

CABINET

6 February 2019

Subject Heading:

Capital Strategy and Programme

Cabinet Member:

Councillor Damian White, Leader

SLT Leads:

Jane West
(Chief Finance Officer)

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Policy context:

This report presents the Council's Capital Strategy and associated Capital Programme for agreement by Cabinet and recommendation on to Council for consideration and approval.

Financial summary:

The Council is required to approve the Capital Strategy as per the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice. The Council is required to set a balanced budget and the capital strategy and subsequent capital programme form part of this process. The financial implications of this strategy are included as part of the 2019/20 Budget Medium Term Financial Strategy report elsewhere on this agenda.

Is this a Key Decision?

Yes

Is this a Strategic Decision?

Yes

When should this matter be reviewed?

Annually

Reviewing OSC:

Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Council is required by statute (the Prudential Code for Capital Finance in Local Authorities, 2017 Edition) to agree the capital programme and associated capital strategy. Local authorities are required to have regard to the current editions of this code by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) Regulations 2003 [SI 3146].

This report sets out the Authority's Capital Strategy and presents the Council's proposed capital budget for 2019/20 and the medium term.

RECOMMENDATIONS

Cabinet is asked to:

1. **Approve** the capital strategy contained within this report noting its impact on both the capital programme and overall contribution to the setting of the revenue budget for 2019/20 and beyond
2. **Recommend to Council for consideration and approval** the 2019/20 and ongoing Capital Programme (subject to business cases for the regeneration schemes being approved in line with the governance process)
3. **Agree** that the Chief Financial Officer be authorised to allocate funding from the Capital Contingency included within the draft Capital Programme.
4. **Approve** the use of capital receipts to fund the revenue costs of two eligible proposals – the Oracle and CRM system transformations – under the MHCLG Guidance on the Flexible Use of Capital Receipts.
5. **Agree** that externally funded schemes can be added to the capital programme up to £500k as and when funding is confirmed. Any external funding over £500k will be subject to approval by the Chief Financial Officer.
6. **Agree** that the relevant Cabinet Member, together with the Cabinet Member for Finance and Property be delegated authority to commence tender processes and accept tenders for capital schemes included within the approved programme under the block programme allocations or delegation arrangements set out in this report.

7. **Note** the capital prudential indicators included within the capital strategy when approving the capital programme to ensure affordability.

REPORT DETAIL

1. Capital Strategy

1.1 Overview

- 1.1.1 This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It should be read in conjunction with the following reports, all of which can be found elsewhere on this agenda:

- Treasury Management Strategy Statement (TMSS)
- Medium Term Financial Strategy (MTFS)
- HRA Business Plan and rent setting report
- Investment and Regeneration Business Cases

The capital strategy is underpinned by the strategic aims of the Council as outlined in the Corporate Plan – Cleaner, Safer and Prouder Together, which is seeking formal approval elsewhere on the agenda. The future capital investment will be focused into the delivery of these objectives for the Council.

- 1.1.2 The corporate plan includes the four objectives below;

- Opportunities – Making life better
- Place – Great place to live
- Connections – Making life easier
- Communities – A helping hand

The Council is investing in major developments across the borough as part of the Regeneration schemes and Mercury Land Holdings portfolio, planning to deliver new and replacement affordable homes and enabling self sustaining communities to grow. The capital programme includes an investment in the core infrastructure of carriageways and footways, and the capital programme recognises the

commitment to managing the performance, risk and expenditure on its infrastructure assets.

- 1.1.3 The asset management investment focuses on maintaining the core assets including the office estate, schools and other operational buildings against an asset management plan. The Council is currently undertaking an Accommodation Strategy refresh and looking at rationalising its estate and maximising the utilisation of those assets. A paper is being produced for Cabinet setting out the Council's Asset Management Strategy. The Council has brought together its budgets in relation to its operational asset management into a Corporate Landlord function which prioritises repairs and maintenance across the office estate and operational buildings. Ongoing repairs and maintenance budgets, including funding for health and safety work, are built into both the revenue budget and capital programme.

1.2 Governance of capital approvals

- 1.2.1 The capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections is presented to full Council every year for approval. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required in line with the financial regulations, delegations and approved budget envelopes. The capital programme reported here covers the current MTFS reporting period of four years, However with the Council's engagement in longer term capital investments the timeframe over which the capital programme and financing costs are monitored extend beyond this period.
- 1.2.2 The process for including new schemes in the 2019/20 capital programme was undertaken as part of corporate budget setting, with a standardised bidding process. Project outlines were considered in terms of delivery of corporate objectives or operational plans, and a shortlist of schemes were approved for the production of outline business cases for consideration by Cabinet.
- 1.2.3 Any bids for capital funding outside the approved capital programme in year would need to include a business case demonstrating either a clear link to corporate objectives or the requirement to meet an operational imperative, establish the funding source to meet the cost and follow approval processes laid down in the Council's standing orders and financial regulations.
- 1.2.4 There is an established methodology for the development of project documentation and business cases, overseen by the corporate Programme Management Office. There is a corporate system which holds the key programme performance and delivery information used to manage and monitor the milestones, risk and outcomes of the programmes.
- 1.2.5 The above investments and processes are taking place against a background of austerity and significant uncertainty in the future sources of funding for local

government. It is therefore a key aim of the Council's capital strategy that it delivers a financial return on investment, such as capital receipts or new revenue streams or delivers key strategic priorities.

- 1.2.5 Value for money (VFM) is a key component of capital projects. As part of the business case development and evaluation process, projects will need to show that all options have been considered and that the option that has been chosen is cost efficient and effective. The monitoring and management of these projects against the business case assumptions ensures that the focus on value for money remains for the life of the project.
- 1.2.6 The Council has chosen not to invest in purely commercial projects. Its capital investment is primarily related to increasing and improving the provision of a rich mix of housing tenures that help to address the acute housing need in the borough. There is a commercial return built into a number of the schemes but this is not the predominant focus for the Council.

2. 2019/20 – 2024/25 General Fund (GF) Capital Programme

2.1 Overview

- 2.1.1 In November 2018, Cabinet considered the new capital bids for inclusion in the 2019/20 – 2024/25 programme. After taking into consideration the existing approved capital programme, new bids and the capital investment plans, the full proposed capital programme has been developed for Members to approve.
- 2.1.2 New requirements under the Prudential Code require the Council to separate out its main Capital Programme from its Capital Investments. These were combined previously. The following sections of this report set out:-
- the existing main programme (section 2.2)
 - the new bids proposed for the main programme (section 2.3)
 - amendments to the Regeneration Programme (section 2.4)
- 2.1.3 The capital budgets submitted for approval of expenditure are presented excluding anticipated slippage from the existing capital programme. Actual slippage will be reported and rolled forward into 2019/20 as part of the closure of the 2018/19 accounts.
- 2.1.4 The 2019/20 GF Capital Programme does not include HRA capital spend which is approved through the HRA Business plan report.

2.2 Existing Capital Programme

- 2.2.1 Table 1 below splits out the existing already approved capital programme by key themes whilst Appendix 1 sets out the full 2019/20 and beyond existing capital programme, revised to reflect the current position on the existing schemes eg to incorporate slippage and in-year budget virements.

Table 1 - Existing Capital Programme & Funding

Summary of Existing Approved Capital Programme	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m
Adults Services	0.000	2.800	0.000	0.000	2.800
Cemeteries and Crematoriums	0.998	1.500	0.000	0.000	2.498
Childrens Services	1.950	0.000	0.000	0.000	1.950
Corporate Assets	0.527	0.077	0.000	0.000	0.604
Environment	0.020	0.000	0.000	0.000	0.020
Highways	2.351	2.000	2.000	2.000	8.351
IT Infrastructure	1.000	0.620	0.620	0.620	2.860
Leisure	11.930	5.668	0.854	0.485	18.937
Libraries	0.112	0.028	0.000	0.000	0.140
Parks & Open Spaces	0.134	0.000	0.000	0.000	0.134
Economic Regeneration	8.239	3.295	0.000	0.020	11.554
Schools Expansions Programme	18.887	6.254	2.000	0.000	27.141
Schools Maintenance	1.757	0.261	0.000	0.000	2.018
Total Capital Expenditure	47.905	22.503	5.474	3.125	79.007
Funding					
Capital Receipts	5.140	2.947	0.000	0.000	8.087
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000
Grants	25.355	9.771	2.000	0.020	37.146
Section 106/ CIL	1.339	0.000	0.000	0.000	1.339
Borrowing	16.072	9.784	3.474	3.105	32.435
Total Funding	47.905	22.503	5.474	3.125	79.007

2.3 New Capital Bids

- 2.3.1 In addition to the existing capital programme there has also been a review of the future capital requirements undertaken across the business. A shortlist of proposals was initially considered by Cabinet in November 2018. The updated new bids are shown in Table 2 below. Cabinet is asked to recommend these bids to Council for approval as part of the approval of the total Capital Programme.

Table 2 – New Capital Programme for approval

Cabinet 6 February 2019

Internally Funded Schemes Presented for Approval	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Highways						
Highways Infrastructure Investment Programme	8.800	10.000	0.000	0.000	0.000	18.800
Parking Investment	1.200	0.000	0.000	0.000	0.000	1.200
Environment						
CCTV Investment	0.250	0.000	0.000	0.000	0.000	0.250
Economic Regeneration						
Bridge Close - School	0.000	8.289	4.910	2.455	0.000	15.654
Bridge Close - Medical Facility	0.000	0.000	2.278	1.639	1.229	5.146
IT Infrastructure						
Oracle Cloud Enterprise Resource Planning System	4.500	0.000	0.000	0.000	0.000	4.500
Customer Relationship Management System	1.800	0.000	0.000	0.000	0.000	1.800
Capital Contingency						
Capital Contingency	2.000	0.000	0.000	0.000	0.000	2.000
Total Internally Funded Schemes	18.550	18.289	7.188	4.094	1.229	49.350
Externally Funded Schemes Presented for Approval	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Schools Expansions & Maintenance						
Schools Maintenance Programme 19/20	2.000	0.000	0.000	0.000	0.000	2.000
Schools Basic Needs 20/21	0.000	21.953	0.000	0.000	0.000	21.953
Additional SEN Grant	0.598	0.000	0.000	0.000	0.000	0.598
Environment						
TFL Local Implementation Plan Grant 2019/20	1.918	0.000	0.000	0.000	0.000	1.918
Housing (GF)						
Disabled Facilities Grant	1.680	0.000	0.000	0.000	0.000	1.680
Total Externally Funded Schemes	6.196	21.953	0.000	0.000	0.000	28.150
TOTAL NEW GF CAPITAL PROGRAMME	24.746	40.242	7.188	4.094	1.229	77.500
Funding Sources of Schemes Presented for Approval	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Capital Receipts	8.300	0.000	0.000	0.000	0.000	8.300
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	0.000
Grants	6.196	21.953	0.000	0.000	0.000	28.150
Section 106/ CIL	0.000	0.000	0.000	0.000	0.000	0.000
Borrowing	10.250	18.289	7.188	4.094	1.229	41.050
TOTAL FUNDING	24.746	40.242	7.188	4.094	1.229	77.500

2.3.2 Details of the additional projects being proposed to be added to the capital programme are as follows:-

- An additional £10m per annum in 2019/20 and 2020/21 is to be added into the Highways investment programme funded from the additional traffic and parking income proposed in the Improving Traffic Flows Strategy.
- An additional £250k is to be built in for investment into CCTV. The current CCTV system requires investment. The equipment, including cameras, is over 10 years old and is now less reliable. It therefore critical to upgrade the system to ensure it remains fit for use. The bid will also fund investment in two mobile cameras that can be targeted as required.
- An additional £28.1 million of external funding is to be added to the capital programme over the next 2 years. These include indicative figures for Transport for London (TFL), Schools Basic Needs and the Disabled Facilities Grant.
- It is proposed that £4.541 million in capital receipts is set aside to to implement a new Oracle Cloud Enterprise Resource Planning system to replace the current 1Oracle systems for finance and human resources. The current 1Oracle system is outdated and increasingly expensive to support as, from July 2019, Newham and Havering will be the only two councils of the original seven using the system. The current plan is to move to Oracle Cloud for 1 April 2020. Although Cloud based systems are revenue projects, there is a government scheme to allow the use of capital receipts for specific Transformation projects that deliver an ongoing saving (which Oracle Cloud does). The full business case can be found elsewhere on this agenda.
- Similarly, it is proposed that capital receipts of £1.8m are set aside for a new Customer Relationship Management (CRM) system again asking for funding from capital receipts for specific Transformation projects that deliver an ongoing saving (which CRM does, including cost avoidance). The current CRM is bespoke and very costly to support. It needs to be upgraded by 2020 as the current platform is due to come out of support. The full business case will be considered at Cabinet in the New Year.
- In addition to the above new schemes included in the November Cabinet report on the MTFS there is an additional requirement for a new school and a new medical facility as a result of the Bridge Close project. Whilst alternative funding sources are being investigated, the capital programme will need to include the funding of these projects to enable the scheme to progress. The total costs of these projects are £15.6m for the school and £5.1m for the medical facility.
- The externally funded schemes have no impact on the Council's MTFS or prudential borrowing figures as these are all entirely funded from external funding sources and do not call on the Council's capital resources.

Corporate Contingencies in the Capital Programme

- 2.3.3 In addition to the schemes outlined above, it is proposed that a corporate capital contingency is established to cover unforeseen circumstances within existing programmes or essential unplanned or emergency capital expenditure. It is proposed that £2m is to be set aside, funded initially from capital receipts to be allocated by the Chief Finance Officer.
- 2.3.4 As can be seen from the above tables the majority of the internally funded new capital projects are funded from prudential borrowing. This will have the result of additional capital financing costs over the life of the assets. These costs are factored into the MTFS and where possible off set against income generation. The capital financing costs as a result of the additional borrowing for the additional projects are set out below:

Table 3	ADDITIONAL REQUIREMENT - MRP & INTEREST						
	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Highways Infrastructure	0.132	0.634	0.550	0.000	0.000	0.000	1.316
Parking Investment	0.018	0.066	0.000	0.000	0.000	0.000	0.084
CCTV	0.004	0.054	0.000	0.000	0.000	0.000	0.058
Bridge Close – School	0.000	0.124	0.530	0.307	0.135	0.000	1.096
Bridge Close – Medical Facility	0.000	0.000	0.034	0.150	0.109	0.067	0.360
	0.154	0.878	1.114	0.457	0.244	0.067	2.914

- 2.3.5 Whilst these costs are factored into the MTFS for prudent financial planning purposes, alternative funding sources will be investigated and used where possible to mitigate these costs, delivering a saving on the revenue budget.

2.4 Regeneration Programme

- 2.4.1 Included within the capital programme are a number of Regeneration schemes that because of their treatment as capital investments, as part of the new prudential code requirements are reported separately in the authority's capital programme. Each scheme has an individual business case setting out the risks and merits which have either been reviewed or are in the process of being reviewed by Members. The capital strategy brings all these schemes, along with the Council's full capital programme together but Members are asked to review the individual business cases for a full understanding of each of the schemes. These business cases are included as items elsewhere on the agenda for Members consideration.
- 2.4.2 Table 4 below (to be finalised) shows the current spending plans (based on latest business plans) for all of the regeneration schemes being proposed

Table 4 to follow

2.4.3 The proposed funding of these schemes is as follows

Table to follow

2.4.4 Details of the regeneration schemes being requested as part of the capital programme are:

- Rainham & Beam Park Housing Zone

This scheme was originally approved for progression at Cabinet on 13 December 2017 with capital expenditure forecasts based on the original business plan. Since the original approval the project has developed with the capital expenditure above based on latest business plans. Inclusion in the capital programme ensures that the capital expenditure approvals are in place subject to the full business case being approved – item elsewhere on this agenda.

- Bridge Close

This scheme was originally approved for progression at Cabinet on 15 November 2017 and again was based on the original business case for the project. Like with Rainham & Beam Park the scheme has developed and the latest capital expenditure forecasts are based on the new business plan. Inclusion in the capital programme ensures that the capital expenditure approvals are in place subject to the full business case being approved – item elsewhere on this agenda.

- Mercury Land Holdings

The original business plan was approved at Cabinet on 15 November 2017. Since this approval new schemes and opportunities have been identified and this new capital programme includes a number of new projects. Inclusion in the capital programme ensures that the capital expenditure approvals are in place subject to the full business cases being approved setting out the individual projects and their risks and benefits associated with them – item elsewhere on this agenda.

2.4.5 Like with the new capital projects, if these regeneration schemes are approved and progress then additional prudential borrowing will be required. This borrowing will result in revenue capital financing costs over the profile of the schemes as shown below. Whilst these costs are factored into the MTFS for prudent financial planning purposes, alternative funding sources will be used where possible to mitigate these costs, delivering a saving on the revenue budget.

2.4.6 It is important to acknowledge that once the developments move into the delivery phase, the costs of the programmes become more significant, including for example the costs of borrowing or the costs of maintaining an operational construction site. Therefore any delays in the programme that add time into the

development phase plans will bring with it additional material costs over and above these business plan assumptions.

- 2.4.7 It should also be acknowledged that as these regeneration ventures progress, there are costs incurred in the preparation of the schemes and the establishment of the delivery vehicles that are sunk costs, and have occurred in this or previous years. If any of the schemes at any stage in the future do not progress to final delivery and completion, then these costs could fall to the Council with no mechanism for recovery.

Additional incremental pressures, MRP and interest – *table to follow*

- 2.4.8 The primary reason for undertaking these schemes, and therefore including these projects in the capital programme, is regeneration. However, the business cases have identified a number of additional benefits arising alongside the regeneration. One of the benefits is the estimated financial return to the Council that will arise as a result of the delivery of the projects. The return generated from these regeneration projects will offset the budget pressure arising from the capital financing costs of borrowing and provide future funds for reinvestment. There will also be a return to support the Council's MTFs from MLH as a result of the Council making loans to the company. The income streams included in the project business plans are:

Table to follow

Full details of the additional pressures and savings for the individual schemes are included in the medium term financial strategy

Table to follow

- 2.4.9 In addition to the income streams shown above, dividends will also be payable from MLH, although at present it is assumed these are reinvested in further regeneration schemes.
- 2.4.10 The primary existence of these regeneration projects are for regeneration purposes and it is important to acknowledge that these income streams can be more volatile than other investments made solely for treasury purposes (details of which are set out in the TMSS elsewhere in the agenda). Members are reminded that over reliance on these income streams should not be made when setting a balanced budget and that by approving these schemes, Members are happy with the overall balance of income that these projects contribute to the budget setting process.

2.5 2019/20-2024/25 General Fund (GF) Capital Programme

- 2.5.1 Taking into consideration the existing capital programme, new bids and the regeneration programme (as all set out above) the total GF capital programme and associated funding sources are:

Table 8 – Total Havering GF capital - Table to be finalised and to follow

2.6 Capital Expenditure and Financing - Prudential Indicators

2.6.1 Capital expenditure is incurred where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. Details of the Council's policy on capitalisation can be found in the Council's accounting policies.

2.6.2 In 2019/20, the Council is planning capital expenditure of £266.696m (including HRA) as summarised below:

Table 9: Prudential Indicator: Estimates of Capital Expenditure in £ millions - *To be finalised*

DRAFT	2017/18 actual £m	2018/19 budget £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
General Fund services	51.165	71.120	72.651	62.745	12.662
Council housing (HRA)	33.056	67.459	47.310	80.719	54.186
Regeneration Programme	4.472	6.279	146.735	132.243	72.709
TOTAL	88.693	144.858	266.696	275.707	139.557

The main General Fund capital projects include highways, schools maintenance and expansions, IT infrastructure and leisure, and these can be seen in the detailed capital programme section of this report.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. The HRA capital programme supports the ongoing capital maintenance of the housing stock, the delivery of decent homes standards alongside a significant investment in the 12 Estates regeneration programme and the acquisition of affordable homes across other regeneration schemes. The HRA business plan (which includes the proposed HRA capital programme) is an item elsewhere on the agenda.

2.6.3 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 10: Capital financing in £ millions - *To be finalised*

DRAFT	2017/18 actual £m	2018/19 forecast £m	2019/20 forecast £m	2020/21 forecast £m	2021/22 budget £m
Capital Receipts	22.457	15.331	63.690	80.947	46.000
Revenue & Reserves	27.945	68.267	25.688	38.340	23.335
Grants & Contributions	22.744	42.416	32.890	31.725	2.000
Borrowing	15.547	18.844	144.428	124.695	68.222
TOTAL	88.693	144.858	266.696	275.707	139.557

2.6.4 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Council's full minimum revenue provision statement is available as part of the Treasury Management Strategy Statement.

2.6.5 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £TBC during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 11: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions - *to be finalised*

DRAFT	31.3.2018 actual	31.3.2019 forecast	31.3.2020 forecast	31.3.2021 forecast	31.3.2022 forecast
General Fund services	69.154	80.281	104.693	130.435	138.063
Council housing (HRA)	174.669	174.669	196.290	238.669	269.520
Regeneration Prog.	20.647	26.489	122.537	173.897	196.414
TOTAL CFR	264.470	281.439	423.520	543.001	603.997

2.6.6 The previous tables cover the overall capacity and control of borrowing but within the prudential framework indicators are required to assess the affordability of the capital investment plans. One such indicator is the estimate of the ratio of financing costs to net revenue stream which can then be split between GF, HRA and Capital Investments. This indicator identifies the trend on the cost of capital against the net revenue stream.

Table 12: Prudential Indicator: Ratio of Financing costs to Net Revenue Stream - *to be finalised*

DRAFT	2018/19 forecast	2019/20 forecast	2020/21 forecast	2021/22 forecast
General Fund services	2.40%	2.79%	3.32%	4.00%
Council housing (HRA)	3.27%	3.68%	4.47%	5.05%
Capital investments	0.77%	2.04%	4.89%	6.61%
TOTAL	6.44%	8.51%	12.68%	15.66%

3. Disposals

- 3.1 The Council has pursued a policy of selling surplus sites for many years to finance the capital programme and keep borrowing costs down. As a result of this strategy it has become increasingly difficult to identify new sites for disposal. A separate report later in the agenda covers property disposals but for the purposes of this capital programme none of these receipts have been relied on for financing of the capital spend.

4. Investments in the Regeneration Programme

4.1 Overview

- 4.1.1 With central government financial support for local public services declining, the Council has invested in a number of joint ventures and subsidiaries. Total capital investment in these joint ventures and subsidiaries as at 31st March 2018 is £21.8m (£8.7m of equity investments and Capital loans of £13.1m).

- 4.1.2 Mercury Land Holdings (MLH) is the Council's wholly owned property development company established to:

- Make use of existing Council capital assets
- To contribute to dealing with the housing supply issue in the Borough
- Ensure a mix of housing in terms of type, size and tenure best matched to the needs of Havering
- To support the Council's regeneration and growth aim
- Generate a financial return to support front line services

The Council's investment in MLH in terms of loans and equity are included in the capital programme. The investment is managed via a shareholder's board arrangement and MLH submit a business plan each year with investment plans for consideration and approval by Cabinet.

- 4.1.3 In addition the Council is the partner in three other regeneration vehicles. One has been established to regenerate the Council's own housing provision, predominantly within the HRA. The other two are to support regeneration and bring in new affordable housing across Havering.

- 12 Estates programme

- Bridge Close
- Beam Park

- 4.1.4 With regeneration being the key objective, the Council accepts higher risk on capital investments in the Regeneration Programme than with treasury investments where the emphasis is on Security, Liquidity and Yield (SLY) in that order. The principal risk exposures for each regeneration scheme are set out in the individual business cases but include risks such as fall in capital values, inflation and interest rate risk. These risks are managed through the individual business cases which show detailed modelling of the risk factors and their impact. In order that commercial investments remain proportionate to the size of the authority, whilst there is no overall maximum investment limit, every business case is reviewed with the full impact of the decision assessed before a decision to proceed or abandon the scheme being made.
- 4.1.5 Further details on the capital expenditure plans and the associated prudential indicators which include the commercial activities can be found in the Treasury Management Strategy Statement. The Council's capital expenditure plans are the key driver of treasury management activity with the output of these plans reflected in the TMSS and prudential indicators. These are designed to assist Member's overview and confirm capital expenditure plans.

4.2 Risk Management and Mitigation

- 4.2.1 Specific risks for individual schemes are contained within the project business cases. The scale and importance of the project will dictate the level of business case evaluation. Sound business case protocols can mitigate the risk of business case collapse with appropriate levels of contingency being built into the business case to mitigate risks.
- 4.2.2 In addition to specific risks associated with projects there are a number of cross cutting risks that apply to all capital investments.
- Interest Rate Risk - This is managed indirectly through the TMSS and through our treasury advisers Link Asset Services
 - Inflation Risk – Whilst we are in a period of low inflation, inflation risk should always be a concern as slippage can potentially decrease the purchasing power. This can be mitigated by good project management and clearly identified cash flow projections.
 - Legal Risk – Capital schemes need to comply with the latest relevant regulations which can change and lead to an impact on construction costs for example. This is mitigated by awareness of pipelines changes and through contingencies
 - Market health and commercial values – when projects are entered, the business case often depends on key assumptions or estimates of future market positions. Should market movements mean that these assumptions are inaccurate then this may lead to a change in the project

financials. This risk can be mitigated through performance monitoring and contingencies.

- Supplier financial stability – To mitigate this the Council considers the financial robustness of all contractors and partners and requests appropriate financial standing assurance.
- Reputational Risk – This is particularly relevant to the public sector and can result in the public losing faith in the organisation. The risk can be mitigated by good project management and communication with clear expectations of all stakeholders being key.
- Financial risk due to programme delay – as the schemes progress into delivery phase the costs of the programmes become more significant, including the costs of any borrowing, of the holding costs of construction sites and the operating costs of the joint venture partners, which will be incurred even during times of delay. This can occur for external reasons – e.g. inclement weather that stops work on site – or reasons internal to the council – e.g. delays from slipped planned phasing or decision making deadlines. Many external causes can be mitigated by insurance cover or contingency sums, and close contract management with partners. The internal process risk can be mitigated by clear planning and timetabling of key decisions and project approval phasing, and monitoring and management of the project plans against those deliverables.

4.3 Knowledge and Skills

- 4.3.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also has a training and development programme to support staff to study towards relevant professional qualifications.
- 4.3.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 4.3.3 Member training was undertaken as part of the induction programme following the recent election, and training and advice is provided to relevant cabinet portfolio members.

REASONS & OPTIONS

Reasons for the Decision

The Council is required to approve the Capital Strategy as per the 2017 updates to the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice.

Alternative Options Considered

There are no alternative options in so far as approving the capital strategy and setting the capital programme. However, there are options in respect of the various elements of the capital programme.

IMPLICATIONS & RISKS

Financial Implications and Risks

The existing Capital Programme has historically been largely funded from the use of capital receipts however going forward it is acknowledged that the capital ambition of the Council will exceed the potential capital receipts available and will therefore require the Council to plan for the inclusion and cost of prudential borrowing for prioritised schemes.

The Council needs to manage and control its future capital programme and investment very carefully to ensure that it meets its fiduciary responsibilities. It will need to carefully prioritise future capital investment to deliver optimum outcomes as resources become increasingly scarce. A number of new schemes rely upon borrowing which creates a long term budgetary commitment for the Council for which it anticipates that it will receive financial returns of income in addition to meeting the primary objectives of economic development and regenerations. It is therefore essential that there is robust and proactive management of all capital projects going forward in order to deliver the financial plans set out in each approved business case. In particular, the delivery of income streams due from the series of Regeneration led projects for housing development are crucial and underpin the Council's ability to meet the cost of this capital investment and generate future revenue returns to support the delivery of the MTFS. Failure to deliver to plan, could result in significant financial pressures for the Council and therefore robust programme and project governance will be essential. This framework and the expected returns on investment will be included in the revised Capital Strategy.

In allocating funding to these proposals the principle of financing capital expenditure from prudential borrowing as a last resort, was used. Going forward, the use of external funding sources will be maximised, pulling together the co-ordination of grant funding, s106 and any future CIL payments and the use of capital receipts, revenue and reserves.

Legal Implications and Risks

There are no apparent direct legal implications of this report.

Human Resource Implications and Risks

There appear to be no HR implications or risks arising directly that impact on the Councils workforce.

Equalities and Social Inclusion Implication and Risks

The Equality Act 2010 Public Sector Equality Duty will be applied in any decision making on the use of these funds.

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