

**Meeting** EXECUTIVE  
**Portfolio Area** Resources, Transformation & ICT  
**Date** 17 JANUARY 2024  
**DRAFT CAPITAL STRATEGY 2023/24-2028/29**



**KEY DECISION**

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**1 PURPOSE**

- 1.1 To approve revisions to the 2023/24 General Fund (GF) and Housing Revenue Account (HRA) Capital Programme and Strategy and approve the draft Capital Programme for 2024/25 for consideration by the Overview & Scrutiny Committee.
- 1.2 To provide Members with an update on the Council’s draft five-year capital strategy and the resources available to fund the Capital Strategy.
- 1.3 To provide Members with an update on 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 priorities.
- 1.5 To update Members on the work of the Council’s Financial Security Group (CFSG) in reviewing all General Fund capital bids prior to inclusion in the final 2024/25 Capital Strategy to the February 2024 Executive.
- 1.6 This item is a policy and budget report that cannot wait until the February Executive for publication.

**2 RECOMMENDATIONS**

That the:

- 2.1 Revised General Fund Capital Budget for 2024/25 of £33.6Million, as set out in Appendix B to the report, be proposed for consultation purposes.
- 2.2 Draft HRA Capital Budget for 2024/25 of £54.9Million, as set out in Appendix C to the report, be proposed for consultation purposes.

- 2.3 Updated forecast of resources 2024/25 be approved subject to the consultation process, General Fund section 4.4, HRA section 4.10.
- 2.4 General Fund capital budget re-profiling of £2.6Million from 2023/24 to future years be approved (paragraph 4.1.4).
- 2.5 General Fund capital budget savings (paragraph 4.1.3 and 4.1.5) be approved.
- 2.6 Approach to resourcing the General Fund capital programme as outlined in the report (Paragraph 4.4) be approved.
- 2.7 General Fund growth bids identified for inclusion in the Capital Strategy (paragraph 4.2, and Appendix A to the report) be approved in principle.
- 2.8 HRA budget increases identified for inclusion in the Capital Strategy (section 4.9 and Appendix C to the report) be approved.
- 2.9 Approach to resourcing the HRA capital programme as outlined in the report (Paragraph 4.10) be approved.
- 2.10 HRA capital budget re-profiling of £1.45Million from 2023/24 to future years be approved (paragraph 4.9.3).
- 2.11 HRA growth bid (IT £21k) identified for inclusion in the Capital Strategy (paragraph 4.9.4) be approved in principle.
- 2.12 2024/25 de-minimis expenditure limit (section 4.11 of the report) be increased from £7.5K to £9.999K be approved and;
- 2.13 That up to £500k of any revenue surplus in any year can be allocated to the capital reserve to support capital expenditure be approved.

### **3 BACKGROUND**

#### **3.1 Introduction**

- 3.1.1 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 Council's Financial Security Group (CFSG) and the Senior Leadership Team will review the capital bids for 2024/25 contained within the Draft Capital Strategy in December / January 2024 and the results of that review will be included in this report at that time.
- 3.1.2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:
  - affordable, prudent, and sustainable 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.
- 3.1.3 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; and
- the steps taken to ensure that elected Members and Statutory officers have the appropriate skills and governance.

3.1.4 Some of these disclosures may be outlined in the Treasury Management Strategy instead of the Capital Strategy.

## **3.2 General Fund Investment Strategy**

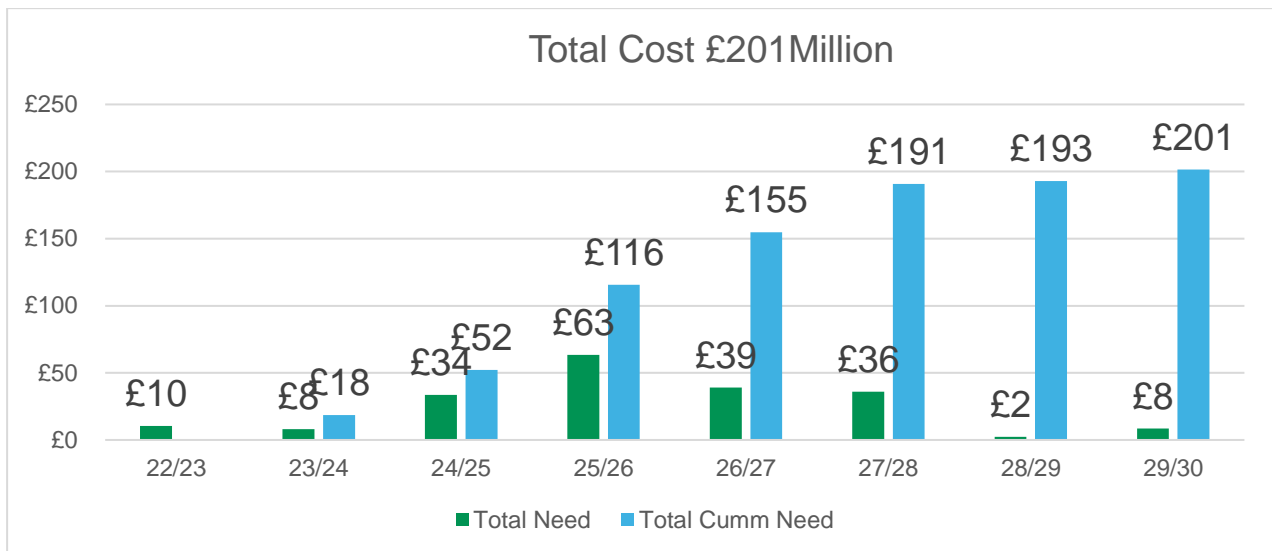
3.2.1 For a number of years capital spend has been prioritised due to the limited availability of capital receipts and the Council's ability to afford borrowing costs. Accordingly, the council applied a 'fix on fail' approach to assets with no significant asset improvements being funded, with the exception of those supported through external funding or partially through external funding (for example Garage Improvement programmes). This approach cannot be sustained in the medium to long term as it will lead to a gradual degradation of the Council's assets with reactive works only being undertaken to keep sites wind and water tight. Sustaining such an approach in the medium term will inevitably lead to close of buildings even before consideration is given to the legal requirements in terms of Energy Performance Certificate (EPC's) and other legal and climate change requirements.

3.2.2 To address the issues above, The General Fund Capital Strategy Overview - Priorities versus Funding Requirement 2023/24-2029/30 report to Executive 15 November 2023 set out the Councils key capital regeneration and community asset ambitions and key land and asset disposals, to determine a funding strategy to meet Corporate objectives and address the issues outlined above.

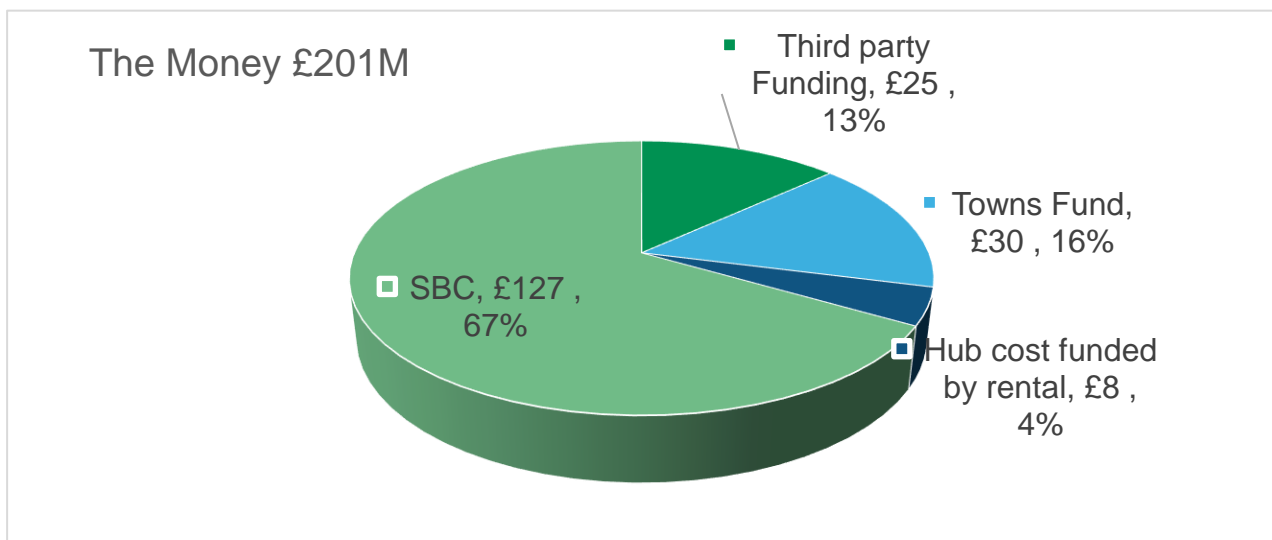
3.2.3 The following priority schemes / activities require a funding strategy:

- Regeneration SG1- Public Sector Hub, Leisure Centre and Theatre
- Climate Change - green fleet, buildings (operational, community and commercial)
- Towns fund programme where match funding is required
- Operational need investment in Community Assets
- Response to Legislative changes e.g. waste and recycling
- Protection of key income streams to ensure the financial resilience of the General Fund

3.2.4 A summary of the spend is shown in the chart below, which gives an estimated cost of £201Million.



3.2.5 The majority of the funding £127Million (67%) is for Stevenage Borough Council to resource as set out in the chart below. In addition, some of the hub costs funded through rental income will need to be financed upfront (£8Million). This will require a funding strategy and prioritisation to meet that £135Million identified capital need.

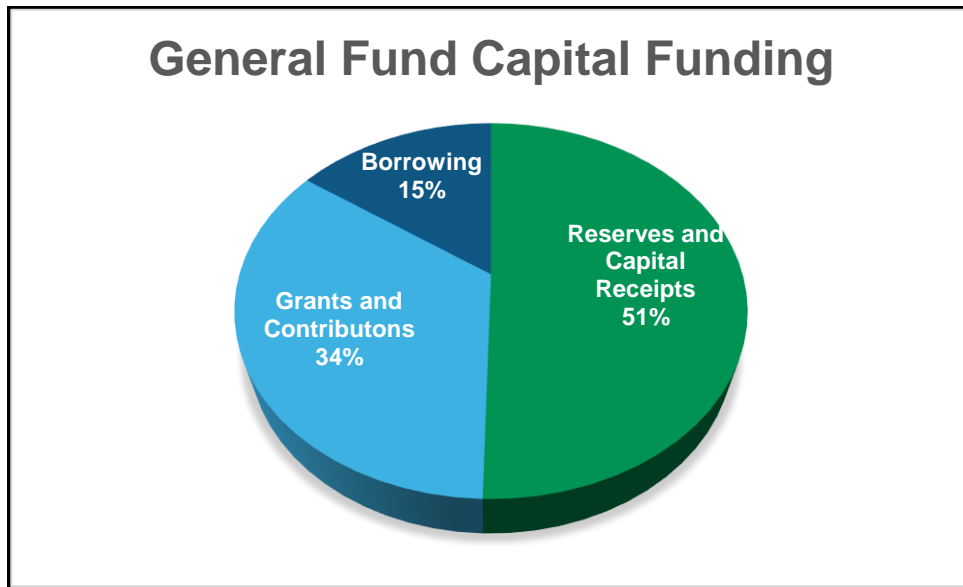


3.2.6 The current potential value of capital receipts that could be released by SBC is £44Million which is significantly less than the need identified of £127Million. This means that even if all approved receipts were delivered there will still be a requirement to find alternative funding strategies or third-party funding to meet the gap or require investment needs to be self-financing through part sale of land to develop and generate receipts. The total investment requirement and ringfenced receipts are currently excluded from the Capital Strategy until the funding gap is identified.

3.2.7 The limited funding available compared to the identified current need means that in the main priority schemes will need to provide a significant element of self-funding through providing land development opportunities.

3.2.8 The current years capital programme (approved February 2023 and as subsequently amended through the quarterly monitoring and supplementary

reports), is fully funded, and shown in the chart below which reflects the quarter one and two monitoring report to the October 2023 Executive.



- 3.2.9 Grants and contributions include £7.5Million Towns Fund Grant from an overall allocation of £37.5Million which is fully allocated to specific regeneration projects. Funding is received in stages as relevant projects proceed.
- 3.2.10 Short term borrowing is used to bridge funding gaps and is generally “repaid” from capital receipts in the following year.
- 3.2.11 Prudential Borrowing remains an option to fund capital schemes. Due to the on-going net cost to the General Fund, any such proposal requires a business case to be completed to determine affordability and benefit to the Council. This approach may be used to fund income generating schemes which support the Councils Priorities. The borrowing in the graph above is internal borrowing, which uses the councils internal cash resources for short term funding requirements. This internal borrowing is repaid in future years from capital receipts.

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

- 3.3.1 The HRA capital programme was revised as part of the HRA Business Plan (BP) approved by Executive in November 2023. The 30-year HRA capital programme provides for £1.643Billion HRA investment including £351Million additional borrowing over the same period, an increase from the last review of £28.8Million (£322.20Million).
- 3.3.2 The plan allows for total investment of £262Million from 2023/24 to 2028/29, with the majority of this invested in existing (56%) and new housing stock (44%). It is important that the Council continues to balance ongoing investment with the need to replace RTB sales, in order meet housing demand and ensure the financial stability of the HRA in the longer term.
- 3.3.3 The HRA is a legally ring-fenced account and the HRA BP covers both revenue and capital expenditure as they are intrinsically linked – capital investment

supporting the provision of services over the course of the plan. More details can be found in the HRA Final Budget 2024/25.

- 3.3.4 Funding for HRA capital projects comes from a variety of sources and preference is given to using restricted or third part funding ahead of more flexible funding, to ensure that funding conditions are met and optimised. These include right to buy receipts, s20 receipts, grants and developer contributions.

### 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:

Table 1		
Date	Meeting	Report
Jan-24	Executive	Draft 2023/24 – 2028/29 Capital Strategy (GF and HRA)
	Overview and Scrutiny	Draft 2023/24-2028/29 Capital Strategy (GF and HRA)
Feb-24	Executive	Final 2023/24 – 2028/29 Capital Strategy (GF and HRA)
	Overview and Scrutiny	Final 2023/24 – 2028/29 Capital Strategy (GF and HRA)
Feb-24	Council	Final 2023/24 – 2028/29 Capital Strategy (GF and HRA)

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

### 4.1 Capital Programme– 2023/24-2024/25 General Fund

- 4.1.1. Due to the ongoing financial pressures as set out section 3 of this report the CFO recommended the following approach to approving and funding General Fund 2024/25 capital expenditure :
- Review existing 2023/24 and 2024/25 budgets in the Capital Strategy for completeness and to advise if circumstances have changed, and
  - Only submit new 2024/25 growth bids that are urgent or support the delivery of a top priority.
- 4.1.2. Following that review, Officers have identified £4.2Million of projects where there is a business justification for rephasing the spend profile of the budget from 2023/24 to 2024/25 (£2.6Million) and budget savings of £1.6Million. Forecast spend for 2023/24 is £24Million representing 85% of the overall current strategy.

**Table 2: Revised Capital Programme excluding Growth 2023/24 and future years**

	Current Strategy Q2	Budget Savings	Rephased	Revised 23/24 Strategy	Revised 24/25 Strategy	Revised 25/26 Strategy	Revised 26/27 Strategy	Revised Strategy 27/28 and 28/29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Stevenage Direct Services	6,539	(147)	(1,628)	4,763	2,428	94	0	0
Housing Development	2,590	(294)	(649)	1,648	5,223	5,754	424	0
Finance and Estates	1,725	0	(32)	1,693	739	0	0	0
Digital & Transformation	602	(130)	(105)	367	99	0	0	0
Regeneration	12,532	0	0	12,532	21,587	7,945	0	0
Communities and Neighbourhoods	2,171	(38)	(205)	1,928	251	10	0	0
Planning and Regulatory	702	0	0	702	421	0	0	0
Deferred Works Reserve	1,279	(1,017)	0	262	230	0	0	0
<b>Total GF Schemes</b>	<b>28,140</b>	<b>(1,626)</b>	<b>(2,619)</b>	<b>23,895</b>	<b>30,978</b>	<b>13,803</b>	<b>424</b>	<b>0</b>

4.1.3. The budget savings of £1.6Million mainly relate to:

- Vehicle replacements – net budgets not required in 2023/24, replaced with new growth for vehicle requirements 2024/25 - £84.6k.
- The Shrub Bed programme budget of £132.5k has been reduced in 2023/24 by £62.5k to £70k based on the estimated cost of this year's programme.
- The capital programme relating to the review of Biodiversity Action Plan has now been commissioned and the costs are less than the budget (saving £5K).
- The remaining budget for the North Road development is now completed, the remaining budget is no longer needed thereby saving - £294k.
- IT General budgets have been reviewed and £130k is not required in 2023/24. These budgets are reviewed annually and further growth bids brought forward to support the future programme.
- SALC ceiling repairs now complete – remaining budget released £20k.
- CCTV mobile camera replacement for mobile safety £7k. This budget and the budget for 2024/25 (£5k) will now be grant funded and are de-minimis.
- Reduction in the Deferred Works reserve budget of £1Million, leaving £262k in the 2023/24 budget as the allocation is no longer required.

4.1.4. The budgets to be re-phased to future years of £2.6Million relate to:

- Play Area Improvement Programme (£555K) and Peartree skate park (£40k) – these have been impacted by recruitment challenges and as a result Project Managers are unable to deliver the remaining capital improvement due in

2023/24. The Council has confirmed its commitment to completing this programme of works.

- Legal issues have delayed the delivery of the Hertford Road Play Area investment (£25k). Officers are working to ensure this project can be delivered.
- Delivery of the Cavendish Transfer Station fire protection works (£350k), Thermal Image Cameras (£80k) and a roof for the residual waste bay (£150k) have been delayed but the Council remains committed to completing these investments.
- The repair to the wall at the closed St Nicholas Church (£30k) has been delayed due to the need for further assessment of the wall to be undertaken. This scheme will now be completed in 2024/25.
- Digital system for streets and ground services (£56k) and for Play area inspections (£16.5k) – a review and assessment of this system is being undertaken in conjunction with the transformation team. The related spend is now likely to take place in 2024/25.
- Vehicle replacement for roll On / Off (£105k) and receptacles for new rounds (£160k) – the procurement process has been paused whilst officers assess the requirement and impact of new government legislation.
- Replacement of Water Bowers (£15k) – the project has been paused whilst officers consider the best replacement option. Expenditure is now expected to fall into 2024/25.
- Maxi Truck (£40k) – officers are trialling the best options within the EV market. Expenditure is now expected to fall into 2024/25.
- Kenilworth Community Centre (£649k) – this scheme has been delayed due to the need to consider the outcome of related public engagement / consultation.
- The Building condition and Insurance valuation Survey is ongoing and it is anticipated that costs of £32k will now fall into 2024/25.
- IT infrastructure - £105k spend relating to current works is likely to fall into 2024/25.
- Stock condition survey £150k – this report is due by summer 2024, the budget has thus been slipped into 2024/25.
- Current Fire Stopping works at the Stevenage Arts & Leisure Centre (SALC) to the value of £20k are now expected to be completed in 2024/25.
- Aqua Park – rubber crumb surface replacement (£35k) – a review of the condition of the surface will take place post the winter in February-March 2024. The associated works to rectify any damage deemed necessary will take place in 2024/25.



4.1.5. A review of the current Capital Programme has been undertaken and the following adjustments made (other than that identified above):

2024/25 – Draft Capital Strategy reduced by £11.178Million

- Phase 2 of the Kenilworth development has been delayed as this was dependent on the completion of Phase I which remains under construction due to pandemic related delays. The total overall spend is also subject to a reduction pending a decision on phase 2 design which has been prompted by changing market conditions. An alternate scheme design is likely to result in lower capital expenditure and improved viability. A complete review of the associated figures will be necessary when the alternate scheme progresses. As a result £5.603Million has been rephased from 2024/25 into 2025/26 (£5.179Million) and 2026/27 (£424k). The remaining £7.022Million has been removed from the 2024/25 budget pending outcome of the scheme review.
- The Shrub Bed programme budget of £133k has been reduced in 2024/25 by £89k to £44k. The programme of works will now be extended beyond the planned 4 years to spread the financial cost. The exact timeframe for completion cannot be confirmed, however, if the budget remains reduced for the remainder of the programme it will be completed in 2030/31.
- The 2024/25 Green Spaces Infrastructure budget has been reduced to £50k. If emergency repairs are needed and the remaining budget is insufficient a virement from the deferred works budget may be required.
- The remaining balance of the SALC Lift Replacement Budget has been removed from 2024/25 (£100k). Future capital requirements for SALC are now included in the growth bids for 2024/25.
- Removal of £355k vehicle replacement budget which has been replaced with growth bids for 2024/25.

4.1.6. The result of this review is summarised in table four below and is set out in full in Appendix A (Growth bids) and Appendix B (General Fund Capital Strategy).

<b>Table 3: Revised Capital Programme including proposed Growth</b>							
	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Current strategy total	28,140	42,292	8,222	5	0	0	78,659
Rephased	(2,619)	(3,558)	5,753	424	0	0	0
Removed	(1,626)	(7,757)	(172)	(5)	0	0	(9,560)
<b>Total Before Growth</b>	<b>23,895</b>	<b>30,977</b>	<b>13,803</b>	<b>424</b>	<b>0</b>	<b>0</b>	<b>69,099</b>
Growth Bids (see 4.2)	0	2,483	0	0	0	0	2,483
Community Climate Change Fund	0	98	0	0	0	0	98
<b>Adjusted total</b>	<b>23,895</b>	<b>33,558</b>	<b>13,803</b>	<b>424</b>	<b>0</b>	<b>0</b>	<b>71,680</b>

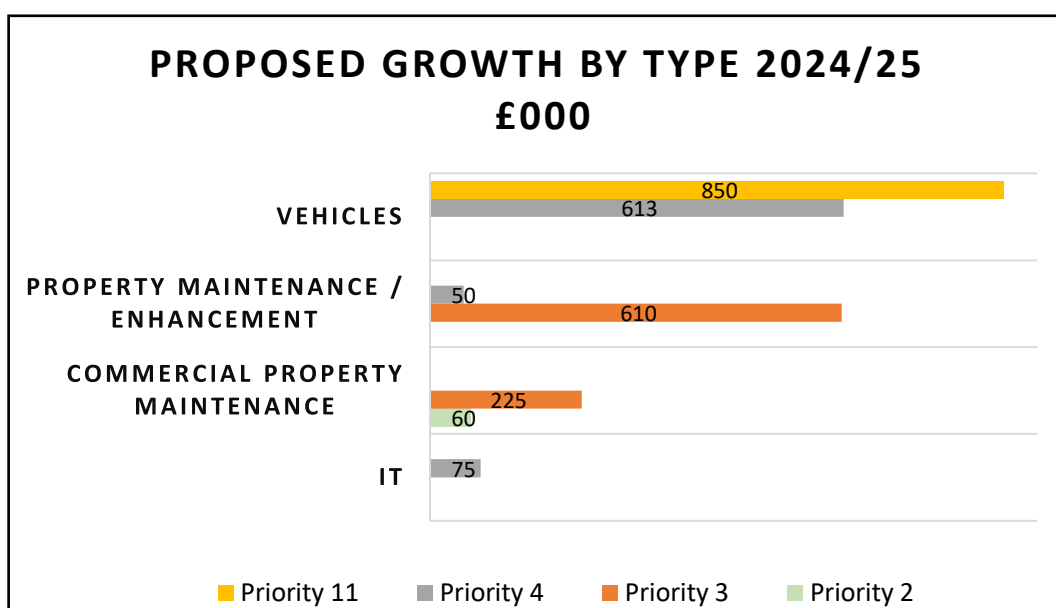
## 4.2. Proposed Capital Bids

4.2.1. The capital growth bids received and recommended for inclusion in the Capital Strategy (subject to review and funding) by Council's Financial Security Group

(CFSG) and the Council's Senior Leadership (SLT) have been prioritised, as set out in the table and are detailed in Appendix A. These bids total £2.5Million for 2024/25. Bids for future years will be considered as part of the 2025/26 budget setting process.

<b>Table 4 Proposed General Fund Growth 2024/25</b>		
		<b>£'000</b>
Priority 1	Return on investments	0
Priority 2	Income generating	60
Priority 3	Mandatory requirements (including Health & Safety)	835
Priority 4	Schemes to maintain operational efficiency	738
Priority 11	New Burden (dependent on external funding to proceed)	850
<b>Total General Fund Capital Growth Bids</b>		<b>2,483</b>
<b>Funding Proposal</b>		
General Capital Receipts		199
Locality Review Receipts		1,078
New Burdens Grant Funding		850
Revenue Reserves		340
Capital Reserve		16
<b>Total Funding Proposed</b>		<b>2,483</b>

4.2.2. The proposed growth can be split into four types as illustrated in the graph below and the detail of the individual bids are summarised in Appendix A.



4.2.3. The Community Climate Change Fund budget for 2024/25 of £97.5k has been included in the Capital Strategy and is fully funded by local CIL as agreed by Executive 12 October 2022.

### 4.3. Revised Summary Capital Programme 2023/24 – 2028/29 including Proposed Growth.

4.3.1. The revised Capital Strategy for 2023/24-2028/29 totals £71.7Million which includes the growth bids totalling £2.5Million. This is summarised by service in the table below, and in detail in Appendix B.

<b>Table 5: Revised Capital Programme including proposed growth by Service.</b>							
	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Stevenage Direct Services	4,763	3,862	94	0	0	0	8,720
Housing Development	1,648	5,223	5,754	424	0	0	13,050
Finance and Estates	1,693	1,262	0	0	0	0	2,955
Digital & Transformation	368	174	0	0	0	0	541
Regeneration	12,532	21,587	7,945	0	0	0	42,063
Communities and Neighbourhoods	1,928	651	10	0	0	0	2,589
Planning and Regulatory	701	569	0	0	0	0	1,270
Deferred Works Reserve	262	230	0	0	0	0	492
<b>Total GF Schemes</b>	<b>23,895</b>	<b>33,558</b>	<b>13,803</b>	<b>424</b>	<b>0</b>	<b>0</b>	<b>71,680</b>

4.3.2. The current programme includes a contingency of £492k for the two financial years (2023/24 and 2024/25) in total. This would be used to cover any health & safety emergency works. An assessment of the level of contingency required and the level of unused Capital Resources will be assessed and included in the February 2024 Capital Strategy.

### 4.4. Capital Resources for the Revised General Fund Capital Strategy, including proposed Growth

4.4.1. The projected resources used to fund the Capital Strategy are summarised in the table below. Due to the actions recommended in the October Capital strategy the programme from 2026/27 needs to be further developed.

**Table 6: Revised Capital Programme Resourcing including Proposed Growth**

	23/24 £000	24/25 £000	25/26 £000	26/27 £000	27/28 £000	28/29 £000	Total £000	Total %
Capital Receipts including Locality Review Receipts	6,673	5,044	546	424	0	0	12,688	17.8
Grants and other contributions	8,237	16,250	7,400	0	0	0	31,887	44.5
Revenue Reserves	434	340	0	0	0	0	774	<1
Capital Reserve	715	412	104	0	0	0	1,231	<1
LEP		500					500	<1
New Homes Bonus CNM	0	243	0	0	0	0	243	<1
Borrowing	7,835	10,769	5,753	0	0	0	24,357	33.9
<b>TOTAL</b>	<b>23,895</b>	<b>33,558</b>	<b>13,803</b>	<b>424</b>	<b>0</b>	<b>0</b>	<b>71,680</b>	<b>100</b>

4.4.2. The total borrowing recommended of £24Million includes £18.3Million of short term borrowing which is scheduled to be repaid in 2026/27 using capital receipts profiled to be received in that year. The remaining balance is prudential borrowing for Garage improvements, housing development schemes through the Wholly Owned Company (WOC) and leisure capital works. The borrowing is repaid through a minimum revenue contribution (MRP) from the General Fund (see also section 4.7).

4.4.3. 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 are restricted.

**Table 7: Combined GF Capital Receipts Forecast**

	23/24 £000	24/25 £000	25/26 £000	26/27 £000	27/28 £000	28/29 £000	Total £000
Opening Balance	6,543	4,564	1,696	1,390	2,481	4,221	6,543
General Capital Receipts	4,776	1,488	240	19,844	1,740	0	28,088
Locality Review Site Disposal	335	744	0	0	0	0	1,079
Receipts used in year for Capital Expenditure	(6,673)	(5,100)	(546)	(424)	0	0	(12,743)
Receipts used in year for Short Term Debt Repayment	(417)	0	0	(18,329)	0	0	(18,746)
<b>Closing Balance</b>	<b>4,564</b>	<b>1,696</b>	<b>1,390</b>	<b>2,481</b>	<b>4,221</b>	<b>4,221</b>	<b>4,221</b>
Ringfenced and SG1 Receipts Balance	700	1,365	820	(374)	1,365	1,365	1,365
General Capital Receipts	3,864	331	570	2,855	2,856	2,856	2,856

## 4.5. Locality Review Update

4.5.1. 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).

- 4.5.2. The current position is detailed below and shows a reduction in forecast receipts for 2023/24 of £905k, although £744k of this is expected to materialise in 2024/25. The overall reduction in expected receipts is £1.3Million. This has in part been mitigated by the reduction of the Deferred Works reserve budget paragraph 4.1.3. Potential disposal sites originally forecast for 2025/26 for which Pre-advice is negative or the site is constrained by geography or covenant, have now been removed from the forecast. The current economic climate has also had an impact on asset sales where the impact of inflation has reduced the attractiveness of sites to potential investors.

<b>Table 8: Locality Receipts £000</b>	<b>Previous Forecast</b>	<b>Revised Forecast</b>	<b>Variance</b>
Year 2023/24	(1,240)	(335)	905
Year 2024/25	0	(744)	(744)
Year 2025/26	(1,150)	0	1,150
<b>TOTAL</b>	<b>(2,390)</b>	<b>(1,079)</b>	<b>1,311</b>

#### **4.6. Community Infrastructure and S106 Update**

- 4.6.1. 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 unallocated balance is £759k including £38k for local projects and £721k for strategic council priorities. Local CIL of £97.5k per annum for three years from 2023/24 is being used to fund the Community Climate Change budget. This is a member led strategy and wards can use £7.5k per ward per annum to fund relevant projects.
- 4.6.2. Strategic CIL can be used to fund town centre infrastructure projects including those identified above. Allocation of funds to relevant capital projects may be brought forward for approval later in the year- and require Executive approval above £75k.
- 4.6.3. Section 106 (S106) monies that have yet to be allocated to any current or future capital schemes are shown in the table below along with the categories they can be used for:

<b>Table 9: S106 contribution Available</b>	<b>Amount £'000</b>
Biodiversity	69
Parks, Play and outdoor sport	113
Regeneration	36
<b>Total</b>	<b>218</b>

## **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 other main risks to the capital programme are:

- Potential for scheme overspends.
- Potential for delay in realising capital receipts noting that £6Million of land/asset sales are forecast to be achieved in 2023/24 and 2024/25.
- The deferred works budget may not be sufficient to fund any schemes not currently funded in the Strategy due to the ongoing and aforementioned fix-on-fail policy approach.
- Potential for money spent as capital on 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.

## **4.8. 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 in part 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 circa £50Million 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 (2023/24-2028/29)

- 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 HRA BP, approved at Executive in November 2023 included a thorough review of the capital programme required to achieve the aims and objectives of the plan. The strategy adjustments identified below are the result of this review and are included for the period 2023/24 to 2028/29.
- 4.9.3. Since the BP was approved, rephasing of £1.5Million has been identified in Housing Development. This is principally attached to the Brent Court Garages scheme where start on site has been delayed whilst pre-commencement Planning requirements are met. Work has been ongoing with the contractor to identify opportunities to make up slippage later in the programme of works.
- 4.9.4. The HRA element of proposed IT growth - £21k relates to the councils overarching IT programme of renewals and upgrades. This has been added to the strategy pending the result of member consultation (Jan 24).
- 4.9.5. The result of this exercise is summarised in table below. and is set out in full in Appendix C (HRA Capital Strategy).

**Table 10: Update following 2023/24 HRA BP Refresh**

	<b>23/24 £000</b>	<b>24/25 £000</b>	<b>25/26 £000</b>	<b>26/27 £000</b>	<b>27/28 £000</b>	<b>28/29 £000</b>	<b>Total £000</b>
Current strategy total	45,556	63,711	34,874	19,204	3,060	0	<b>166,405</b>
HRA BP Revisions	(1,138)	(10,350)	21,584	16,735	33,977	34,268	<b>96,076</b>
<b>HRA BP</b>	<b>44,418</b>	<b>53,361</b>	<b>56,458</b>	<b>35,939</b>	<b>37,037</b>	<b>34,268</b>	<b>261,481</b>
Rephase	(1,450)	1,450	0	0	0	0	<b>0</b>
IT	49	0	0	0	0	0	<b>49</b>
Growth Bids (IT)	0	20	0	0	0	0	<b>20</b>
<b>TOTAL</b>	<b>43,017</b>	<b>54,831</b>	<b>56,458</b>	<b>35,939</b>	<b>37,037</b>	<b>34,268</b>	<b>261,550</b>

- 4.9.6. The revised summary draft capital strategy budget for 2023/24 – 2028/29 totals £261.6Million and is set out in full in Appendix C (HRA Capital Strategy).

**Table 11: Revised Summary HRA Capital Strategy**

	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital Programme Excluding New Build (Housing Investment)	24,565	24,329	25,091	22,939	24,253	25,868	147,046
Special Projects & Equipment	77	0	0	0	0	0	77
New Build (Housing Development)	18,055	30,449	31,367	13,000	12,784	8,400	114,054
Digital & Transformation	320	53	0	0	0	0	373
<b>Total HRA Schemes</b>	<b>43,017</b>	<b>54,831</b>	<b>56,458</b>	<b>35,939</b>	<b>37,037</b>	<b>34,268</b>	<b>261,550</b>

#### 4.10. Capital Programme – HRA Resources (2023/24-2028/29)

4.10.1. The resourcing of the draft HRA capital strategy is summarised in the table below. The largest percentage is funded by the Major Repairs Reserve (MRR) via depreciation charges (40%) followed by borrowing (25%). Capital receipts from right to buy sales of council houses (New Build 1-4-1 receipts) form 10% of total funding. This aligns to the HRA BP plus £391k (IT budget funding).

**Table 12: Revised HRA Capital Programme**

	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
MRR (Self Financing Depreciation)	21,013	18,896	15,494	16,233	16,877	17,282	105,795
MRR – Rephase / IT	(1,130)	1,521	0	0	0	0	391
New Build Land Receipts	3,065	0	2,100	4,373			9,538
(RTB) new Build provision	2,293	2,901	8,297	4,682	4,524	4,051	26,748
Debt Provision Receipts	789	1,058	1,102	1,147	535	0	4,631
Section 20 Contribution	2,998	4,876	2,963	3,262	1,173	805	16,077
Borrowing	11,336	7,506	22,667	2,926	9,713	12,130	66,278
Revenue Contribution to Capital	0	6,715	3,835	3,316	4,215	0	18,081
Grant	2,653	11,358	0	0	0	0	14,011
<b>TOTAL</b>	<b>43,017</b>	<b>54,831</b>	<b>56,458</b>	<b>35,939</b>	<b>37,037</b>	<b>34,268</b>	<b>261,550</b>

4.10.2. The Government has amended the rules regarding the use of capital receipts arising from the sale of Right to Buy (RTB) properties and the Council has entered into a new retention agreement that reflects 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.



## **4.11. De Minimis Level for Capital Expenditure 2024/25**

- 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. It is recommended at 2.12 that the 2024/25 de-minimis expenditure limit be increased from £7,500 to £9,999 per scheme.

## **4.12. Contingency Allowance for 2024/25**

- 4.12.1. The contingency allowance for 2024/25 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 forming part of the Council's Budget Requirement for the year.
- 4.12.2. The contingency allowance for 2023/24 is £500,000 in relation to spend of restricted use or 1.4.1 receipts for registered providers to ensure that the Council achieves nominal rights and does not have to return 1.4.1 receipts to the government. This contingency allowance is recommended to remain at £500,000 for 2024/25.
- 4.12.3. Separate to the contingency allowance, 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 at £5,000,000 where a scheme is fully funded from third party contribution/grant.

## **4.13. Consultation**

### **Council Financial Security Group (CFSG) 4 January 2024**

- 4.13.1. Following a review of all growth bids by Senior Leadership Team (SLT), a priority list was presented to CFSG with 19 new Growth Bids for 2024/25 and 10 previous schemes that had not been started or committed and was therefore considered as part of the review of spend bids by CFSG (these are shown in Appendix A). The scoring rationale applied to these budgets was “do not support” 0 point, “support but low priority” 1 point and support with high priority” 3 points.
- 4.13.2. There were five members who was asked to score, with a number of schemes receiving a mixed score between 8 and (the maximum) 15. Six of the schemes received one individual score of ‘do not support’ or 0 point (these are shown in Appendix A with an overall score of 8 and 12 points). The table below shows the summary of scores received.

<b>Scheme receiving:</b>	<b>Number of schemes</b>
15 points (or 100% majority)	5
13 points (or 87% majority)	11
12 points (or 80% majority)	5
11 points (or 73% majority)	3
9 points (or 60% majority)	4
8 points (or 53% majority)	1

4.13.3. As can be seen from the table above, the lowest score received was 53% majority and therefore recommend for Executive to consider the views of CFSG and agree to approve all 29 schemes (which SLT had supported). These have all been included within the proposed capital programme for 2024/25 (in Appendix B) and are fully funded.

## **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 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 inherent within this report.

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. In order to mitigate the impact of this, revenue underspends of up to £500k may be made available to support capital resource in the short term.

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 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 ambitions 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 strategy includes £24Million investment in decarbonisation for the period to 2028/29 – ensuring 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 Quarter 1 and 2 monitoring report (Executive, October 2023)

BD 2 Draft Housing Revenue Account Rent Setting & Budget report 2024/25 (January 2024 Executive) – elsewhere on this agenda.

BD 3 HRA Business Plan 2023 update (November 2023 Executive)

BD4 General Fund Capital Strategy Overview – Priorities Versus Funding Requirement 2023/24-2029/30 (November 2023 Executive)

## **Appendices**

A - General Fund Capital Bids for consideration

B - General Fund Capital Strategy

C - HRA Capital Strategy