

**Meeting** COUNCIL  
**Portfolio Area** Resources  
**Date** 24 FEBRUARY 2021



## FINAL CAPITAL STRATEGY 2020/21-2024/25

### KEY DECISION

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**Lead Officers** Nick Penny  
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### 1. PURPOSE

- 1.1 To approve revisions to the 2020/21 General Fund and Housing Revenue Account Capital Programme and approve the final Capital Programme for 2021/22.
- 1.2 To provide Members with an update on the Council's 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.

### 2. RECOMMENDATIONS

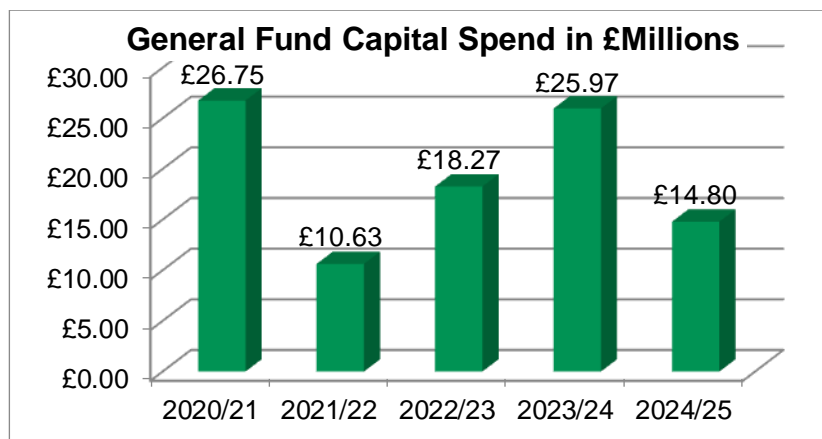
- 2.1 That the final General Fund Growth Bids for 2021/22 only as detailed in Appendix A (and incorporated into Appendix D) to the report be approved.
- 2.2 That the final General Fund Savings and Slippage for 2020/21 – 2024/25 as detailed in Appendix B (and incorporated into Appendix D) to the report be approved.
- 2.3 That the final HRA budget requests for 2020/21 – 2024/25 as detailed in Appendix C (and incorporated into Appendix E) to the report be approved.

- 2.4 That the updated forecast of resources 2020/21 as detailed in Appendix D (General Fund) and Appendix E (HRA) to the report be approved.
- 2.5 That the final 2021/22 General Fund Capital Programme as detailed in Appendix D to the report be approved.
- 2.6 That the final 2021/22 HRA Capital Programme as detailed in Appendix E to the report be approved.
- 2.7 That the Council's investment strategy for non-treasury assets as detailed in Appendix F be approved.
- 2.8 That the approach to resourcing the General Fund capital programme as outlined in the report be approved.
- 2.9 That the progress on Locality Reviews as outlined in the report be noted.
- 2.10 That the actions taken to ensure the General Fund programme is funded as outlined in paragraphs 4.2.2 - 4.2.3 of the report be noted.
- 2.11 That the 2021/22 de-minimis expenditure limit (section 4.10 of the report) be approved.
- 2.12 That the 2021/22 contingency allowances respectively in paragraphs 4.11.1 and 4.11.2 of the report be approved.
- 2.13 That the Executive delegation set out in paragraph 4.11.3 of the report, allowing approval for increases to the capital programme for grant funded projects, be approved.
- 2.14 The appropriation of Dunn Close garage block (estimated value of £585K but red book valuation to be obtained) in 2021/22 from the General Fund to the HRA as detailed in Para 4.12.3 be approved.

### **3. BACKGROUND**

#### **3.1 Introduction**

- 3.1.1 This report is an update on the Draft General Fund and HRA Capital Strategy 2020/21- 2024/25 presented to the January 2021 Executive meeting. This report gives updates on the 2020/21- 2024/25 budgets and resourcing for the General Fund and HRA programme.
- 3.1.2 The draft General Fund programme totalled £96.41Million (subject to sufficient resources being available and is summarised in the graph below). This did not include any changes as a result of the approval of the Housing Wholly Owned Company (WOC) also presented at the January Executive, the inclusion of which increased the value of the capital programme by £2.97Million.



3.1.3 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.

3.1.4 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.

3.1.5 The Government issued guidance on the disclosures required in the Capital Strategy from 1 April 2018 onwards and includes:

- an Investment Strategy;
- disclosure of other investments and their 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 decisions, 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; and
- the steps taken to ensure that elected Members and Statutory officers have the appropriate skills and governance.

3.1.6 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 For a number of years capital spend has been prioritised due to the limited availability of capital receipts and the ability to afford the borrowing costs. This resulted in the council applying a 'fix on fail' approach to assets with no significant asset 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 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. The locality reviews sought to identify new opportunities for better use of existing buildings, identifying potential sites to release for sale and identifying land for the Council's own housing building programme meeting key Council priorities in the process. To date Locality Reviews have identified adhoc land sites for disposal to improve the financial resilience of the General Fund (via reducing revenue contributions to capital), but have yet to complete the work on other assets (target date 2021/22).
- 3.2.3 Condition Surveys were completed in 2019 and the result of these were reflected in the growth bids approved in the Capital Strategy 2019/20-2024/25, although these were still not in the main about improvement of assets and future proofing them, but an attempt to keep existing assets operational.
- 3.2.4 The Council utilised the New Homes Bonus (NHB) to fund the playground improvement programme and to contribute to the Capital Reserve, this is unchanged from the position set out in the Draft Capital Strategy and Draft General Fund Budget reports. The funding is as follows:

<b>Table One:</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>New Homes Bonus</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Play & Bins (Capital) CNM	342	284	220
Contribution to Capital Reserve	250	250	250
General Fund	0	0	0
<b>Total Expenditure</b>	<b>592</b>	<b>534</b>	<b>470</b>
Balance in NHB reserve	( 461)	( 234)	0
In year Funding	( 365)	( 8)	0
Expenditure in year	592	534	0
<b>Balance remaining in NHB reserve</b>	<b>( 234)</b>	<b>£0</b>	<b>0</b>
<b>Alternative Funding required</b>	<b>0</b>	<b>292</b>	<b>470</b>

- 3.2.5 The remaining schemes within the Capital Strategy include Regeneration schemes, Housing Development and IT (predominantly related to the joint ICT Partnership Strategy between East Herts Council and Stevenage Borough Council).
- 3.2.6 Prudential Borrowing remains an option to fund capital schemes, but due to the on-going net cost to the General Fund would require a business case to determine the benefit to the Council and generally would be used to fund income generating schemes, which support the Financial Security of the Council. The issue of affordability has been exacerbated by the impact of the coronavirus pandemic on the Council's finances.

3.2.7. The Council has approved some land and asset disposals and an updated schedule, with some slippage in the disposal profile (net of disposal fees) is shown below:

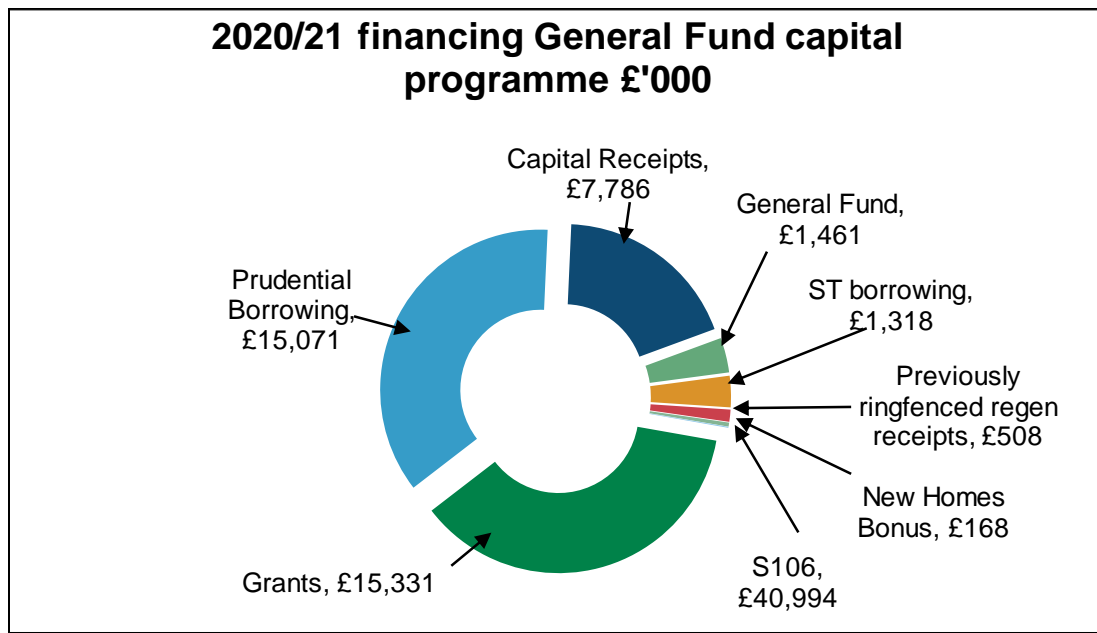
<b>Table Two: Disposal Schedule (General Fund)</b>	<b>January Draft</b>	<b>February Final Revised</b>	<b>Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Total 20/21 Capital Receipts Estimate	(2,932,239)	(2,433,759)	<b>498,480</b>
Total 21/22 Capital Receipts Estimate	(4,675,000)	(5,185,480)	<b>(510,480)</b>
Total 22/23 Capital Receipts Estimate	(4,683,840)	(5,327,040)	<b>(643,200)</b>
Total 23/24 Capital Receipts Estimate	(23,556,500)	(23,556,500)	<b>0</b>
Total 24/25 Capital Receipts Estimate	(13,384,000)	(13,384,000)	<b>0</b>
<b>Major Capital Receipts Programme</b>	<b>(49,231,579)</b>	<b>(49,886,779)</b>	<b>(655,200)</b>

3.2.8 In addition to the Disposals Schedule, there are Locality receipts approved at September 2020 Executive and a further tranche approved at January 2021 Executive that reduce revenue contributions to capital (as outlined in paragraph 3.2.2). The potential land disposals identified from the Locality Reviews help maintain the resilience of General Fund balances, to reduce the revenue contribution to capital and to fill in the gap of NHB funding to the capital reserve. Locality reviews are discussed further in section 4.4 of this report.

3.2.9 The capital strategy includes the use of Section 106 (S106) monies that have been earmarked to support current and future capital schemes, the table below shows the current anticipated usage of these:

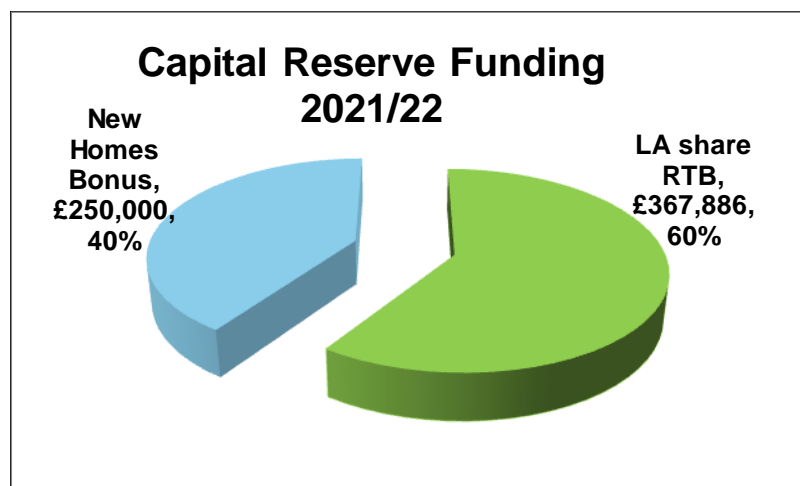
<b>Table Three: S106 Update</b>							
<b>S106 balance</b>	<b>Total Available</b>	<b>2020/21 Forecast</b>	<b>remaining</b>	<b>2021/22 Forecast</b>	<b>remaining</b>	<b>Future Years Forecast</b>	<b>remaining</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Affordable Housing	£62,091		£62,091		£62,091	£62,091	£0
Children's Playspace / open space	22,076.74	£9,998	£12,078		£12,078	£0	£12,078
Community / Greenspace / Ecological Infrastructure	£70,338		£70,338	£60,000	£10,338	£10,338	£0
Parking / Transport	£156,189	£8,191	£147,998		£147,998		£147,998
Gardening Club	£4,576		£4,576		£4,576		£4,576
Arboretum	£25,420	£25,420	£0		£0		£0
Biodiversity Net Gain	£45,867		£45,867		£45,867		£45,867
Pedestrian Link	£35,000		£35,000		£35,000		£35,000
Household Surveys	£15,990		£15,990		£15,990		£15,990
<b>Total</b>	<b>£437,547</b>	<b>£43,610</b>	<b>£393,937</b>	<b>£60,000</b>	<b>£333,937</b>	<b>£72,429</b>	<b>£261,508</b>

3.2.10 The capital programme at Quarter two 2020/21 as reported to November Executive (based on the Capital Strategy approved February 2020 and amended by quarterly monitoring and supplementary reports), was fully funded and is shown in the following chart.



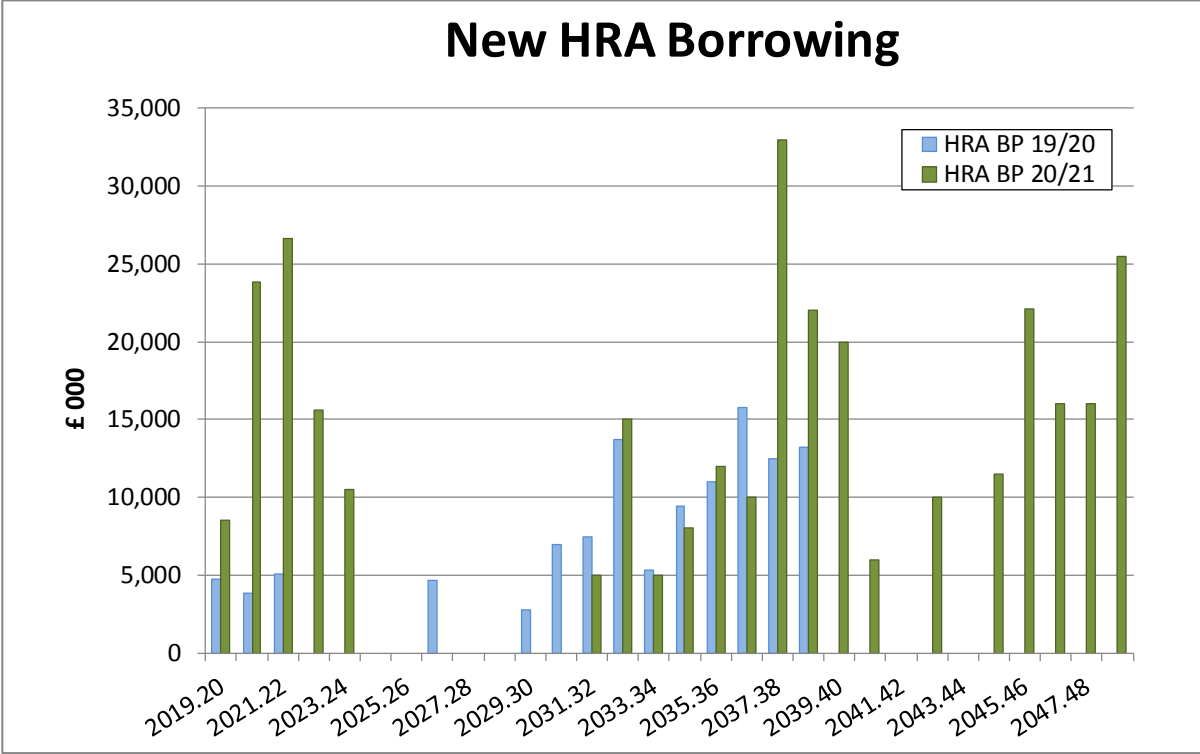
3.2.11 The level of resources available at the end of 2020/21 in the Quarter two report was £1.6Million (£877K Capital Receipts and £722K Capital Reserve), and nil in the following years. However this position has improved and is set out in paragraph 4.1.2, table 5 due to the slippage and savings identified.

3.2.12 The Capital Reserve has been a significant source of the capital programme funding in prior years. It will receive a NHB contribution of £250K in 21/22 and £368K from the Local Authority Share of Right to Buy receipts, as shown in the following chart. The December 2020 Financial Security Report advised Members that the threshold for new properties in the tax base had not been reached in order to receive a further payment in 2021/22. However there was an increase in the number of affordable properties in Stevenage and as a result an additional £67,480 was received for 2021/22; this also a one off payment.



### 3.3 Housing Revenue Account (HRA) Investment Strategy

3.3.1 **Background:** The HRA capital programme was revised as part of the HRA Business Plan (BP) update to the December 2019 Executive. The 30 year HRA capital programme included £1.485Billion with additional borrowing and is summarised in the table below.



3.3.2 The 2019/20 HRA BP included additional borrowing (shown above) compared to that in the 2018 HRA BP due to a more ambitious new build programme and an increase in capital works to existing homes. The new borrowing in the 2018 BP totalled £116.6Million; however the 2019 update had new borrowing of £322.2Million.

3.3.3 The additional capital expenditure that was approved as part of the HRA BP over the 30 years included an additional £201Million of projected capital expenditure as well as revenue growth which funded planned maintenance, anticipated changes relating to the Hackett review and decent homes.

3.3.4 The new build programme increased from £582Million to £645.6Million in the 2019 HRA BP, with 2,433 new build homes and an additional 175 units in the first 10 years of the programme.

3.3.5 Subsequently a number of delegated approvals were taken by Executive including an increase of £11.3Million in the report on the January 2020 Executive agenda to update members on the Kenilworth Close development, the revised figures for which were included in the Final Capital Strategy approved by February 2020 Executive and Council. The net change to the approved budget for the period 2019/20 to 2024/25 was £10.2Million.

3.3.6 A refresh of the HRA BP is planned for November 2021.

### 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-21	Executive	Draft 2021/22 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2021/22 General Fund and HRA Capital Strategy
Feb-21	Executive	Final 2021/22 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2021/22 General Fund and HRA Capital Strategy
	Council	Final 2021/22 General Fund and HRA Capital Strategy

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

### 4.1 Capital Programme – 2021/22 General Fund

4.1.1 The CFO recommended adopting a light touch approach to Capital Bids for 2021/22, due to the ongoing financial pressures arising from the COVID pandemic and the need to focus on improving General Fund resilience, therefore Officers were asked to:

- Review their existing budgets in the Capital Strategy for completeness and to advise if circumstances have changed, and
- To only submit 2021/22 bids that are an urgent need or a top priority as funding is limited

A Full review of the Strategy is planned to be carried out for 2022/23 onwards.

4.1.2 The result of this exercise as presented in the Draft Capital Strategy to January Executive is summarised in table five below:

Table Five: Update following 2021/22 Capital Bids process						
	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	Total
	£	£	£	£	£	£
SLIPPAGE	(766,500)	(1,774,546)	620,323	1,920,723	0	0
SAVINGS	(23,280)	(221,020)	(66,270)	(5,250)	(35,000)	(350,820)
GROWTH BIDS	0	553,130	566,600	120,500	45,000	1,285,230
<b>TOTAL</b>	<b>(789,780)</b>	<b>(1,442,436)</b>	<b>1,120,653</b>	<b>2,035,973</b>	<b>10,000</b>	<b>(934,410)</b>



## 4.2 Capital Bids Included in the Capital Programme

4.2.1 Of the capital growth bids received, some are classified as Health and Safety related or associated with legislative requirements. These bids totalled £823k over the period 2021/22 - 2024/25 and the other growth bids totalled £462k.

4.2.2 In the draft Capital strategy it was recommended that the 2021/22 growth bids totalling £553k be agreed in principle by the Executive, with the approval of the growth bids for 22/23 onwards deferred till next year. However a funding gap of £161k in 21/22 and £472k in 22/23 was identified, therefore, further work was required to ensure the Final Capital Strategy is fully funded.

4.2.3 This work was done by the Asset & Capital Board working closely alongside Finance, the revised 2021/22 growth bids totalling £511k that are recommended for approval are included in Appendix A and in table six below. The decision to approve growth bids for 22/23 onwards is again deferred till next year. The funding gap was closed by removing the following items from the draft capital programme and reviewing the funding of the WOC;

- £45k Garage Site Assembly – pre-existing capital bid
- £10k Springfield House CC new heating – proposed growth bid
- £10k Weston Road Cemetery wall repair – proposed growth bid
- £22k Daneshill House boiler – proposed growth bid
- £700k of capital receipts previously earmarked for funding of the Housing Wholly Owned Company (WOC) now being available for the wider capital programme, this is in line with the WOC report also being presented at February Council.

The individual schemes above have been removed due to uncertainty over whether the work is needed and the value. If needed these could be funded from the £200k deferred works budget (further information in paragraph 4.3.1).

Table Six: Update following 2021/22 Capital Bids process					
	2021/2022	2022/2023	2023/2024	2024/2025	Total
	£	£	£	£	£
Health & Safety / legislative	366,130	425,000	0	0	791,130
Other growth bids	145,000	141,600	120,500	45,000	452,100
<b>Total</b>	<b>511,130</b>	<b>566,600</b>	<b>120,500</b>	<b>45,000</b>	<b>1,243,230</b>

4.2.4 As identified in paragraph 3.1.2, a report was presented to the January Executive alongside the draft Capital Strategy regarding the Housing WOC. The changes as a result of the report also on this agenda is an increase to the value of the capital programme by £2.97Million to a revised budget of £7.77Million, although the investment by the Council in the WOC may be up to a maximum of £15Million, if required the budget over and above £7.77Million would need to be added into the capital programme at a later date.

## 4.3 Capital Contingency

4.3.1 As in previous years, it is recommended that a contingency allowance (the deferred works reserve) is included in the capital strategy should any costs

become unavoidable during the financial year. This has been included at the previous level of £200k per annum.

## 4.4 Locality Review Update

4.4.1 The Locality Review Board has been meeting regularly and is sponsored by the Strategic Director (CFO), the Board includes officers from different business units who use or manage the Council's assets.

4.4.2 An action from the June MTFs COVID recovery report recommended that a pipeline of land disposals be identified from the Locality Reviews to maintain the resilience of General Fund balances by removing the revenue contribution to capital. There is also the need to generate additional capital receipts to help fund any shortfalls from the reduction or cessation of New Homes Bonus (NHB).

4.4.3 The potential sales identified are estimated to generate around £4.5Million (unchanged from the value reported to January Executive), which would reduce the reliance on revenue funding sources detailed in 3.2.11 - 3.2.12. In identifying site disposals the following points were considered

- The removal of green space in the Borough
- The impact on the removal of trees and hedgerows
- The impact on any potential housing development sites
- The alternative use consideration by the council
- The impact of any covenants and restrictions

4.4.4 All council ward Members were consulted and all sites apart from one were approved for disposal.

4.4.5 A schedule of the forecast receipts (net of disposal fees) and the timing of these is in the table below:

<b>Table Seven: Locality Review Site Disposals</b>	
<b>Tranche</b>	<b>Estimated receipt</b>
Tranche 1 - Yr1 2021/22	£1,507,200
Tranche 2 - Yr2 2022/23	£1,963,200
Tranche 3 - Yr3 2023/24	£988,800
<b>Total Forecast Locality Review Receipts</b>	<b>£4,459,200</b>

## 4.5 Summary Capital Programme 2020/21-2024/25

4.5.1 The revised Capital Strategy for 2020/12-2024/25 now totals £99.4Million, including the 2021/22 bids totalling £511k as set out in paragraph 4.2.3 and the increase of £2.97Million for the Housing WOC budget. This is summarised in table eight below, and in detail in Appendix D.

<b>Table Eight: Revised Capital Programme</b>						
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Stevenage Direct Services	1,434	3,613	3,179	3,349	132	11,706
Housing Development	2,178	7,004	13,257	8,504	575	31,517
Finance and Estates	448	610	45	45	15	1,162

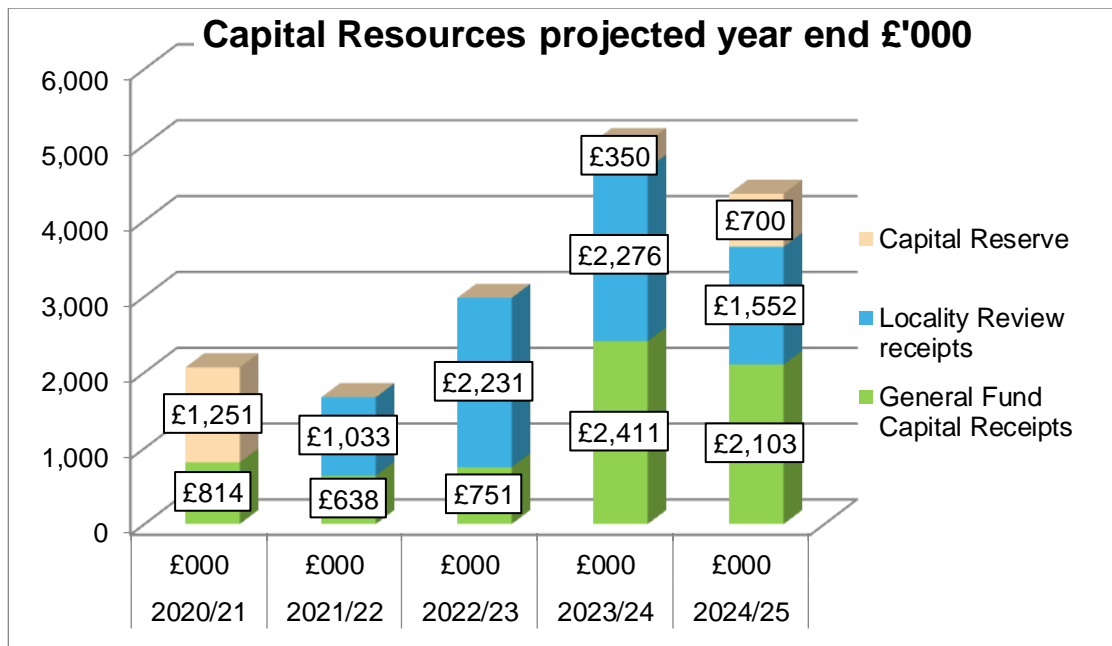
<b>Table Eight: Revised Capital Programme</b>						
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
IT & Digital	1,068	370	104	104	104	1,750
Housing and Investment	631	1,031	307	187	60	2,215
Regeneration	14,586	3,900	2,474	13,384	13,384	47,728
Communities and Neighbourhoods	394	321	275	60	20	1,070
Planning and Regulatory	86	352	305	305	305	1,353
Deferred Works Reserve	53	200	200	200	200	853
<b>TOTAL</b>	<b>20,878</b>	<b>17,400</b>	<b>20,145</b>	<b>26,137</b>	<b>14,795</b>	<b>99,355</b>

## 4.6 Capital Resources for the General Fund Capital Strategy

4.6.1 The following projected resources used to fund the revised Capital Programme in Table eight totalling £99.4Million, this is summarised in Table nine below, and detailed in Appendix D.

<b>Table Nine: Revised Capital Programme</b>						
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital Receipts	4,842	4,743	4,208	18,842	13,692	46,327
Locality Review Receipts	0	474	765	944	724	2,907
New Build 1-4-1 Receipts - for RP Grants	1,280	0	0	0	0	1,280
Grants and other contributions	12,372	4,784	4,756	3,916	0	25,829
RCCO	483	1,501	528	0	0	2,511
Previously ring-fenced regeneration receipts	508	0	0	0	0	508
Capital Reserve (Housing Receipts)	364	368	372	375	379	1,858
New Homes Bonus	168	342	65	0	0	575
Prudential Borrowing Approved	243	4,182	6,398	2,060	0	12,882
Short Term borrowing and funded from private sale	618	1,006	3,054	0	0	4,678
<b>Sub-total of funded programme</b>	<b>20,878</b>	<b>17,400</b>	<b>20,145</b>	<b>26,137</b>	<b>14,795</b>	<b>99,355</b>
Funding Gap	0	0	0	0	0	0
<b>TOTAL</b>	<b>20,878</b>	<b>17,400</b>	<b>20,145</b>	<b>26,137</b>	<b>14,795</b>	<b>99,355</b>

4.6.2 The use of capital receipts is dependent on delivery of the disposal sites to the market. The revised capital strategy leaves balances remaining at the end of the years as summarised below, which includes both General Fund Capital Receipts and Locality Review Receipts.



4.6.3 The level of balances required is a minimum £500K-£750K, to mitigate for potential risks. The CFO considers these to be sufficient year-end balances as we work towards a more sustainable capital position. It should be noted that although the balances in 2023/24 and 2024/25 appear to be high, they reflect an ongoing commitment to replace revenue funding sources for 2025/26 onwards.

4.6.4 The risks include:

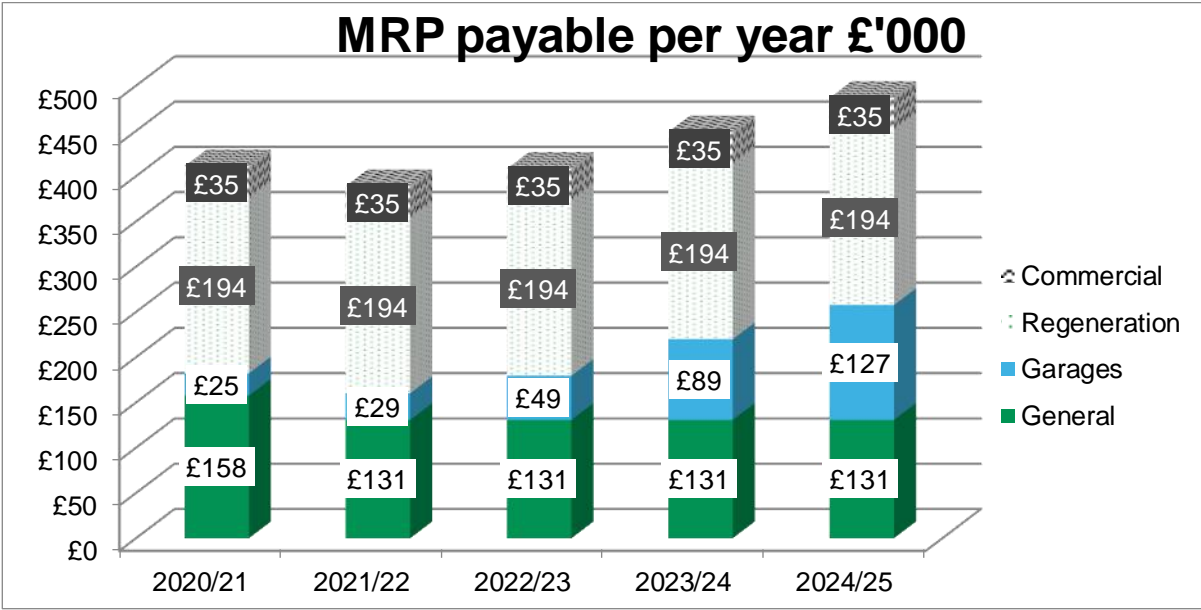
- Potential for scheme overspends.
- Potential for not spending all the Local Enterprise Partnership (LEP) monies by the deadline and therefore some costs falling on the Council's resources.
- Potential for delay in realising capital receipts – there are £6.69Million of land/asset sales to be achieved in 2021/22 as shown in tables two and seven.
- The deferred works budget of £200K may not be sufficient to fund any works not currently funded in the Strategy.
- Potential for General Fund underspends not materialising. The Capital Reserve has been reliant on General Fund underspends of £350K per year (not included in General Fund projected year end balances), but due to the impact of the coronavirus pandemic on the Council's finances this has not been included in 2021/22. However the £350k contribution has been reinstated from 2022/23 onwards.

4.6.5 The Regeneration Board also needs to ensure that LEP funding is maximised to minimise any risk to the Council's finances.

4.6.6 The alternative 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.

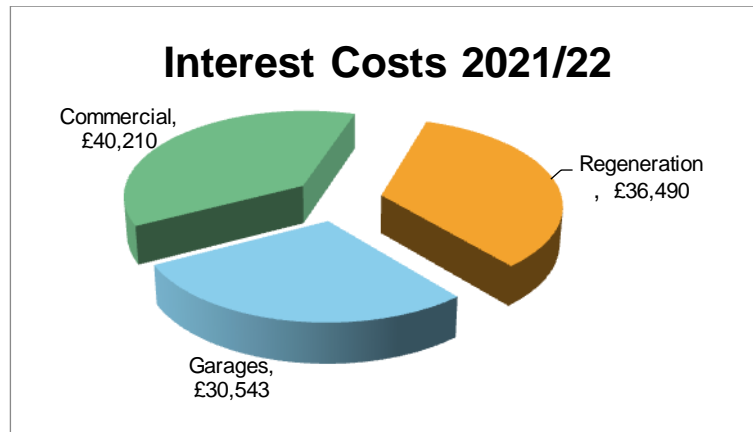
4.6.7 The response to the recent consultation on the lending terms for the PWLB is that there is no longer scope for the Council to enter into any new, purely commercial, investments (investments for yield). From 26 November, new restrictions were implemented which meant Councils were precluded from access to cheap Public Works Board (PWL) funding if Capital Strategies included the purchase of Commercial Investments whether from borrowing (not just from PWLB) or other means. Therefore, the 2020/21 budget of £13.2Million for Investment Property has been removed from the capital programme. This allows continued use of PWLB including £50Million Housing Revenue Account borrowing for this and next year. However, the new rules also reversed the 100bsp increase announced October 2019 which will improve the viability of business cases for regeneration and other programmes.

4.6.8 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. The 2021/22 projected MRP charge of £388,957 (2020/21 £411,021) excludes the technical requirement to charge MRP on loans to other companies in the accounts, as these borrowing costs are recharged.

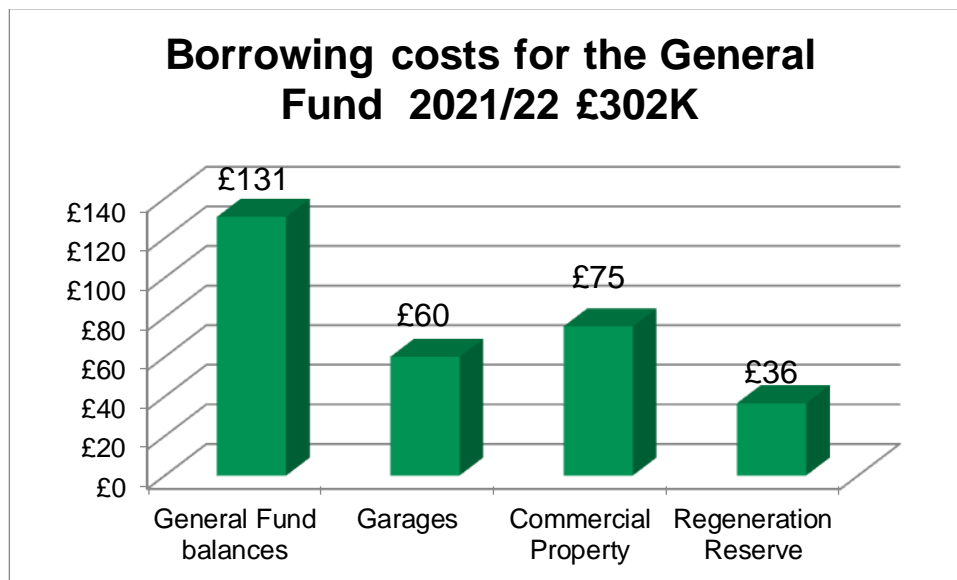


4.6.9 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets. MRP is payable regardless of whether the borrowing is taken externally or whether internal investment balances are used.

4.6.10 The 2021/22 projected interest costs on borrowing is estimated to be £107,243 (2020/21 £96,105).



4.6.11 The total cost of borrowing in 2021/22 is £302K or an estimated 1% of gross General Fund expenditure. However the majority of this cost is met from within the income generated from assets as shown below.



4.6.12 As a result of the lower borrowing rates outlined in paragraph 4.6.8 Interest rates are 1.72% for a 25 year loan as at 21/1/2021 which would mean a cost per £million (based on assets with a 25 year life) of £57,200 (interest and MRP). Increasing the annual use of borrowing would be lead to an increase in General Fund costs, which would need to be met from increasing the Financial Security Target for the General Fund.

## 4.7 Other capital investments and Finance Lease

4.7.1 The Council purchased a number of properties in the town centre to enable it to meet its regeneration aims. These properties were purchased using LEP funding. These properties have been purchased for regeneration purposes and therefore do not fall under the Property Investment Strategy. 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.

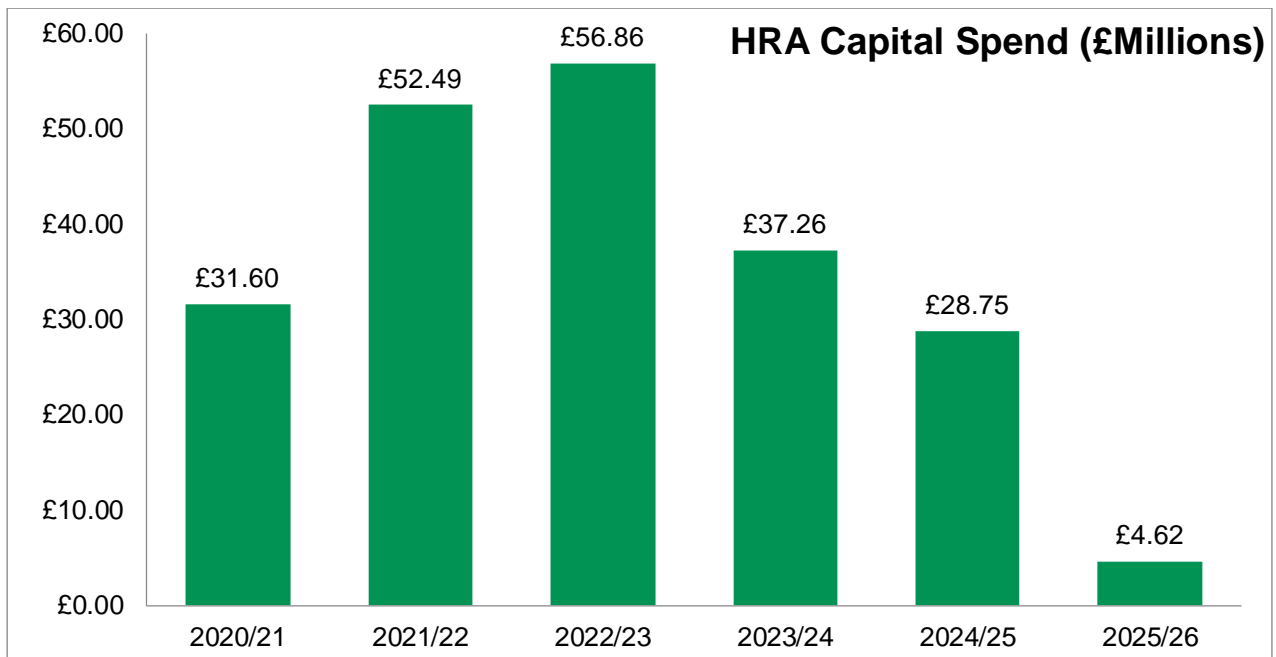
- 4.7.2 The Council undertook a long term finance lease for a mixed development scheme on Queensway in the town centre. This is a lease arrangement and falls outside the scope of capital investment. As part of the decision making process a risk assessment was undertaken and presented to Members. Key Officers were given training on their roles and responsibilities for the new governance arrangements for the Limited Liability Partnership.
- 4.7.3 Links to Commercial and Insourcing Strategy - The Council's investment in loans, shares and commercial property plays a part in a more commercial approach to the Council's activities, including its working with business and community partners. The Service and Commercial Investment Strategy at Appendix F set out the investment activity and risk management processes which support this.
- 4.7.4 External legal, financial and commercial advice is procured to ensure the validity and viability of business cases presented to Members.

#### 4.8 Capital Programme - Housing Revenue Account (2020/21-2025/26)

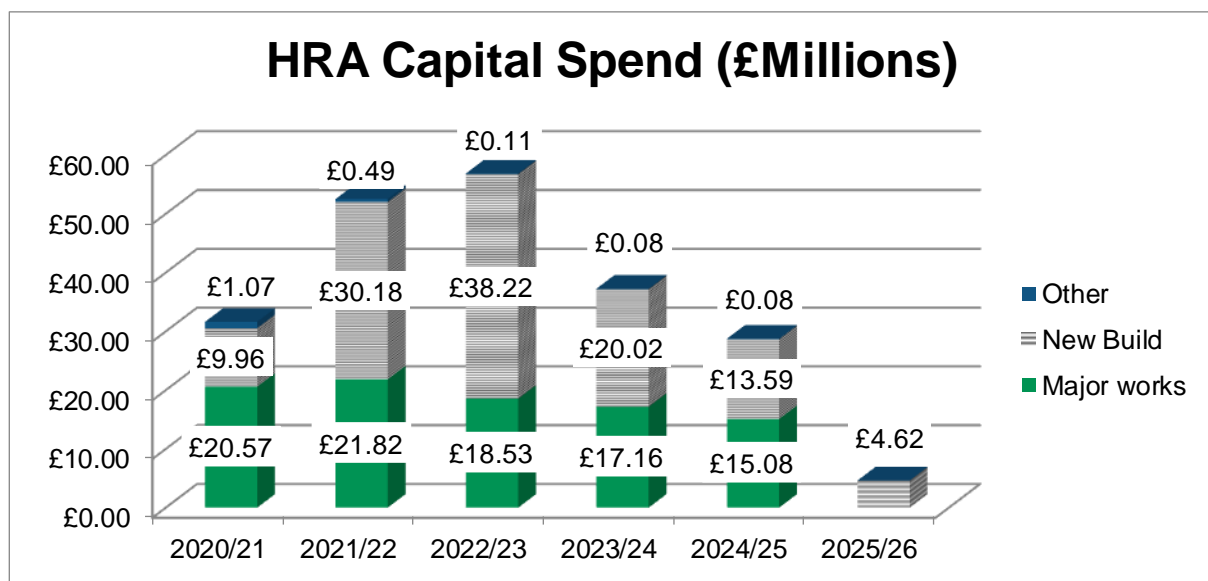
- 4.8.1 The HRA business plan identifies borrowing increased to £322.2Million and the revenue contributions to capital reduced (see also section 3.3).
- 4.8.2 £4.6Million of the current capital programme (approved February 2020 and as amended by quarterly monitoring and supplementary reports) which covered the period 2019/20 - 2024/25 has been slipped to 2025/26.
- 4.8.3 Alongside the General Fund exercise set out in paragraph 4.1, officers also identified some slippage in the HRA capital programme of £2.2Million from 2020/21 to 2021/22 and requested consideration of HRA budget increases totalling £309k of which £204k is requested for 2021/22. The budgets requested are set out in Appendix C and summarised in the table below.

<b>Table 10: Update from the 2021/22 Capital Bids process</b>					
	<b>2021/2022</b>	<b>2022/2023</b>	<b>2023/2024</b>	<b>2024/2025</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
IT Strategy	42,870	30,000	0	0	72,870
HRA specific IT & Digital	135,783	0	0	0	135,783
HRA Equipment	25,000	25,000	25,000	25,000	100,000
<b>Total</b>	<b>203,653</b>	<b>55,000</b>	<b>25,000</b>	<b>25,000</b>	<b>308,653</b>

- 4.8.4 The revised final capital strategy budget for 2020/21 - 2025/26 totals £211.57Million is set out in Appendix E and summarised below.



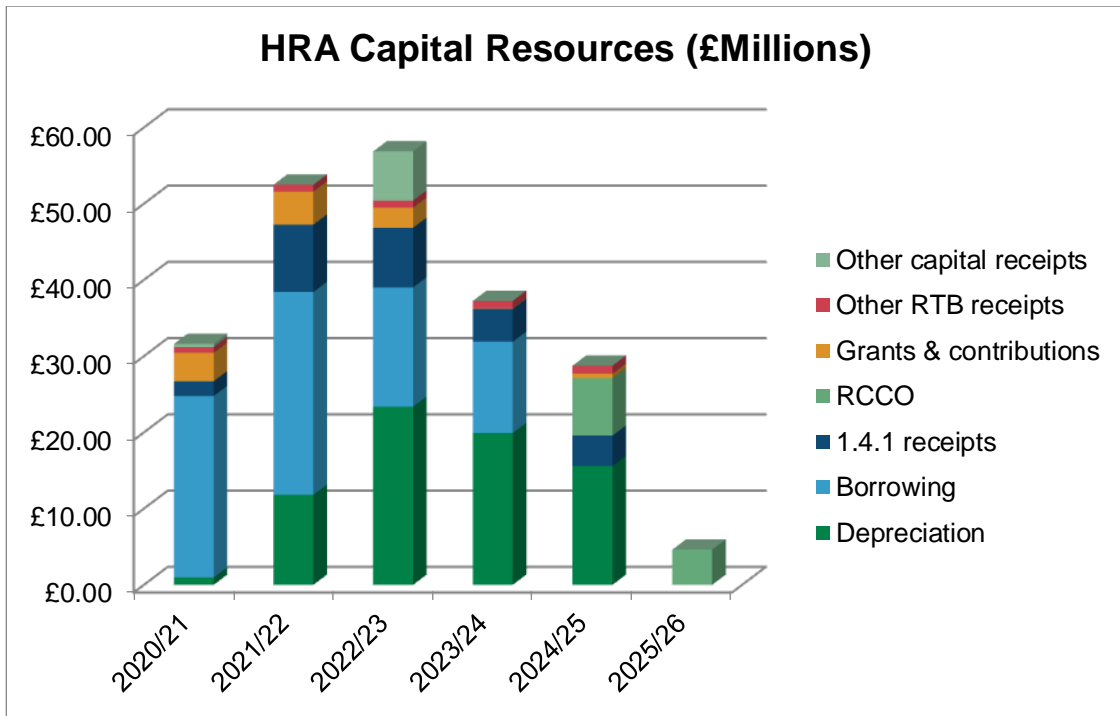
4.8.5 The split between major works, new build and other costs (IT and capital equipment) is shown in the following chart.



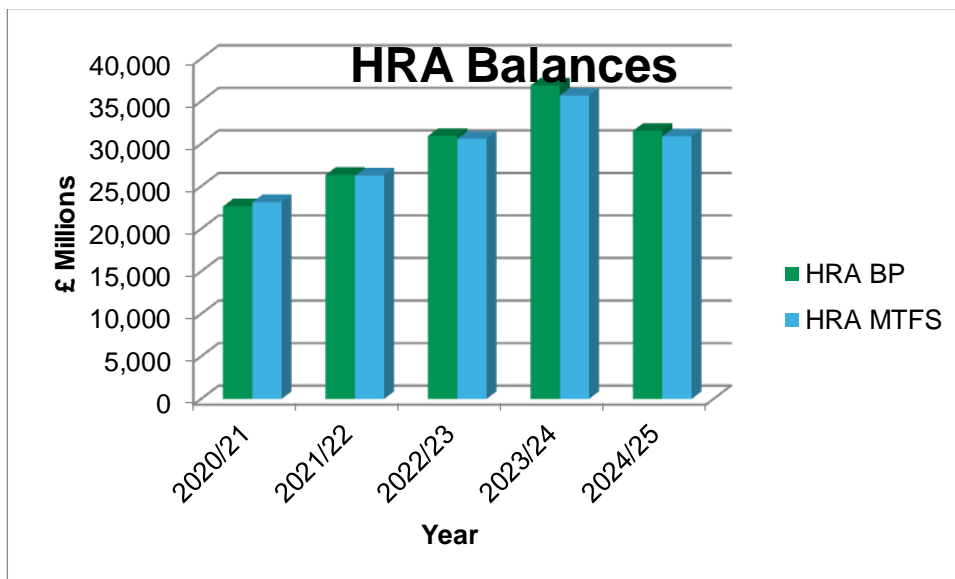
## 4.9 Capital Programme – HRA Resources (2020/21-2025/26)

4.9.1 The resourcing of the current HRA capital programme funding is summarised in the following chart. The largest percentage is funded by borrowing (37%) followed by the HRA (via depreciation charges, 34%). Capital receipts from right to buy sales of council houses (New Build 1-4-1 receipts) forms 13% of total funding; however as Members will be aware the 1.4.1 receipts have restricted use.





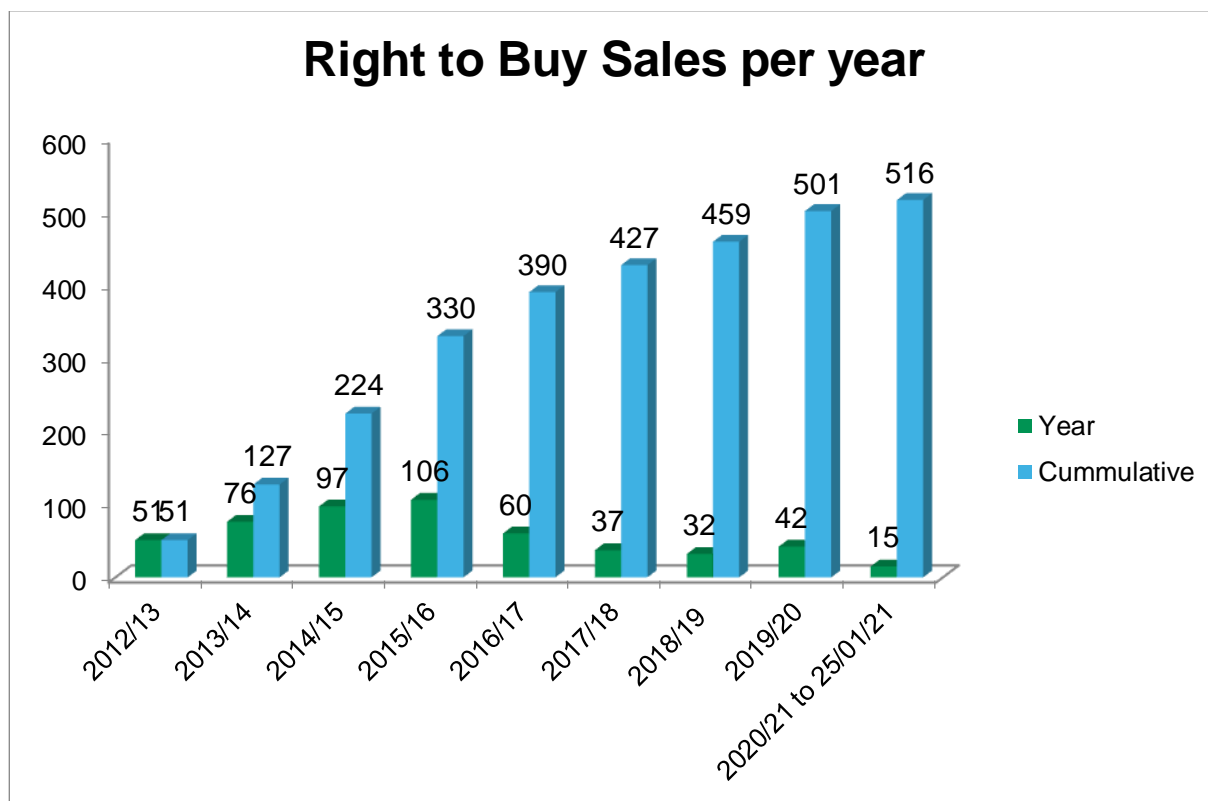
4.9.2 The closing HRA balances for the period 2020/21-2024/25 have been reviewed as part of the revised HRA MTFS; these figures compared to the HRA BP are set out below. The next HRA BP will review the full 30 year projection.



4.9.3 The HRA risk assessment of balances reflects the need to hold higher reserves to fund interest rate fluctuations and £5.7Million was set aside in an allocated reserve to allow for interest rate changes. The recent HRA MTFS set the minimum level of balances for the HRA as £2.985Million.

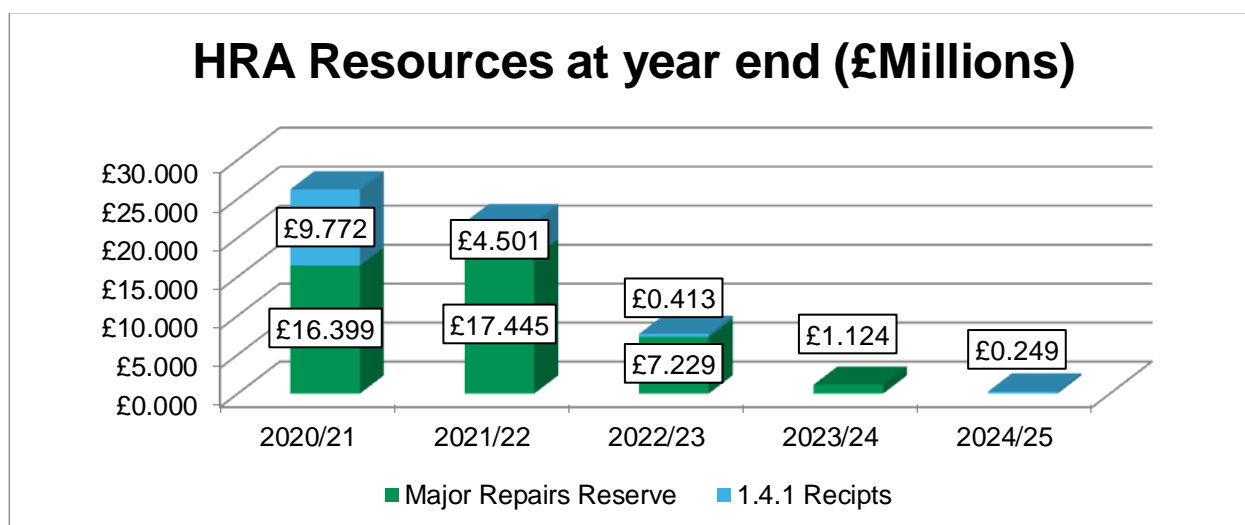
4.9.4 The HRA capital programme funding had been based on 35 Right to Buy (RTB) sales per year (2019/20 onwards) and was initially reduced to 24 for 2020/21 due to a reduction in house sale following restrictions under the first period of lockdown; however this has since been revised upwards to 27 sales based on

expressions of interest. RTB's have fluctuated since self-financing was introduced and in 2020/21 (up to 10/02/2021) there have been 15 RTB sales.



- 4.9.5 There have been no government policy changes impacting the HRA in the last year. The outcome of the Government's consultation on 'Use of Right to Buy (RTB) Receipts' and increasing the flexibility around their usage has still not been concluded. However, local authorities have been allowed to retain their receipts between April 2020 and March 2021 (recently extended from December 2020), without penalties, due to the impact of the COVID pandemic on development schemes. The Government has also issued a consultation, in November, asking for authorities' current position on the use of receipts. This may lead to a further extension of the repayment timetable, but this is not known at this time. As there has not been any formal conclusion to the last Government consultation process, future policy regarding the RTB system is not known and this continues to impede the use of the receipts.
- 4.9.6 The borrowing forecast for 2019/20 was £7.057Million (£8.557in the HRA BP less £1.5Million slipped to 2020/21), of which £4.010Million external borrowing was taken. None of the 23.802Million borrowing forecast for 2020/21 has been taken externally to date. There are forecast savings on interest payable totalling £0.508Million in 2020/21 and up to £1.707Million over the next four years, against the assumed new borrowing, due to loans having been deferred and to the changes to current and forecast interest rates.
- 4.9.7 A variable element of the resources available at year end is restricted use 1-4-1 receipts as shown in the following chart. As set out in paragraph 4.9.5, the government announced a temporary relaxation of the deadline by which these receipts needed to be spent or returned with interest. The chart sets out the

current forecast position. In addition there are revenue contributions which were set aside in the HRA BP of which not all have been utilised.



4.9.8 The IT Strategy requests are for the HRA share of the costs associated with the joint ICT Partnership Strategy between East Herts Council and Stevenage Borough Council). £13k of the request relates to a legislative requirement. The general apportionment used for the SBC share of these costs is 67% General Fund and 33% HRA, so both the General Fund and HRA budget elements are required.

4.9.9 Given the slippage identified and the level of unrestricted HRA resources available it is recommended that these budget increases are approved. The revised Capital Strategy for 2020/12-2024/25 including the slippage identified and the budget increases is set out in detail in Appendix E.

#### 4.10 De Minimis Level for Capital Expenditure 2021/22

4.10.1 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.

4.10.2 The limit set for 2021/22 remains unchanged at £5,000 in the Final Capital Strategy; this applies to a scheme value rather than an individual transaction.

#### 4.11 Contingency Allowance for 2021/22

4.11.1 The contingency allowance for 2020/21 is £250,000, the contingency proposed for 2021/22 remains 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.

4.11.2 The contingency allowance for 2020/21 in 2020/21 is £500,000 in relation 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 recommended to remain at the same level of £500,000 for 2021/22.

4.11.3 Separate to the contingency allowance in paragraph 4.11.1, the CFO proposes that Executive or Portfolio Lead/Leader of the Council be given delegation to approve increases to the capital programme for grant funded projects, when external funding sources have been secured. Officers propose a contingency allowance of £5,000,000 were a scheme is fully funded from 3<sup>rd</sup> party contribution/grant.

#### **4.12 Property Appropriations between General Fund and HRA**

4.12.1 Assets may be transferred between the General Fund and the Housing Revenue Account when they are no longer required for the purpose for which they were previously held, in order to allow the most appropriate use of these assets. For example a former underused General Fund asset could be redeveloped for new HRA properties. However in doing so no capital receipt is gained for the Council. The value of the land swap is recognised in the capital financing requirement (CFR) for each fund (ie the level of indebtedness of each fund), while overall the Council's CFR remains unchanged.

4.12.2 An appropriation from the General Fund to the HRA results in;

i) an increase in the HRA's CFR

ii) a decrease in the General Fund's CFR

iii) the loss of a capital receipt and/or rental for the asset transferred to the HRA.

4.12.3 Appropriation between the funds needs Member approval and as such officers are seeking approval for the transfer of Dunn Close garage block from the General Fund to the HRA in 2021/22 for the reason of redeveloping the site for new HRA properties as per Recommendation 2.14. The transfer value is estimated to be £585K but a valuation is to be obtained.

#### **4.13 Update following Audit Committee and Executive**

4.13.1 The Capital Strategy has been updated with the latest information since this reports was presented at the Executive meeting of 10 February with year-end GF receipt balance now £638k in 21/22 and £751k in 22/23.

4.13.2 To improve the levels of resources available at year end an assessment of the GF year end balances position will be taken to determine whether any unplanned underspends that arise could be used to improve the financial position for capital or whether they should remain as a revenue resilience measure.

## **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 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 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.

5.4.3 There is a risk in achieving the level of qualifying spend, including Grants to Registered Providers, 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 receipt will have to be returned and interest payments made.

5.4.4 There are risks around achieving the level of disposals budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates. 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.

5.4.5 There is considerable uncertainty about the potential for the Council to receive further government funding. The position regarding COVID losses and the cost of recovery is also uncertain at this time as we are in the second national lockdown. The Council must keep Strategy in place under review, to address the financial impacts due the likely level of losses and the increased certainty that income levels are going to be 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.

- 5.4.6 There are risks around achieving the level of Locality Review Receipts budgeted for, which are required to replace NHB funding and contributions from Revenue underspends.

## **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 Draft Capital Strategy (January 2021 Executive)
- BD2 Final HRA and Rent Setting Report 2021/22 (January 2021 Executive)
- BD3 Housing Revenue Account Medium Term Financial Strategy Update (2020/21 - 2024/25) (November 2020 Executive)
- BD4 HRA Business Plan 2020 update (December 2019 Executive)

## **Appendices**

- A - Final Capital Strategy 21/22 General Fund Growth Bids
- B - Final Capital Strategy 21/22 General Fund Slippage & Savings
- C - Final Capital Strategy 21-22 HRA budget requests
- D - GF Final Capital Strategy
- E - HRA Final Capital Strategy
- F - Commercial Investment Strategy