Part I – Release to Press

AGENDA ITEM: 4B

Meeting	**EXECUTIVE/COUNCIL**
Portfolio Area	Resources, Transformation & ICT
Date	**8 FEBRUARY/23 FEBRUARY 2023**

CAPITAL STRATEGY 2022/23 - 2027/28

KEY DECISION

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1. PURPOSE

1.1 The purpose of the report is to seek revisions to the 2022/23 General Fund and Housing Revenue Account Capital Programme and approve the final Capital Programme for 2023/24

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 the Council's investment strategy as required by the updated prudential code.

1.4 To set out the Council's approach to funding its key Future Town Future Council Cooperative Corporate Plan priorities.

2. RECOMMENDATIONS

That the following proposals be recommended to Council on 22 February 2023:

2.1 Final General Fund Capital Growth Bids for 2023/24 as detailed in Appendix A (and incorporated into Appendix C) to the report be approved.

2.2 The revisions to the 2022/23 General Fund budget as incorporated into Appendix C to the report be approved.

2.3 The Final 2023/24 General Fund Capital Programme as detailed in Appendix C to this report be approved, together with the recommended resourcing.

2.4 That the CFO brings a report forward during the 2023/24 financial year setting out the Council's key capital regeneration and community asset ambitions and key land and asset disposals, not currently in the capital strategy to determine a funding strategy to meet these Corporate priorities.

2.5 That the Final HRA budget requests for 2023/24 as detailed in Appendix B (and incorporated into Appendix D) to the report as approved at the 18 January 2023 Executive meeting be noted.

2.6 That the Final 2023/24 HRA Capital Programme as detailed in Appendix D to the report be approved.

2.7 That the updated forecast of resources 2023/24 as detailed in Appendix C (General Fund) and Appendix D (HRA) to the report be approved.

2.8 That Council note the risk mitigation strategy to ensure the 2023/24 capital programme is fully financed as set out in paragraph 4.3.2 and paragraph 4.6.4, the Executive will be updated in the Capital Quarterly monitoring reports.

2.9 That the 2023/24 de-minimis expenditure limit, as set out in section 4.11 of the report, be approved.

2.10 That the 2023/24 contingency allowances, as set out in section 4.12 of the report, be approved.

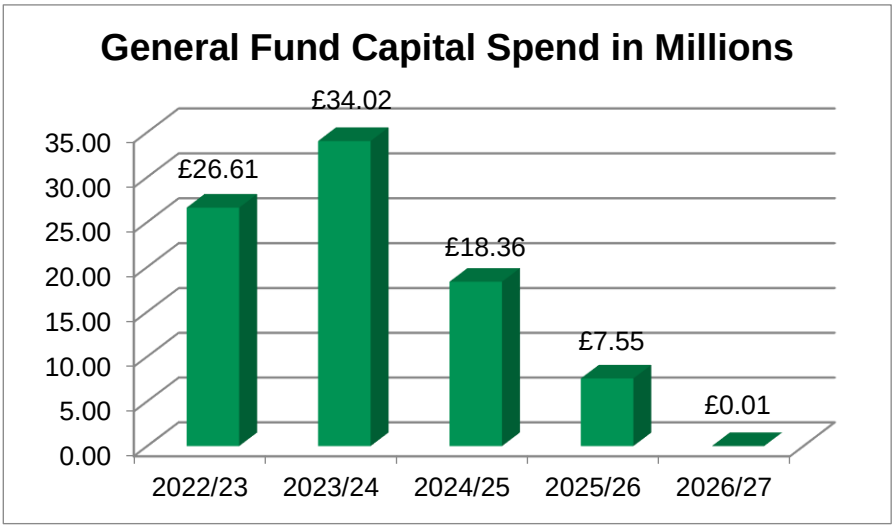
2.11 The appropriation of Dunn Close garage block, valued at £540K, from the General Fund to the HRA as detailed in Para 4.14.3 be approved.

3. BACKGROUND

3.1 Introduction

3.1.1 This report is an update on the Council's Draft General Fund and HRA capital strategy 2022/23- 2027/28 presented to the January 2023 Executive meeting. This report updates Members on any changes to the capital programme previously presented for 2022/23- 2027/28 and the resourcing for both the General Fund and HRA programme.

3.1.2 The draft General Fund capital programme totalled £86.6Million and is summarised in the graph below.



3.1.3 The purpose of the Capital Strategy is to outline how the Council determines its priorities for capital investment and how much it can afford to borrow as well as setting out any associated risks. The Leaders Financial Security Group (LSFG) and the Senior Leadership Team reviewed the capital bids for 2023/24 contained within the Draft Capital Strategy and the results of that review are included in this report.

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 and that:
  - treasury management decisions are taken in accordance with good professional practice.
  - 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 which 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 the risk of losses being made before entering and whilst holding an investment
- the steps taken to ensure that elected Members and Statutory officers have the appropriate skills and governance.

3.1.6 Some of these disclosures may be outlined 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 Council's ability to afford borrowing costs. Accordingly, the council applied a 'fix on fail' approach to assets with no significant asset improvements being funded, with the exception of those supported through external funding or partially through external funding (for example Garage and Play Improvement programmes).

3.2.2 The Asset Management Strategy approved by the Executive at its meeting on the 11 July 2018 included a key action for the Council to undertake locality reviews of its current land and buildings. The locality reviews would seek to generate new opportunities for better use of existing buildings, to identify potential sites to release for sale along with land options for the Council's own home building programme. This was consistent with seeking to meet a range of Council priorities.

3.2.3 Building condition Surveys were completed in 2019 and they were used to inform growth bids approved in previous Capital Strategies. It should be noted though that

the surveys were focused on keeping existing sites operational rather than making improvements or future proofing them.

3.2.4 The Council plans to utilise New Homes Bonus (NHB) to fund the playground improvement programme as below:

Table 1: Use of New Homes Bonus	2022/23	2023/24
Play area improvements & Litter Bins Expenditure	£230K	£243K

3.2.5 The remaining schemes within the Capital Strategy include 'Transforming our Town' projects, Housing Development initiatives and IT investment (predominantly related to schemes identified through the joint ICT Partnership Strategy between East Herts District 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, any such proposals would require a business case to be completed to determine the benefit to the Council, or as a last resort should capital expenditure be essential and no other funding is available. Generally, the former approach would be used to fund income generating schemes which support the Making Your Money Count ambitions. The issue of affordability has been exacerbated by the recent pandemic and cost of living (through increases in interest rates) on the Council's finances.

3.2.7 The Council has approved some land and asset disposals and some further key disposal assets and consideration will have to be given as to how these assets are used to meet the Council's priorities. The CFO will bring a report setting out some specific proposals during the 2023/24 financial year.

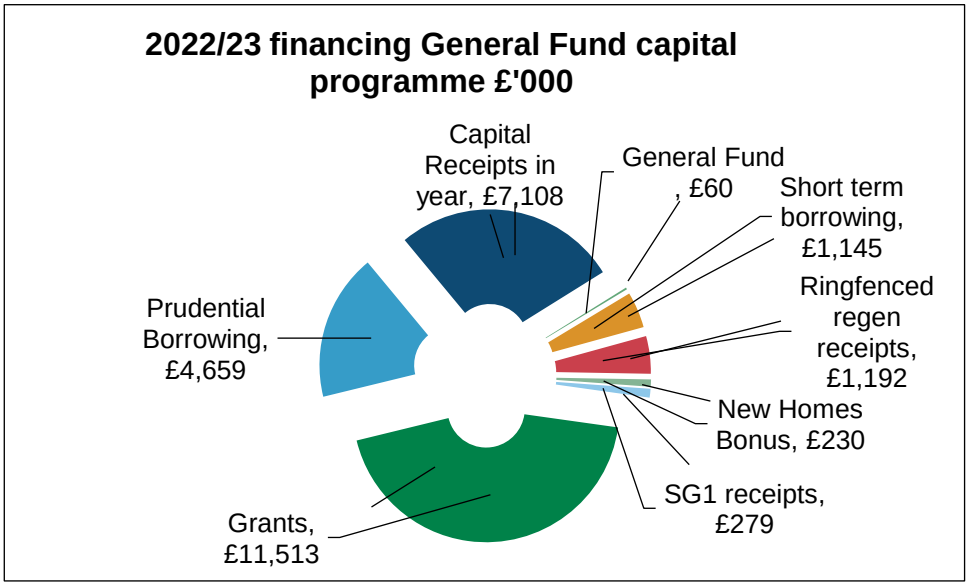
3.2.8 In addition to the land disposals mentioned in paragraph 3.2.7, there are SG1 receipts (not included in the revised Capital Strategy at the current time), other ring-fenced Regeneration receipts and Locality receipts. The potential land disposals identified through the Locality Reviews will help maintain the resilience of General Fund balances, reducing 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 4.3 of this report.

3.2.9 The Capital Strategy includes the use of Section 106 (S106) monies that have yet to be allocated to any current and future capital schemes. The table below shows the categories they can be used for:

Table 2: S106 contribution Available	Amount
	£000
Environmental Improvements	170
Engineering	14
Stevenage Works	12
Regeneration	36
Older apps (pre 15/00253/OPM)	104
Total	**336**

3.2.10 The Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in April 2020 and the current balance is £139k with an additional forecast in-year income of £387K (total £526K). Any allocation of funds to relevant capital projects will be brought forward for approval later in the year- and require Executive approval above £75K. £97.5K has been included in Appendix C for Community Infrastructure Projects in the 2023/24 financial year based on an allocation of £7.5K per ward.

3.2.11 The current capital programme of £26.2Million (approved February 2021 and as subsequently amended through the quarterly monitoring and supplementary reports), is fully funded and shown in the following chart. The Grants figure includes £11.0Million of Towns Fund grant.



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.

3.3.2 The 2019/20 HRA BP included more borrowing than in the 2018 HRA BP, 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 included 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 £201Million of projected capital expenditure as well as revenue growth which funded planned maintenance, anticipated changes relating to the Hackett review and decent homes works.

3.3.4 The new build programme increased from £582Million to £645.6Million in the 2019 HRA BP, with 2,433 new build homes in total over the life of the Business Plan 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 the Executive including an increase of £11.3Million for the Kenilworth scheme procurement (reported to the Executive in January 2020), the updated figures for which were included in the Final Capital Strategy approved by the Executive and Council in February 2020. The net change to the approved budget for the period 2019/20 to 2024/25 was £10.2Million.

3.4 Budget and Policy Framework

3.4.1 The process for approving capital budgets is set out in the Budget and Policy Framework in the Constitution. This includes a consultation period and the timescale required to implement this is outlined below:

Date	Meeting	Report
Jan-23	Executive	Draft 2023/24 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2023/24 General Fund and HRA Capital Strategy
Feb-23	Executive	Final 2023/24 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2023/24 General Fund and HRA Capital Strategy
Feb-23	Council	Final 2023/24 General Fund and HRA Capital Strategy

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – 2022/23-2023/24 General Fund

4.1.1 Due to the ongoing financial pressures arising from the cost of living and the need to focus on improving General Fund resilience, the CFO recommended adopting the following approach to officers with regards to submitting Capital Bids for 2023/24:

- Review existing budgets in the Capital Strategy for completeness and to advise if circumstances have changed, and
- Only submit bids that are urgent or support the delivery of a top priority as funding is limited

A full review of the Strategy is planned to be carried out for 2023/24.

4.1.2 A summary of the 2023/24 growth bids presented in the Draft Capital Strategy to January Executive is summarised in table four below and is set out in full in Appendix A (Growth bids) and Appendix C (General Fund Capital Strategy).

Table 4: Update following 2023/24 Capital Bids process

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Current strategy total	36,104	28,307	10,799	7,548	0	82,758
Slippage & removals	(9,493)	3,479	6,201	0	0	187
Removed	0	(1,010)	0	0	0	(1,010)
LEP loan repayment	0	0	1,000	0	0	1,000
Growth Bids (see 4.2)	0	3,250	360	5	5	3,620

Table 4: Update following 2023/24 Capital Bids process						
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Adjusted total	**26,611**	**34,026**	**18,360**	**7,553**	**5**	**86,555**

4.2 Capital Bids Included in the Capital Programme

4.2.1 The capital growth bids received and recommended for inclusion in the Capital Strategy (subject to funding) by Leaders Financial Security Group (LSFG) and the Council's Senior Leadership (SLT) have been classified against a number of different categories, as set out in table five below and are detailed in Appendix A. These bids total £3.6Million over the period 2023/24 - 2027/28, £3.2Million of which fall in 2023/24.

Table 5: Submitted Growth Bids by Priority						
		23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000	Total £'000
Priority 1	Return on investments	1,228	0	0	0	1,228
Priority 2	Income generating	80	0	0	0	80
Priority 3	Mandatory requirements (including Health & Safety)	287	5	5	5	302
Priority 4	Schemes to maintain operational efficiency	950	355	0	0	1,305
Priority 7	Urgent works (that reduce operational risks)	65	0	0	0	65
Priority 9	Schemes that reduce or mitigate risks included in the Corporate Risk Register	630	0	0	0	630
Priority 11	New Burden	10	0	0	0	10
Total General Fund Capital Growth Bids		**3,250**	**360**	**5**	**5**	**3,620**

4.2.2 LSFG agreed bids totalling £3.250Million for 2023/24, after further review the following change is recommended:

- The re-procurement of a Digital system to support delivery of household and commercial waste and recycling services can be removed from the bids, as the current contract is being extended and the capital bid is no longer required.

4.2.3 Further discussions have taken place with services to eliminate the funding gap of £177K reported in the Draft Capital Strategy. Including the change mentioned in paragraph 4.2.2, the results are set out in the table below.

Table 6: Submitted Growth Bids by Priority		
Scheme	**Budget taken away**	**Moved into 2024/25**
Litter Bins – that the remaining budget in 2022/23 of £123,900 and 2023/24 £10,000 can be returned to central pot	£133,900	

Table 6: Submitted Growth Bids by Priority		
Scheme	**Budget taken away**	**Moved into 2024/25**
Shrub bed programme – that £78,000 in 2022/23 can be return to central pot. There may be a requirement in future years for this to be funded again, but this will be put forward as a new bid if and when required.	£78,000	
Digital system to support delivery of household and commercial waste and recycling services - Re-procurement	£50,000	
Trade Waste Containers – the £27,996 in 2022/23 can be returned to central pot	£27,996	
Vehicles – that £30,000 in 2022/23 of vehicle budgets can be returned to central pot	£30,000	
Leisure stock condition - £20,000 in 2022/23 of this budget can be return to central pot	£20,000	
Pin Green Play Centre Equipment – the £19,010 in 2022/23 can be returned to central pot	£19,010	
ASB Team Mobile camera – that the £5,000 in 2022/23 and 2023/24 can be return to central pot	£10,000	
Ridlins Athletics – that £15,000 of the 2022/23 budget can be returned to central pot	£15,000	
Ridlins Athletics Facility – that £20,000 from 2022/23 can be returned to central pot	£20,000	
Green Space Infrastructure – that the 2023/24 and 2024/25 budgets can be slipped one year		£128,000
Play improvement programme		£214,220
Total	**£403,906**	**£342,220**

4.2.4 Therefore, it is recommended that the bids totalling £3.2Million are approved for 2023/24, however some 2023/24 may need to be put on hold as per paragraph 4.3.2.

4.3 Capital Contingency

4.3.1 As in previous years, it is recommended that a contingency allowance (the Deferred Works Reserve) should be included in the capital strategy in the event that any works become unavoidable during the financial year. This has been included at the level of £200k per annum. There is also an unused balance of £1.1Million in 2022/23. The proposed use of this is set out in the table below.

Table 7: Deferred Works Reserve			
	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**
Deferred works reserve Budgets	1,059	200	200
Retain as a minimum for inflation		350	
Contingency for emergency		350	

Table 7: Deferred Works Reserve			
	2022/23 £'000	2023/24 £'000	2024/25 £'000
Set aside for specific projects if come to fruition:			
St Georges MSCP – conversion of storeroom and boiler room to office space		50	
Aqua Park – Rubber crumb surface replacement		35	
Total reserved for contingencies		**785**	
Balance available once capital receipts been realised		**474**	

4.3.2 The deferred works budget is available for overruns, deferred or urgent works as set out in para 4.3.1. However, in a period of high inflation and with a risk that level of receipts to be realised in 2023/24 may not materialise, or at the same level due to economic factors and the volume of sites the CFO recommends that before the commencement of the financial year a review of the capital programme is undertaken to determine whether any schemes can be held until a level of receipts is realised, along with the other mitigating factors in paragraph 4.6.4. This will be managed and reported back to Executive.

4.4 Locality Review Update

4.4.1 A key recommendation from the June 2020 MTFS COVID recovery report was that a pipeline of land disposals be identified from Locality Reviews to help maintain the resilience of General Fund balances, by removing the revenue contribution to capital. There was also a need to generate additional capital receipts to help fund any shortfalls from the reduction or cessation of New Homes Bonus (NHB).

4.4.2 The current position is detailed below. The disposal programme has been hampered by recruitment issues (now resolved) and that the sites are relatively small but complex and have required some modifications to the original plans. It is a risk to the capital programme that so many sites are projected to be disposed of in a single year due to the current economic conditions and the volume. This will be closely monitored during the year.

Table 8: Locality Review Site Disposals		
Tranche	**Previous Estimated receipts £'000**	**Current Estimated receipts £'000**
Tranche 1 – Year 1 2021/22 Actual	£0	£0
Tranche 2 – Year 2 2022/23 Estimate	£2,250	£0
Tranche 3 – Year 3 2023/24 Estimate	£960	£3,206
Total Forecast Locality Review Receipts	**£3,210**	**£3,206**

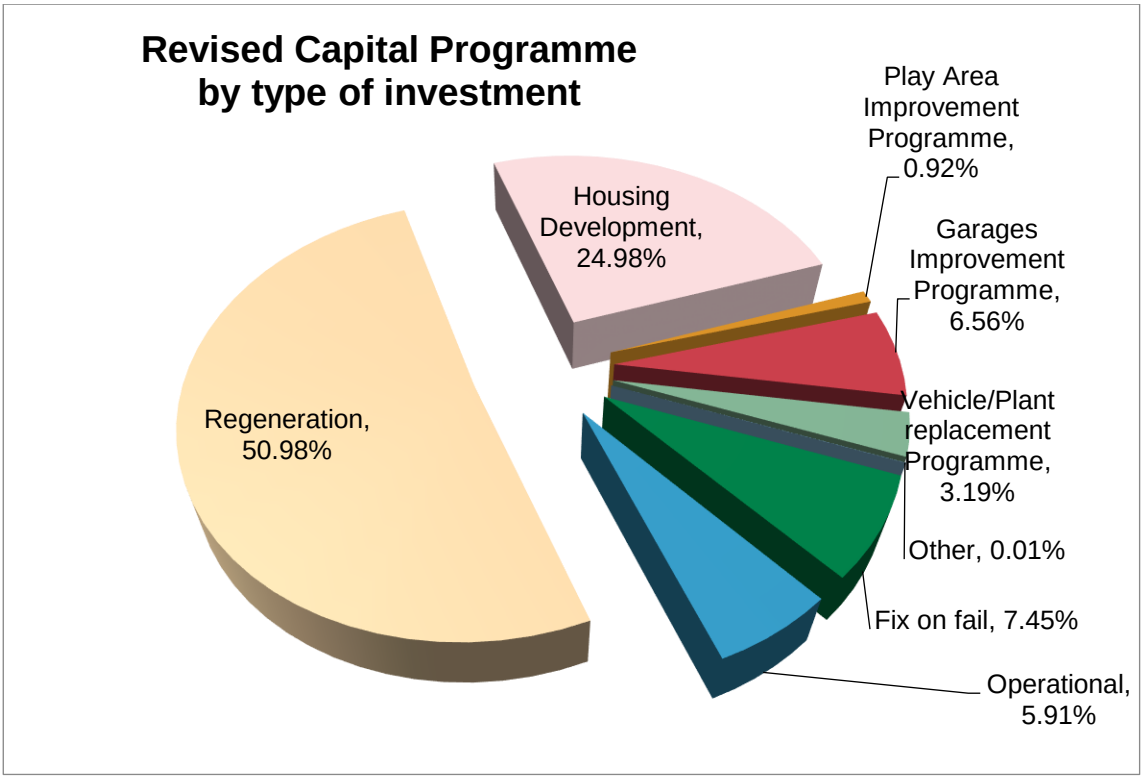
4.5 Summary Capital Programme 2022/23-2027/28

4.5.1 The revised Capital Strategy for 2022/23-2027/28 totals £86.2Million, including the growth bids totalling £3.2Million. It should be noted that a number of asset reviews will be taking place as part of the CFOs report on the Council's key capital regeneration and community asset ambitions, which will impact the projections beyond 2024/25. The current projection is summarised in table nine below, and in detail in Appendix C.

Table 9: Revised Capital Programme

	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000	27/28 £'000	Total £'000
Stevenage Direct Services	3,707	6,024	1,321	261	0	0	11,313
Housing Development	2,425	13,046	6,071	0	0	0	21,543
Finance and Estates	2,861	1,003	90	0	0	0	3,953
Digital & Transformation	418	422	104	0	0	0	944
Regeneration	14,610	11,230	10,150	7,400	0	0	43,389
Communities and Neighbourhoods	829	1,633	55	20	5	0	2,542
Planning and Regulatory	275	461	365	0	0	0	1,102
Deferred Works Reserve	1,059	200	200	0	0	0	1,459
Total GF Schemes	**26,185**	**34,017**	**18,357**	**7,681**	**5**	**0**	**86,245**

4.5.2 The General Fund Investment Strategy has been to maintain existing assets in their current condition by following a fix-on-fail approach, incurring expenditure as necessary for operational purposes and with limited improvements via Regeneration activities, new Housing Development and the improvement programmes covering Play Areas, Garages and Vehicle/Plant. This has been the case due to necessity as a result of their being limited resources. The figures in Table nine have been converted into a pie chart below to outline the relative capital investment in these different areas and which shows the limited amount of added value in the current capital programme.



4.6 Capital Resources for the General Fund Capital Strategy

4.6.1 The projected resources used to fund the Capital Strategy total £86.2Million, which includes the growth bids of £3.6Million. This is summarised in table ten below, and detailed in Appendix C.

Table 10: Revised Capital Programme

	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	27/28 £000	Total £000
Capital Receipts	7,774	4,909	2,831	281	5	0	15,800
Locality Review receipts	0	3,206	0	0	0	0	3,206
Grants and other contributions	11,513	19,082	9,650	7,400	0	0	47,645
Revenue Reserves	15	111	0	0	0	0	126
Capital Reserve (Housing Receipts)	805	375	380	0	0	0	1,560
Capital Reserve (Revenue Savings)	44	0	0	0	0	0	44
New Homes Bonus CNM	230	243	0	0	0	0	473
Borrowing	5,804	6,091	5,496	0	0	0	17,391
TOTAL	**26,185**	**34,017**	**18,357**	**7,681**	**5**	**0**	**86,245**

4.6.2 The table above shows Capital financing for the current year and over the five-year period consists of 20% borrowing; 55% capital grants, 24% useable capital receipts and the remaining 1% relates to the General Fund reserve.

4.6.3 The use of capital receipts is dependent on delivery of the disposal sites to the market. Assuming that all the General Fund Growth Bids in Appendix A are

approved, the revised Capital Strategy includes the following forecast capital receipts. The table below includes both General Capital Receipts and Locality Review Receipts as they are available for use in the Capital Programme. Ring-fenced Town Centre Transformation and SG1 receipts have been excluded.

Table 11: GF Capital Receipts Forecast							
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Opening Balance	(3,839)	(688)	(351)	(8,192)	(5,415)	(5,411)	
General Capital Receipts	(3,507)	(3,888)	(10,173)	0	0	0	(17,567)
Locality Review Site Disposal	0	(3,206)	0	0	0	0	(3,206)
Receipts used in year	6,658	7,431	2,331	2,777	5	0	19,203
Closing Balance	**(688)**	**(351)**	**(8,192)**	**(5,415)**	**(5,411)**	**(5,411)**	

4.6.4 The level of receipts to be realised in 2023/24 is £7.094Million with just £351K not required, (this includes the full use of the deferred works reserve which does offer some mitigation). In order to increase the financial resilience of the capital programme for 2023/24 the following measures are recommended by the CFO:

- Review of 2023/24 capital programme to hold and release schemes as receipts are realised, (see also 4.3.2)
- Monitoring of capital receipts due in year by the Assets and Capital group (officer group)
- Monitoring of the capital programme by the Assets and Capital group to determine whether there are further underspends in the programme as identified in paragraph 4.2.3
- Review of 2022/23 year end General Fund revenue balances to determine whether any underspends can be transferred to the Capital Reserve
- Review of other potential small sites for disposal by the Estates Team

4.7 Minimum Revenue Provision (MRP)

4.7.1 MRP is applied where the council has to set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g., depreciation) in the statement of accounts and has an impact on the council's bottom line. MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes. The council will continue to balance the use of capital receipts, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.

4.7.2 The Council has an on-going capital programme and will continue to invest in capital projects beyond 2027/28 and will therefore need to ensure that funds are set aside for the future cost of borrowing.

4.7.3 The other main risks to the capital programme are:

- Potential for scheme overspends

- Potential for delay in realising capital receipts – there are £3.5Million of land/asset sales to be achieved in 2022/23 and £7.1Million in 2023/24 as shown in table eleven, which are required for financing later years.
- The deferred works budget of may not be sufficient to fund any schemes not currently funded in the Strategy due to the ongoing fix-on-fail approach.
- Potential for money spent as capital on some Towns Fund projects to revert to a future revenue liability if projects do not progress to physical completion, e.g., only feasibility and early design are completed
- Cost volatility and increased client risk in construction projects due to the impact of cost of living, which has resulted in supply chain pressures and significant price increases across the construction sector.

4.7.4 The officer Strategic Town Centre Transformation Board and the Stevenage Development Board also need to ensure that external funding is maximised to reduce risks to the Council's finances.

4.8 Other capital investments and Finance Lease

4.8.1 The Council purchased several 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. Prior to making these strategic acquisitions full risk assessments were undertaken to ensure the cost of carrying these assets in the short to medium term could be met by the Council. The Regeneration Asset allocated reserve has been setup specifically to cover these costs.

4.8.2 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. Prior to the decision to proceed being made a risk assessment was undertaken and presented to Members. Key Officers were given training on their roles and responsibilities for the new governance arrangements associated with the Limited Liability Partnership.

4.8.3 External legal, financial, and commercial advice is procured to ensure the validity and viability of business cases presented to Members.

4.9 Capital Programme - Housing Revenue Account (2022/23-2027/28)

4.9.1 The majority of the HRA capital expenditure as set out as part of this strategy will be spent on the development of new homes and the maintenance, repairs and upkeep of existing stock.

4.9.2 The majority of the growth relates to decarbonisation and building safety works. The decarbonisation works will relate to the success of the latest grant bid for Government funding, and this has been included within the current budget proposal.

4.9.4 The result of this exercise is summarised in table below and is set out in full in Appendix B (Growth bids) and Appendix D (HRA Capital Strategy). The slippage of £5.6Million from 2022/23 to 2023/24 was included in the Draft Capital Strategy.

Table 12: Update following 2022/23 Capital Bids process							
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Slippage	(5,569)	5,569	0	0	0	0	0
Growth Bids		5,068	4,988	3,690	3,690	3,060	20,496
TOTAL	**(5,569)**	**10,638**	**4,988**	**3,690**	**3,690**	**3,060**	**20,496**

4.9.5 No changes have been made to the HRA budgets following the Draft Capital Strategy, so the budget for 2022/23 - 27/28 remains a total of £207.1Million, as set out in Appendix D and summarised below.

Table 13: HRA Capital Programme							
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Capital Programme Excl New Build (Housing Investment)	23,469	25,442	20,070	21,429	18,063	3,060	111,534
Special Projects & Equipment	63	25	25	1,141	1,141	0	2,395
New Build (Housing Development)	25,060	36,706	13,659	12,342	4,615	0	92,383
Digital & Transformation	494	246	51	0	0	0	792
Total HRA Schemes	**49,086**	**62,420**	**33,806**	**34,912**	**23,819**	**3,060**	**207,104**

4.10 Capital Programme – HRA Resources (2022/23-2027/28)

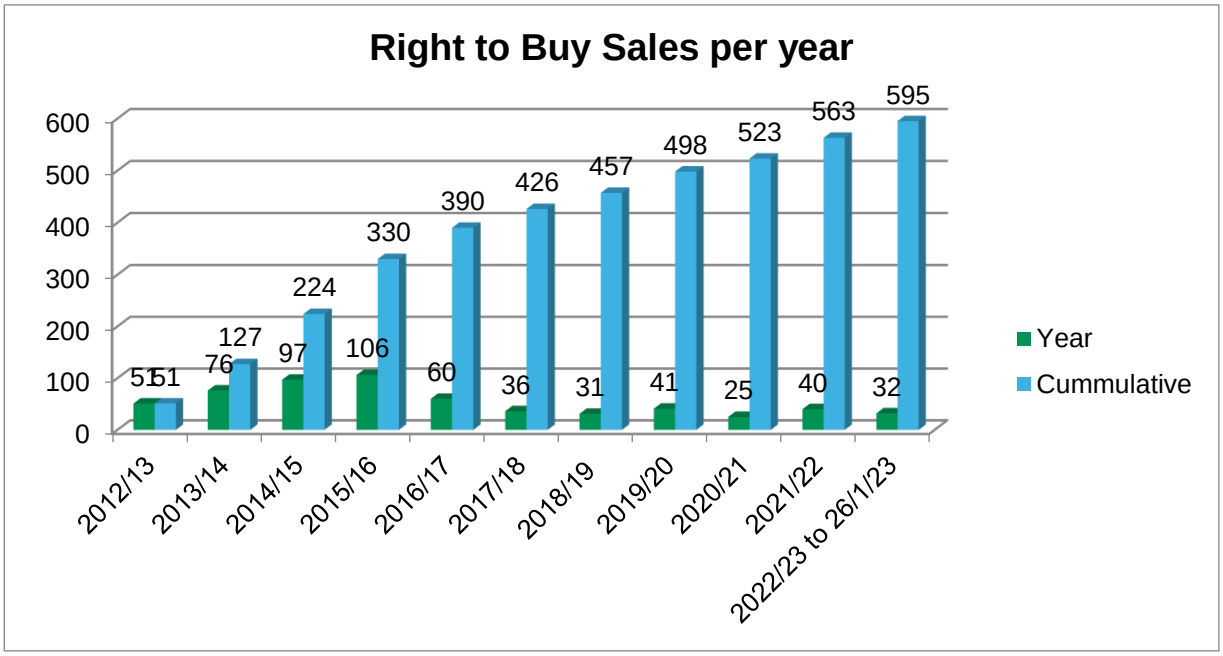
4.10.1 The resourcing of the current HRA capital programme funding is summarised in the table below. The largest percentage is funded by the Major Repairs Reserve (MRR) via depreciation charges (44%) followed by borrowing (16%). Capital receipts from right to buy sales of council houses (New Build 1-4-1 receipts) forms 22% of total funding. This aligns to the HRA budget report to Executive in January.

Table 14: HRA Capital Programme							
	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	27/28 £000	Total £000
MRR (Self Financing Depreciation)	17,983	20,755	19,705	17,870	12,635	2,710	91,658
New Build Land Receipts	5,713	1,420	0	2,100	4,373	0	13,606
(RTB) new Build provision	5,127	11,579	4,217	4,403	2,196	350	27,872
Debt Provision Receipts	936	976	1,058	1,102	0	0	4,072
Section 20 Contribution	500	1,130	568	0	0	0	2,198
Borrowing	8,756	24,964	175	0	0	0	33,895
S106	736	0	0	0	0	0	736
Developer Contributions (Kenilworth)	4,729	0	0	0	0	0	4,729
Revenue Contribution to Capital	2,204	238	6,725	9,437	4,615	0	23,219
Grant	2,403	1,358	1,358	0	0	0	5,119
TOTAL	**49,086**	**62,420**	**33,806**	**34,912**	**23,819**	**3,060**	**207,104**

Use of One for One Receipts

4.10.2 The Government amended the rules regarding the use of capital receipts arising from the sale of Right to Buy (RTB) properties and the Council entered into a new retention agreement that reflected these changes. This has reduced pressure on the use of RTB receipts, particularly as the Council is currently delivering major developments that can use these restricted funds.

4.10.3 Sales of properties remain lower than the peak in 2015/16 and it looks likely that they will be in line with projected estimates of 35 properties for 2022/23. The budget for 2023/24 continues to assume sales of 35 properties for rent budgeting and capital receipts purposes. The graph below shows recent sales activity by year.



4.11 De Minimis Level for Capital Expenditure 2023/24

4.11.1 Accounting best practice recommends that the Council approves a de minimis level for capital expenditure, or a value below which the expenditure would not be treated as capital. This would mean that the expenditure would not be recorded on the asset register nor be funded from capital resources.

4.11.2 The 2023/24 de-minimis expenditure limit be increased from £5,000 to £7,500 per scheme be proposed for consideration by the Executive.

4.12 Contingency Allowance for 2023/24

4.12.1 The contingency allowance for 2022/23 is £250,000, the contingency proposed for 2023/24 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.

4.12.2 The contingency allowance for 2022/23 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 a recommended to remain at the same level of £500,000 for 2023/24.

4.12.3 Separate to the contingency allowance in paragraph 4.12.1, is the delegation to Executive or Portfolio Lead/Leader of the Council to approve increases to the capital programme for grant funded projects, when external funding sources have been secured. Officers propose that this contingency allowance remains as £5,000,000 where a scheme is fully funded from 3rd party contribution/grant.

4.13 Looking Forward

4.13.1 **Super Capital Strategy** - a revised Capital Strategy Report will be coming to a future Executive. This will outline the aims and objectives of future General Fund capital expenditure and investment plans. Focus will include decarbonisation, leisure services, Transformation bids, community assets and electrification of the fleet.

4.13.2 **Regeneration Joint Venture** – a report will come back to Executive in 2023 and will outline options for the delivery of the first phase of SG1. This could potentially include a Joint Venture arrangement and may have implications for the future Capital Strategy.

4.13.3 The **HRA will have a full business plan review in 2023/24** to make sure that capital and revenue spend remains affordable over the life of the plan.

4.14 Property Appropriations between General Fund and HRA

4.14.1 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.

4.14.2 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.

4.14.3 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 2022/23 for the reason of redeveloping the site for new HRA properties as per Recommendation 2.14. The transfer value is £540K.

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 The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the council's constitution.

5.3 Equality and Diversity Implications

5.3.1 None specifically in relation to this report.

5.4 Risk Implications

5.4.1 The significant risks associated with the capital strategy are largely inherent within this report and a mitigation strategy is summarised in paragraph 4.6.4.

5.4.2 There is a risk that the value of land sales is not realised due to the impact of the cost-of-living crisis reducing demand and prices lower than anticipated as a result.

5.4.4 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 A significant risk exists that works maybe deferred due to lack of resources and materials. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum.

5.5 Climate Change Implications

5.5.1 In their current form the Council's buildings do not currently support the climate change agenda in terms of energy efficiency or divestment of use of fossil fuels.

5.5.2 However, there is an opportunity through the local asset review programme to build in design principles to improved / future 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 the buildings the Council uses. For example, the Council is also examining the vehicle fleet and consideration will be

given to reducing its carbon impact and the HRA growth includes a £9.7Million investment to ensure all homes meet the minimum EPC rating of C.

5.5.4 In addition to existing assts, new buildings being planned as part of the regeneration of Stevenage – e.g., the Hub and new Leisure Centre will be designed and equipped to meet modern standards.

BACKGROUND DOCUMENTS

BD1 Draft Capital Strategy report (Executive, January 2023)

BD 2 Final Housing Revenue Account Rent Setting & Budget report 2023/24 (January 2023 Executive)

BD 3 Medium Term Financial Strategy: Housing Revenue Account – Business Plan Review (including 1st and 2nd Quarter HRA Revenue Budget Monitoring 2022/23) (November 2022 Executive)

BD 4 HRA Business Plan 2022 update (December 2022 Executive)

BD5 Regeneration Programme Update and SG1 programme implementation (December 2022 Executive)

Appendices

A - General Fund Capital Bids for consideration

B - HRA Capital Bids for consideration

C - General Fund Capital Strategy

D - HRA Capital Strategy