

Meeting EXECUTIVE
Portfolio Area Resources
Date 12 FEBRUARY 2020



FINAL CAPITAL STRATEGY 2019/20-2024/25

KEY DECISION

Authors Clare Fletcher x 2933
Contributors Senior Leadership Team
Lead Officers Clare Fletcher x 2933
Contact Officer Clare Fletcher x 2933

1. PURPOSE

- 1.1 To approve revisions to the 2019/20 General Fund and Housing Revenue Account Capital Programme and approve the final Capital Programme for 2020/21 for consideration by Council.
- 1.2 To provide Members with an update on the Council’s draft five Year Capital Strategy and the resources available to fund the Capital Strategy.
- 1.3 To provide Members with an update on 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 set out the work of the Leader’s Financial Security Group (LFSG) in reviewing all General Fund capital bids prior to inclusion in the 2020/21 onwards Capital Strategy.

2. RECOMMENDATIONS

EXECUTIVE:

That the following proposals be recommended to Council on 26 February 2020:

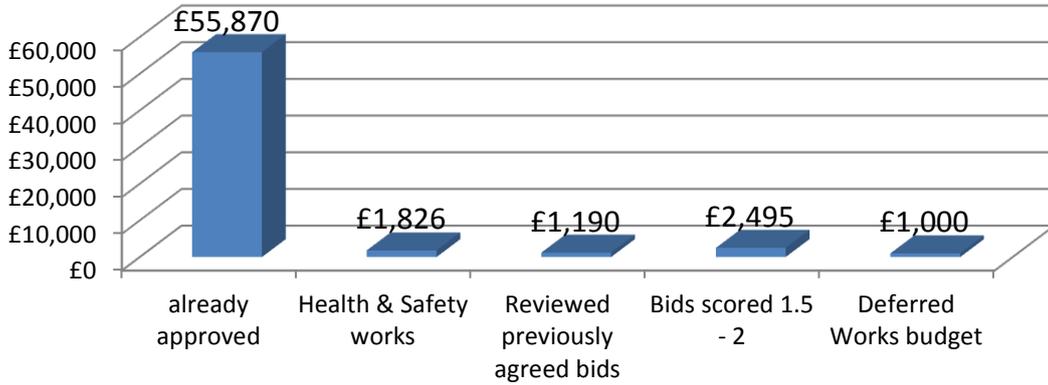
- 2.1 That the final 2020/21 General Fund Capital Programme as summarised in the report be approved.
- 2.2 That the final 2020/21 HRA Capital Programme as summarised in the report be approved.
- 2.3 That the updated forecast of resources as summarised in the report be approved.
- 2.4 That the Council's investment strategy for non-treasury assets, section 3.2 of the report be approved.
- 2.5 That the approach to resourcing the General Fund capital programme as outlined in the report be approved.
- 2.6 That the actions required to ensure the General Fund programme is funded as outlined in paragraphs 4.9.3-4.9.9 of the report be noted.
- 2.7 That the approach and progress on Locality Reviews be noted and the target to realise receipts for 2020/21.
- 2.8 That the growth bids now included in the Capital Strategy be approved.
- 2.9 That the return of Right to Buy one for one receipts as outlined in section 4.14 of the report be noted.
- 2.10 That the 2020/21 de-minimis expenditure limit (section 4.15 of the report) be approved.
- 2.11 That the 2020/21 contingency allowance (section 4.16 of the report) be approved.
- 2.12 That the work undertaken by LFSG on behalf of the Executive in reviewing and challenging the General Fund Capital Strategy be noted.

3. BACKGROUND

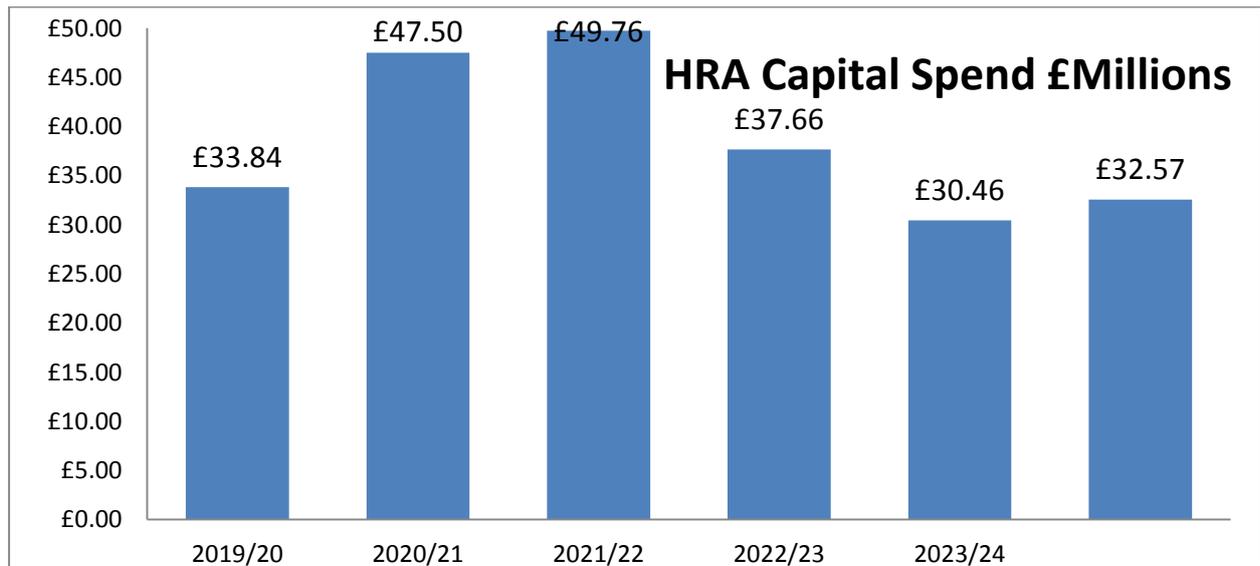
3.1 Introduction

- 3.1.1 This report is an update on the Council's Draft General Fund and HRA capital strategy 2020/21- 2024/25 presented to the January 2020 Executive meeting. This report gives updates on the 2019/20 and 2020/21 budgets and resourcing for the General Fund and HRA programme
- 3.1.2 The draft General Fund programme totalled £62.38Million (subject to sufficient resources being available and is summarised in the table below. This did not include any changes as a result of the approval of the Kenilworth tender at the January Executive.

General Fund Capital 2020/21-2024/25 £'000



3.1.3 The HRA programme included in the Draft Capital Strategy totalled £231 Million and was in line with the Business Plan, with the exception of changes arising from the Kenilworth scheme as summarised below.



3.1.4 The purpose of the Capital Strategy is to show how the Council determines its 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.

3.1.5 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.

3.1.6 The Government has issued guidance revising the disclosures required in the Capital Strategy from 1 April 2018 onwards and includes:

- 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

3.1.7 Some of these disclosures may be shown in the Treasury Management Strategy instead of the Capital Strategy.

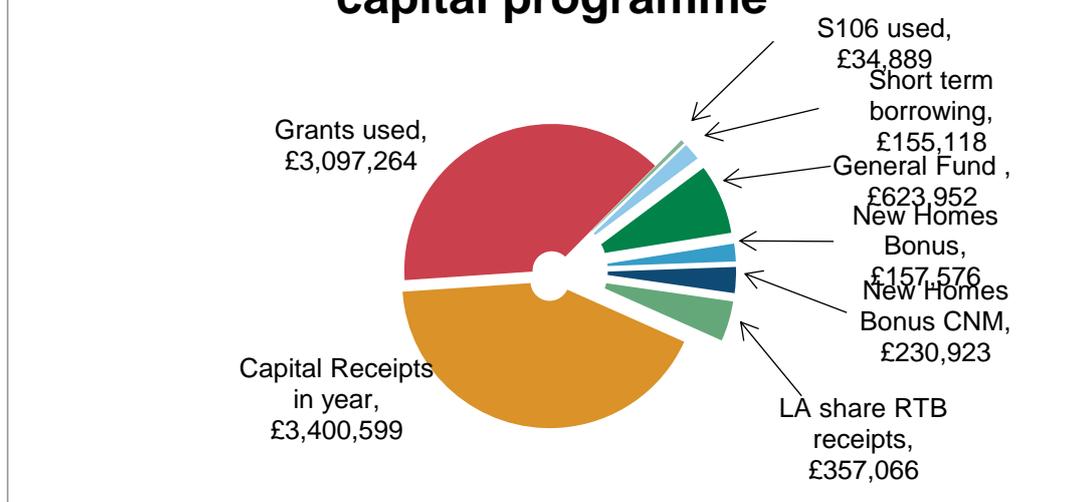
3.2 **General Fund Investment Strategy**

3.2.1 **General Fund** – The capital programme has been rationalised for a number of years as the Council has had reducing capital receipts to fund spend and the period of austerity since 2010/11 has meant limited ability to afford prudential borrowing. This has meant a fix on fail approach to assets with no significant improvements, with the exception of initiatives such as the playground improvement programme (reducing the overall playgrounds maintained) and the garage refurbishment programme which sought to protect and improve the income generated from rents for the General Fund and the Co-operative Neighbourhood programme.

3.2.2 Alternative sources of funding have been used to fund the programme with the General Fund and New Homes Bonus (NHB) funding a significant proportion of the programme.

3.2.3 The level of General Fund revenue contributions to the Council's capital programme in 2018/19 was £1,012K. This included a contribution of £638K from NHB (£250K contribution to capital reserve, £231k for the Co-operative Neighbourhood Programme (CNM), and £157K for other NHB schemes.

2018/19 financing of General Fund capital programme



- 3.2.4 The level of NHB the Council has received over the last three years has significantly reduced and the 2020/21 allocation is for one year only with the government already signalling a review of the criteria for awarding the funding from 2021/22. Removal of the funding will put an increased funding strain on the capital programme. The Chief Finance Officer (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 (now due 2021/22) review could also impact on revenue resources available for capital.
- 3.2.5 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.
- 3.2.6 The Asset Management Strategy approved at the 11 July 2018 Executive had a key action for the Council to undertake locality reviews of its current land and buildings, identifying new opportunities for better use of existing buildings, identifying potential sites (land and buildings) for release for sale (establishing a much needed new development pipeline for potential capital receipts) and identifying land for the Council's own housing building programme (meeting our Future Town Future Council ambitions). The work of the Locality Reviews is detailed in section 4.7.
- 3.2.7 Bids have been 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/health and safety requirements
 - Category 4 : Schemes to maintain operational effectiveness
 - Category 5 : Match funding schemes
- 3.2.8 There has been limited prudential borrowing to fund capital schemes due to the on-going cost to the General Fund and would 'normally' only 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.

3.2.9 However the “fix on fail” approach to assets with no improvements to meet current or future needs is not a sustainable position going forward. This approach was adopted during a prolonged period of austerity, but now cannot be pursued on-going if the Council’s assets are going to remain fit for purpose.

3.2.10 The growth bids submitted within this report are not in the main about improvement of assets and future proofing them to meet e.g. the climate change agenda, current and future needs of the community, but an attempt to just keep buildings operational. This is based on the limited financial resources which cannot resource beyond essential works and indeed only a proportion of the works bid for are currently identified for inclusion in the programme.

3.2.11 The introduction of the Co-operative Neighbourhood Management programme, (a ‘Future Town Future Council’ (FTFC) priority), has been 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). However playground improvements have been funded from New Homes Bonus. Future years funding allocations could be significantly lower than the projected spend, due to the government review of NHB next year.

3.2.12 In determining the playground improvement programme, officers recommended to Members which facilities should be provided within Stevenage, based on mapping of need/location. This means some site were decommissioned to allow significant improvements to a smaller number of play areas, while ensuring decommissioned sites are appropriately landscaped.

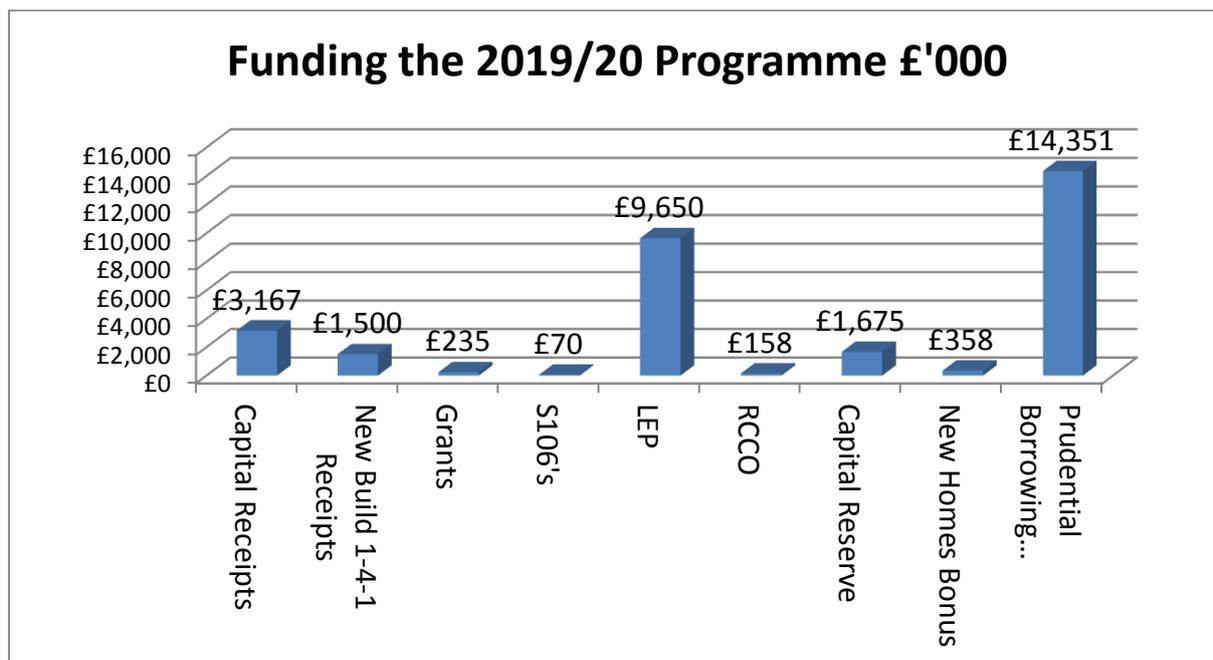
3.2.13 The timing of the ward works is summarised below, however for 2020/21 the value of monies available is reduced due to the amount of available New Homes Bonus (NHB).

	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

3.2.14 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 is to ensure that scarce resources are not invested 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.

3.2.15 The current approved capital programme (approved February 2019 and as amended by quarterly monitoring and supplementary reports) is fully funded, (but spending was on a priority basis for 2019/20) and shown in the following chart.

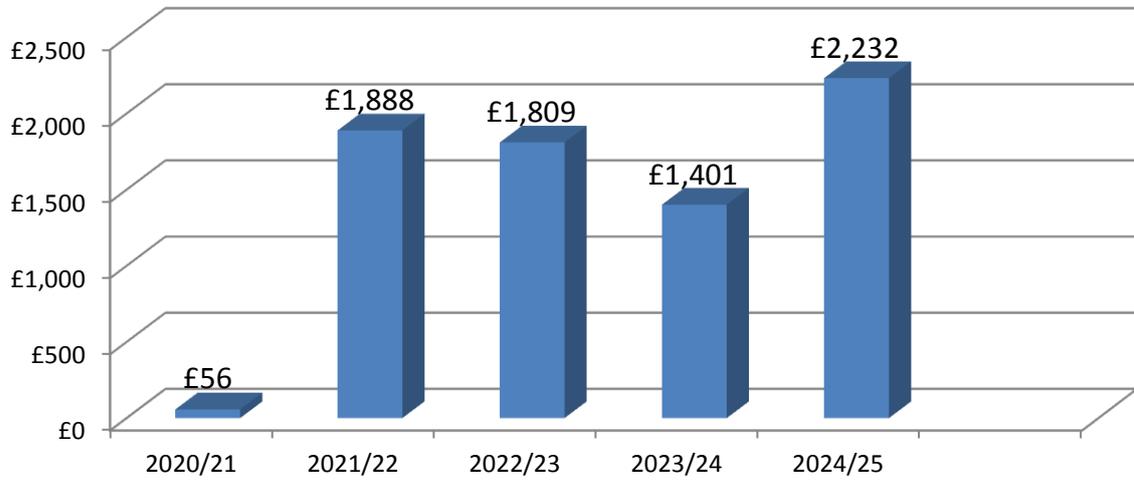


3.2.16 The level of resources available to fund the Draft Capital Strategy and included in the January report was deemed to be insufficient for 2020/21 at £56K, a number of actions were to be considered, which included:

- Consider deferring more of the programme in the category scoring an average score of 1.5-2
- Consider assuming a higher underspend at year end contribution to the Capital Reserve of say a further £200K
- Consider a one off contribution from General Fund balances of say £300K
- Consider a hold on all schemes with the exception of health and safety bids
- Prioritise the disposal of land sites (identified as part of the Locality Review work) after consultation with Members
- Consider using the budgeted amount for historic borrowing of £95K which would lever in approximately £1.35Million of new borrowing (interest and MRP on assets with a 25 year life). However this may also be needed to help fund the bus station.

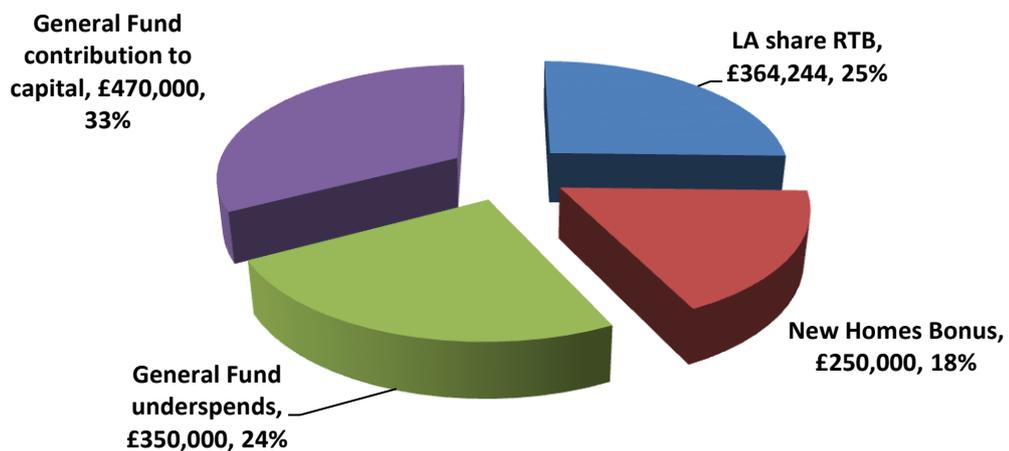
3.2.17 The level of resources unallocated in the January Draft Capital Strategy for the General Fund is summarised below.

Draft Capital Strategy unallocated capital resources year end £'000



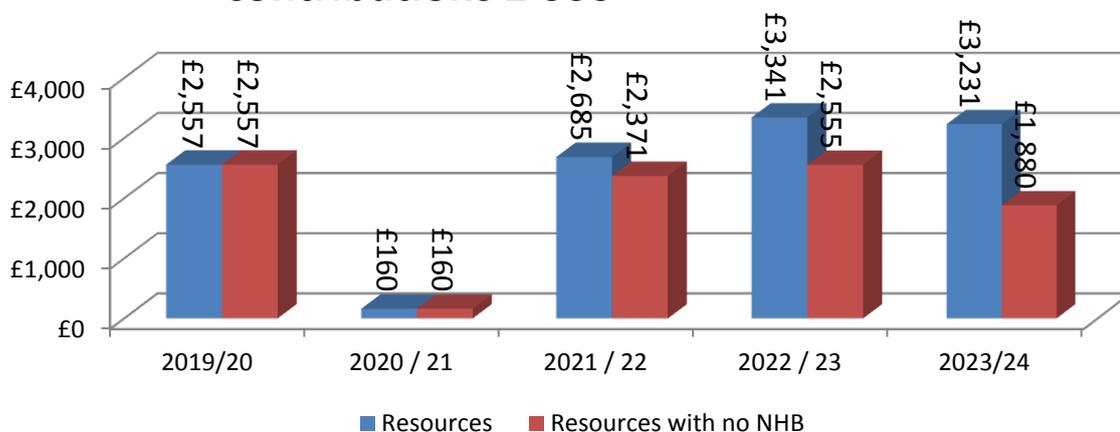
3.2.18 The Capital Reserve, which is a significant source of the capital programme funding, will receive a 2020/21 budgeted £470K contribution from the General Fund with potentially up to £350K underspends, (identified at year end), giving a General Fund maximum contribution of £820K . NHB contributes £250K and £364K from the Local Authority Share of Right to Buy receipts as shown in the following chart.

Capital Reserve Funding 2020/21



3.2.19 If no new NHB was available beyond 2020/21 the impact on year end capital resources would be as shown below a reduction of £1.35Million by 2023/24.

Impact on Capital Resources of no NHB contributions £'000



3.2.20 The Capital strategy approved by Members at the February 2018 Council, discussed the issue of the bus station funding 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 still had not been released as revised governance arrangements submitted to central government had not been approved. For 2020/21 SBC will need to allocate a funding for the bus station if the GD3 monies are not released. However circa £6Million funding would be incurred by the General Fund, approximately £306,000 per year in borrowing costs. Which would require an increase in the Financial Security targets for the General Fund, or curtail any capital works for the next year and beyond.

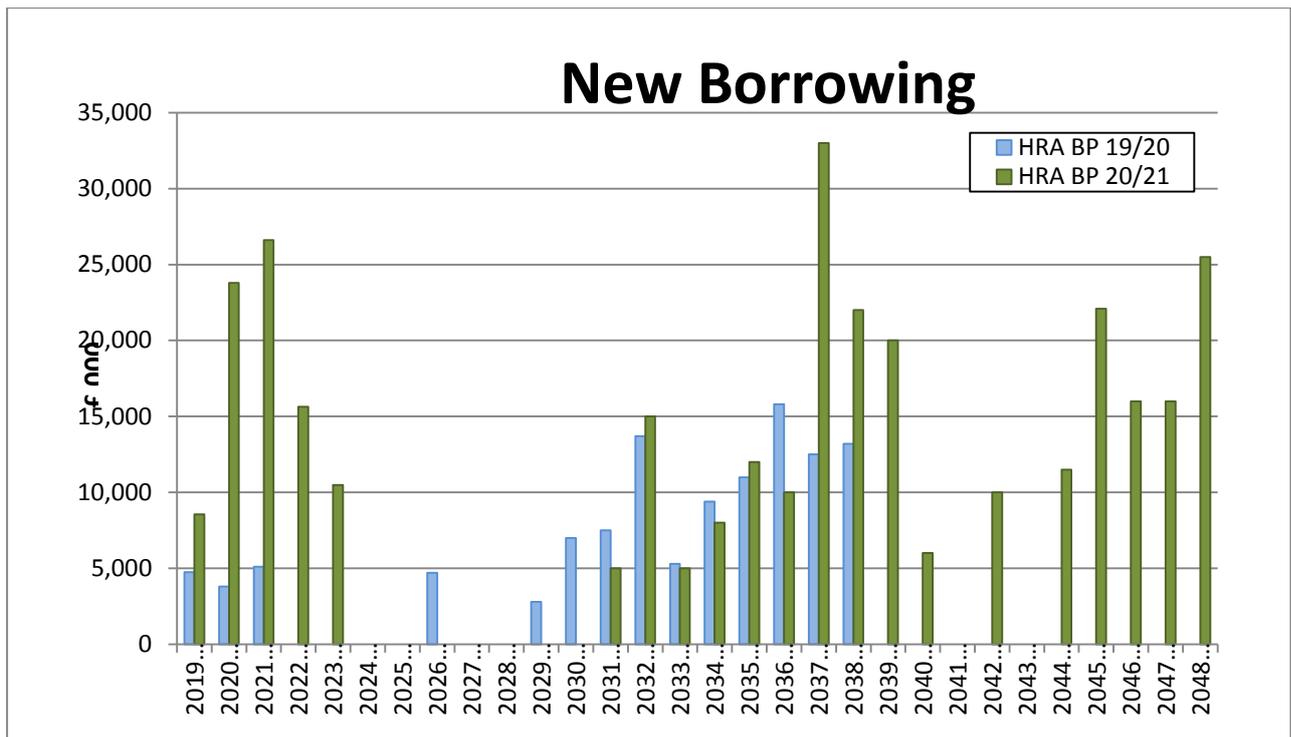
3.2.21 The options from the draft Capital Strategy are a combination of:

- Fund the works from borrowing and an annual increase cost to the General Fund- a £1Million growth is equivalent to circa £51,000 cost PA in interest and minimum revenue provision (MRP- 50 year life) costs.
- Identify Regeneration earmarked receipts that will be received by 2019/20-2020/21.
- Review the capital programme and putting on hold part of the programme until resources are released

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 (2020/21 onwards) and made a number of recommendations and these are contained within this report.

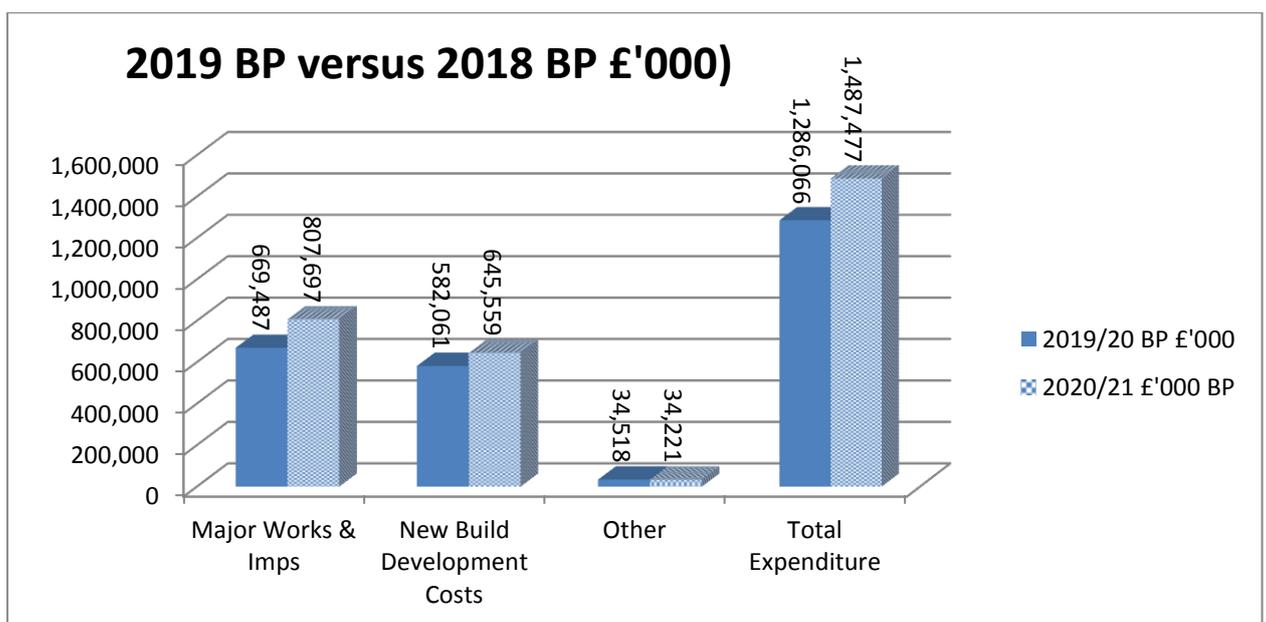
3.3 Housing Revenue Account (HRA) Investment Strategy

3.3.1 The HRA capital programme was revised as part of the HRA Business Plan update to the December Executive. The 30 year HRA capital programme totals £1.485Billion with additional borrowing as summarised in the table below.



3.3.2 The Business Plan (BP) plan includes additional borrowing (shown above) and a more ambitious new build programme and increase in capital works to existing homes. The new borrowing in the 2018 BP totalled £116.6Million, however the 2019 update now has new borrowing of £322.2Million.

3.3.3 The additional capital expenditure that has been approved as part of the HRA BP over the 30 years is summarised in the chart below and there is an additional £201Million of capital expenditure has been projected as well as revenue growth which funds planned maintenance, anticipated changes relating to the Hackett review and decent homes. A summary of the two 30 year plans is shown below.



3.3.4 The new build programme was £582Million in the 2018 BP and the updated plan now includes £645.6Million of spend, with 2,433 new build homes and an additional 175 units in the first 10 years of the programme.

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-20	Executive	Draft 2020/21 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2020/21 General Fund and HRA Capital Strategy
Feb-20	Executive	Final 2020/21 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2020/21 General Fund and HRA Capital Strategy
	Council	Final 2020/21 General Fund and HRA Capital Strategy

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

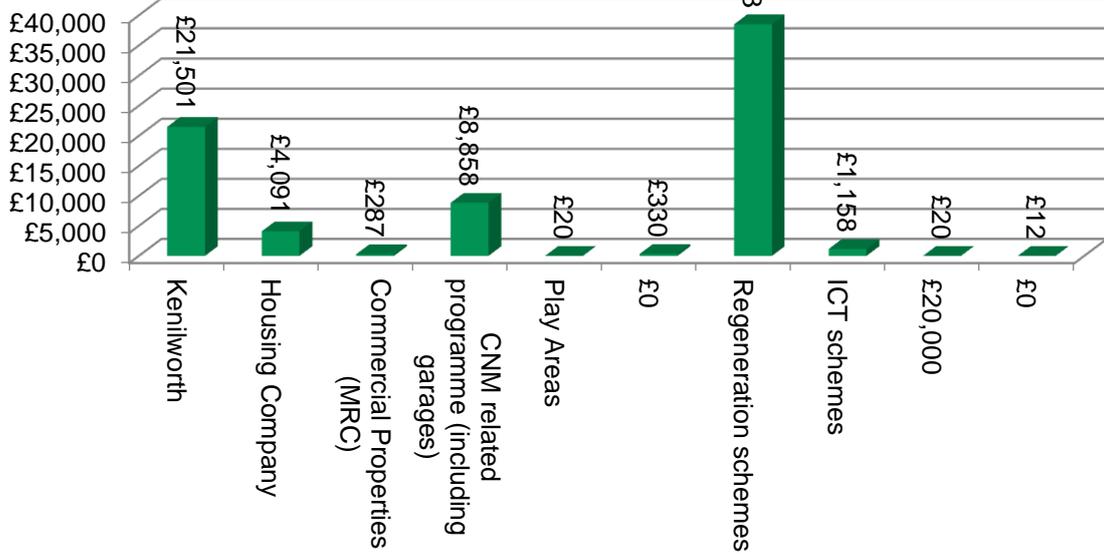
4.1 Capital Programme – 2020/21 General Fund Bids not requiring re-approval

4.1.1 As reported in the January Capital Strategy, 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 are:

- 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 These schemes now total £75Million (draft Strategy £57Million) over the period 2020/21-2023/24 and are summarised below. The regeneration schemes include the bus station and public sector hub. The increase between draft and final relates mainly to the General Fund element of the Kenilworth scheme.

Capital 2020/21-2024/25 £'000



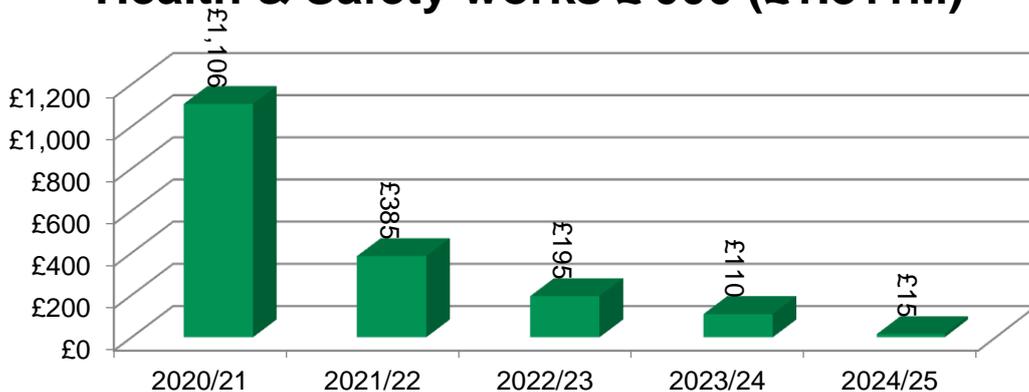
4.1.3 The capital bids submitted by officers with supporting rationale, were appended to the January Draft report (Appendices A and B) and had been reviewed and assessed by the Leader's Financial Security Group (LFSG).

4.1.4 The LFSG scored all options between zero (not supported at all) up to two (strongly supported) based on the principles set out in paragraphs 3.2.5-3.2.6. All scores were averaged and scores of 1.5 or more were considered as supported by the group and were recommended to the Executive for inclusion in the Capital Strategy.

4.2 Capital Bids Included in the Capital Programme.

4.2.1 Recommended in the January Executive were a number of bids classified as Health and Safety related and were also supported by LFSG. These bids now total £1.811Million (£1,825Million Draft Strategy) over the period 2020/21-2024/25, the January Executive was advised that added to this was boiler works at Bedwell Community Centre, which the Executive endorsed based on the usage and needs of the community.

Health & Safety works £'000 (£1.811M)

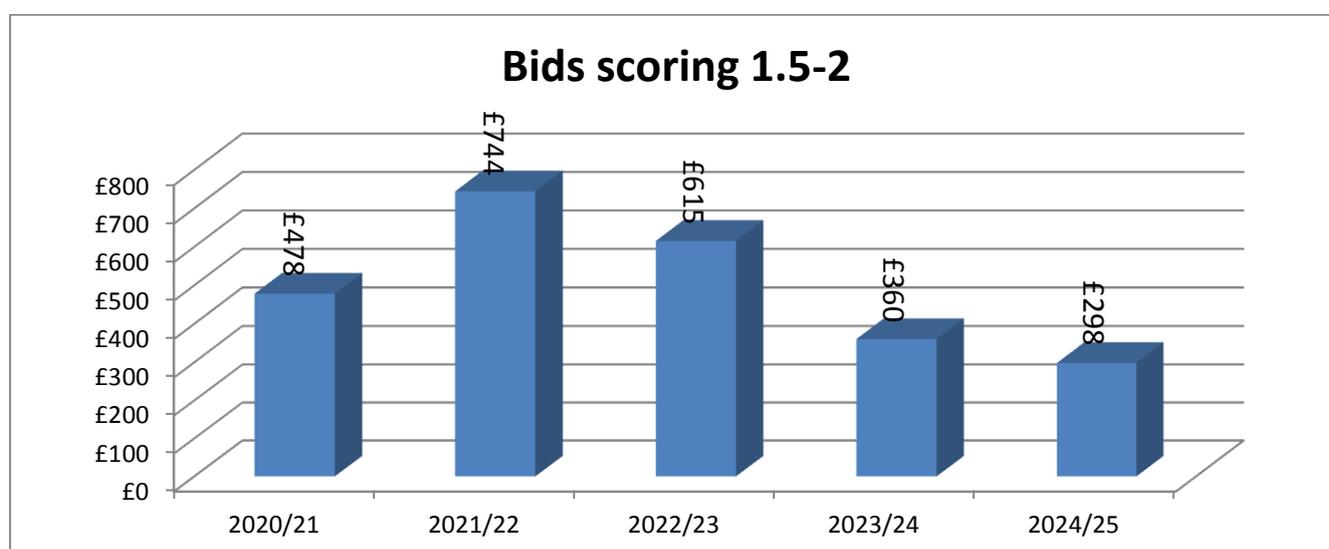


4.2.2 January Executive was advised that all bids scoring an average score of 1.5 or above are included in the Capital Strategy LSFSG (0= not recommended to 2=strongly recommended) due the financial constraints of the current capital programme. This recommendation remains unchanged for the Final Capital Strategy.

4.2.3 The bids were then further reviewed to challenge the profiling of the bids or whether they could be re-profiled ensure the capital programme was adequately resourced. This phasing shown in the January report remains unchanged and is summarised in the table below;

Ref.	Capital Bid	20/21 £'000	21/22 £'000	22/23 £'000	23/24 £'000	24/25 £'000
C39	Depots: Planned Preventative Works: boiler replacement	(£ 25)	£0	£25	£0	£0
C39	Depots: Planned Preventative Works: re-roofing	(£ 475)	£475	£0	£0	£0
C43	BTC Planned Preventative Works: roof lights in old building and workshops	£0	(£ 41)	£41	£0	£0
C43	BTC Planned Preventative Works: replace lights and controls	£0	(£ 131)	£131	£0	£0
C24	MSCP Planned Preventative Works	(£ 200)	(£ 50)	£0	£5	£245
C55	Aqua Splash Park, SALC, Swim Centre, and Fairlands Valley Sailing Centre Planned Preventative Works	(£ 46)	(£ 290)	£40	£0	£0
C65	phased replacement of Xmas lights in town centre and High Street	(£ 6)	£6	£0	£0	£0
TOTAL		(£ 752)	(£ 31)	£237	£5	£245

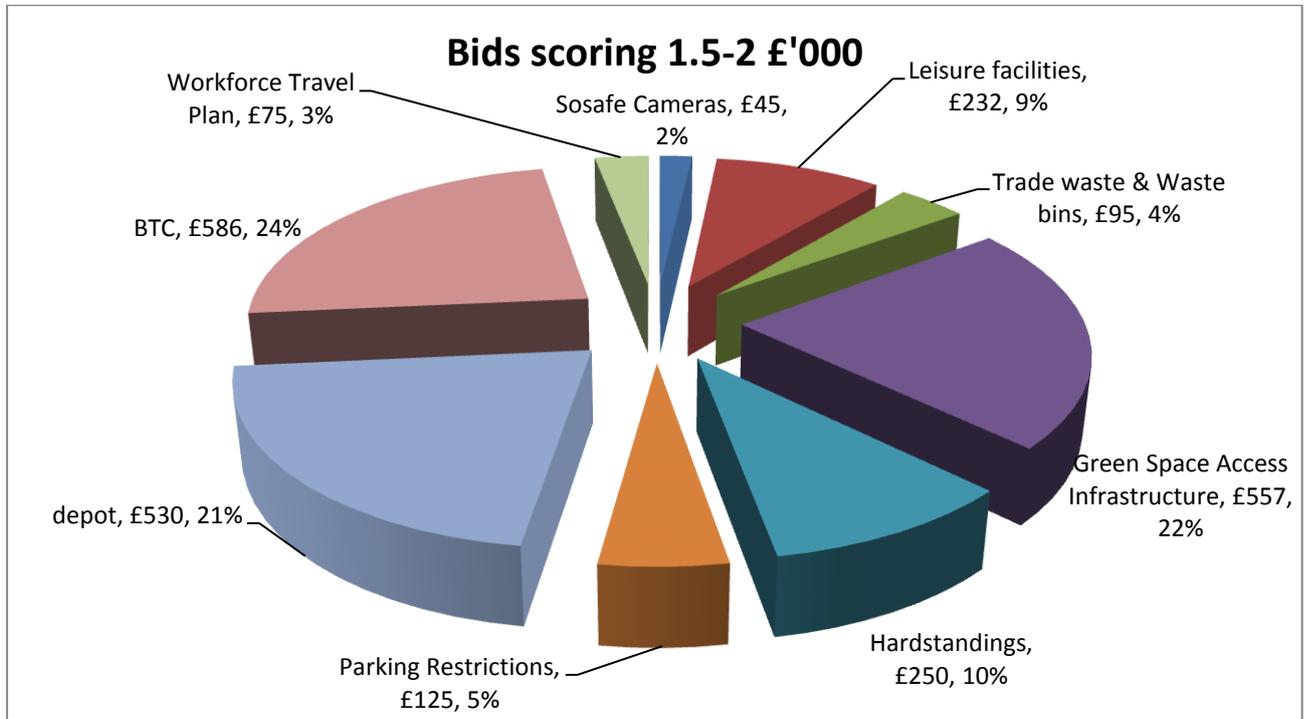
4.2.4 In the January Executive there were bids scoring bids 1.5 and above of £2.495Million and are summarised below.



4.2.5 The works are categorised over the period 2020/21-2024/25 of which 67% relates to three areas

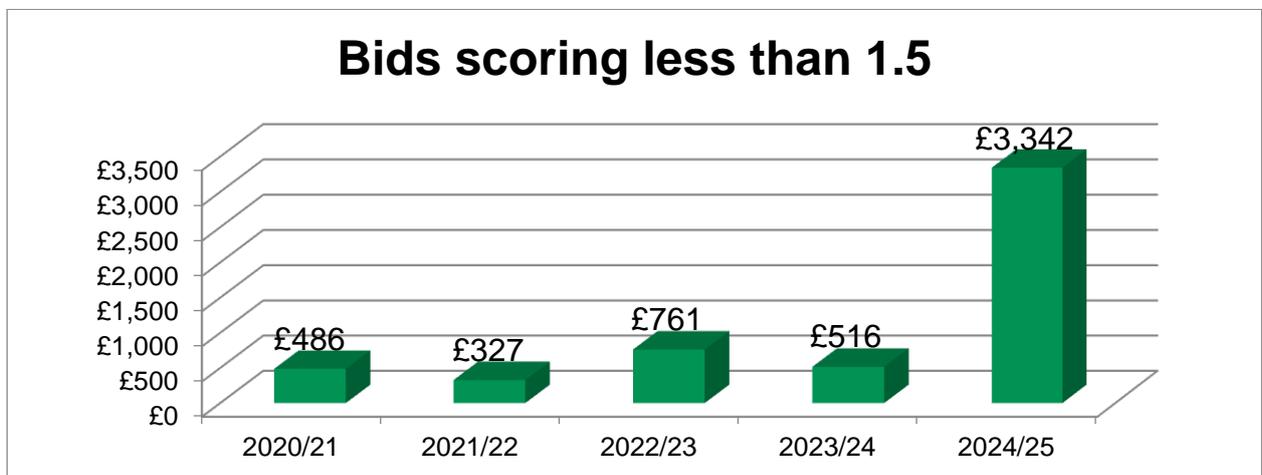
- Works to the BTC £586K
- Green Space infrastructure £557K
- Cavendish Road depot £530K.

A summary of the bids is shown in the pie chart below.

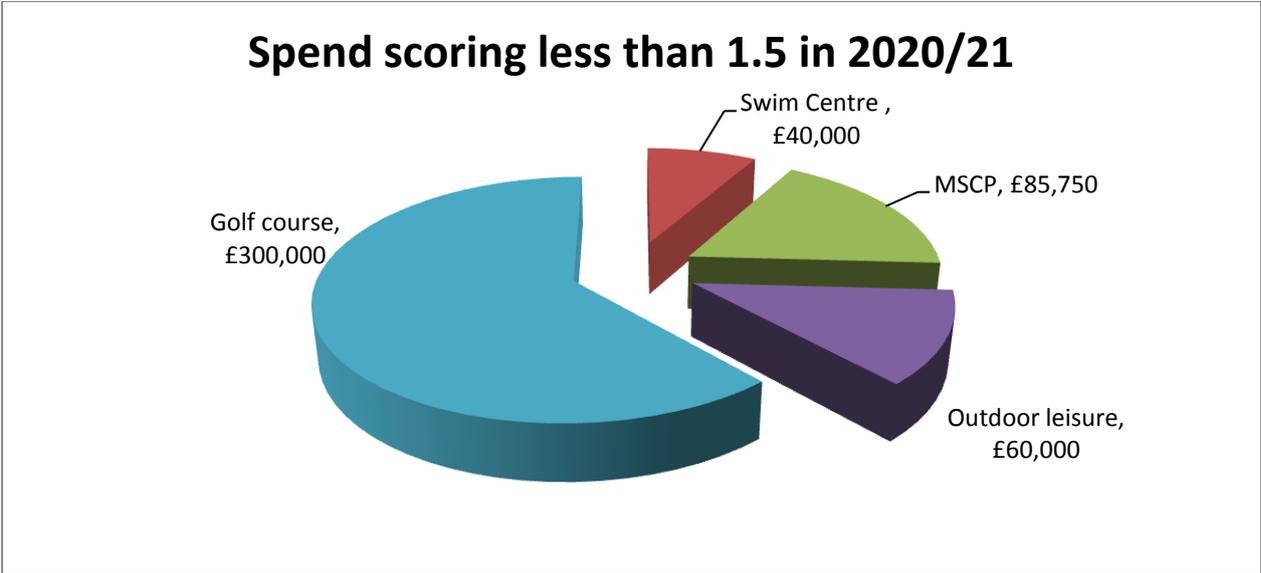


4.3 Bids Scoring Less Than an Average Score of 1.5

4.3.1 There are growth bids totalling £5.4Million, (draft Capital Strategy £5.7Million), scoring less than an average of 1.5. The reduction relates an estimated £296K not required in 2024/25 relating to leisure facilities. The Executive was advised in the Draft Capital Strategy that only £486K related to 2020/21 and the majority of the spend is in later years as shown below.



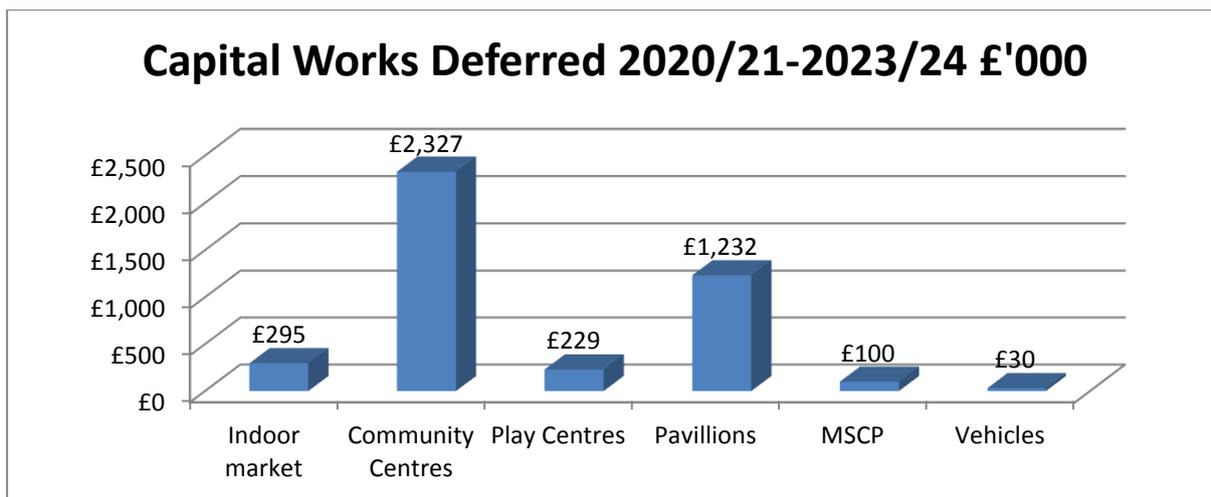
4.3.2 The bids relating to 2020/21 are summarised in the pie chart below, should any of this spend become unavoidable an allowance of £200,000 has been included in the Capital Strategy for 2020/21. As resources become available from the Locality Reviews, subject to any further pressures identified, these future year bids can be reviewed for inclusion in the 2021/22 Capital Strategy update.



4.3.3 The Council’s Senior Leadership Team in considering the Capital Strategy recommended that the bid relating to works to the Multi-Storey Car Park of £250K per year from 2021/22 onwards should be included in the proposed Capital Strategy, despite scoring less than an average of 1.5. This is because of the need to ensure the MSCP remains operational particularly as some car parks will be redeveloped as part of the regeneration programme in the town. This change has been reflected in sections 4.8 and 4.9 of the report.

4.4 Capital Bids Requiring Further Reviews/Business cases

4.4.1 As Members were informed at the January Executive there were some options that were not supported or required further reviews of assets prior to their inclusion in the programme. LFSG were not able to score these bids without understanding more fully the impact of any future reviews in terms of community centres and Locality Reviews. The works total £4.2Million with £746K in 2020/21 and are summarised below.



**excludes MSCP works in paragraph 4.3.3*

4.4.2 Some of the growth bids require a business case to determine the benefits which may then lead to their inclusion in a future update of the Capital Strategy.

4.5 Capital Bids Not Supported Due to Financial Constraints

4.5.1 At the January Executive Members noted that there was also one bid which LSFG considered worthy of support but based on the current financial position of the Capital Strategy could not approve its inclusion in the Strategy due to funding constraints. This option is shown below and included in.

Ref.	Capital Bid	2020/21	Commentary
C59	Improving environmental credentials of build at Kenilworth Close	900,000	To improve the environmental credentials of the scheme at Kenilworth Close and reduce running costs for the scheme and help tackle the climate change. Provide an opportunity for local authority leadership in accordance with LGA Climate emergency agenda. Other sites and grant funding opportunities will also be explored to deliver this.
TOTAL		£900,000	

4.5.2 At the January Executive, Members supported the inclusion of this in a future Capital Strategy as a high priority should funding become available to support the Council's climate change ambitions.

4.6 Bids not recommended

4.6.1 There were a total of two bids not recommended totalling £45K and these are shown below and remain unchanged from the January Executive.

BIDS NOT RECOMMENDED				
Ref.	Score	Capital Bid	2020/21 £'000	Capital Bid
C63	0.8	Pin Green Play Centre - Refurbish Washroom	25	The area was re-inspected recently and it was reported that the area should be 'earmarked' for refurbishment within 5 years as deterioration was noted in comparison with previous findings. The washroom is currently useable and was not strongly supported as a growth bid
C53	0.8	Stevenage Golf Centre - Greenkeepers accommodation	20	Temporary building has reached the end of its useful life and requires removal and making good of the site. The accommodation is not used by SBC and as such not considered as a priority and was not strongly supported as a growth bid
BIDS NOT RECOMMENDED			£45	

4.6.2 As stated in paragraph 4.3.2, a deferred works reserve is proposed for inclusion in the capital strategy should any costs become unavoidable. The Total value of works deferred, pending reviews, scoring less than 1.5 or not recommended total £1.278Million for 2020/21 and the £200K deferred works reserve represents 16% of the total in 2020/21. This means there is an element of risk with the Strategy and therefore it is critical that the Locality Reviews are completed.

4.7 Locality Review Update

4.7.1 The January Executive outlined the approach to Locality reviews which was included as an action from the Asset Management Strategy. The Executive were advised that progress has been challenging with the restructure of the Estates section and the change in staffing personnel.

4.7.2 Workshops were held with Members in 2018-2019 to identify any opportunities that they may be aware of to support the Locality Review work.

4.7.3 The programme has been recently been reinvigorated and has a ward by ward focus, while also looking at adjoining wards for any other opportunities. The first three wards have been initially reviewed with the following aims:

1. Re-provide future Proof sustainable Council assets and consider co-locating assets that are within near proximity-with an aim at to be cost neutral.
2. Align with other Council initiatives such as the Community Centre reviews and garage refurbishment programme
3. Target a 20% reduction in maintenance costs by either improving or divesting assets.
4. Release Capital from surplus/underutilised assets/land
5. Increase Income for the General Fund from the Council's assets where appropriate

4.7.4 The Locality Review Board has started to meet monthly and is sponsored by the Assistant Director (Finance and Estates), the Board includes officers from different business units who use or manage the Council's assets. During the process planning colleagues have been consulted with to determine option viability and the Board have recommended which options merit further work before consultation with the relevant ward Members, Resources Portfolio Holder and the Leader of the Council. These options include:

- Potential opportunities of small land site disposals to support the capital programme and also finance sustainable improvements to existing assets.
- Re-provision and future proofing of community assets

4.7.5 The current timetable for completion of the Locality Reviews is July 2020, the outcome should be a list of high level of opportunities to be consulted on and also a site disposal list.

4.7.6 Based on the work to date and subject to consultation with Members it is recommended that a target of £1Million is an outcome for the reviews in 2020/21 to support the funding of the Capital Strategy.

4.8 Summary Capital Programme 2020/21-2024/25

4.8.1 The Capital Strategy for 2020/21-2024/25 now totals £82.30Million, including assumptions about the regeneration schemes such as the public sector hub, bus station and public realm works.

Capital Bid	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Already approved and not in new bid list	£18,525	£5,027	£16,041	£21,715	£13,492	£74,800
Health and Safety and urgent works (Priority 3 bids)	£1,106	£385	£195	£110	£15	£1,811
Reviewed previously agreed bids	£120	£249	£116	£705	£0	£1,190
Bids scored 1.5 - 2	£478	£744	£615	£360	£298	£2,495
Further bid recommended for inclusion by SLT - MSCP	£0	£250	£250	£250	£250	£1,000
Deferred Works budget	£200	£200	£200	£200	£200	£1,000
Proposed Capital Strategy schemes	£20,429	£6,854	£17,418	£23,340	£14,255	£82,296

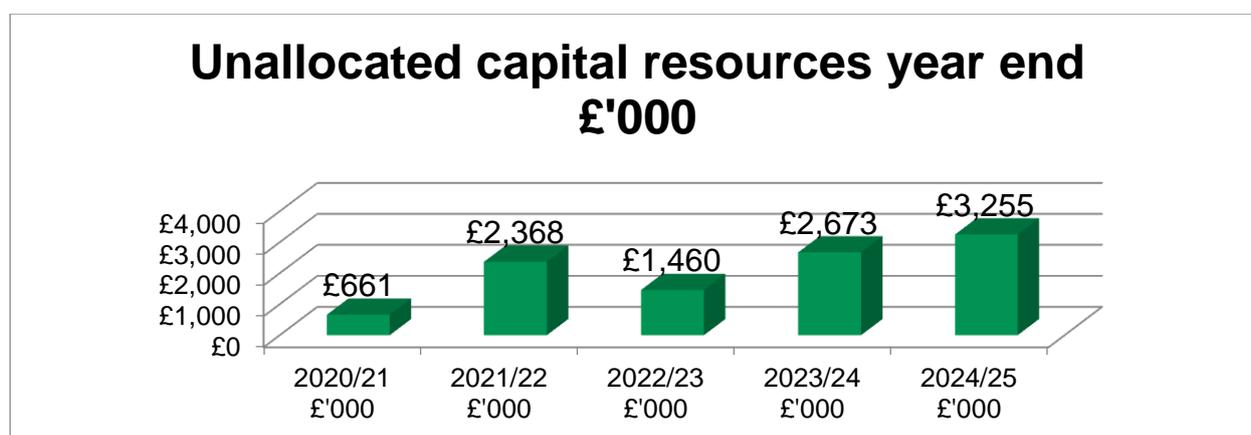
4.9 Capital Resources for the General Fund Capital Strategy

4.9.1 The projected resources available to fund the Capital Strategy now total £85.55Million, which is £3.25Million, (Draft Strategy £2.23Million) more than the bids included in the updated Capital Strategy as summarised below.

Capital Resources available	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Capital Receipts	£5,934	£4,790	£0	£10,173	£0	£20,798
Capital Receipts - assumed for Hub			£2,474	£13,384	£13,384	£29,242
Capital Reserve	£1,784	£1,438	£1,442	£1,445	£1,449	£7,558
Regeneration Asset Reserve	£200	£0	£0	£0	£0	£200
Grants, LEP, S106 and other contributions	£7,519	£816	£4,344	£3,916	£0	£16,594
New Homes Bonus	£465	£363	£226	£0	£0	£1,053
Revenue contribution to capital spend (RCCO)	£59	£4	£4	£4	£4	£75
Prudential Borrowing Approved	£4,119	£1,702	£4,209	£0	£0	£10,031
Total Capital Resources available	£20,079	£9,113	£12,600	£28,922	£14,837	£85,551

**assumed to be funded from SG1 land value receipts.*

4.9.2 However there is a significant amount of deferred works as summarised in paragraph 4.6.2 and there may be risk around receipt realisation, as the use of capital receipts is dependent on delivery of the sites to the market. The current bids and funding leaves a balance of only £661K at the end of 2020/21 unallocated as summarised below. However the level of balances left beyond 2020/21 if realised would allow some deferred works to be included in a future update.



4.9.3 In the January report the unallocated balance was £56K and this was not deemed sufficient. The actions required (as outlined in paragraph 3.2.16) have been completed and the following assumptions/changes made:

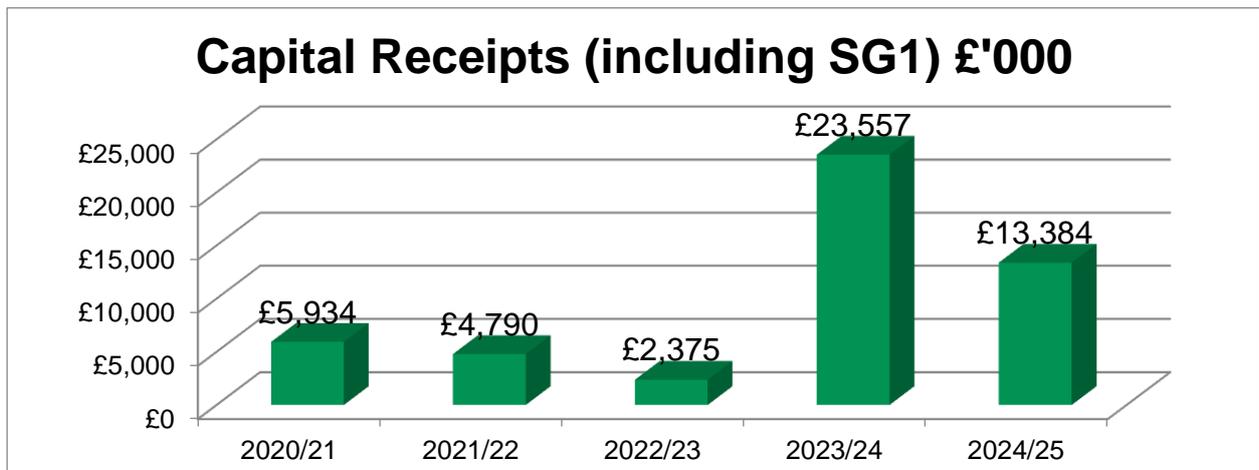
- Increase in contribution from the General Fund in 2020/21 one off £250K – this will only be drawn on if the Locality Reviews do not deliver additional capital receipts.

- Increase in General Fund underspends from year end £150K- this will require control over carry forward budgets, however an underspend of this level, £500K including the planned £350K contribution is not unreasonable
- Review of profiled spend - £58,000 moved from 20/21 to 21/22
- Review of S106 Monies –There are anticipated some S106’s to become due in 2020/21 due to development in the town and these will be considered for potential funding of the programme subject to the conditions applied.
- If any of the garage site disposals are not realised then the garage programme spend will need to be reduced by that amount.

4.9.4 **The CFO considered** the level of balances required as a minimum £500K-£750K and the **£661K is a sufficient year-end balance**. However this will need to be kept under review and the delivery of the Locality Reviews is imperative. This also assumes that the bus station monies will be released.

4.9.5 In considering the risk these are:

- Potential for scheme overspends
- Potential for not spending all the LEP monies by the deadline and therefore some costs falling on the Council’s resources
- Potential for delay in realising capital receipts – there are £5.9Million of land/asset sales to be achieved in 2020/21. As shown in the chart below.



- The deferred works budget of £200K would not be sufficient to fund any works not currently funded in the Strategy
- Potential that the bus station is not funded from GD3 monies
- Potential future risk to the level of Capital Reserve available of NHB funding which would jeopardise the £250K NHB contribution to the fund and CNM contributions
- Potential for no General Fund underspends. The **Capital Reserve for 2020/21** is reliant on General Fund underspends of £500K and £350K per year (not included in General Fund projected year end balances).

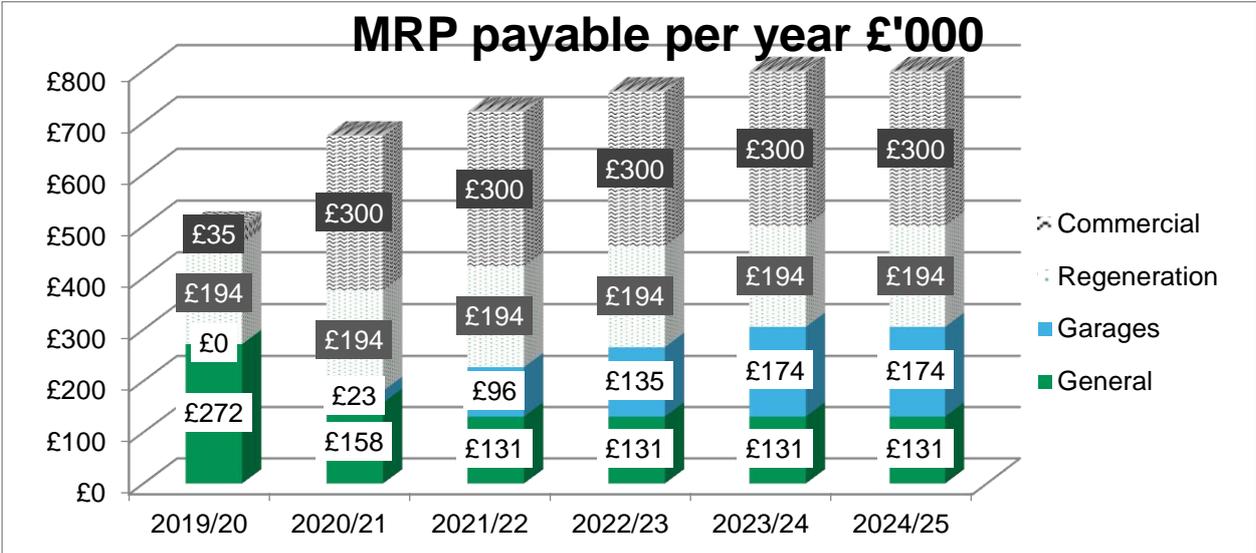
4.9.5 The CFO may consider in addition to the actions taken above:

- Prioritise the disposal of land sites (identified as part of the Locality Review work) after consultation with Members (section 4.7 refers)
- Consider using the budgeted amount for historic borrowing of £95K which would lever in approximately £1.35Million of new borrowing (interest and MRP on assets with a 25 year life). However this may also be needed to help fund the bus station.
- Review the progress of funding for the bus station from GD3 monies. Currently Members have approved the ring fencing for regeneration £1.726Million of capital receipts which are not shown in the Capital Strategy as available for funding the programme. This falls short of the amount needed should the bus station funding not be released and also may be required for other regeneration projects. The table below identifies the potential shortfall in funding.

Bus Station Funding £'000	2019/20	2020/21	Total
Funding required for the Bus station	£500	£5,876	£6,376
Funding from Regeneration reserve	£75		
Funding from General Fund borrowing provision		£1,350	£1,350
Funding from Regeneration earmarked Receipts	£425	£1,301	£1,726
Shortfall- defer capital schemes/increase borrowing costs/dispose of other assets		£3,225	£3,225
Total	£500	£5,876	£6,301

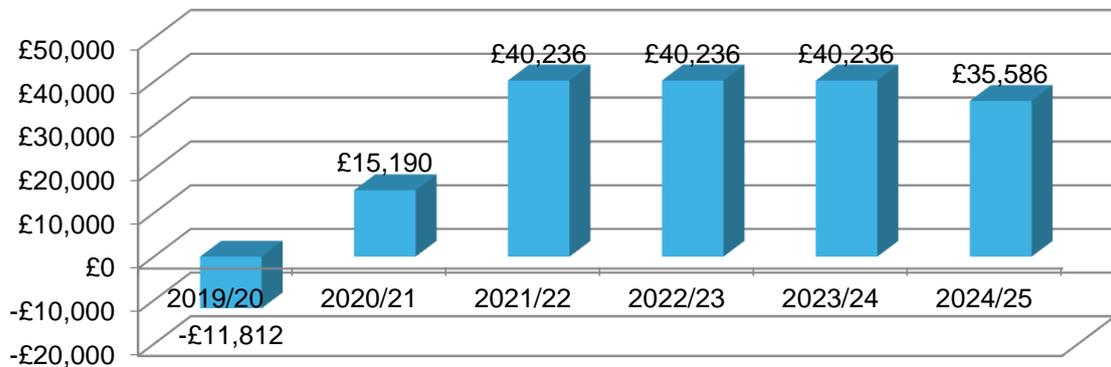
- 4.9.6 The Treasury Management operational boundary for prudential borrowing has been increased to allow the Council to borrow in the short term for the bus station. To fund the borrowing would require an increase in the General Fund savings target required/ potential reduction in General Fund services/putting on hold a significant part of the capital programme.
- 4.9.7 Following on from the immediate actions identified above, in the short term the following actions need to be monitored by the Assets and Capital Group:
- Delivery of 2020/21 and 2020/22 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
 - Identify and review bringing forward strategic sites for development/disposal
 - Ensure the Capital Programme remains within the budgeted spend and minimises any additional expenditure requirements
- 4.9.8 The Locality Board needs to deliver:
- The high level reviews by July 2020 to deliver financially sustainable assets by reviewing condition and considering whether continued investment represents value for money.
 - Bring forward windfall sites as soon as possible identified as part of the Locality Reviews (subject to Member consultation and approval to dispose of).
- Target of £1Million**

- 4.9.9 The Regeneration Steering Group needs to ensure that LEP funding is maximised to minimise any risk to the Council’s finances.
- 4.9.10 The alternative to the approach set out in paragraphs 4.9.5-4.9.9 is to consider borrowing to fund capital expenditure. In the recent past borrowing has been used when the costs of borrowing have been funded from receipts generated, e.g. commercial property purchases OR the business case has determined that the borrowing costs are in the main funded as in the case of the garage programme.
- 4.9.11 The use of borrowing would put an on-going pressure on the General Fund and would require an increase in the level of Financial Security savings required in future years. The current level of Minimum Revenue Provision (MRP) paid in the General Fund is shown in the following table.



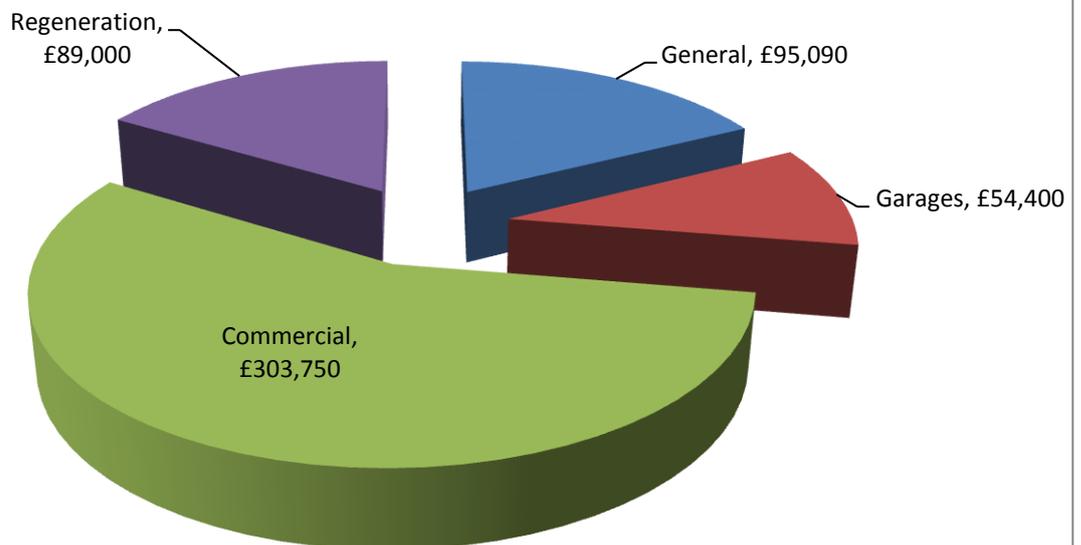
- 4.9.12 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets. MRP is payable regardless of whether the borrowing is taken externally or whether internal investment balances are used.
- 4.9.13 An action from the 2018 Capital Strategy was for the CFO to review the lives of the assets funded from borrowing to determine whether the MRP payment in year is appropriate. This was undertaken as part of the mid-year Treasury Management review of 2019/20. The useful lives of all assets financed through borrowing were reviewed. Following this review asset lives now ranges from 7 years (ICT equipment) to 50 years (Investment properties, regeneration sites and carparks for example).
- 4.9.14 The outcome of the review is included in the General Fund draft budget and MTFS and has had the following impact on the General Fund, (included in the numbers above). There was an adverse impact of £11K in 2019/20, increasing to a £40K saving per year by 2021/22.

Impact of MRP review on General Fund Budget per year



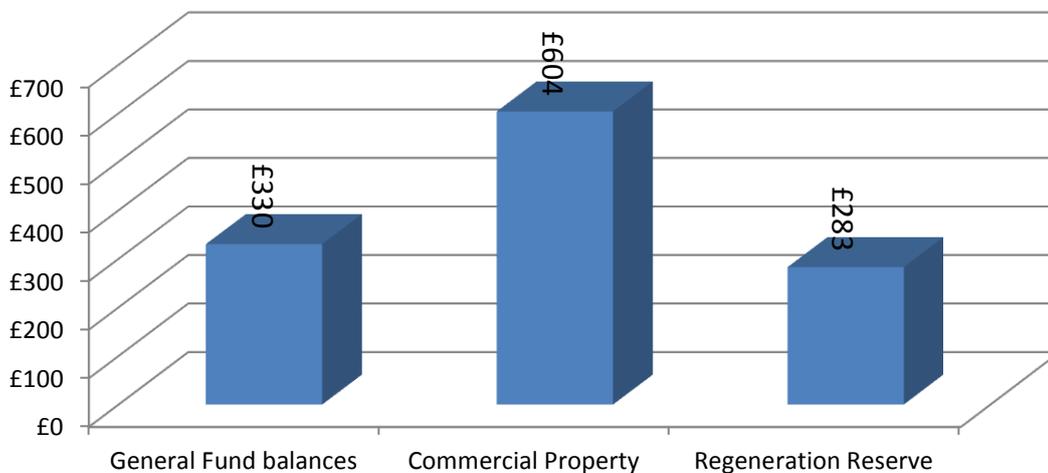
4.9.15 The 2020/21 projected interest costs on borrowing is estimated to be £542,240 (2019/20 £570,690). The 'general' interest budget (shown in the chart below) relates to capital expenditure for the period 2011/12-2013/14 but where external loans have not yet been taken.

Interest Costs 2020/21



4.9.16 The total cost of borrowing in 2020/21 is £1.164Million or an estimated 2% of gross General Fund expenditure. However the majority of this cost is met from within the income generated from assets as shown below.

Borrowing costs for the General Fund 2020/21 £1.217Million



Interest rates are 3.06% for a 25 year loan as at 7/1/2020, which would mean a cost per £million (based on assets with a 25 year life) of £71,000. 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.

4.10 Investment in Commercial Property

- 4.10.1 The Prudential Code outlined in paragraphs 3.1.5-3.1.7 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.
- 4.10.2 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). The Strategy focuses on the acquisition of property investments within the Borough boundary. 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 its Financial Security aims.
- 4.10.3 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.
- 4.10.4 In 2019/20 there has been no new purchases, a number of properties have been assessed but were not able to give an acceptable return or strong enough covenant.

- 4.10.5 The lack of investment purchases have been exacerbated by a number of issues including:
- The staffing capacity in the Estates section which although has been restructured is not fully staffed yet and have needed to focus on regeneration activity.
 - Increase in PWLB rates available to Local Authorities by 1%. So 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 2020/21 (2.2% of net budget for 2020/21).
 - The lack of suitable property investments currently available
- 4.10.6 Action taken to mitigate the impact on the General Fund is:
- The CFO has recently sought counsel's opinion on investing in property inside and outside the Stevenage boundary in pursuant of supporting the financial provision of the Council's services.
 - Review of the Strategy to revise the scope of investments
- 4.10.7 The Council's Property Investment Strategy will be reviewed to potentially include purchases outside the Stevenage Boundary and Local Plan economic area. Although this will need to be assessed on a case by case basis, in general considering the Prudential code and the applicable legislation the CFO does not consider this to be borrowing in advance of need.
- 4.10.8 The Council's Medium Term Financial Strategy has identified an on-going funding gap of £2.1Million for the next three years and the purchase of property assets will allow the continuation of existing services for the benefit of Stevenage residents and purchases are not acquired solely for profit.
- 4.10.8 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.

4.11 Other capital investments.

- 4.11.1 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 £1.4Million in 2018/19 and a further £3.9Million 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.

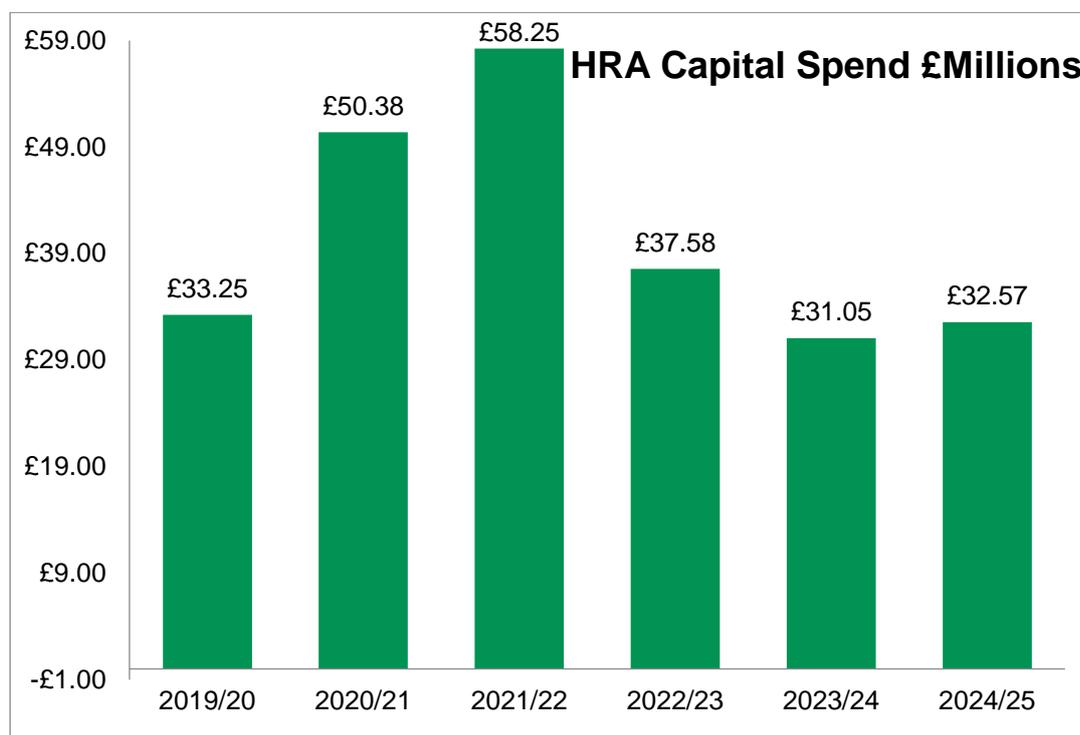
4.11.2 The Council has undertaken a long term lease for a mixed development scheme on Queensway in the town centre. This is a lease arrangement and falls outside the scope of capital investment. As part of the decision making process a risk assessment was undertaken and presented to Members. Key Officers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

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

4.12 Capital Programme – Housing Revenue Account (2019/20-2024/25)

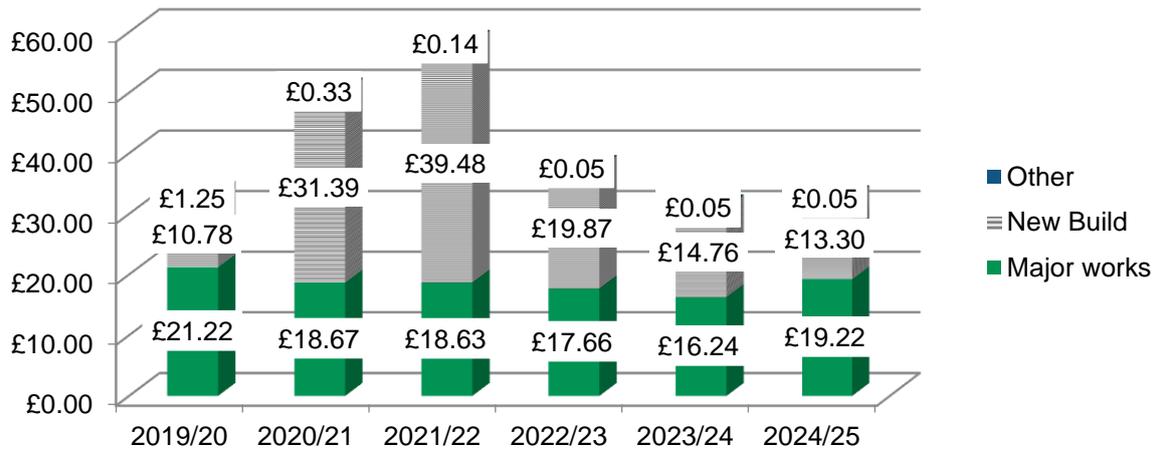
4.12.1 The HRA Business Plan presented to the December 2019 Executive has revised the approach to borrowing in light of the lifting of the HRA borrowing cap by the Chancellor. The approach taken is based on the HRA need to borrow and affordability. As such the revenue contribution to capital originally identified to fund the HRA capital programme for 2019/20 and beyond has been replaced with new borrowing.

4.12.2 The capital programme is summarised below and totals £243.08Million.



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

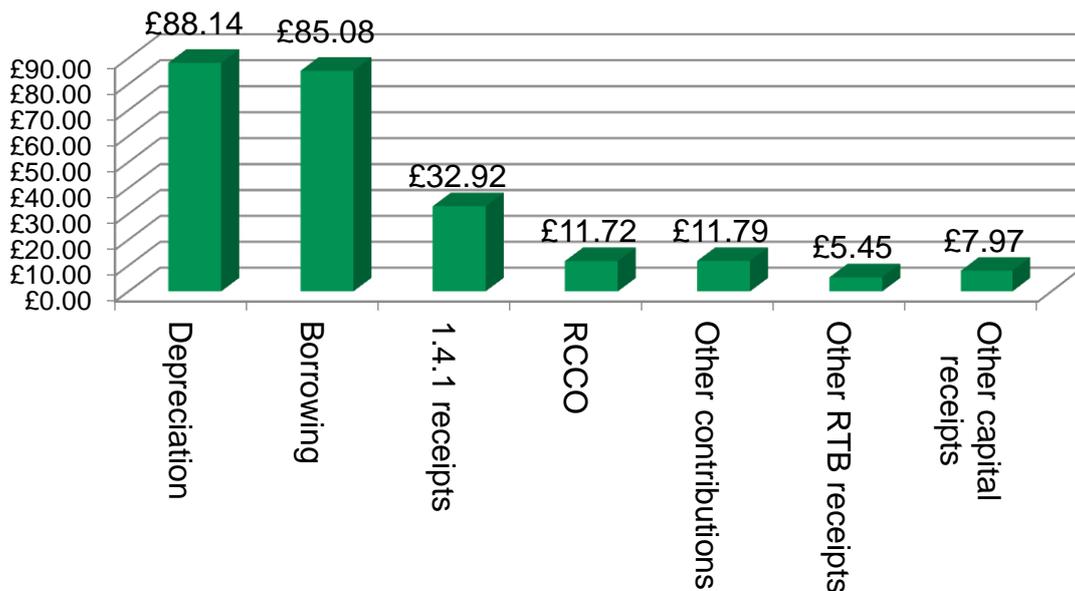
HRA Capital Spend in £Millions



4.13 Capital Programme – HRA Resources (2019/20-2024/25)

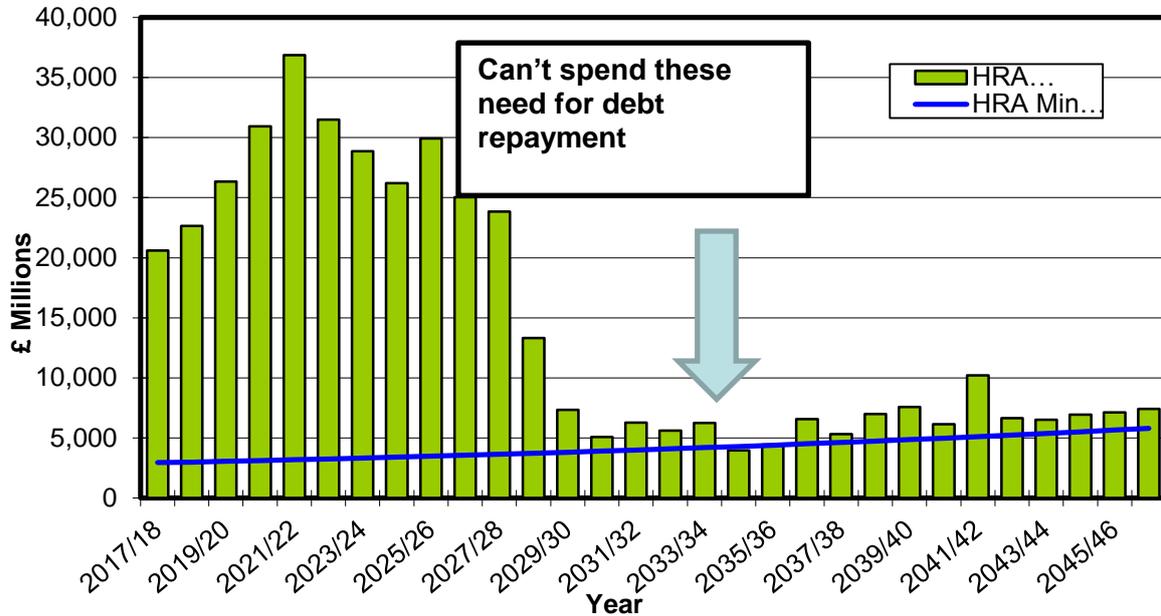
4.13.1 The HRA capital programme funding has switched between revenue contributions to borrowing, the main funding sources, of which the largest percentage is funded from the HRA (via depreciation charges), this accounts for 36% (73%, 2019/20) of total funding. Borrowing now is 35% of funding for the period (2019/20, 8.7%) with Capital receipts from the sale of council houses 15.8% (13.5%, 2019/20) of total funding; however as Members will be aware the 1.4.1 receipts have restricted use.

HRA Capital Resources £Millions



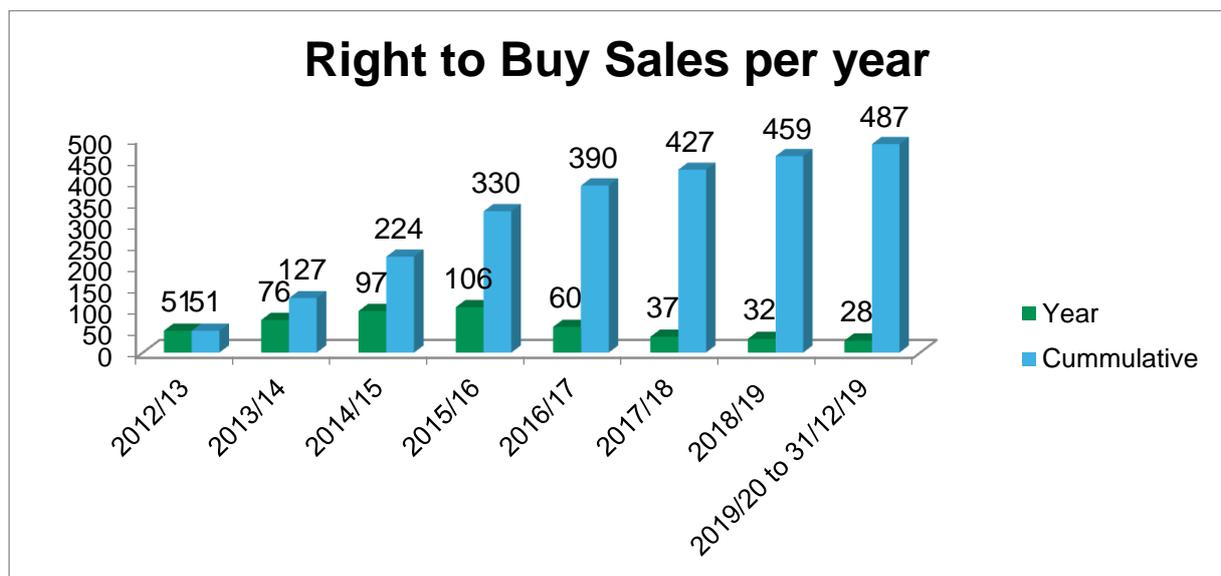
4.13.2 The dependency on HRA revenue budgets to fund the programme has been significantly reduced up to and including 2023/24, however the cost of borrowing for the HRA means that the HRA balances are projected to be at minimum levels during the middle part of the business plan as summarised below.

HRA Balances

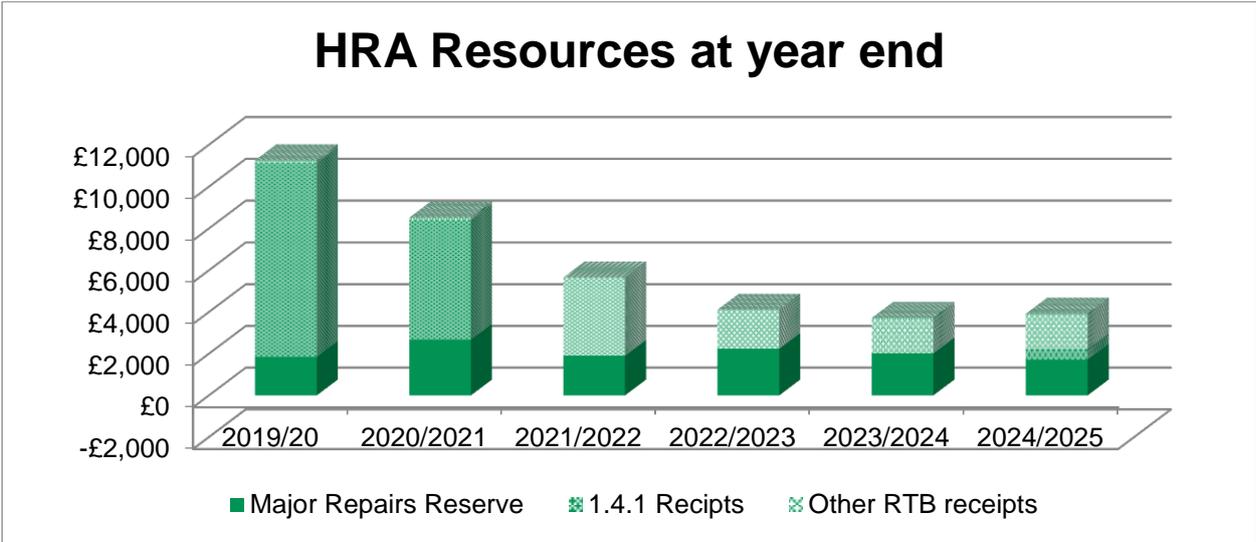


4.13.3 The HRA risk assessment of balances reflects the need to hold higher reserves to fund interest rate fluctuations and £5Million has also been set aside in allocated reserve to allow for interest rate changes. This was agreed as part of the HRA BP report to the December Executive.

4.13.4 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 2019/20 (up to 27/1/2020) there have been 30 RTB sales.



- 4.13.5 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 £82,800 in 2019/20.
- 4.13.6 The 2019/20 and 2020/21 HRA budget assumes new loans totalling £8.6Million and £23.8Million respectively. The interest payable in 2019/20 and 2020/21 is estimated to be £6,866,810 and £7,837,130 respectively.
- 4.13.7 The majority of resources available at year end are restricted use 1-4-1 receipts as shown in the following table.



4.14 Return of One for One Receipts

- 4.14.1 Members have been previously advised that receipts may need to be returned in 2019/20 and this is now estimated to be £372K. Projections are very much dependent on the level and profiling of capital expenditure between January and April 2020. On a repayment amount of £372K the estimated interest payment is £55k which can be funded from the debt receipt portion of RTB receipts. It is anticipated that a further £317K may have to be returned in the first quarter of 2020/21 with an associated interest cost of £47K.
- 4.14.2 Members approved at the January Executive that officers write to the Secretary of State to request that these monies are not returned to the government but are allocated for the Council’s ambitious housing building schemes such as Kenilworth.

4.15 De Minimis Level for Capital Expenditure 2020/21

- 4.15.1 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.
- 4.15.2 The limit set for 2020/21 remains unchanged at £5,000 in the Draft Capital Strategy, this applies to a scheme value rather than an individual transaction.

4.16 Contingency Allowance for 2020/21

- 4.16.1 The contingency allowance for 2019/20 is £250,000, the contingency proposed for 2020/21 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.
- 4.16.2 A new contingency allowance is proposed relating to the use of restricted use or 1.4.1 receipts for registered providers to ensure that the Council achieves nominal rights and doesn't have to return 1.4.1 receipts to the government. This contingency allowance is a further £500,000 for 2020/21.

4.17 Overview and Scrutiny

- 4.17.1 Overview and Scrutiny met on the 28 January and the Assistant Director (Finance and Estates) presented the Draft Capital Strategy at that meeting.
- 4.17.2 In response to a Member's query regarding why capital bid C59 (Improving the environmental credentials of the build at the Kenilworth Close scheme) had not been recommended for inclusion in the Capital Strategy, the Assistant Director (Finance & Estates) explained that, though not agreed as an additional resolution, the Executive had requested that, should there be a financial overachievement of land and asset sales during the year, then priority should be given to some of this income being earmarked for improvement of the environmental credentials of the build at the Kenilworth Close scheme.

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

- 4.9.6 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. 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 £500,000 of underspends will be available to fund the programme for 2020/21 and £350K on-going. If they do not materialise there would be a shortfall of £1.9Million 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. An amount of £200,000 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 The level of year end balances for the General Fund is £661K which is low but within the £500-£750K. There is a risk that this could lead to more prudential borrowing and increased costs to the General Fund.
- 5.3.6 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.
- 5.3.7 The Council's ambition around regeneration, housing delivery and Neighbourhood regeneration could increase pressure on scarce capital resources.
- 5.3.8 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 additional 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.

5.5 Climate Change Implications

- 5.5.1 The council's buildings across the town do not meet the climate change agenda in terms of use of energy efficiency or divestment of use of fossil fuels and in their current condition they would undermine the Council's attempt to be carbon zero by 2030.
- 5.5.2 However, there is an opportunity with the Locality Review agenda to have design principles built into renewed assets in terms of energy efficiency and sustainable energy sources. This should be a core principle of any future designs arising from the Locality Reviews. There would be a further benefit of reduced energy costs.

- 5.5.3 The climate change agenda is far wider than just the buildings the Council uses, the Council are also examining the vehicle fleet the Council uses and consideration will be given to reducing the carbon impact of the fleet moving forward.

BACKGROUND DOCUMENTS

- BD1 2nd Quarter Capital Monitoring report (November 2019 Executive)
- BD2 Final HRA Rent Setting and Budget Report (January 2020 Executive) – elsewhere on this agenda
- BD3 HRA Business Plan 2019 update (December 2019 Executive)
- BD4 Draft Capital Strategy (January 2020 Executive)

APPENDICES

- A - General Fund Capital Strategy summary
- B - HRA Capital Strategy summary