**£2,000**

4.3.15 If the Council is to realise its regeneration, housing and neighbourhood improvement delivery aims there will need to be a change in approach which the Asset Management Strategy needs to deliver alongside complementary strategies for community assets.

4.3.16 There needs to be a focus on (and managed from an officer perspective via the Assets and Capital Group):

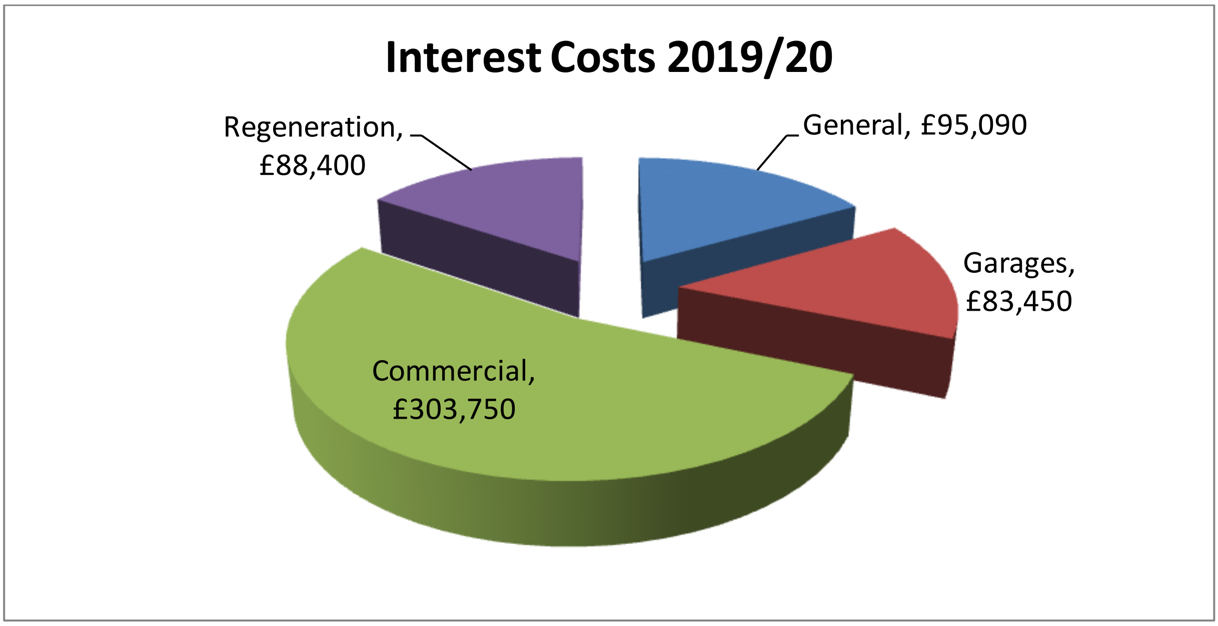
- Delivery of sites for sale- realised by evaluating how the maximum value can be delivered (Asset Management Strategy). Failure to deliver will lead to either further reductions in the programme or increase in borrowing costs and adverse impact on General Fund resources.- **top priority for the Estates team.**
- Delivery of financially sustainable assets by reviewing condition and considering whether continued investment represents value for money.
- Delivery of investment in commercial property primarily to deliver economic sustainability in Stevenage and meet the target income for the General Fund- **to be refocused.**
- Building up of reserves from windfall revenue balances to be ring fenced to support the SG1 regeneration and future regeneration schemes. – **Currently actioned via Business rate gains**
- Ensuring that wherever possible all S106 receipts are allocated to capital schemes.-**S106's actively being reviewed**
- **Review of Capital Programme for the Final Capital Strategy to ensure year end resources are sufficient to cope with unplanned spend.**

4.3.17 The alternative to the approach set out in paragraph 4.3.10 is to scale down the capital programme and/or borrow 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 in the case of the garage programme. The current level of Minimum Revenue Provision (MRP) paid in the General Fund is shown in the following table.



4.3.18 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets. MRP is payable regardless of whether the borrowing is taken externally or whether internal investment balances are used. The CFO intends to review the lives of the assets funded from borrowing to determine whether the MRP payment in year is appropriate. The maximum life currently used is 25 years over which MRP is calculated, (cost of borrowing divided by the life of the asset). For some buildings it may be more appropriate to use a 40 or 50 year life and so spread the MRP over a longer period and reduce the in year cost to the General Fund. This will be reviewed in 2019/20 and reported back to Members as part of the Treasury Management updates.

4.3.19 The 2019/20 projected interest costs on borrowing is estimated to be £570,690. The 'general' interest budget (shown in the chart below) relates to capital expenditure for the period 2011/12-2013/14 but where external loans have not yet been taken.

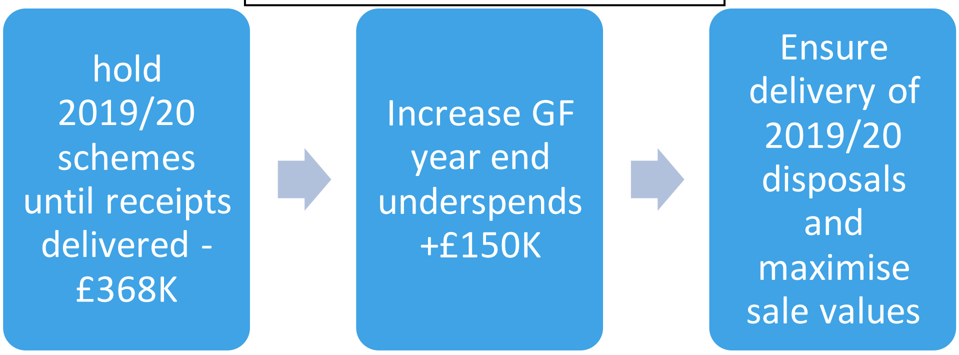


4.3.20 The total cost of borrowing in 2019/20 is £1.49Million or an estimated 2% of gross General Fund expenditure. As stated earlier the majority of this cost is met from within the income generated from assets. However if the assets were to be redeveloped without a corresponding receipt or retained allocated reserve balance, the borrowing costs would fall on the General Fund.

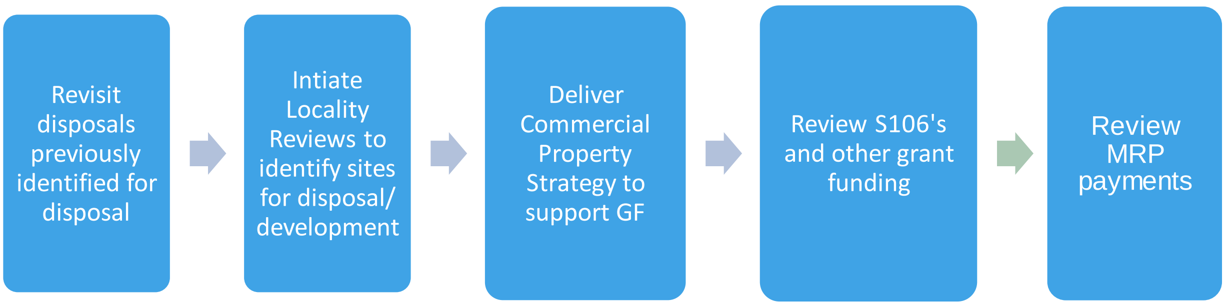
4.3.21 Although interest costs are relatively low (2.63% for a 25 year loan as at 3/12/2019), an annual use of borrowing would be an incremental increase in General Fund costs, which would need to be met from increasing the Financial Security Target for the General Fund. The Financial Security target for the next three years is £1.2Million and any increase to that would be challenging to achieve. For this reason it is recommended that increases in prudential borrowing needs to be met, in the main, from compensating business case savings.

4.3.22 In summary a number of actions have been taken/required to resolve the funding issues for the Capital Strategy which are shown below.

Immediate Actions



2019/20 Actions



4.4 Options to Fund the Town Centre Bus Station

4.4.1 The Regeneration report update to the December Executive outlined the issues regarding progression of the SG1 regeneration scheme and the need to progress the bus station works. In summary the government has not confirmed new governance arrangements to allow further growth funding (known as GD3 monies) to be released.

Extract from the December Regeneration Report:

Recommendation 2.4:

'Agree to proceed with the next stages of the bus interchange project with an estimated cost in the region of £6.1m, and request Officers to bring forward funding options in the draft Capital Strategy in January 2019 should Growth Deal 3 funding continue to be delayed'

4.4.2 Included in the proposed package of GD3 funding was grant allowance for a new bus station to support the wider regeneration of the town centre. Having funding secured for the design and construction of a new Bus Interchange is one of the Council's obligations to the Council's Development Partner as part of the SG1 agreement, and to enable the delivery of specific phases of delivery.

4.4.3 As described in this report, there are already funding pressures on the existing Capital Strategy (para 4.3.11-4.3.13). **This means that holding further parts of the Capital Strategy which are funded from receipts or the capital reserve is not a viable option as this could result in service failure and is not recommended as an approach**.

4.4.4 **Fund the works from borrowing-** The financial bandwidth within the General Fund to support additional borrowing is limited due to pressures already identified within the General Fund report to this committee. However the General Fund budget currently includes an amount of £95,090 for costs relating to historic borrowing prior to 2015/16 which has never been taken and a further £80,000 Regeneration growth bid approved as part of the 2018/19 General Fund budget report. This would allow for £175,090 of General Fund resources to support borrowing costs in the short term.

4.4.5 This approach is achievable in the short term if borrowing is assumed from internal balances rather than external borrowing, (estimated internal borrowing rate 1.15% 2019/20), until the funding is released and before any MRP would become payable (one year after completion estimated to be 2021/22).

4.4.6 **Identify Regeneration earmarked receipts** – The potential land value receipts within the SG1 deal support the Council's financial commitments relating to the public sector hub and have been earmarked for this purpose. Currently other regeneration receipts likely to be received in the time period equate to £1.6Million. These receipts may be required to fund upfront SG1 prior to land receipts from SG1 being realised (timing issue) or available to part fund the bus station. **However this would need to be substituted for LEP funding, when the grant funding is released as the £1.6Million receipt has been earmarked for future phases of Regeneration in Stevenage.**

4.4.7 If the LEP funding were not to be released the Council would need to consider part use of the first tranche of SG1 receipts earmarked to support the Council's hub, of which the first tranche may be realised in 2020/21.This may cause issues in terms of future funding the hub, however the bus station is seen as a key enabler for SG1. Officers will reviewing other disposal opportunities to help support the SG1 development and the Capital Strategy as a whole.

4.4.8 **Review the capital programme**- the Senior Leadership Team has reviewed the capital programme for schemes that could be held and an example of the quantum required was disclosed in the January Draft Strategy. However part of the 2019/20 programme is required to ensure that sufficient receipts are available at the end of 2019/20 (see also paragraph 4.3.9) and the remainder of the programme is considered critical to maintaining services**. Further hold on the programme is not recommended at this time.**

4.4.9 The approach recommended depends on the perceived risk of the funding being released/not released by the government. The interim solution is to either fund the works from £1.6Million of ring fenced receipts (see paragraph 4.4.6) and borrowing from internal balances for the remainder of the works (£4.6Million) assuming the funding is released by 2020/21.

4.4.10 The longer term solution would have to rely on using the earmarked hub receipts due circa 2020/21, this may cause funding issues for the hub which will need to be addressed once the outcome of the GD3 monies is known.

4.4.11 Members are recommended to approve the approach to the funding as outlined above. It should be noted that none of the options above are funded easily and require the grant funding to substitute the interim funding identified above so as not to cause significant financial hardship to the Council. This approach is being agreed with the Council's External Auditors.

4.5 Investment in Commercial Property

4.5.1 The changes to the Prudential Code outlined in 3.1.3-3.1.4 require the disclosure of other investments (other than held for treasury management purposes) contribution to service delivery objectives and/or place making role and any indicators used to measure this.

4.5.2 The Council approved 28 February 2017, a Commercial Property Investment Strategy which, while making a contribution to the General Fund of an estimated £200,000 per year (1.6% of total General Fund rental income), helps create renewed confidence and a positive message to other investors. The Strategy focuses on the acquisition of property investments within the Borough boundary as part of the first phase. This boundary includes the "functional economic market areas" which are linked to employment areas within the emerging Local Plan. This is to support the Council's ambition for Stevenage and town centre regeneration by investing in the town to help create a vibrant town centre and by so doing enable the Council to be more financially resilient by delivering on our Financial Security aims.

4.5.3 To date only one property has been purchased (other options are being pursued) and is projected to make a net return of £49,000 for the General Fund in 2019/20. The General Fund assumes a £200,000 net return per year for 2019/20 (2.2% of net budget for 2019/20).

4.5.4 At the January Executive the Leader of the Council asked for a renewed focus on the utilising the £15Million budget made available and this includes reviewing the criteria set out in the Strategy.

4.5.4 In considering further investment opportunities the site has to meet the council's investment criteria as set out in the Property Investment Strategy (Report Executive 21 February 2017). In addition, in setting the General Fund risk assessment of balances an allowance of 10% is made, (compared to 2.5% of other commercial rental income) to accommodate any loss of income from this new source.

4.5.5 In determining whether statutory officers and elected members involved in the investment decision making have appropriate capacity, skills and information to take informed decisions and the approach to assessing loss, the following steps are taken:

- A commercial property purchase has to be in accordance with the Strategy approved by Members
- Based on a set of due diligence carried out by a qualified surveyor with external expertise if required.
- The financial calculation is completed by a qualified accountant and includes a central, optimistic and pessimistic scenario, which is then reviewed by the 151 officer or her deputy and meets the threshold for financial return as set out in the Strategy.
- Member sign off in the process is based on the suite of documents as outlined above in order to conclude that the investment decision is sound.
- A detailed business case with financial forecast will also be required for complex transactions.

4.6 Other capital investments.

4.6.1 The Council has purchased a number of properties in the town centre to enable it to meet its regeneration aims. These properties were purchased using LEP funding and totalled £1.26Million in 2018/19 and a further £1.40Million in 2019/20. These properties have been purchased for regeneration purposes and therefore do not fall under the Property Investment Strategy. However in making these strategic acquisitions a full risk assessment is undertaken to ensure the cost of carrying these assets in the short to medium term can be met by the Council. The Regeneration Asset allocated reserve has been setup specifically to cover these costs.

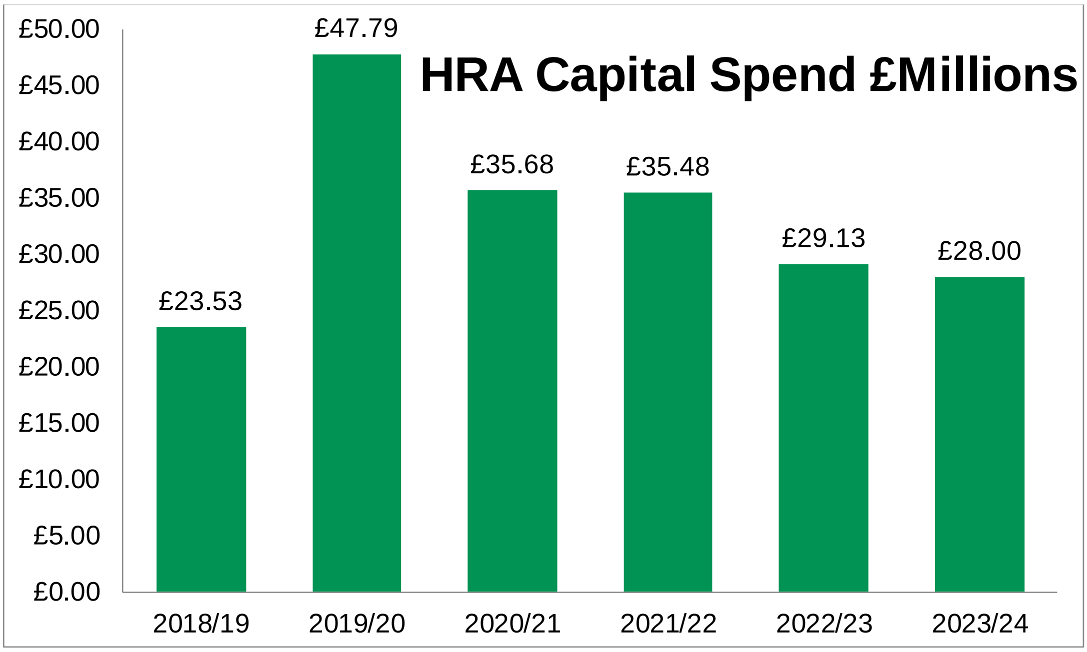
4.6.2 The Council has undertaken a long term lease for a mixed development scheme on Queensway in the town centre. This is a lease arrangement and falls outside the scope of capital investment. As part of the decision making process a risk assessment was undertaken and presented to Members. Key Officers were given training on their roles and responsibilities for the new governance arrangements for the Limited Liability Partnership.

4.6.3 External legal, financial and commercial advice was procured to ensure the validity and viability of the business case presented to Members.

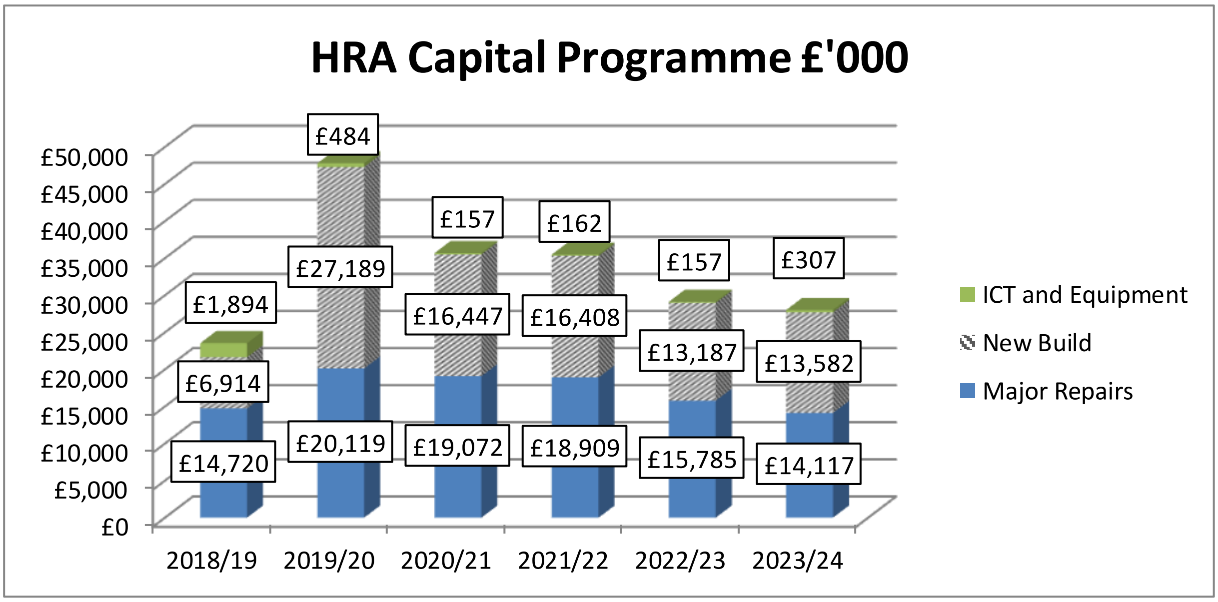
4.7 Capital Programme – Housing Revenue Account (2018/19-2023/24)

4.7.1 The HRA Business Plan update to the November 2018 Executive identified that in light of the lifting of the HRA borrowing cap by the Chancellor, the HRA would not be constrained by the £217.685Million borrowing cap set as part of the self-financing settlement. The HRA Business Plan needed to look at a revised approach to borrowing, versus using revenue contributions to capital. This will be based on the HRA need to borrow and affordability as identified in the action plan, (Appendix A to the November Executive report).

4.7.2 A summary of the capital programme included in the Appendix C of the Capital Strategy is summarised below and totals £199.61Million.



4.7.3 The increase in 2018/19 onwards reflects the investment with the major works contract and a significant increase in new build costs. The split between major works, new build and other is shown in the following chart



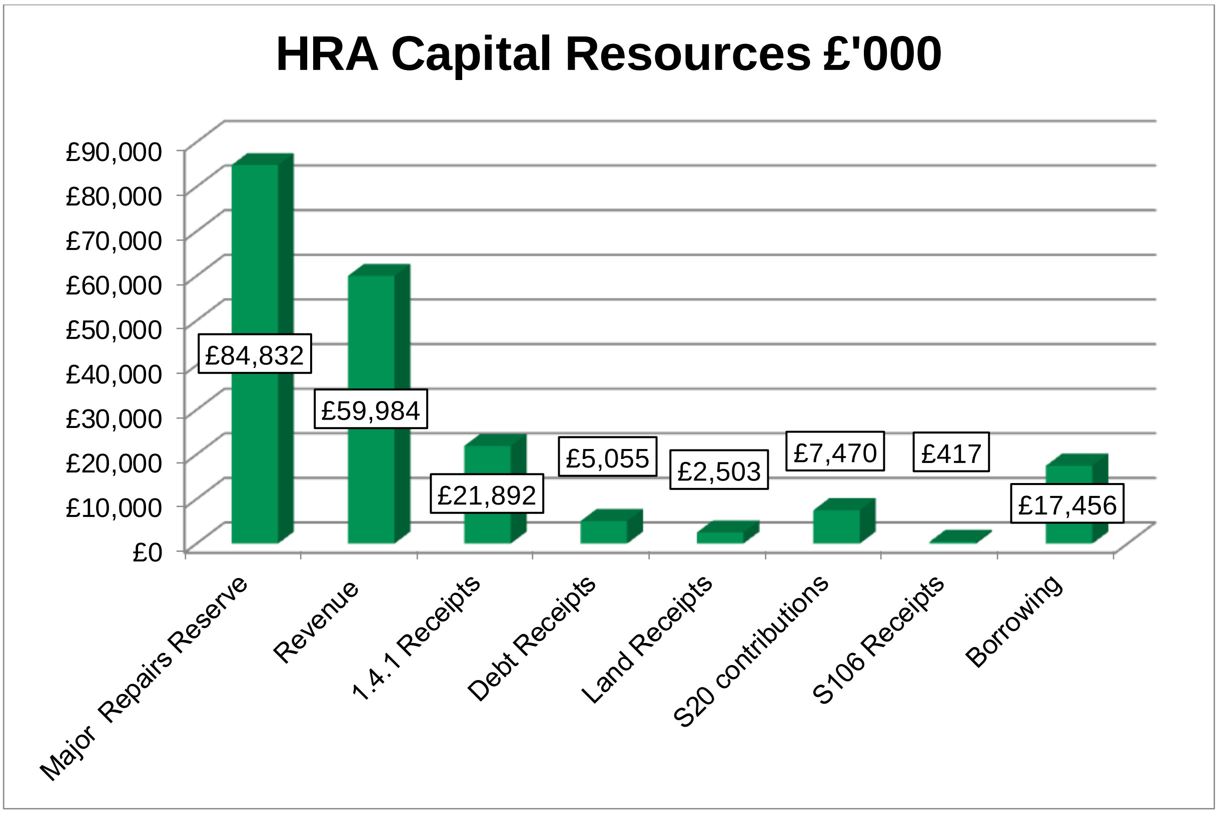
4.8 Capital Programme Investment Strategy Update – Housing Revenue Account 2018/19

4.8.1 The 2018/19 programme was reviewed as part of the January Executive report and changes relating to the re-phasing of the sprinkler works to the high rise blocks and temporary lift provision were reported. This reduced the 2018/19 programme by £2.6Million.

4.8.2 In July Members approved a budget for retrospective fitting of sprinklers to flat blocks. This contract specification has been written and will go out to mini competition shortly with contract mobilisation expected in 2019/20. Budgets have been profiled based on the expected work programme post contract award.

4.9 Capital Programme – HRA Resources (2018/19-2023/24)

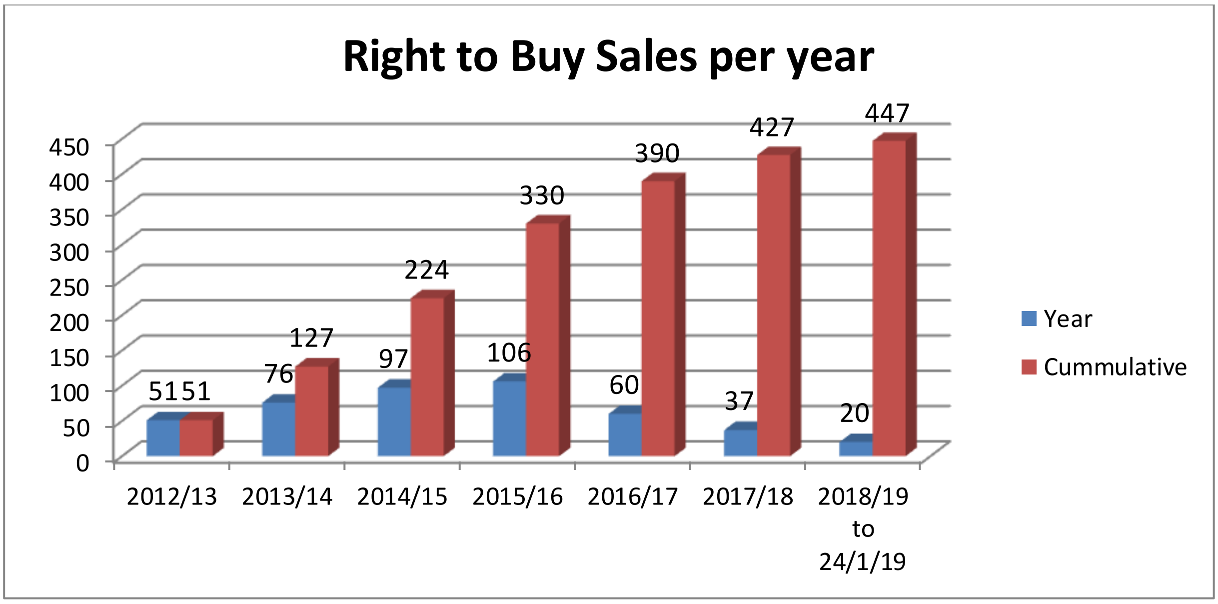
4.9.1 The HRA capital programme is funded from four funding sources, of which the majority is funded from the HRA (via depreciation charges or revenue contributions to capital), this accounts for 73% of total funding. Capital receipts from the sale of council houses totals £26.946Million or 13.5% of total funding; however as Members will be aware the 1.4.1 receipts have restricted use. These remain unchanged from the January report.



4.9.2 The dependency on HRA revenue budgets to fund the programme means that the HRA balances are projected to be at minimum levels by 2022 which precludes the ability to afford new borrowing. The HRA BP action plan will review revenue contributions to capital, looking at affordable opportunities available to fund the capital programme following removal of the debt cap. This review will be brought back to Members in 2019/20. The level of revenue contribution for 2018/19 and 2019/20 are £7,675,440 (unchanged from the working budget) and £13,946,930 respectively.

4.9.3 The funding of the capital programme may change as a result of the actions outlined in paragraph 4.9.2, the level of revenue contributions is estimated at £59.9Million for the period 2018/19-2023/24.

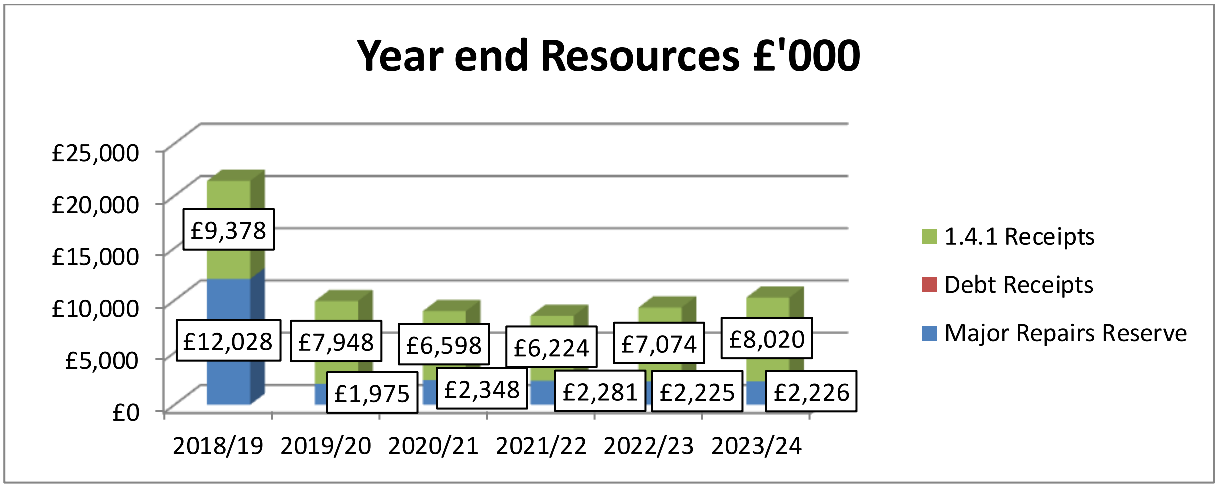
4.9.4 The HRA capital programme funding is based on 35 RTB sales per year (2019/20 onwards), RTB's have fluctuated since self-financing was introduced and in 2018/19 (up to 24/1/2019) there have been 20 RTB sales compared to the revised projection of 25 sales (for 2018/19).



4.9.5 HRA capital resources have been subject to a number of government policy changes impacting on the level of rents raised (reduction of £225Million from the four year 1% rent reduction) and on the level of RTBs, with the increase in discounts since 2012/13, which have more than doubled from £34,000 in 2011/12 to £80,900 in 2018/19.

4.9.6 The 2018/19 and 2019/20 HRA budget assumes new loans totalling £3.8Million and £4.7Million respectively. The interest payable in 2018/19 and 2019/20 is estimated to be £6,866,152 and £6,960,900 respectively.

4.9.7 The majority of resources available at year end are restricted use 1-4-1 receipts as shown in the following table;



4.10 Return of One for One Receipts

4.10.1 Members have been previously advised that receipts may need to be returned in 2018/19 and this is now estimated to be £346,232 for April-December 2018. There are estimated interest payments of £55,383 to be paid which can be funded from the debt receipt portion of RTB receipts. The projection for the remainder of the year is that if all spend is incurred as profiled no further receipts need to be returned for 2018/19.

4.10.2 The government did indicate in their consultation on RTB receipts that they were considering allowing local authorities to hold receipts they currently retain for five years instead of three, to give them longer to spend the receipts that they already have. Although the consultation closed on the 9 October 2018 no outcome on the submissions received and any government decisions has been published.

4.11 De Minimis Level for Capital Expenditure 2019/20

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 2018/19 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 2019/20

4.12.1 The contingency allowance for 2018/19 is £250,000 reflecting the resourcing pressures facing the capital programme. The contingency proposed for 2019/20 is set 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.

4.13 Overview and Scrutiny Committee

4.13.1 The Committee met on the 29 January 2019 and the Assistant Director (Finance and Estates) presented the draft proposals for the 2019/20 Capital Strategy (General Fund and HRA).

4.13.2 The Committee were reminded that the report was before them as a Budget and Policy framework item and any comments will be incorporated into the final budget that the Executive would consider for recommendation to Council in February.

4.13.3 The Committee asked questions about what conditions had to be met to satisfy the release of the GD3 monies and therefore the bus station LEP funding. The Strategic Director (TP) advised that the LEP had written to the government proposing how to meet the required conditions, however the governance had not yet been agreed by government.

4.13.4 The committee also noted the impact on the Council's capital programme as set out in the draft report should the Council have to fund the asset.

4.13.5 The Committee did not recommend any changes to the draft budget.

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 Risk Implications

5.3.1 There are significant risks around achieving the level of disposals or land sales budgeted for, failure to do so could lead to reducing the capital programme in year and schemes in 2019/20 have already been identified as being held subject to receipts being realised. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates, for instance tenders and planning meetings. The Council manages this risk by reviewing and updating the Strategy quarterly, including resources. This will enable action to be taken where a receipt looks doubtful.

5.3.2 As part of the council's obligations to its regeneration partner, Mace, the bus station needs to be relocated as part of SG1. Funding for the bus relocation has been approved as part of the Growth Deal 3 package, however no response has been received to the new governance arrangements and as yet funds have not been released. If funding is not available to costs of £6.1Million will need to be funded by the Council.

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

5.3.4 There are a number of deferrals in the capital programme and schemes not approved in Appendix A. A contingency amount via the deferred works reserve (20% of the works not approved awaiting reviews), is included in the General Fund programme to address any additional unavoidable capital spend, however there is a risk that this may not be sufficient.

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

5.3.6 The Council's ambition around regeneration, housing delivery and Neighbourhood regeneration could increase pressure on scarce capital resources.

5.3.7 The level of RTB receipts if reduced does contribute to HRA balances in terms of rent and meets the Council's council homes waiting list need, but may reduce resources available in the short term to fund the HRA capital programme. This will require a re-phasing of the programme in the short term or the consideration of borrowing.

5.4 Equalities and Diversity Implications

5.4.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

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

BACKGROUND DOCUMENTS

1st Quarter Capital Monitoring report (September 2018 Executive)

Final HRA Rent Setting and Budget Report (January 2019 Executive)

Housing Revenue Account Business Plan November Executive

Draft Capital Strategy January Executive

APPENDICES

A - General Fund Capital Bids for consideration -

B - General Fund Capital Strategy

C - HRA Capital Strategy