Part I – Release to Press

Stevenage BOROUGH COUNCIL

Meeting	**COUNCIL**
Portfolio Area	Resources
Date	**28 FEBRUARY 2018**

FINAL CAPITAL STRATEGY 2017/18-2022/23

KEY DECISION

Authors	Clare Fletcher x 2933
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1. PURPOSE

1.1 To approve revisions to the 2017/18 General Fund and Housing Revenue Account Capital Programme and approve the draft Capital Programme for 2018/19 for recommendation to Council

1.2 To provide Members with an update on the Council's draft 5 Year Capital Strategy and the resources available to fund the Capital Strategy.

1.3 To provide Members with an update on recent government consultation on prudential borrowing and Minimum Revenue Provision (MRP).

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

1.5 To update Members on the work of the Leader's Financial Security Group (LFSG) in reviewing all General Fund capital bids prior to inclusion in the Capital Strategy.

2. RECOMMENDATIONS

2.1 That the revised General Fund and HRA 2017/18 capital programme, as detailed in Appendix A and Appendix B to the report be approved.

2.2 That the final 2018/19 General Fund Capital Programme as detailed in Appendix A to the report be approved.

2.3 That the final 2018/19 HRA Capital Programme as detailed in Appendix B to the report be approved.

2.4 That the updated forecast of resources as summarised in Appendix A (General Fund) and Appendix B (HRA) to the report be approved.

2.5 That the Government's potential changes to prudential borrowing and MRP as outlined in paragraph 3.21-3.26 of the report be noted.

2.6 That the approach to resourcing the General Fund capital programme as outlined in paragraph 4.3.6 and 4.3.11 of the report be approved.

2.7 That the growth bids identified for inclusion in the Capital Strategy (Appendix C to the report) be approved.

2.8 That the 2018/19 de-minimis expenditure limit (section 4.8 of the report) be approved.

2.9 That the 2018/19 contingency allowance (section 4.9 of the report) be approved.

2.10 That the work undertaken by LFSG on behalf of the Executive in reviewing and challenging the General Fund Capital Strategy be noted.

3. BACKGROUND

3.1 **General Fund** – Over the last five years the General Fund capital programme has been financially constrained, as the existing capital programme and additional bids for capital expenditure have been in excess of the projected resources available. These works have been, in the main, to keep existing assets operational (without improvement) and the replacement of vehicles over an extended life cycle of seven years. The outcomes of the programme has meant not developing assets to future proof them, nor providing new assets.

3.2 This approach has generally meant that only high priority works have been approved e.g. when boilers or roofs have had to be replaced to avoid closure of a building. This has been a necessity rather than a 'whole place' approach due to funding constraints and hasn't allowed for the future needs of assets and users.

3.3 Since 2015/16 capital schemes have been rebid for based on a set of criteria, in an attempt to ensure scarce resources are targeted, which has been updated to reflect the Future Town Future Council (FTFC) corporate priorities, as set out below;

- Category 1 : FTFC
- Category 2 : Income generating asset schemes (Financial Security)
- Category 3 : Mandatory requirements
- Category 4 : Schemes to maintain operational effectiveness
- Category 5 : Match funding schemes

3.4 In addition prudential borrowing would only 'normally' be used to support category 2 schemes (Income generating asset schemes -Financial Security), with capital receipt, external grants and a new revenue reserve for capital being used to fund the other categories. The following principles have been applied to new bids:

- Assets due for regeneration should have only essential or health and safety growth bids.
- Re-profile spend to later years if reviews of the service are due.
- Include only the initial works to schemes until the business case is proven.

3.5 However, over the last two years there has been a change in the approach to capital works and the council's assets, (from that outlined in paragraph 3.1). This was partly triggered by the ward Members' walk about with senior officers, which culminated in the introduction of the Co-operative Neighbourhood Management programme, (a 'Future Town Future Council' (FTFC) priority). This was implemented to improve the 'whole place' by improving assets within an area and subsequently a number of significant programmes have been approved. These include the garage improvement programme (July 2016, £9.24Million) and the playground improvement programme (February 2017 £1.489Million).

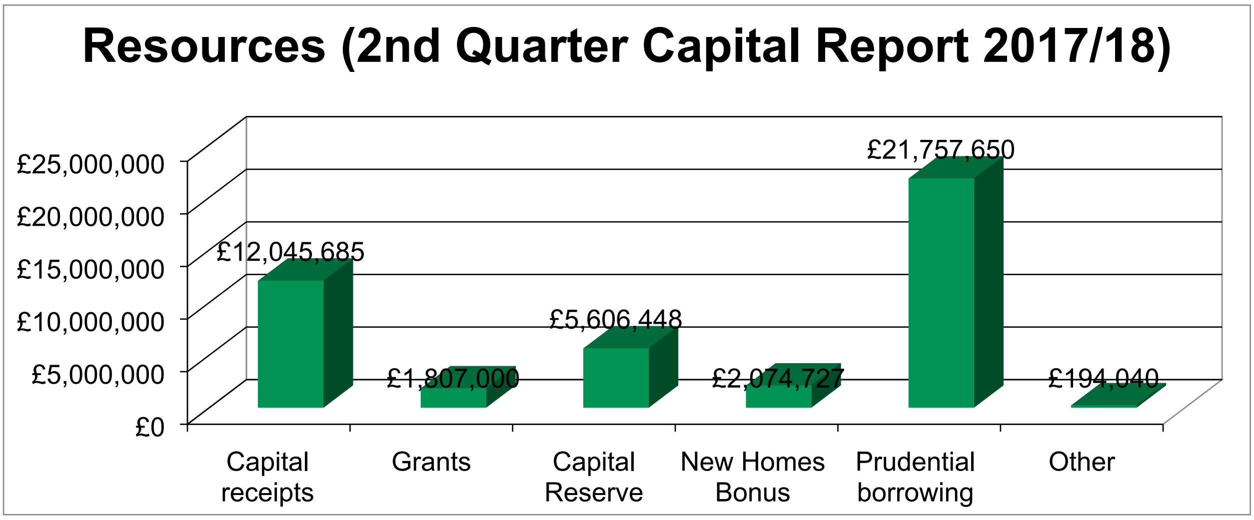
3.6 In addition the Council has started to redevelop existing assets to deliver on regeneration and housing delivery priorities. The Archer Road redevelopment looked at placement of assets, housing need and re-provision of neighbourhood facilities.

3.7 To deliver a sustainable approach to maintaining the 'whole place' and the portfolio of assets for the future, schemes such as the playground improvement programme have sought to look at what facilities should be provided within Stevenage, based on mapping of need/location. Although some play sites were rationalised, a more imaginative approach has been taken to decommissioned sites which has/will allow significant improvements to a smaller number of play areas, while ensuring decommissioned sites are appropriately landscaped.

3.8 This type of approach has been used in the garage programme with works being partly funded from disposing of some sites for other uses, e.g. residential.

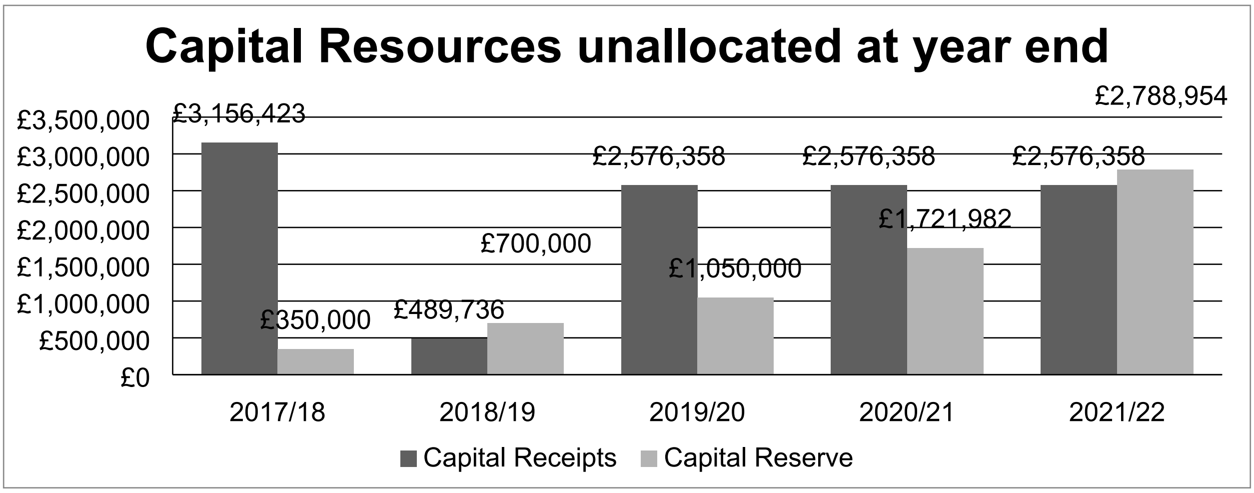
3.9 However, the Council does need an overarching strategy on how to manage its assets and this is key when considering the outcomes achieved from investment. To determine whether this delivers value for money or whether a better outcome can be gained from redevelopment or revised provision. The Council's Asset Management Plan to the February Executive will set out a recommended approach to the Council's assets.

3.10 The existing approved capital programme (approved February 2017 and as amended by quarterly monitoring and supplementary reports) is fully funded and shown in the following chart.



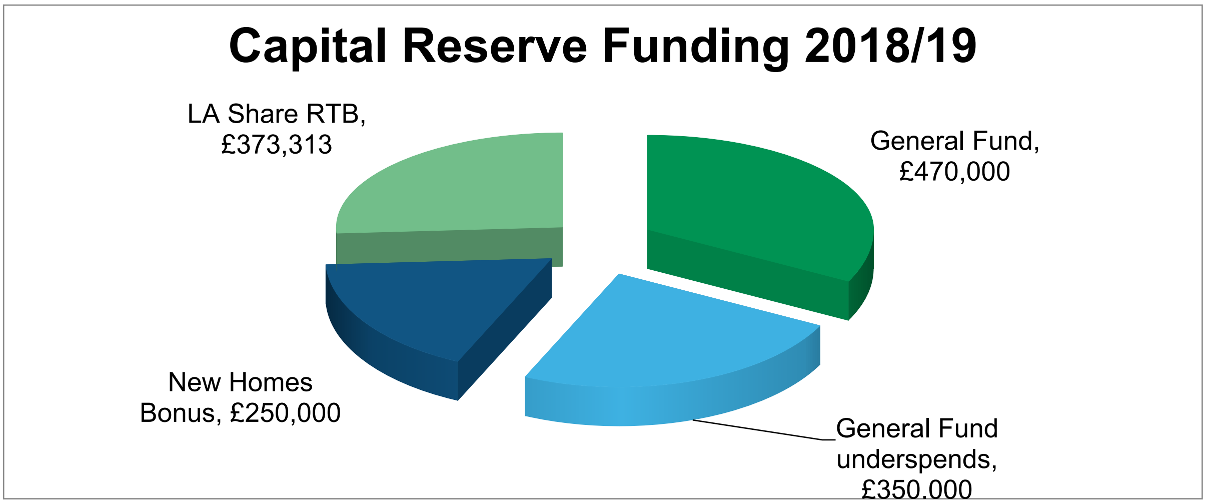
**Prudential borrowing includes £15Million for commercial property acquisition*

3.11 The level of resources available is also summarised in the chart below.



3.12 The level of capital receipts shown in the chart above remains static from 2019/20 onwards, (£2.58Million) as the current programme does not need to use them. However, there are no new disposal receipts identified after 2019/20 and when future years' capital needs are identified, this will put more demand on revenue resources and borrowing, if new disposal sites are not identified.

3.13 The other main source of funding, the Capital Reserve, will receive a 2018/19 budgeted £470,000 contribution from the General Fund with potentially up to £350,000 underspends, (identified at year end), giving a General Fund maximum contribution of £820,000 (represents 1.16% of gross General Fund expenditure) per year. New Homes Bonus contributes £250,000 and £373,313 (2018/19) from the Local Authority Share of right to buy receipts as shown in the following chart.



3.14 The existing General Fund programme does not include any financials for SBC funding any town centre regeneration (SG1), although the Council has invested already in public realm works and there is some third part funding from the Local Enterprise Board (LEP) in the proposed draft Capital Strategy.

3.15 Officers will be presenting a report to the January Executive recommending the preferred developer to deliver the first phase of regeneration in the town centre (SG1). SG1 will be one of the biggest regeneration schemes in the East of England and is the Council's top priority and this is also echoed by the 2017 resident's survey. To ensure the deliverability and success of this scheme it is inevitable that the Council will need to invest resources during the period of development and the Council will need to build up capital reserves, earmark capital receipts and revenue resources to do this.

3.16 SG1 is the starting point for regeneration mainly due to the large amount of public sector land holdings, but as part of the wider regeneration of the town, the Council has ambitions to upgrade its leisure facilities which again will require the Council to identify a level of resources to deliver this.

3.17 The changing approach to place shaping and ambitions around medium and longer term regeneration and housing development will mean prioritising resources to this end, ensuring that the use and development of assets must be financially sustainable. This may involve consolidation of assets by location, divesting poor condition/high cost assets, development resourced by residential outcomes, identification of more land and some prudential borrowing.

3.18 The Council has ambitions to deliver generational change in Stevenage while at the same time managing diminishing resources for both its General Fund and HRA, as government funding is withdrawn and legislative changes impact on income.

3.19 To determine the medium term spending priorities, the Leader's Financial Security Group (LFSG) met in November and December to review all General Fund capital bids (2018/19 onwards) and made a number of recommendations and these are contained within this report and summarised in Appendix C.

3.20 **HRA** -The HRA capital programme was revised in September 2017 as part of the 30 Year Business Plan. The 30 year HRA capital programme totalled £1,155Million with an identified funding shortfall of £26Million. The 2018/19 programme does not include any higher value voids levy as set out in the Final HRA rent setting and budget report to this meeting.

3.21 **Consultation**- The Government has recently closed consultation on the use of prudential borrowing for purely commercial reasons, maximum MRP periods (50 years freehold, all other assets 40 years) and new disclosures required in the Capital Strategy. The government has recommended these changes be introduced from 2018/19. Consultation closed on the 22 December and the Assistant Director (Finance and Estates) responded to the consultation.

3.22 Under the proposed new guidance local authorities would not be able to borrow to invest for purely yield bearing opportunities, e.g. commercial property purchased to generate an income stream. This would become classified as 'borrowing in advance of need'. Under the current (2010) guidance it is clear that "borrowing in advance of need" relates solely to financial investments and financial instruments, whereas investments such as commercial property are capital expenditure as they involve the acquisition of a physical asset and as such are eligible for funding from borrowing. The council has approved a £15Million commercial property investment in May 2017, funded from prudential borrowing.

3.23 The LGA response to the consultation points out that local authorities have invested in property in different ways for many years; if this is to be restricted it could have a major impact on councils' ability to fund and deliver services to their residents. Furthermore, the LGA has stated that, if this change does go ahead and is applied retrospectively, forcing councils to divest themselves of existing investments, the financial costs and potential losses could be disastrous for some councils. The LGA says 'we oppose any restriction that will reduce funding for councils to benefit their local areas and under no circumstances should this be applied retrospectively'. This is also the view of the Assistant Director (Finance and Estates).

3.24 The consultation guidance tries to distinguish between "core" and "non-core" investments, requiring councils to disclose the contribution from these "non-core" assets. Councils have held property investments for many years, with the income forming an integral part of the budget, (e.g. rental from property holdings in town and city centres). It will be difficult to define what is "core" and "non-core" in a meaningful way.

3.25 The Government's view is that it doesn't want to restrict opportunities for local authorities to use commercial structures to kick start local economic regeneration to deliver services more effectively. However, the prime duty of a local authority is to provide services to local residents, not to take on disproportionate levels of financial risk by undertaking speculative investments, especially where that is funded by additional borrowing. Stevenage Borough Council has always taken a very cautious view of prudential borrowing as set out in this report. The majority of the Council's borrowing has been as a result of the HRA self-financing deal in 2012.

3.26 The Council's report recommending the acquisition of £15Million in commercial property, (while generating a minimum net return of £200,000 per year), was "to support the Council's ambition for Stevenage and town centre regeneration by investing in the town to help create a vibrant town centre and by so doing, help create renewed confidence and a positive message to other investors, and also to enable the Council to be more financially resilient by delivering on our Financial Security aims".

3.27 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-18	Executive	Draft 2018/19 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Draft 2018/19 General Fund and HRA Capital Strategy
Feb-18	Executive	Final 2018/19 General Fund and HRA Capital Strategy
	Overview and Scrutiny	Final 2018/19 General Fund and HRA Capital Strategy
	Council	Final 2018/19 General Fund and HRA Capital Strategy

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Capital Programme – 2018/19 General Fund

4.1.1 As in previous years the capital programme has been zero based so that Members can consider the on-going relevance of schemes in the programme and manage scarce resources. There were a few exceptions to this which were:

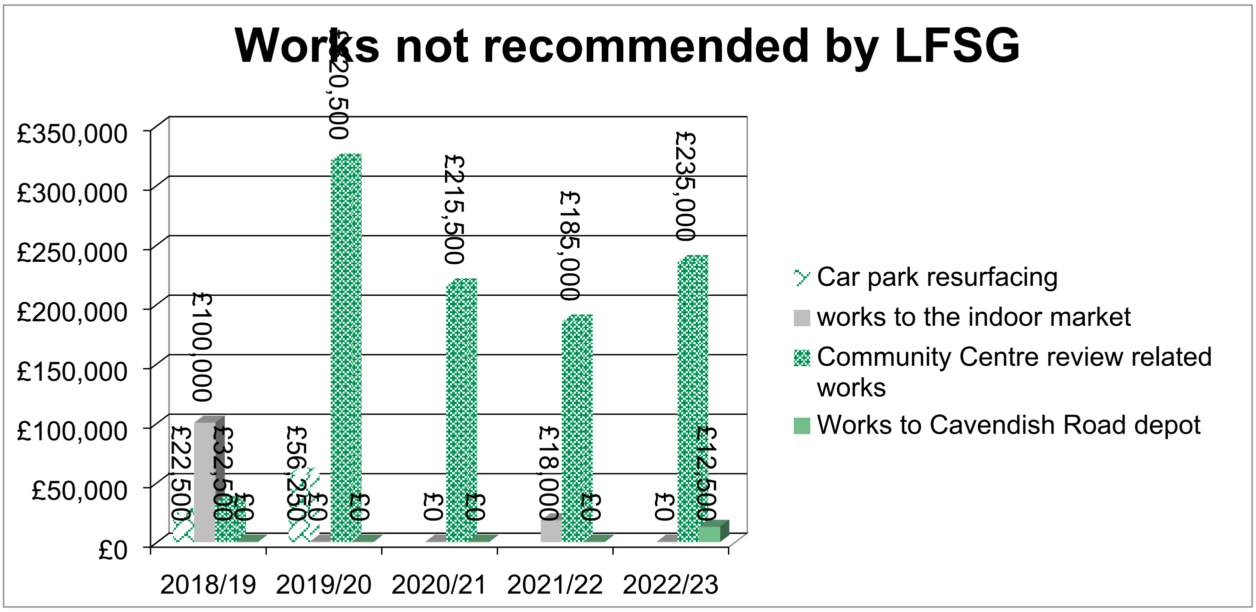
- Schemes with previous specific approvals, e.g. garage programme, playground improvements and ICT digital strategy.
- Vehicles which are on a seven year replacement programme (the programme has been reviewed but did not require bids to be submitted).
- Works required to the Town Square assets (funded from allocated reserves).
- Works which had commenced in 2017/18 and where part of the spend is due in 2018/19.

4.1.2 Officers were required to submit capital bids with supporting rationale, these are summarised in Appendix C to this report. The bids were reviewed by the Assets and Capital Board (officer group), before being considered by the Leader's Financial Security Group (LFSG).

4.1.3 Capital bids were assessed based on the principles set out in paragraph 3.3-3.4, with a new principle recommended by the Assistant Director (Housing Development) as part of the emerging work on community centres. This was that if works were more than £200,000 for any community centre or pavilion, a review of the asset should be completed, prior to any monies being spent. This would mean that only urgent health and safety works should be completed in the interim. In addition, officers are finalising the Asset Management Strategy (see also paragraph 4.3.5), to be presented to the February Executive which will set out a recommended approach on how to review and manage the council's assets.

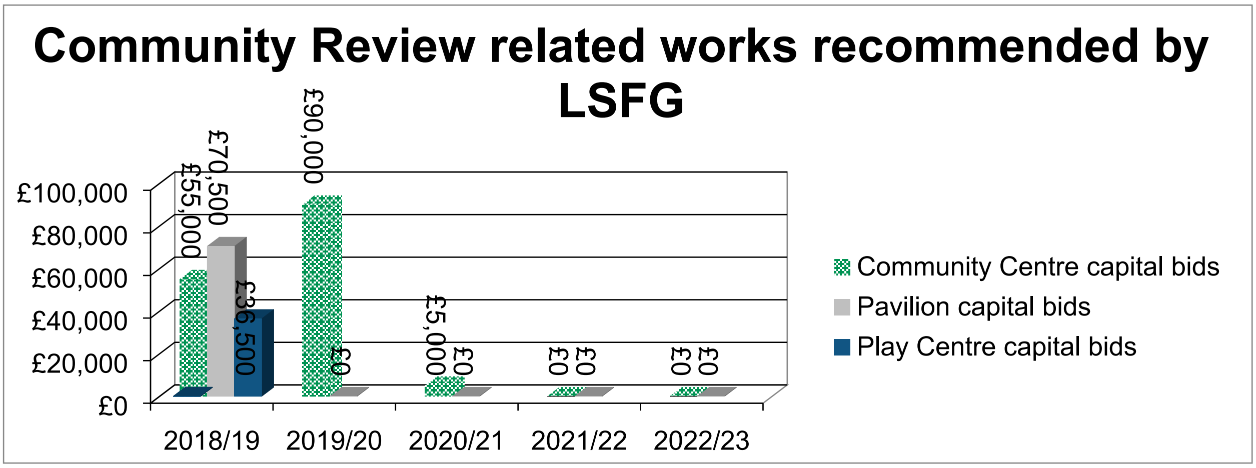
4.1.4 The LFSG reviewed all the capital bids and scored all options between zero (not supported at all) up to three (strongly supported). All scores were averaged and scores of two or more were considered as supported by the group and are recommended to the Executive for inclusion in the Capital Strategy.

4.1.5 There were some options that were not supported or required further reviews of assets prior to their inclusion in the programme. These options are included in Appendix C and summarised below.



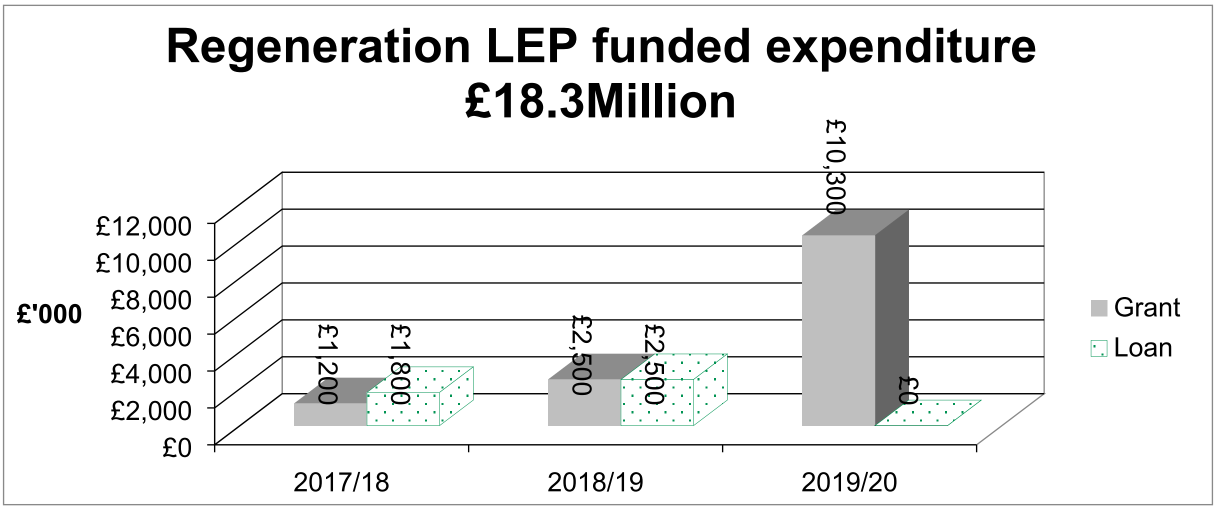
4.1.6 Capital bids totalling £1.197Million were not recommended and £988,500 related to the review of community centres principle as outlined in paragraph 4.1.3.

4.1.7 The Capital Strategy does include some works to community centres, which were challenged by LFSG, who asked officers to reconsider the options proposed and only include capital bids for 2018/19 which are health and safety related or would result in loss of use of the building. Consideration was also given to re-using components if sites were subsequently redeveloped, e.g. the reuse of heaters. A summary of these costs included in the Strategy are shown in the following chart.



4.1.8 The 2017/18 capital programme includes a sum of £441,040 for deferred works, which is not currently projected to be spent in 2017/18. This budget will remain in the Capital Strategy and will be sufficient to fund 100% of the 2018/19 bids not recommended for approval should they be required. The impact on the Strategy in future years will be considered once reviews have been completed, the 2018/19 stock conditions survey results are known and the Asset Management Strategy has been approved.

4.1.9 The Capital Strategy (Appendix A) now includes some town centre regeneration related capital bids which are anticipated to be funded by the Local Enterprise Board (LEP) as part of the growth deal funding. The amounts included in the programme are summarised in the chart below.

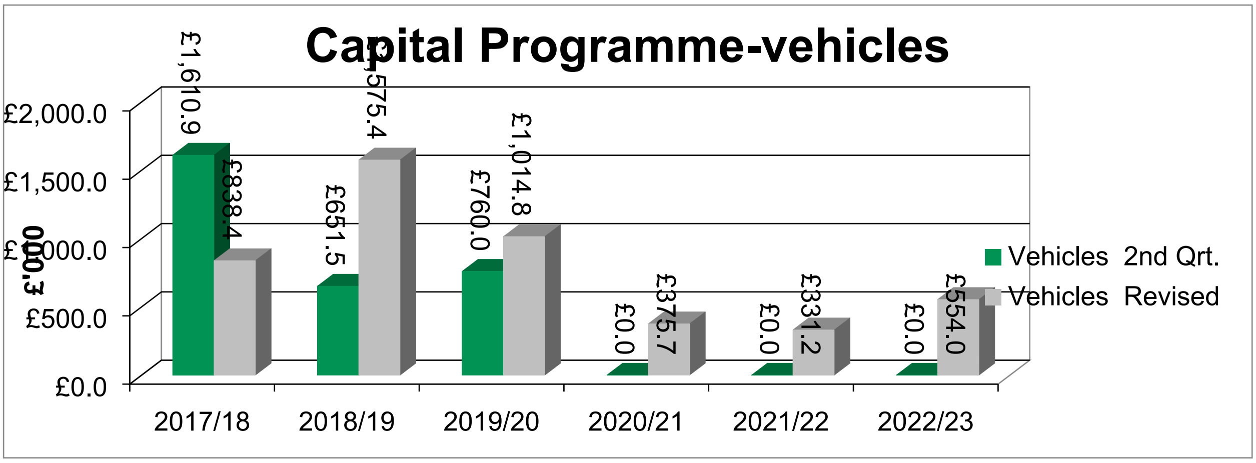


4.1.10 The LEP funding relates to 'growth deal one' monies (GD1) which has been secured, £7.5Million. The LEP Board have earmarked further funding under 'growth deal 3' for Stevenage, and the LEP are in discussions with central government regarding release of this funding. There may be a risk to spending before the monies are released and Members recommended at the February Executive to fund £200,000 of GD3 monies from SBC capital resources to allow the SG1 regeneration project to progress. Once the governance arrangements have been signed off by the government the

Assistant Director (Regeneration) will seek to recover these costs from the LEP.

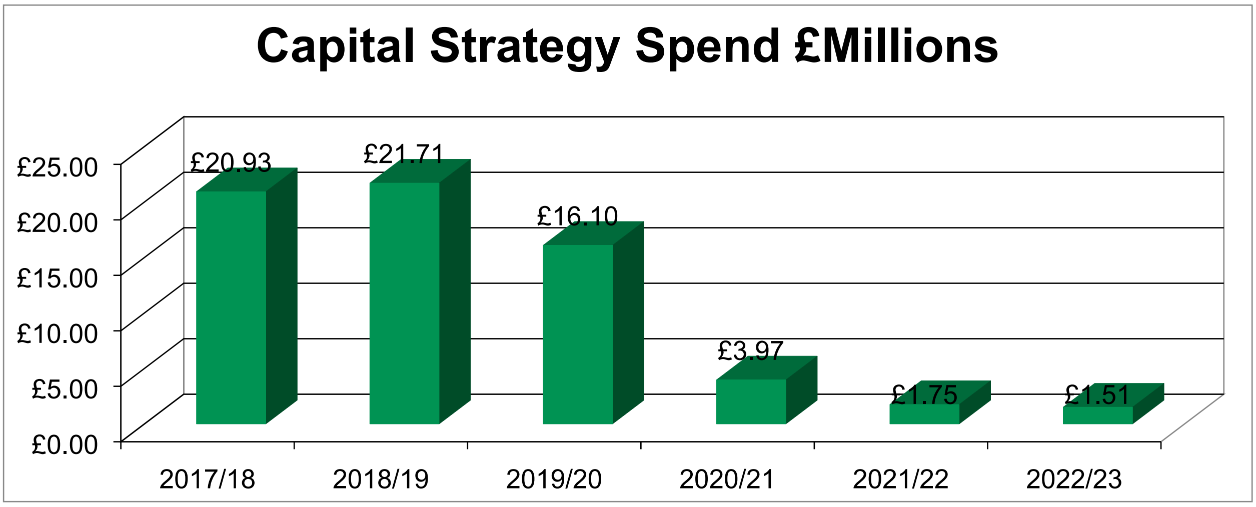
4.1.11 Some of the LEP funding will be paid in the form of a loan and will be required to be repaid in the future, this will need to be funded from either additional receipts or residual land values realised from regeneration.

4.1.12 Vehicle fleet and plant requirements were reviewed based on current condition and need by the new Assistant Director (Stevenage Direct Services). The existing capital programme did not include replacements beyond 2019/20 and only totalled £3.022Million. The programme has now been updated to reflect the vehicles that were budgeted for 2017/18 but will now be received in 2018/19. The capital requirement for the period 2017/18 to 2022/23 now totals £4.689Million. The chart now reflects the slippage of £746.5K of slippage into 2018/19.



4.1.13 The ICT programme is based on the previous approved budgets up to and including 2018/19. For future years a sum of £300,000 has been included annually, match funding the amount of the Council's shared ICT partner, East Herts. Future ICT requirements will be reassessed as part of the business unit reviews and by the new ICT Manager post holder (which was approved in the ICT Improvement plan to the November Executive and included in the BUR growth bids in the General Fund and HRA 2018/19 budgets). The programme remains unchanged from the Draft Capital Strategy report.

4.1.14 The capital programme recommended for 2017/18-2022/23 totals £65.9Million and is detailed in Appendix A and summarised below. This includes slippage in 2017/18 of £7.07Million, this includes £5.98Million related to commercial property investment.



4.1.15 As reported at the January Executive the chart above shows that the programme has significant spend in the first three years of the programme and that there is a likelihood the capital programme is not fully identified for 2020/21 onwards. The asset stock condition surveys to be completed in 2018/19 and the Asset Management Strategy should help to inform the level of required expenditure.

4.1.16 It is also likely that capital bids for funding ambitions as outlined in section 3 of the report i.e. regeneration will be needed to meet the Council's ambitions and will require prioritising limited capital resources available or adopting new funding solutions as outlined in paragraph 3.17.

4.2 Capital Programme – 2017/18 General Fund

4.2.1 The 2017/18 programme has been reviewed and updated and the changes are summarised in the following table.

Summary of General Fund Capital Programme changes	2017/18 £	Reason
Working Budget	**25,446,960**	
Draft Budget Changes (January)	2,559,730	
Proposed amendments February:		
Garage Site Assembly	(180,000)	Slippage into 2018-19, there is a further report to the Executive on the programme. **(2018/19 impact)**
Garage Rationalisation Programme	(200,000)	
Investment Property	(5,600,000)	Two sites have been identified (one purchased and the other property currently being completed), which achieve the target return for 2018/19, further sites are being researched**. (2018/19 impact)**
Improvements to Forum Square	(65,000)	The works have been completed and the residual monies vired to the Market Square Improvements **(2018/19 impact)**
Town Centre Improvements Phase 2 incl wayfinding signage	(50,000)	The works have been re-scoped and the residual monies vired to the Market Square Improvements. **(2018/19 impact)**
Public Realm Improvements to Market Place	(238,000)	Works to be completed in 2018/19, including the monies vired form the schemes above. (**2018/19**

Summary of General Fund Capital Programme changes	2017/18 £	Reason
		impact).
Public Realm Improvements to Town Square	5,000	There is funding in 2018/19 for this scheme (50k was slipped at the first quarter). This is required for technical studies. **(2018/19 impact)**
Vehicles	(746,500)	A number of vehicles, which have been ordered are due for delivery in April-May 2018 and require slipping into 2018/19. **(2018/19 impact)**
Total General Fund changes February	**(7,074,500)**	**Decrease in 2017/18 budget and slippage requested for 2018/19**
Final February Capital Strategy	**20,932,190**	

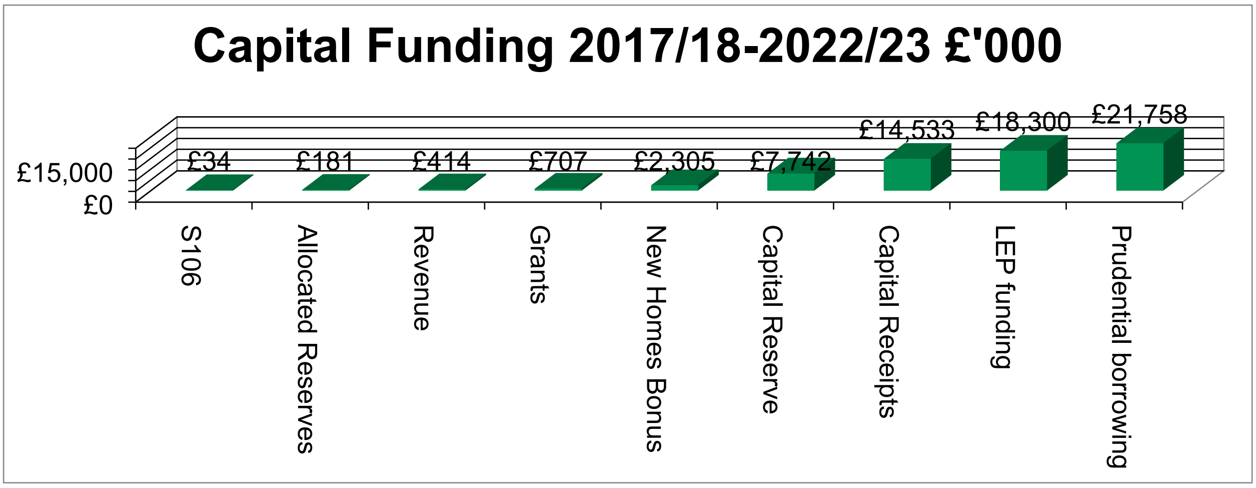
4.2.2 The total changes included in the draft January Capital Strategy will require Council approval in February as the value is more than that delegated to the Executive (£250,000). The increases for January included regeneration site assembly costs funded from the Local Enterprise Partnership (LEP) and are included in Appendix A.

4.2.3 The 2018/19 programme have been reviewed and updated and the changes are summarised in the table below.

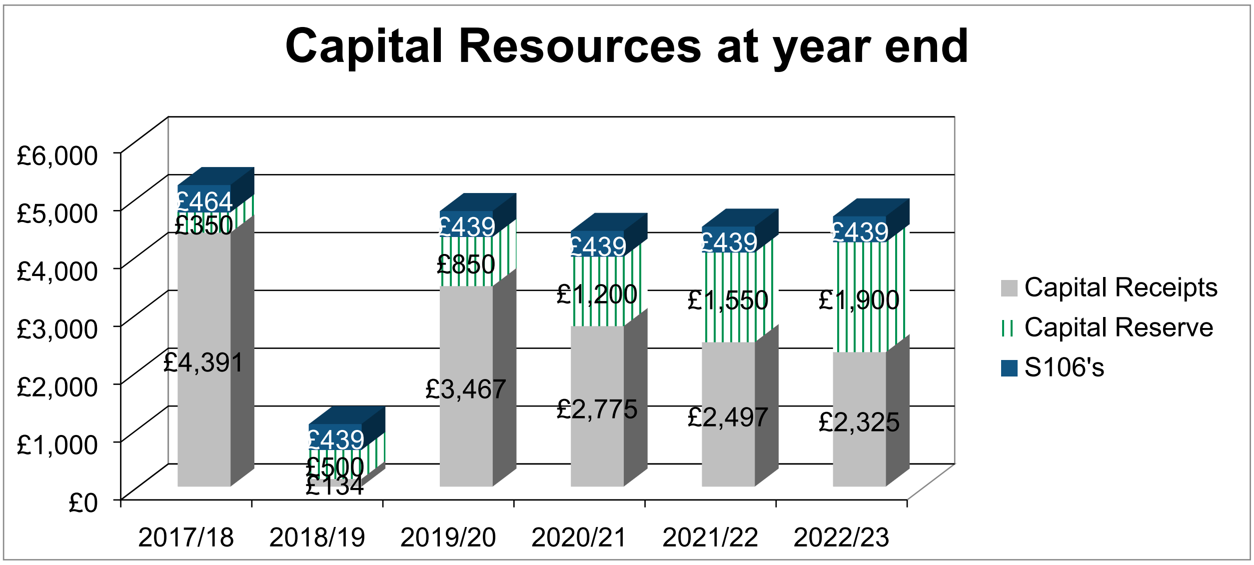
Summary of General Fund Capital Programme changes	2018/19 £	Reason
January Report	14,483,410	
Proposed amendments February:		
Garage Site Assembly	180,000	Slippage from 2017/18
Garage Rationalisation Programme	200,000	Slippage from 2017/18
Public Realm Improvements to Market Place	353,000	Slippage from 2017/18
Public Realm Improvements to Town Square	(5,000)	Put back to 2017/18 for technical studies
Investment Property	5,600,000	Slippage from 2017/18
Vehicles	746,500	Slippage from 2017/18.
Total slippage	7,074,500	Increase in 2018/19 budget
Grants to Registered Providers	150,000	Increase use of 1.4.1 receipts to gain nomination rights
Total changes from January report	7,224,500	
Final February Capital Strategy	**21,707,910**	

4.3 Capital Programme – General Fund Resources and Investment Strategy (2017/18-2022/23)

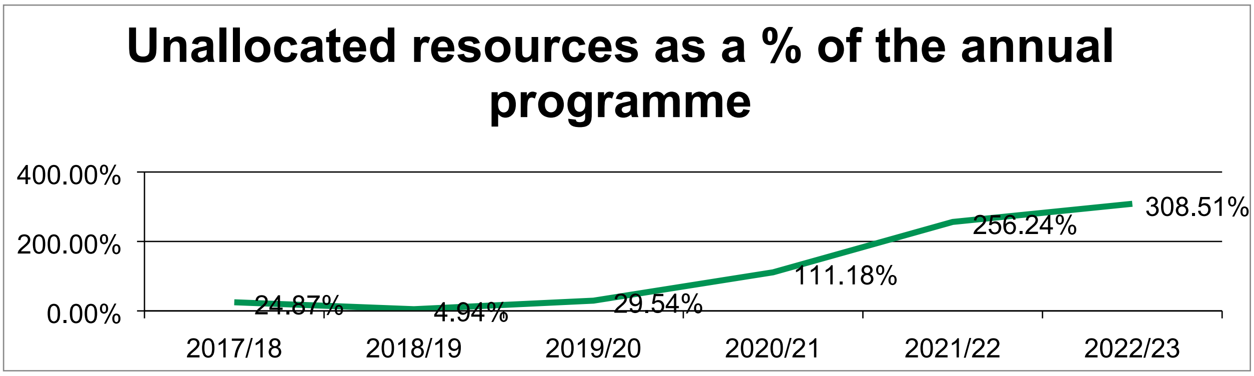
4.3.1 The General Fund capital programme is funded from four main funding sources: capital reserve, (see also paragraph 3.11), capital receipts, LEP funding and prudential borrowing (for the commercial property and garage improvement works). Capital receipts and the capital reserve account for 34% of the total funding, or 47% excluding the LEP funding.



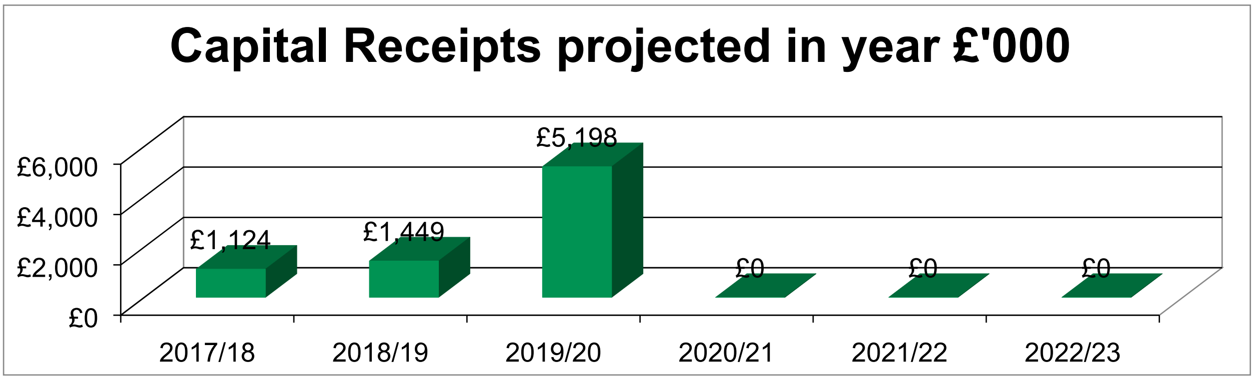
4.3.2 Projected year end unallocated capital resources are shown in the chart below. This shows that there is only £1.07Million of capital balances remaining at the end of 2018/19. This includes an assumption that there will be General Fund revenue underspends of £350,000 in 2017/18 and 2018/19 which will be transferred to the capital reserve, (if realised). If underspends are not identified, there would be just £0.373Million of unallocated resources at the end of 2018/19.



4.3.3 The percentage of resources unallocated at year end as a proportion of capital expenditure is shown in the chart below, which for 2018/19 allows for very little supplementary expenditure or expenditure overruns. The amount of available resource increases dramatically from 2020/21, however as shown in the chart in paragraph 4.1.14 expenditure in later years looks understated and the unallocated balances in the chart above do include the annual assumption of £350K of underspends. In addition the Asset Management Strategy identifies £16.9Million of backlog works required to council owned buildings.



4.3.4 More importantly and in light of the Council's ambitions, which may require significant funding, addition capital receipts will be needed. 2019/20 onwards there are no new receipts identified, (see below).

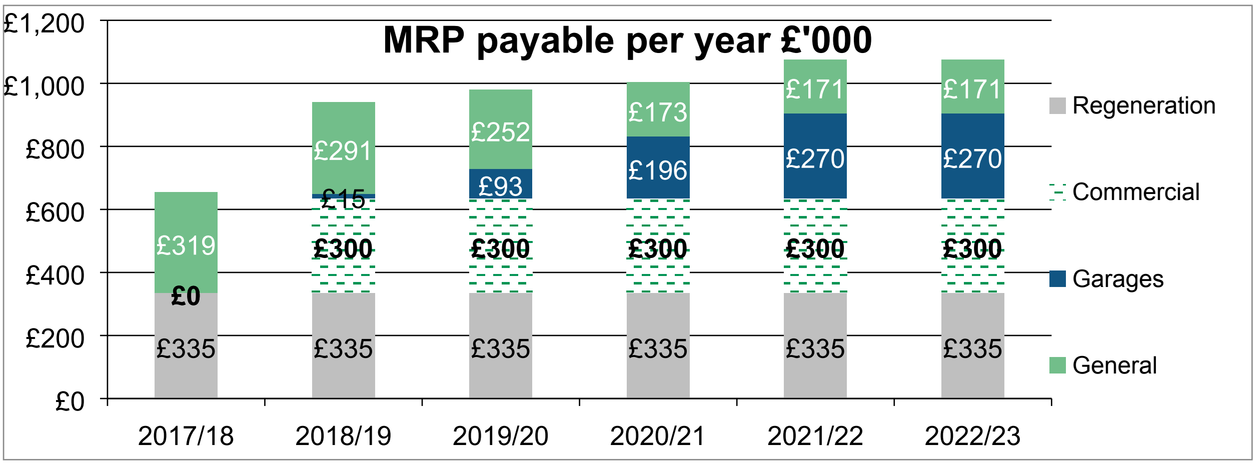


4.3.5 The proposed programme is funded (albeit unallocated funding is low in 2018/19), but if the Council is to realise its regeneration, housing and neighbourhood improvement delivery aims there will need to be a change in approach which the Asset Management Strategy needs to deliver alongside complementary strategies for community assets.

4.3.6 As stated in the draft Capital Strategy there needs to be a renewed focus on:

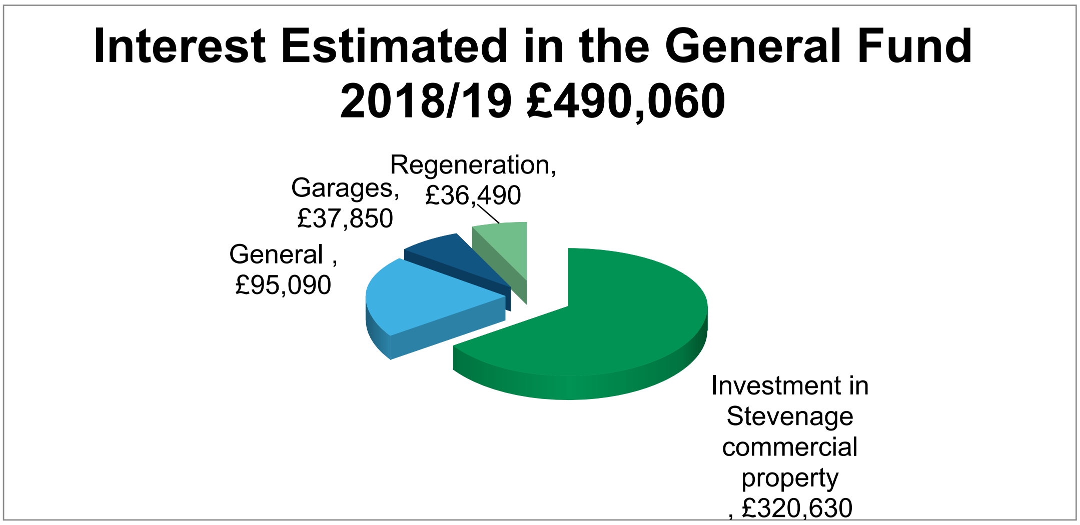
- Delivery of sites for sale- realised by evaluating how the maximum value can be delivered (Asset Management Strategy).
- Delivery of financially sustainable assets by reviewing condition and considering whether continued investment represents value for money and consider the approach outlined in paragraph 3.5-3.7.
- Consideration of further investment in commercial property primarily to deliver economic sustainability in Stevenage but also to support any future borrowing costs if required for the Council's top priorities, subject to changes the government may make regarding borrowing for commercial investment (see also paragraph 3.21-3.26).
- Building up of reserves from windfall revenue balances to be ring fenced to support the SG1 regeneration and future regeneration schemes.
- Ensuring that wherever possible all S106 receipts are allocated to capital schemes.

4.3.7 The alternative to the approach set out in paragraph 4.3.6 is to scale down the capital programme and/or borrow 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. The current level of Minimum Revenue Provision paid in the General Fund is shown in the following table.



4.3.8 All of the commercial and regeneration property MRP (and interest) is funded from income generated from those assets and any surpluses are transferred to the Regeneration Assets Allocated reserve which is available for future funding shortfalls or repairs to those assets.

4.3.9 MRP is payable regardless of whether the borrowing is taken externally or whether internal balances are used. The projected interest costs on borrowing for 2018/19 are estimated to be £490,060 in 2018/19, which is shown below. The general interest budget relates to capital expenditure for the period 2011/12-2013/14 but where no loans have yet been taken.



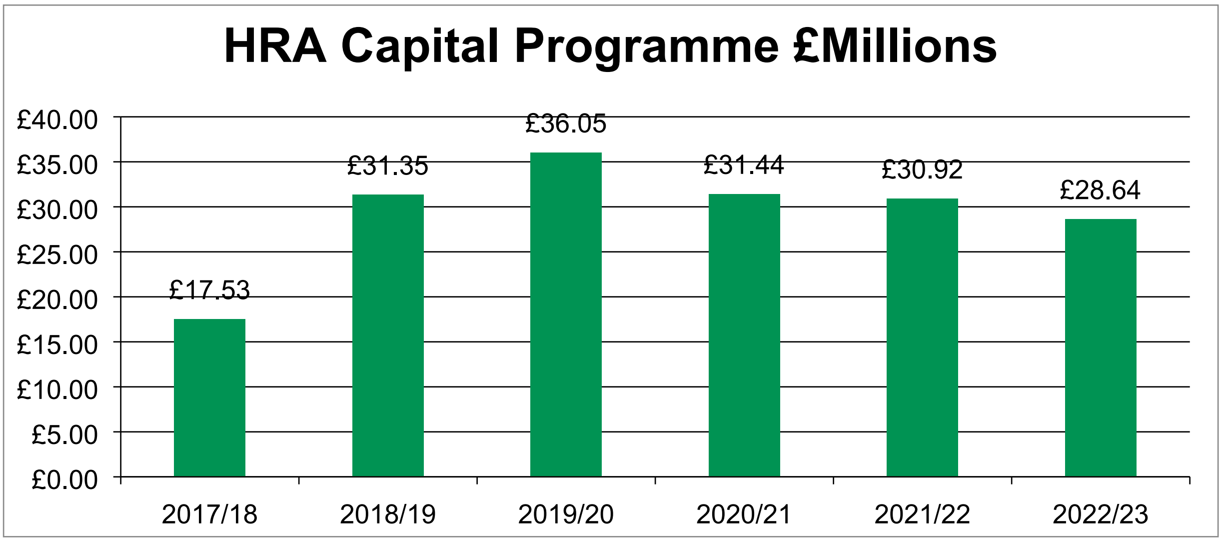
4.3.10 The total cost of borrowing in 2018/19 is £1.4Million or an estimated 2% of gross General Fund expenditure. As stated earlier the majority of this cost is met from within the income generated from assets. However if the assets were to be redeveloped the borrowing costs would fall on the General Fund.

4.3.11 Although interest costs are relatively low, although starting to rise (2.61% for a 25 year loan), an annual use of borrowing would be an incremental increase in General Fund costs, which would need to be met from increasing the Financial Security Target for the General Fund. The savings target for the next four years is £1.5Million and any increase to that would be challenging to achieve. For this reason it is recommended that increases in prudential borrowing needs to be met, in the main, from compensating business case savings. This approach further strengthens the importance of the approach outlined in paragraph 4.3.6.

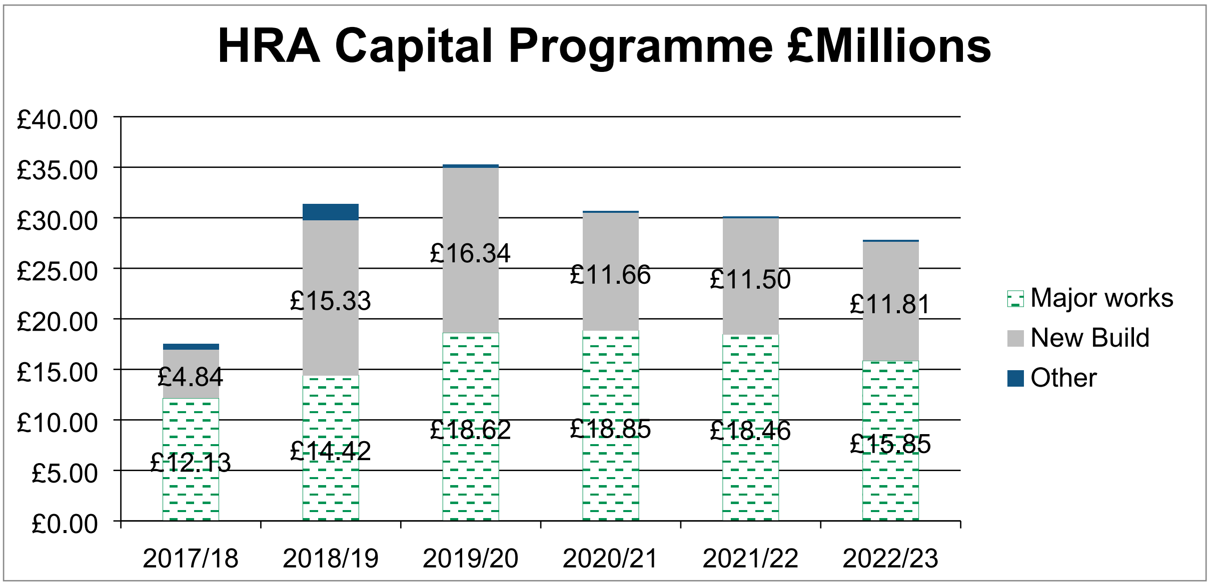
4.3.12 The total risk exposure from investment decisions taken for regeneration assets purchased prior to 2015/16 has been mitigated by ring fencing surpluses to the allocated reserve. The estimated balance on the reserve as at 31 March 2019 is projected to be £741Thousand. The Council has taken a similar risk mitigation approach with the Property Investment Strategy which only allows for £200Thousand of income to be included in the General Fund with any remaining surplus being ring fenced to an allocated reserve to cover any future losses. These assets have been purchased to further the Council's regeneration and economic ambitions for Stevenage.

4.4 Capital Programme – Housing Revenue Account (2017/18-2022/23)

4.4.1 The HRA capital programme is summarised in the HRA rent setting and budget report to this committee and is set out in the HRA business plan with the exception of the Higher Value Voids Levy (HVV) which the Government has stated will not be introduced in 2018/19 and the slippage to the programme identified in section 4.5. The programme is summarised below and totals £176Million.



4.4.2 The increase in 2018/19 onwards reflects the investment in new build. The split between major works, new build and other is shown in the following chart.



4.4.3 As stated in the HRA final rent setting and budget report there is a deficit in the HRA business plan with the first significant shortfall in funding in 2025/26 (£3Million).

4.5 Capital Programme – Housing Revenue Account 2017/18

4.5.1 The 2017/18 programme have been reviewed and updated and the changes are summarised in the table below.

Summary of HRA Capital Programme changes	2017/18 £	Reason
Draft January Capital Strategy	17,270,340	
Approved amendments January:	188,910	
Proposed amendments February:		
New Build Schemes (March Hare)	675,760	This spend has been brought forward from 2018/19 and relates to the new build scheme at the March Hare.
Archer Road	(9,760)	Reduction in final scheme cost and vired to new build cost in 2018/19 programme
Vans for VRS	(600,000)	A number of vehicles, which have been ordered are due for delivery in April-May 2018 and require slipping into 2018/19.
Total Changes February	**66,000**	**Increase in 2018/19 budget**
Final February Capital Strategy	**17,525,250**	

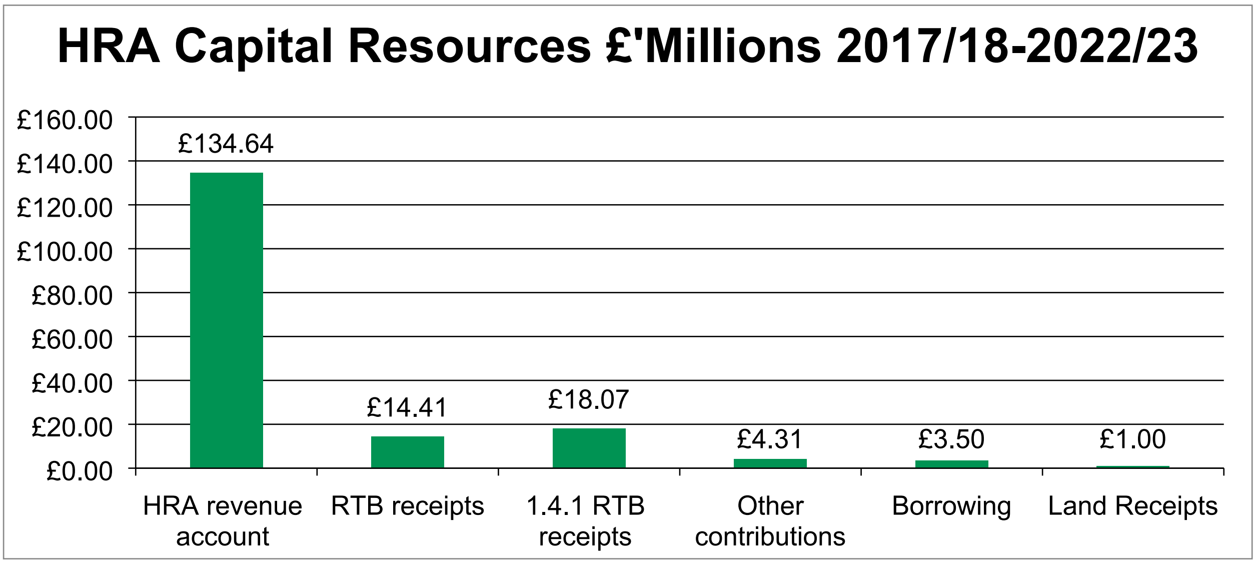
4.5.2 The 2018/19 programme have been reviewed and updated and the changes are summarised in the table below.

Summary of HRA Capital Programme changes	2018/19 £	Reason
Draft January Capital Strategy	36,967,750	

Summary of HRA Capital Programme changes	2018/19 £	Reason
Proposed amendment January:	76,000	
Proposed amendments February:		
New Build Schemes	(666,000)	New Build adjustments from 2017/18 budget brought forward from 2018/19
Vans for VRS	600,000	A number of vehicles, which have been ordered are due for delivery in April-May 2018 and require slipping into 2018/19.
Total net slippage from 2017/18	(66,000)	
New Build Schemes	(2,823,120)	Major development scheme reprofiled based on timeline for planning and to allow for consultation with tenants and residents.
Major Repairs Contract	(2,800,000)	This contract has been reprofiled based on the approved timetable for implementation and mobilisation.
Total slippage to 2019/20 onwards	(5,623,120)	
Total Changes February	**(5,689,120)**	**Increase in 2018/19 budget**
Final February Capital Strategy	**31,354,630**	

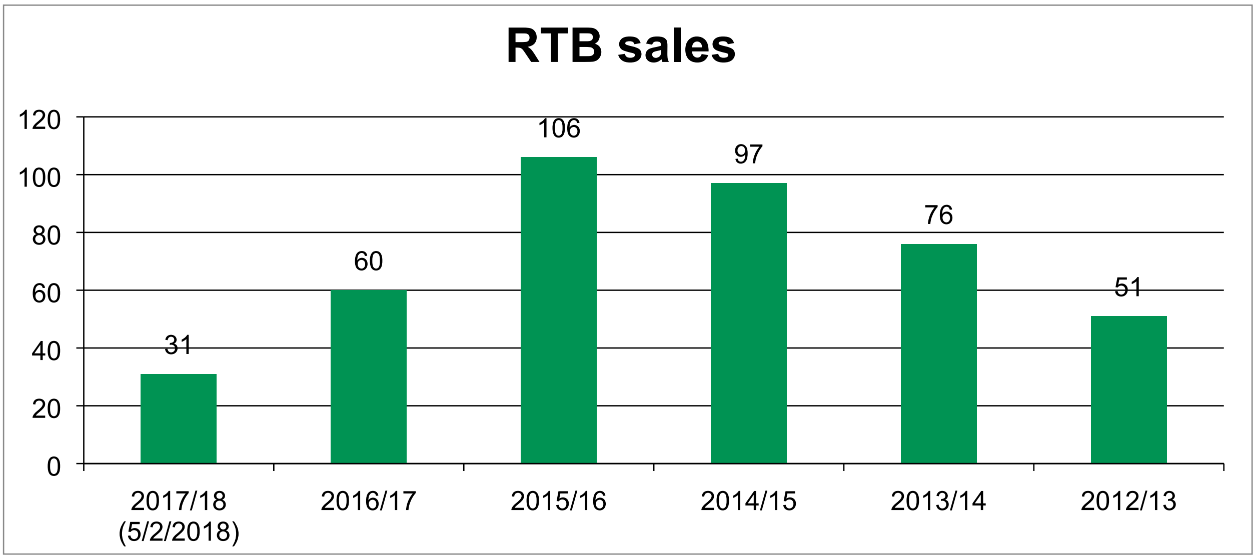
4.6 Capital Programme – HRA Resources (2017/18-2022/23)

4.6.1 The HRA capital programme is funded from four funding sources, of which the majority is funded from the HRA (via depreciation charges or revenue contributions to capital), this accounts for 77% of total funding. Capital receipts from the sale of council houses totals £32.48Million or 18% of total funding; however as Members will be aware the 1.4.1 receipts have restricted use and a further £863,000 is paid to the Government as the Government's share which equates to the pre self-financing pooling payment.

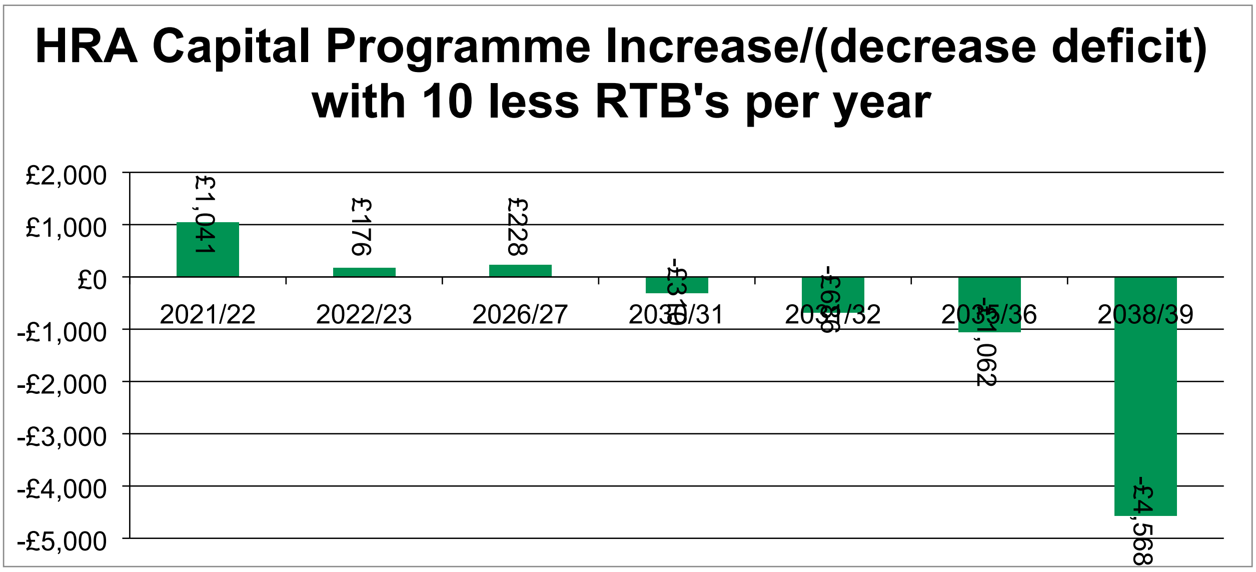


4.6.2 The dependency on HRA revenue balances to fund the programme means that the HRA balances are projected to reduce by £19.3Million to £3.2Million between 1 April 2018 and the 31 March 2022.

4.6.3 The HRA capital programme funding is based on 50 RTB sales per year, RTB's have fluctuated since self-financing was introduced and in 2017/18 (up to 3/1/2018) there have been 31 RTB sales compared to the revised projection of 42 sales. Current sale projections could be as low as 38 sales for 2017/18 and to date one new build property has been sold under RTB, however the council applied to exempt the property from the pooling regime so 100% of the receipt can be spent on the HRA capital programme.

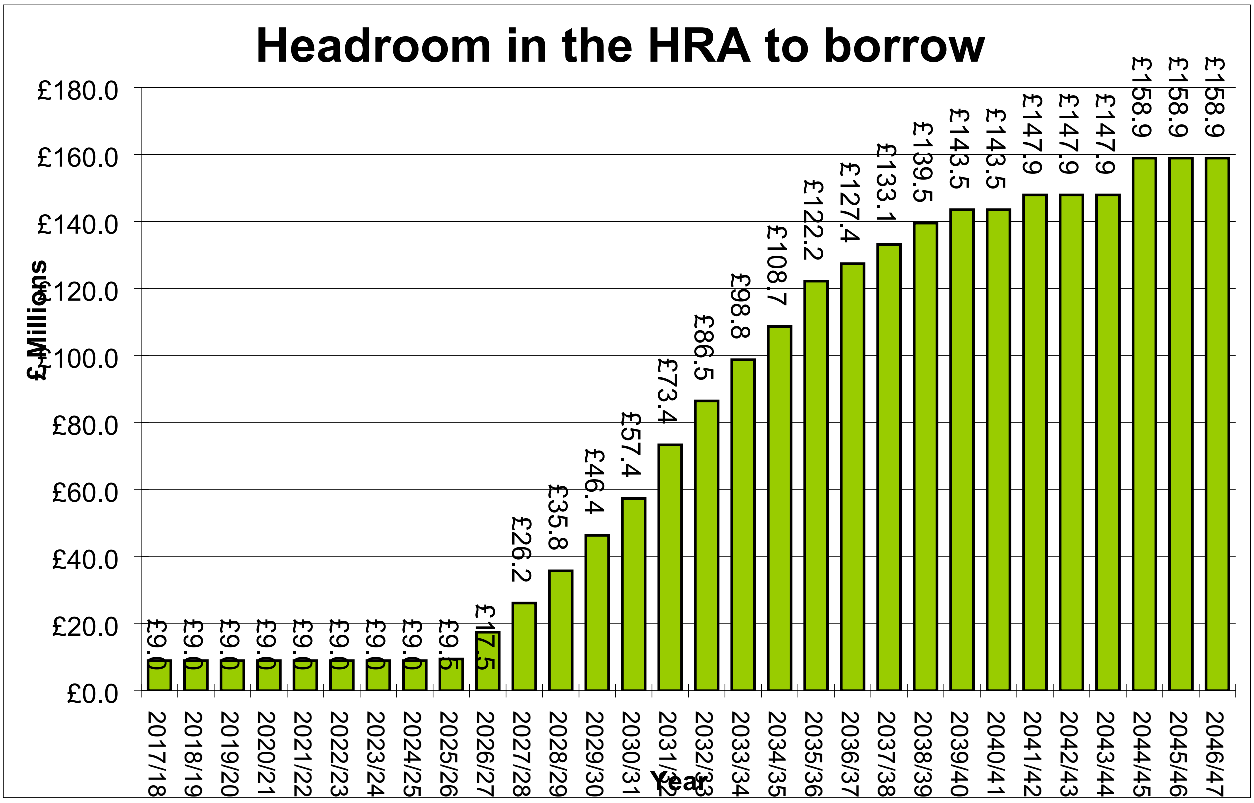


4.6.4 The impact of a reduction in RTB sales by 10 to 40 sales per year in the short term increases the capital programme deficit, but in the later years reduces the projected deficit as more rental income is available to fund the programme, reducing it overall by £5.1Million.



4.6.5 HRA capital resources have been subject to a number of government policy changes, which have impacted on the level of rents (reduction of £225Million from the four year 1% rent reduction) and on the level of RTBs, with the increase in discounts since 2012/13, which have more than doubled from £34,000 in 2011/12 to £78,600 in 2017/18.

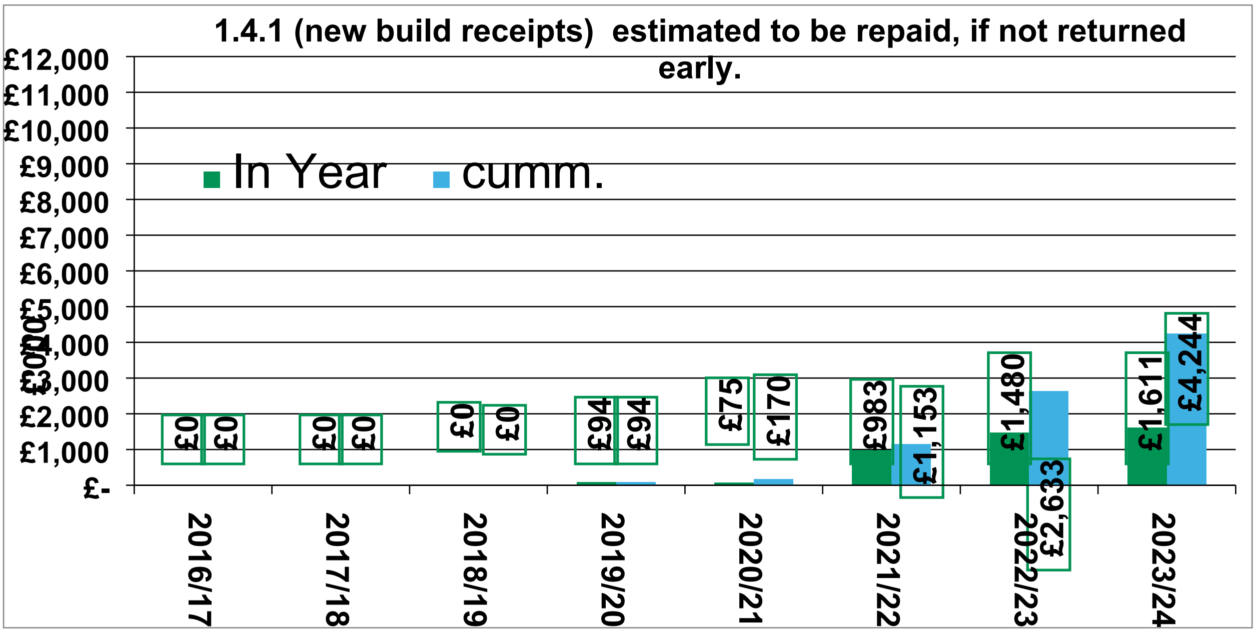
4.6.6 The 2017/18 HRA budget assumes new loans totalling £3,500,000. The interest payable in 2017/18 and 2018/19 is estimated to be £7,017,260 and £6,960,140 respectively. The maximum amount the HRA can borrow is £217,685,000 (as set in regulation) and currently the HRA has headroom to borrow as shown below. This includes the transfer of land into the HRA anticipated to be utilised in 2018/19, the total HRA headroom is £8.975Million (31 March 2018).



4.6.7 Retaining borrowing headroom has been a policy decision for the HRA. This allows for the funding of emergency or unforeseen event, such as fire safety measures and allows for land transfers into the HRA to meet the council's house building ambitions.

4.7 One for One Receipts For New Build

4.7.1 The HRA final budget report (January Executive) identified that there would be a potential return of 1.4.1 receipts in 2019/20 of £94K, however the changes to the HRA capital programme mean the value of receipts that would be due to be repaid is much higher as shown in the chart below.



4.7.2 The Council's HRA new build programme has moved from open market acquisitions to some ambitious new house building, however these schemes are open to more risk of delay as they require design, consultation, planning and tendering the works. Officers are working to mitigate the cost of and the amount of any 1.4.1 receipt returns.

4.8 De Minimis Level for Capital Expenditure 2018/19

4.8.1 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. The limit set for 2017/18 remains unchanged at £5,000.

4.9 Contingency Allowance for 2018/19

4.9.1 The contingency allowance for 2017/18 is £250,000 reflecting the resourcing pressures facing the capital programme. The contingency proposed for 2018/19 is set at £250,000, for schemes requiring funding from existing capital resources. A limit of £250,000 is also set for schemes for each Fund that have new resources or match funded resources identified in addition to those contained within this report. This limit applies individually to both the General Fund and the HRA. This contingency sum constitutes an upper limit on both funds within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year.

4.10 Overview and Scrutiny Committee

4.10.1 The Committee met on the 24 January 2018 and the Assistant Director (Finance and Estates) presented the draft proposals for the 2018/19 Capital Strategy (General Fund and HRA) that has been previously approved by the Executive

4.10.2 The Committee were reminded that the report was before them as a Budget and Policy framework item and any comments will be incorporated into the final budget that the Executive would consider for recommendation to Council in February. The Committee did not recommend any changes to the draft budget.

4.11 The Executive

4.11.1 The Executive at its meeting on 14 February 2018, having considered the comments of Overview & Scrutiny Committee agreed the final proposals for recommendations to Council, as set out in the at section 2 of this report.

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 **Risk Implications**

5.3.1 There are risks around achieving the level of disposals or land sales budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates, for instance tenders and planning meetings. The Council manages this risk by reviewing and updating the Strategy quarterly, including resources. This will enable action to be taken where a receipt looks doubtful.

5.3.2 The General Fund programme is funded from an assumption that £350,000 of underspends will be available to fund the programme each year. If they do not materialise there would be a shortfall of £1.750Million over a five year period, which would necessitate a reduction in the programme or borrowing.

5.3.3 There are a number of deferrals in the capital programme and schemes not approved in Appendix C. An amount of £441,040 is included in the General Fund programme to address any additional unavoidable capital spend (which will be carried forward to 2018/19), however there is a risk that this may not be sufficient.

5.3.4 There are potential contractual risks around tendering contracts in the current market conditions which indicate increased costs of materials and trades as a result of higher inflationary pressures and the unknown impact of BREXIT.

5.3.5 The Council's ambition around regeneration, housing delivery and Neighbourhood regeneration could increase pressure on scarce capital resources.

5.3.6 The level of RTB receipts if reduced does contribute to HRA balances for rent and meets the Council's waiting list, but may reduce resources available in the short term to fund the HRA capital programme. This will require a re-phasing of the programme in the short term or the consideration of borrowing.

5.4 Equalities and Diversity Implications

5.4.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

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

BACKGROUND DOCUMENTS

BD1 2nd Quarter Capital Monitoring report (November 2017 Executive)

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-28-November-2017-Item6.pdf

BD2 Final HRA Rent Setting and Budget Report (January 2018 Executive)

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-23-January-2018-Item7.pdf

BD3 Housing Revenue Account Medium Term Financial Strategy (2017/18-2021/22) September Executive –

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-19-September_2107-Item5.pdf

BD4 Draft Capital General Fund and HRA Capital Strategy.

http://www.stevenage.gov.uk/content/committees/182083/182087/182091/Executive-23-January-2018-Item9.pdf

APPENDICES

A - General Fund Capital Strategy

B - HRA Capital Strategy

C - General Fund Capital Bids for consideration