Part I
Release to Press

Meeting:	**EXECUTIVE**		**Agenda Item:**	
Portfolio Area:	Resources			
Date:	**16 September 2020**			

QUARTER 1 MONITORING REPORT (CAPITAL) - GENERAL FUND AND HOUSING REVENUE ACCOUNT

KEY DECISION

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1 PURPOSE

1.1 To provide Members with an update on the Council's 2020/21 capital programme.

1.2 To seek approval for the revisions to the General Fund and Housing Revenue Account capital programme.

2 RECOMMENDATIONS

2.1 That Executive approve the 2020/21 General Fund capital programme net decrease in expenditure of £1.4 Million as summarised in table one, para 4.1.1.

2.2 That Executive approve the General Fund net increase (arising from slippage) of capital expenditure of £1.6 Million in 2021/22, also as summarised in table one, para 4.1.1.

2.3 That Members note the net decrease of £705K in the capital expenditure for 2020/21 Housing Revenue Account, as summarised in table five, para 4.3.1.

2.4 That Members note the net decrease (arising from slippage) of £10.9 Million in the capital expenditure for 2021/22 Housing Revenue Account, also as summarised in table five, para 4.3.1.

3 BACKGROUND

3.1 The 2020/21 capital programme was approved as part of the 2019/20 Outturn Report at the July Executive:

- General Fund £36.7 Million
- Housing Revenue Account £34.8 Million

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2020/21 General Fund Capital Programme

4.1.1 The updated projected spend for 2020/21 General Fund capital programme (as detailed in Appendix A) is £35.3 Million, a net decrease of £1.4 Million which is mainly due to slippage in the garage programme. The detail for all schemes is shown in table one:

Table one: Changes to General Fund Capital Budget		
Capital Programme Change to 2020/21 Working Budget & 2021/22 Projected Budget	Increase (Decrease) to 2020/21 Working Budget £'s	Increase (Decrease) to 2021/22 Projected Budget £'s
Slippage/Acceleration		
Garages Programme	(1,422,070)	1,422,070
Kenilworth Housing Development - Retail	(207,132)	207,132
Kenilworth Housing Development - Community Centre	(162,218)	(324,246)
Commercial Properties Refurbishment (MRC Programme)	(237,660)	237,660
Fairlands Valley Park Sailing Centre - Boathouse	(12,000)	12,000
Boathouse works for dry rot	(15,000)	15,000
Coreys Mill Lane - Additional Parking Capacity	2,000	(2,000)
Total Slippage	**(2,054,080)**	**1,567,616**
Increases/(Decreases) to 2020/21 Budget		
Grants To Registered Providers	610,065	
Replacement vehicle for LK10 FDJ - Toro LTF3000 Mower	39,350	
Garage Site Assembly	(40,000)	
Total Increases/(Decreases) to 2019/20 Budget	**609,415**	**0**
Total Change in Working Budget and Projected Budgets	**(1,444,665)**	**1,567,616**

4.1.2 **Slippage:**

- The **Garage Programme** delivery pipeline has been reviewed with three schemes covering 150 garages due to start on site in Autumn 2020. A pilot site at Collinswood has been identified to create new garages and widen the offer to residents. Current feasibility studies and structural reviews will inform the next tranche of the programme which is expected to be delivered in 2021/21 (£1.4 Million slippage from the £3.5 Million 2020/21 budget).

- The **Kenilworth Housing Development** retail and community centre elements have been re-phased to maximise delivery of housing first, in line with the most pressing need.

- A small element of the budget relating to **Coreys Mill Lane** additional parking have been brought forward from 2021/22 to fund the safety audit.

4.1.3 **Increases in Expenditure: Grants to Registered Providers** has been increased by £610K in order to mitigate the risk of repayment of 1.4.1 receipts to the government. This additional spend is within Executive delegated limits as funding is ring fenced and can only be used to increase social housing provision in Stevenage.

4.1.4 **Vehicles**: Following a mechanical failure that was uneconomical to repair to a commercial ride on mower a replacement was procured (£39K) to ensure the grass cut programme could be maintained.

4.1.5 **Reductions in Expenditure:** As part of the **Garage Site Assembly** programme it was identified that a number of garages needed to be purchased. However, officers have been able to negotiate garage “swaps” resulting in a saving of £40K in 2020/21.

4.1.6 **Other Updates**: The **Commercial Property** budgets in 2020/21 of £13.2 Million for Investment Property and £613K for Commercial Properties Refurbishment (MRC Programme) are being reviewed in the light of market conditions and possible changes to lending arrangements for PWLB funding. Consultation on proposed changes to PWLB lending criteria was extended to 31 July 2020 however there is no indication as to when the outcome will be published. In addition changes may be introduced that prohibit Council’s use of PWLB borrowing for investment property purchases, there may be other funding sources are available, such as UK Municipal Bonds Agency. The General Fund Medium Term Financial Strategy presented to this Executive explores the options further, including the removal of the General Fund savings target budget.

4.1.7 A budget of £17K was approved for **IDOX Property Management Software**. Officers have are looking alternative software providers that would provide greater functionality to support the corporate landlord function. The additional cost is estimated at £28K but would provide a fit for purpose solution.

4.2 Capital Resources General Fund

4.2.1 Projected capital receipts from disposals for the current and future years have been reviewed. A reduction of £171,259 in the 2020/21 forecast reflects the current land sale value for 2020/21 disposals. Forecast receipts have been adjusted accordingly and shown in table two:

Table two: 2020/21 Disposal Schedule (General Fund)	Q4 Working Budget	Q1 Revised Position	Variance
	£'s	£'s	£'s
Total 20/21 Capital Receipts Estimate	4,003,916	3,832,657	**171,259**
Total 21/22 Capital Receipts Estimate	4,790,000	4,790,000	**0**
Total 22/23 Capital Receipts Estimate	3,651,840	3,651,840	**0**
Total 23/24 Capital Receipts Estimate	23,556,500	23,556,500	**0**
Total 24/25 Capital Receipts Estimate	13,384,000	13,384,000	**0**
Major Capital Receipts Programme	**49,386,256**	**49,214,997**	**(171,259)**

Note: ()= increase receipts

4.2.2 The outcome of the locality review (reported to this Executive) may also have an impact on both future capital expenditure and capital receipts. These will be included in future capital strategy updates.

4.2.3 **Other capital resources**: As reported in the revised MTFS (June Executive) there is the possibility that no further New Homes Bonus (NHB) funding will be received beyond 2020/21. Included in the current capital strategy are four schemes financed by NHB grant in 2020/21 and beyond. Although funding is secured for 2020/21 should NHB grant be withdrawn there is potentially a funding shortfall of £1.2 Million (including the £250k contribution to the capital reserve).

Table three: NHB Funding Gap	2021/22	2022/23	2023/24	2024/25	Total
Capital:	£'s	£'s	£'s	£'s	£'s
Capital CNM Playground refurb	£243,000	£283,500	£220,000	£0	£746,500
Capital CNM bin replacement	£99,000	£79,000	£6,000	£0	£184,000
Capital Reserve Contribution	£250,000	£250,000	£250,000	£250,000	£1,000,000
Total	**£592,000**	**£612,500**	**£476,000**	**£250,000**	**£1,930,500**
Shortfall	£0	**£439,415**	**£476,000**	**£250,000**	**£1,165,415**

4.2.4 The current capital strategy includes the use of S106 monies that have been earmarked to support current and future capital schemes. An update on the balances available for 2020/21 onwards are set out in table four:

Table four: S106 Update				
Available for financing		2020/21 Forecast use	Budgeted in Future Years	remaining
	£'s	£'s	£'s	£'s
Affordable Housing	62,091	62,091	0	0
Children's Play space / open space	9,773	9,773	0	0
Community / Greenspace / Ecological Infrastructure	70,337	0	70,337	0
Parking / Transport	154,959	0		154,959
Gardening Club	4,575	0		4,575
Arboretum	25,420	0		25,420
Pedestrian Link	35,000	0		35,000
Household Surveys	15,989			15,989
Total	**378,144**	**71,864**	**70,338**	**235,945**

4.2.5 S106 monies are normally ring fenced to the immediate surroundings of the development site and cannot be used for the wider capital programme. In April 2020 the new Community Infrastructure Levy (CIL) was introduced. To date no monies have been received under this scheme but sums are expected later in the year. The levy can be used to fund a very broad range of facilities such as play areas, open spaces, parks and green spaces, cultural and sports facilities and will give greater flexibility to fund capital schemes.

4.2.6 Prudential borrowing that is required to support the Capital programme will be a treasury management decision as to when the external borrowing is actually taken. While cash balances are high internal borrowing will be used.

4.2.7 As per para 4.1.3, grants to registered provides has been increased by £610K, financed by 1.4.1 receipts in order to mitigate the risk of repayment of receipts to the government.

4.2.8 Additional funding has been applied for as follows:

- Herts LEP received an overall funding package for Growth Deal 3 (GD3) with spend to be completed by end of 2020/21. As part of this package, loan and grant funding had been allocated for Stevenage projects, with a condition in place requiring government approval for new governance to oversee the delivery of GD3 projects. Following extensive engagement between Hertfordshire LEP, the government, the Council and other local partners, a new 'Stevenage Development Board' took effect at the end of March 2020 providing access to GD 3 funding. In addition to the delivery of the new Stevenage Bus Interchange, the Council and Hertfordshire LEP have been working on other projects that could use GD3 funding and would be eligible for funding in a limited timeframe. The Council is working on two project proposals, the first is for £2.11 Million to speed up acquisitions, asbestos removal, remediation etc. The second proposal, for £1.10 Million is in relation to a new Multi-Storey Car Park, to allow and enable the development of other land parcels. A report is on the Executive forward plan for November.
- A bid has also been submitted to the Ministry of Housing, Communities and Local Government (MHCLG). Stevenage has been selected to submit

proposals for a Town Deal from the Towns Fund. Government is bringing forward funding to 2020/21 to support projects that will make an immediate impact in towns. Stevenage has been offered a grant of £1.0 Million now to fund capital projects that can be delivered this financial year. The spending must be in line with the Towns Fund intervention framework, achieve good value for money and contribute to a project that can be delivered this financial year. The Council has submitted plans to utilise the funding for demolition works to key regeneration sites, expansion of the town square project realm works scope, and delivery of part of the north block co-work scheme which will deliver jobs this financial year.

4.3 2020/21 Housing Revenue Account Capital Programme

4.3.1 The HRA Business Plan is in the process of being refreshed, and the budget profiles for Housing Development have been revised to reflect the draft Business Plan figures. A report will be coming forward to Executive of what the Housing Development programme will look like for the next 5 years. There will be implications for rental income if new build housing is delayed, and new projections for this are being built into the 5 year HRA MTFS, however this reduction in income could be offset by reduced costs, including the financing costs of borrowing. Maintenance costs on the new units is also expected to be lower. The updated projection for 2020/21 Housing Revenue Account capital programme is £34.1 Million (as detailed in Appendix B), a decrease of £705K as summarised in the table five.

Table five: Changes to Housing Revenue Account Capital Budget			
Capital Programme Change to 2020/21 Working Budget & 2021/22 Projected Budget	**Increase (Decrease) to 2020/21 Working Budget £'s**	**Increase (Decrease) to 2021/22 Projected Budget £'s**	**Reason**
Approved Housing Development scheme re-profiling	(3,283,022)	(1,797,050)	Including Kenilworth and North Road
Re-profiling of pipeline development schemes	631,408	(9,161,956)	See below re OMA's
Other Housing Development changes	1,946,191	0	Includes Open Market Acquisitions part funded by grant ineligible for 1.4.1
Total Change in Working Budget and Projected Budgets	**(705,423)**	**(10,959,006)**	

Budget updates:

4.3.2 New Build (Housing Development) projected budgets have been updated to reflect the draft HRA Business Plan which is currently being revised.

- As per the table above, there has been a significant amount of re-phasing of budgets for the development sites, both approved schemes and those in the pipeline.
- An additional budget for Open Market Acquisitions has also been factored in. This will assist with bringing properties into the portfolio, and help to mitigate the re-phasing of new build properties. These will be grant funded so may not be eligible for use of 1.4.1 receipts due to the 30% cap towards contribution of costs.
- As per para 4.1.2, there are proposed changes to the joint General Fund/HRA Kenilworth Close development.

Other Updates:

4.3.3 The **Decent Homes programme** forms a large part of the ongoing investment programme of the HRA. The forecast for 2020/21 of the number of properties where works have been carried out to bring the property up to the decent homes standard (the standard by which each element i.e. kitchen, bathroom, electrics, windows, roof etc. whose condition is measured) is 2,392. The target for non-decent properties for Quarter one is 1,992 and the actual non-decent figure is 1,983 currently showing below target.

4.3.4 The HRA **Right to Buy** (RTB) receipts includes a one for one (1.4.1) balance of £10.0Million, available to fund 30% of the future new build schemes. There is a three year deadline to spend these receipts, and if not spent the receipt must be returned to government plus interest (calculated at 4% above base rate). The phasing of RTB funded build schemes is being reviewed as part of the refresh off the HRA Business Plan, and as per para 4.1.3 and 4.2.4, it is proposed to increase Registered Provider grants (supporting local social housing providers in return for nomination rights) so that 1.4.1 receipts can be utilised wherever possible.

4.3.5 The revised programme as outlined in Appendix B now forecasts that there is no need to return receipts in 2020/21 but this is heavily reliant on the timing of capital spend and identifying suitable Registered provider grants.

4.4 Capital Resources Housing Revenue Account

4.4.1 The HRA had one RTB sale in the first quarter (nine RTB sales in the same quarter last year). As at 13 August 2020, four more RTB sales had been completed bringing the total to five to date (16 RTB sales in total up to the same time last year). The forecast for the year was reduced from 35 to 24 as reported in the capital outturn report and is now forecast at 27 sales based on current expressions of interest.

4.4.2 A full update of capital resources available to the HRA will be included in the updated HRA Business Plan. This will include an update on the forecast value and timing of the capital receipts, with the Kenilworth receipt likely to be pushed back from 2021/22 to 2022/23 or even later, as well as the other changes set out in paragraphs 4.3.1 and 4.3.2.

4.4.3 Prudential borrowing identified in the HRA capital programme will be a treasury management decision as to when external borrowing is actually taken.

5. IMPLICATIONS

5.1 Financial Implications

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

5.2 Legal Implications

5.2.1 None identified at this time.

5.3 Equality and Diversity Implications

5.3.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund 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.

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

5.4 Risk Implications

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

5.4.2 If the Housing & Investment team's procurement of HRA contracts is delayed it could lead to works not being completed to the current profile.

5.4.3 A significant risk exists that works deferred due to lack of funding become urgent in year, requiring completion on grounds of health and safety. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum, and these schemes are monitored by Assets and Capital Board.

5.4.4 There is a risk in achieving the level of qualifying HRA spend to fully utilise retained one for one receipts. Should qualifying schemes slip or new schemes fail to be developed the three year deadline for spending these receipts will not be met and will have to be returned to the Government plus interest (base rate plus 4%). Should the new schemes and/or purchases slip or fail to be delivered there is a risk that one for one receipts will have to be returned and interest payments made.

5.4.5 There are risks around achieving the level of disposals budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates. The level of receipts for the General Fund is a significant source of funding for its capital programme. The Council manages this risk by reviewing and updating the Strategy quarterly, including resources where a sale is likely to complete. This will enable action to be taken where a receipt looks doubtful.

5.4.6 There is considerable uncertainty about the potential for the Council to receive further government funding. The positon regarding COVID losses and the cost of recovery is also uncertain at this time. The Council must have a Strategy in place to address the financial impacts due the likely level of losses and the increased certainty that income levels are going to challenging to achieve for some time to come. This would have an impact on the Capital Programme as well as the Council's revenue budgets.

5.4.7 There is uncertainty regarding whether any further New Homes Bonus funding will be received beyond 2020/21, so alternative funding may need to be identified for the potential shortfall against the allocations forecast for the Play Area Improvement Programme and Litter Bins identified of £297K in 2022/23 and £226K in 2023/24.

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 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 local asset 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 local asset 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 - Capital Strategy February 2020 (Council)
BD2 - Capital Strategy March 2020 (Executive)
BD3 – Capital Outturn July 2020 (Executive)

APPENDIX
A - General Fund Capital Programme
B - HRA Capital Programme