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Havering LONDON BOROUGH

CABINET

7.30 pm	Wednesday 12 February 2020	Council Chamber - Town Hall

Members 9: Quorum 3

Councillor Damian White (Leader of the Council), Chairman

	Cabinet Member responsibility:
Councillor Robert Benham	Cabinet Member for Education, Children & Families
Councillor Osman Dervish	Cabinet Member for Environment
Councillor Joshua Chapman	Cabinet Member for Housing
Councillor Jason Frost	Cabinet Member for Health & Adult Care Services
Councillor Roger Ramsey	Cabinet Member for Finance & Property
Councillor Viddy Persaud	Cabinet Member for Public Protection and Safety

Andrew Beesley
Head of Democratic Services

For information about the meeting please contact:
Debra Marlow tel: 01708 433091
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Webcast

Please note that this meeting will be webcast. Members of the public who do not wish to appear in the webcast will be able to sit in the balcony, which is not in camera range.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
• Your well-being or financial position; or
• The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA

1 ANNOUNCEMENTS

On behalf of the Chairman, there will be an announcement about the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE

(if any) - receive

3 DISCLOSURES OF INTEREST

Members are invited to disclose any interests in any of the items on the agenda at this point of the meeting. Members may still disclose an interest in an item at any time prior to the consideration of the matter.

4 HAVERING AND WATES REGENERATION LLP BUSINESS PLAN AND BUDGET 2020-2021 (Pages 1 - 24)

See also agenda item 11 for exempt documents in relation to this issue.

5 SETTING THE HRA BUDGET FOR 2020/21 AND THE HRA CAPITAL PROGRAMME (2020/21 - 2023/24) (Pages 25 - 48)

Report attached.

6 2020/21 CAPITAL PROGRAMME AND STRATEGY (Pages 49 - 72)

Report attached.

7 TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2020/21 AND ANNUAL INVESTMENT STRATEGY (AIS) 2020/21, TREASURY INDICATORS AND MINIMUM REVENUE PROVISION POLICY STATEMENT FOR 2020/21 (Pages 73 - 110)

Report attached.

8 COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY (MTFS) AND BUDGET FOR 2020/21

Report to follow due to late receipt of figures from an external body.

9 EXCLUSION OF THE PRESS AND PUBLIC

To consider whether the press and public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the press and public were present during those items there would be disclosure to them of exempt information within the meaning of paragraphs 1 or 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

10 HAVERING AND WATES REGENERATION LLP BUSINESS PLAN AND BUDGET 2020-2021 (Pages 111 - 172)

Public report at agenda item 4. Exempt report to follow.

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Havering
LONDON BOROUGH

CABINET	**12th February 2020**
Subject Heading:	**Havering and Wates Regeneration LLP Business Plan and Budget 2020/2021**
Cabinet Member:	Councillor Damian White- Leader of the Council and Portfolio Holder for Regeneration.
SLT Lead:	Neil Stubbings - Director of Regeneration
Report Author and contact details:	Maria Faheem - Regeneration Client Manager Maria.Faheem@havering.gov.uk 01708 434 379
Policy context:	Havering Housing Strategy 2014-2017 National Planning Policy Framework 2012 Draft London Plan 2017 Emerging Havering Local Plan 2017 HRA Business Plan 2017-2047 Romford Housing Zone - Overarching Borough Agreement with the GLA Havering Local Development Framework and Romford Area Action Plan 2008 Romford Development Framework 2015
Financial summary:	The report seeks Cabinet approval in principle to invest a maximum of £121.6m of capital expenditure gross of repayments of equity into a Limited Liability Partnership to deliver the regeneration of 12 Housing Revenue Account (HRA) sites. The peak end of year equity exposure is forecast to reduce to £36.0 million from £41.2 million. Some of this investment would be in the form of HRA land, the net value of which is currently estimated at £4.7m (all 12 sites), with the remaining £31.3m as cash funding. This investment is contained within the HRA and is in addition to the Approved HRA Capital

Programme 2019/20 to 2021/22. The report also requires a budget of £76.4m in respect of the remaining land assembly/ CPO costs to enable the Council to provide vacant possession. This is a reduction of £3.5m. Therefore, subject to Cabinet/Council approval of the recommendations within this report, the scheme will be included in the proposed capital programme to be considered as part of the 2020/21 HRA budget process and will be subject to approval of the Capital Programme and Treasury Management Strategy in February 2020

A total revenue surplus for the HRA of £58.2m is forecast as a result of this regeneration scheme after meeting capital financing costs of borrowing. An estimated capital receipt of £121.6 is expected to be realised at the end of the scheme.

Is this a Key Decision?	This is a key decision
When should this matter be reviewed?	Autumn 2020
Reviewing OSC:	Towns and Communities OSC

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	[]

SUMMARY

The council's overarching vision for setting up the Havering and Wates Joint Venture (HWR) was to facilitate the regeneration of key areas of the borough; to kick-start renewal of key town centres and estates; and deliver truly affordable homes for local people. In addition, it would ensure good quality design of buildings and places by being a joint owner of the development company, thus giving greater control over the planning process and ensure delivery of key infrastructure requirements. Any returns to the council are being identified to fund future regeneration programmes across the borough and help fund renewal of our cherished town centres across the borough at a time when the traditional high streets are under significant threat from changing consumer habits.

Through the significant development value generated by this initiative, (approximately £1.5bn) many local businesses and residents will see economic benefits as there will be a focus on maximising the number of contracts awarded to those local companies. A secondary impact of the schemes will also be to support local businesses on those high streets where the developments take place by creating greater "spending power" for those businesses to take advantage of.

When Cabinet agreed to establish the Joint Venture (JV), this was on the basis that there would be regular (annual) reviews and Cabinet would be asked to agree material changes to the business plan on an annual basis, in line with the annual budget setting process. This is the second review following establishment of the JV in April 2018.

The key inputs into the financial models have been reviewed and externally validated. The key inputs are construction costs, expected sales revenues, land values plus other costs such as expectation on s106 and CIL payments. Areas of non-residential use have been updated as the design and planning process proceeds. This incorporates the inclusion of the impact of consultation and engagement events through the planning process.

In addition, the proposed developments have changed with stakeholder engagement to include specific changes, including;

- An increase in the affordable housing numbers.
- An increase in the amount of family sized affordable housing.
- Improved build quality of the developments.
- Enhanced design requirements.
- Provision of efficient energy provision.
- Improved specification for the underground refuse storage system.
- Upgraded fire safety specification, including more 'fire lifts'.
- Enhanced social value offering.
- The use of British materials and components where possible.

The resulting increase in affordable housing is significant, rising from 1,186 at the bid stage of the JV to 1,624 as part of this annual review. This is an increase of 438 affordable homes at truly affordable prices for local people.

The Council, through its involvement in the JV is committed to the delivery of the highest quality homes and places for our residents to live in. The goal is to set a high standard for other developers to follow. This is being achieved as evidenced in paragraph 2.2 below.

The increase in affordable housing and good quality design is being achieved at a time when land values and therefore the inherent value in development has been reducing as the housing market has stagnated for the last couple of years. In the current housing market climate, most developers would halt work or prolong the program until the housing market improves. Moreover, developers would normally reduce affordable housing and family housing to protect profits. However with the councils support the joint venture has continued with the programme dedicated to providing good quality affordable family housing with enhanced design. The additional funding identified within the report shows how these changes are being delivered.

As an estate regeneration program, the wishes of those moving off the estates remain paramount. Good progress continues to be made on re-housing residents from the estates, with an excess of 98% satisfaction from residents with their new home and the rehousing process.

The updating of these numbers in the viability models and then into the councils financial dashboards means that this report is able to inform Cabinet of any changes to the expected outputs from the JV as well as informing Cabinet of any changes in the financial position of the JV and our financial commitments to the JV as an investor. This report not only informs Cabinet of changes but also seeks approval of the new Business Plan and the expected financial commitments.

The original decision to set up the JV was informed by key indicators on the viability and outputs. Those key indicators were: Overall % return, Overall financial return, initial stake (Equity: borrowing and land value), impact on the MTFS from the cost of borrowing in the early years, total number of units, number of affordable housing units. These metrics are considered to be the key indicators to identify the viability, outputs and potential financial risks.

The development is currently forecast to receive £60 million development return in revenue to the HRA from year 5 to 15 (see paragraph 6.15). This figure is built into the HRA Business Plan and rent setting report also being presented to Cabinet and is not included within the calculations for the average cost of an affordable housing unit within this report.

The table below details those key metrics as reported to Cabinet in the 2019/20 Business Plan and Budget Review and compares them with the numbers in this Business Plan. The table also provides a brief explanation for any changes;

Indicator	**Bid Position**	**Year 1 Review**	**Year 2 Review**	**Movement Bid – Year 2**	**Commentary**
% return	12.2%	12.8%	11.6%	-0.6%	

(profit on cost)					
Equity stake (£)	£63.3m	£41.2m	£36.0m	-£27.3m	MTFS impact of equity investment. Increased level of forward funding and affordable housing, reduces equity requirement.
Equity stake (Land value)	£59.7m	£24.8m	£4.7m	-£55.0m	Changes to specification and tenure mix have eroded Phase 1 land value.
MTFS Revenue Impact 2018-2023 (£)	£0.0m	£9.9m	£6.5m	+£6.5m	MTFS impact of equity investment. Increased level of forward funding and affordable housing, reduces equity requirement.
Total affordable units	1,186	1,599	1624	+438	Increased provision of affordable housing despite reduction in overall unit numbers.
Total Open Market Sale	1926	2152	2094	+168	Addition of NNP Blue Line and Chippenham Road, removal of Delta Estate. Majority of 3 bed units have been reverted to affordable housing product in Phase 1.
Total units	3,112	3,936	3,718	+606	Changes through the planning process and the addition of a further site
% Affordable	38%	41%	44%	+6%	

RECOMMENDATIONS

That Cabinet:

1. **Agree** to endorse and recommend the inclusion of a budget of £121.6m equity for the 12 Sites and Chippenham Road scheme together with a budget of £76.4m (including £19.6m land assembly costs for Napier New Plymouth Blue Line) for potential land acquisition/CPO costs within the proposed HRA capital programme that will be considered by Cabinet in February 2020 in the annual rent setting and capital programme report and that this is recommended to Council for final approval in February 2020.

2. Subject to the approval of the required budget and funding referred to at recommendation 1 **approve** the Havering and Wates Regeneration Joint Venture Business Plan dated January 2020, as attached as Appendix 2.

3. Subject to the approval of the required budget and funding referred to at recommendation 1 **agree** to forward fund phase 1 of the 12 Site Programme up to £45.4 million for the development of Napier and New Plymouth (£14.9 million), Solar, Serena and Sunrise Courts (£15.9 million) and the Waterloo Estate (£14.6 million **and authorise** the Director of Regeneration to enter into the necessary forward funding agreements.

4. **Authorise** the Director of Regeneration to consider the appropriation of land at the appropriate time in work package one from the Housing Revenue Account (HRA) to the General Fund, for planning purposes and to consider the appropriation of land at the appropriate time in work package one back to the HRA .

5. **Authorise** the Director of Regeneration to enter into the build licence or build lease (as is appropriate) for sites within work package one of the 12 site regeneration programme, once the Council has met the Conditions Precedent for individual sites.

6. **Approve** the budget of up to £8million for the demolition of the Waterloo Estate and **Agree** for the Director of Regeneration in consultation with the Director of Legal and Governance to enter into contract with the Havering and Wates JVLLP to carry out the demolition of the Waterloo Estate, subject to approval of the demolition application.

7. **Approve** the removal of the Delta Estate from the 12 site regeneration programme.

8. **Authorise** the Director of Regeneration to enter into variations of any of the existing joint venture documentation which is required to implement any of the recommendations contained in this report.

9. **Authorise** the Director of Regeneration to make all further changes to the documentation that the Director considers necessary or in his opinion appropriate from time to time

Recommendation 10 is included in the Exempt Report.

REPORT DETAIL

1.0 **Background**

1.1 In June 2016 and October 2016, Cabinet received reports which proposed to increase the number of affordable homes on housing sites owned by the Council. As a result of the information provided to Cabinet, 12 sites vested in the HRA were identified for regeneration.

1.2 Key requirements of the project are for the Council to retain the long-term freehold of the land; retain management of the affordable housing; jointly deliver the new developments and to aim to double the amount of affordable housing on the sites while of increasing and maximising the supply of new mixed tenure housing. The objectives for the programme were presented in the Business Case that was agreed by Cabinet in January 2018.

1.3 In January 2018, following a Competitive Dialogue procurement process, Cabinet agreed to the formation of HWR; a joint venture established with Wates Residential by entering into a Members' Agreement for the purpose of meeting the Council's regeneration objectives for the 12 HRA sites, on the basis of the Business Case and Legal Summary contained in the Exempt Report.

1.4 HWR has been established as a long-term development partnership to facilitate a programme of residential-led regeneration and estate renewal across an initial tranche of 12 Council-owned housing sites. The joint venture partnership enables both partners to share costs and long term financial risk associated with development whilst retaining a degree of control, ensuring that social and economic benefits remain a focus.

1.5 The Council has the right to acquire any affordable housing at a pre-agreed value and allocate those properties via the Council's Housing Register in accordance with its Allocation Policy.

1.6 The Council's objectives for this programme have been enshrined into the Members Agreement between the JV partners as objectives for HWR. As a development company HWR will procure design, obtain planning permission, develop, market and sell/let each scheme for the best value achievable.

1.7 On 13th February 2019, the first review on the JV's Business Plan was reported to and approved by Cabinet. The review was reported on the basis of updated assumptions which were reflected, scrutinised and verified via updated site development appraisals and the JV's employed agent.

1.8 In particular, the report focussed on the progress made on the schemes within Work Package One (WP1) of the 12 Site Programme, which includes Napier and New Plymouth House, Solar, Serena and Sunrise Courts and the Waterloo Estate. Since the last business plan, work has continued to maximise the level of affordable, family sized housing across these schemes as part of the pre-application planning process and expedite the delivery of new homes where possible.

1.9 The last business plan also introduced the development prospects identified in Harold Hill, including the redevelopment of the Chippenham Office site as a potential precursor to the wholesale development of the Farnham and Hilldene Estate. This report will inform Cabinet of the progress that had been in assessing the feasibility of delivering this project as part of the 12 site regeneration programme.

1.10 The Development Agreement provides that, following the satisfaction of the pre-conditions for a site, the Council will grant and the LLP will accept a building licence unless the parties agree that the Council will grant a building lease because it is a requirement of a lender, it would mitigate any tax liability or the parties agree it would be beneficial or preferable in the circumstances. Whether a building licence or a building lease should be granted will need to be considered by the Council and the LLP each time the conditions are satisfied.

2.0 **Progress**

2.1 **Planning and Design Development**

Design development as part of the pre-application planning process has continued for the sites in WP1. Good design has been a key aspect in the evolution of the schemes since establishing the JV, ensuring that each scheme acts as an exemplar housing development within the borough.

2.2 As part of the pre-application planning process, consultation has continued with residents, the Local Planning Authority, Strategic Planning Committee, independent Quality Review Panel and other key stakeholders. Each scheme has evolved to design quality environments and homes where residents want to live in and public realm that support community living. Place-making has been a key objective for the Council and each site in WP1 is being designed to meet this objective:

- Napier New Plymouth will set the standard for new homes in Rainham, being a marker of quality for apartment living. The homes will be bright and warm with sunlit courtyards for residents to enjoy the outdoors. The central park will bring people together, through the careful design of bike and pedestrian paths and children's play spaces. The Majors Panel has commented that “Napier New Plymouth is an exemplar design and has set the standard for Havering going forward”.

- Solar Serena Sunrise will be a place with vibrant community spirit, bringing new and existing neighbours together. This flagship retirement village will be home for the active older person. Facilities designed to encourage a range of activities, from a gentle stroll through the central landscaping, or a cycle through Harrow Lodge Park. The new neighbourhood has been carefully designed to create an inclusive and fully accessible environment for residents and visitors. Communal, social open spaces and central garden to support healthy active lifestyles will make this a unique retirement village in Havering. The scheme is committed to enhance flexible space and has dedicated the ground floor of block C to a new flexible communal space.

- The Waterloo Estate will be a destination where everyone is welcome. Residents and the community will feel safe and at home, with front doors lining the streets in a clean and tidy local environment. Biodiversity will return to the town centre. Residents will feel in touch with nature, with ample tree planting, garden beds and places for children to play. Local businesses will thrive in the commercial space fronting Waterloo Road and Adaptable community space will be a focal point for all. The Quality Review Panel has commented that “the reduction in off street parking and the vehicular movement through the development creates a more generous public space within the development”.

2.3 The JV is obliged to deliver each scheme in accordance with the Key Requirements set out in the Development Agreement. These requirements set out the parameters for a planning application and include:

- The number of units to be delivered across the development
- The housing bed size and tenure mix
- A requirement for non-residential uses such as commercial and retail.

The Key Requirements for each site may vary as a result of stakeholder consultation and planning policy but will always be required to meet the Council’s objectives for the Regeneration Programme. The key requirements of work package one sites have been reviewed to ensure each site meets the Council’s objectives and are reported to Places Theme Board prior to a planning application being submitted and are incorporated in the body of the report.

2.4 As part of the review of the key requirements for each scheme in WP1, officers underwent a review of the level of affordable housing and bed sizes of the homes being delivered across the sites.

2.5 As evidenced below, in comparison to the information extracted from the Local Planning Authority, each site in WP1 is delivering above the average level of affordable housing on major development sites (above 10 units) approved from 2014-18.

Affordable Rent	**282**	6%
Intermediate	**366**	8%
Market	**4041**	85%
Not Known	**60**	1%
Total	**4749**	100%

2.6 Since bid stage, levels of affordable housing has increased in line with the Council's objectives to maximise the delivery of affordable housing across each site.

Site	**Affordable Housing – Bid Stage**	**Affordable Housing – Year 2 review**
Napier and New Plymouth	77.7%	64%
Solar, Serena, Sunrise	25.8%	77%
Waterloo Estate	38.5%	40%
WP1 Total	**41.3%**	**46.4%**

2.7 The introduction of more affordable housing across WP1 and the provision of private rented housing on the Waterloo Estate has removed £8million worth of cross-subsidy from the financial model. As a result, the development of the retirement village and Waterloo stages one to four will be funded through forward funding from the Council, instead of external debt funding.

2.8 In addition to the review of the level of affordable housing, the bed size mix of affordable homes has also been a part of the review process. The Draft Local Plan requires affordable housing to be delivered according to the bed-size mix in the table below. Amongst other sources, this mix has been influenced by the Strategic Housing Market Assessment, which was carried out in 2016, and provides a longer term assessment of housing need, from 2011 – 2033.

Bed-size	1-bed	2-bed	3-bed	4-bed +	**Total**
	10%	40%	40%	10%	**100%**

2.9 A key requirement for each site within the 12 site programme is that new homes not only meet a demonstrable housing need, but also facilitates the Right to Return for Council tenants that have been rehoused away from a regeneration site. The table below demonstrates that across WP1, the highest level of demand, derived from the Right to Return, is for one bedroom homes.

Right to return requirement	1-bed	2-bed	3-bed	4-bed	**Total**	
	%	%	%	%	No.	%
Waterloo Estate	32%	32%	35%	1%	**171***	**100%**
Napier and New Plymouth House	64%	30%	6%	0%	**87**	**100%**

Total	43%	31%	25%	<1%	**258**	**100%**

*no re-provision of Sheltered Housing provision at Queen Street

2.10 In addition to the Right to Return, the Council's housing register provides a reference to identify an immediate need for affordable housing provision in the borough, based on those households that present themselves to the local authority. Data from August 2019 shows that in comparison to the Local Plan prescription, a higher proportion of one-bedroom affordable units are required to meet the demand of Havering households. The table below shows bed-size need for the people on the housing register:

Housing Register demand by bed-size	1-bed	2-bed	3-bed	4-bed	5-bed	**Total**	
	%	**%**	**%**	**%**	**%**	**No.**	**%**
	25%	37%	33%	5%	<1%	**1956**	**100%**

2.11 The affordable housing demand emanating from the Right to Return and the Housing Register have been imperative in determining the bed-size mix of the affordable homes that will be delivered across WP1. Changes to the proposed housing mix as a result of the data above, are demonstrated below.

2.12 Whilst this data supports the delivery of one-bedroom affordable homes across General Needs sites, the provision of affordable and oversized one-bedroom homes at the Solar, Serena Sunrise retirement village was deemed to be the most appropriate solution to meet the housing needs of the over 55's, by providing an affordable home with the flexibility of extra care provision where required.

	Affordable bed size mix – Bid Stage				**Affordable bed size mix – Year 2 review**			
Bed size	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
Napier and New Plymouth	35%	50%	15%	0	44%	42%	14%	0
Solar, Serena, Sunrise	61%	39%	0	0	86%	14%	0	0
Waterloo Estate	43%	50%	7%	0	45%	35%	20%	0
WP1 Total	**43%**	**49%**	**8%**	**0**	**51%**	**33%**	**16%**	**0**

2.13 In October 2019 the planning application for the redevelopment of Napier and New Plymouth House was approved by the Council's Strategic Planning Committee. This scheme will deliver 197 new homes, 64% of which will be affordable, delivering 126 affordable residential units, including 87 as part of the 'right to return' re-provision for previous Council Tenants.

2.14 The planning application for the redevelopment of Solar, Serena Sunrise Courts was submitted in November 2019. Following market research and refined design principles, greater provision has been made for flexible communal areas to meet the needs of residents and facilitate social inclusion within the local community.

2.15 In addition to this, a greater provision of affordable housing has been attained, increasing the affordable provision from 55 homes for affordable rent to a total of 134 affordable homes amounting to an affordable provision of 77%; 80 homes for affordable rent and 54 homes for low cost home ownership.

2.16 Low cost home ownership was deemed to be a necessary tenure for the over 55's, enabling a current homeowner to downsize as well as providing an opportunity for them to gain financial flexibility. In line with the GLA Capital funding guide, the shared owners' maximum equity share will be 75% of the property's value.

2.17 Some cost increases have resulted from the requirements from the GLA building specification such as the energy centre on Waterloo Estate or through the up-grading of fire protection design in the wake of the Grenfell fire and are specified in the report.

2.18 As reported previously, the Waterloo Estate will be developed in a phased approach due to the quantum of homes on the new development. In total, the redeveloped scheme will deliver 1378 new homes. Stage one of the development will include the delivery of 371 homes.

2.19 Following stakeholder consultation and design development, a review of the affordable housing that will be delivered across the Waterloo Estate has been reviewed and this has been incorporated within the report. The provision of affordable housing has increased to 40%, from 520 affordable homes to 556. As part of the review, the proportion of homes within the affordable tenure available for rent has risen from 55% to 73%. The number of 3 bedroom affordable homes has increased, from 57 to 110.

2.20 The planning processes for Work Package One sites will continue through the business plan period until an implementable planning consent is achieved. The table below shows planning and development milestones for the sites that have been progressed since the last business plan as well as a forecast for the remaining sites in the 12 site programme.

	Submission of Planning Application	**Resolution to Grant**	**1st Completions**	**Site Completions**
Work Package One				
Napier and New Plymouth House	Apr-19	Oct-19	Jan-22	Jun-22
Solar, Serena, Sunrise	Nov-19	Mar-20	Aug-22	Dec-22
Waterloo Estate	May-20	Nov-20	Sep-22	Jan-30
Work Package Two, Three and Four				

Chippenham Rd	Sep-20	Jan-21	Oct-22	May-23
Farnham and Hilldene	Dec-21	Mar-22	Autumn 2024	Spring 2027
Brunswick Court	Dec-21	Mar-22	Spring 2024	Spring 2024
Maygreen Crescent	Dec-23	Mar-24	Summer 2026	Autumn 2027
Delderfield House	Dec-23	Mar-24	Winter 2025	
Dell Court	Dec-23	Mar-24	Spring 2026	
Oldchurch Gardens	Dec-25	Mar-26	Summer 2028	Summer 2029
Royal Jubilee Court	Dec-25	Mar-26	Spring 2028	Winter 2029
Napier and New Plymouth Blue Line	Dec-25	Mar-26	Autumn 2028	Summer 2030

2.21 **Vacant Possession**

The estate regeneration program continues to move forward with the requirements of the existing residents being paramount. A significant effort has been made to ensure those people moving out of their homes find suitable alternative homes that meet their needs and that they are supported through the moving process. A full support and compensation package is available and moving residents have been able to take advantage of this and the services of dedicated council offers to arrange moves. We continue to seek feedback from people who have moved and the satisfaction level with the move and new home is at just over 98%.

Council tenants. Leaseholders and freeholders have all received the appropriate support to assist with moves. Council Officers have continued to work with residents to either move them to a new home or purchase their property. The table below shows that good progress has been made regarding the ongoing Council tenant decant programme and leaseholders/freeholders buyback programme. In addition to the Solar, Serena, Sunrise sheltered scheme, Napier and New Plymouth is now completely vacant. This has afforded us the opportunity to begin demolition on these sites.

Demolition of Solar, Serena, Sunrise has now been completed and Napier and New Plymouth nears completion.

The table below provides more information on the occupancy of the 12 Sites.

	Site	Vacant Properties	Temporary Accommodation residents		No. of Council Tenants		Leasehold/freehold purchases		Total
			Tenants matched	Tenants remaining	Tenants matched	Tenants remaining	Purchases Underway or Agreed	Negotiation Yet to start or Ongoing	
General Needs	Waterloo Estate	268	2	1	3	0	11	6	**291**
	Chippenham Road	22	0	0	0	0	2	8	**32**
	Farnham and Hilldene	13	0	70	5	15	0	17	**117**
	Maygreen Crescent (& Park Lane)	9	0	87	3	7	1	4	**111**
	Oldchurch Gardens	10	0	55	1	7	1	11	**84**
Sheltered	Brunswick Court	27	0	0	9		0	0	**36**
	Delderfield House	2	10	0	0		0	0	**12**
	Dell Court	2	0	0	11		0	0	**13**
	Royal Jubilee Court	8	0	0	26		0	0	**34**
	Total	**361**	**225**		**87**		**61**		**734**

2.22 Vacant possession across regeneration sites has been aligned with the strategy to reduce the homelessness pressure on the General Fund. Properties vacated by secure tenants and leaseholders across the regeneration programme have been used as temporary housing for homeless households. As the demolition target date for each site approaches, Housing Services will work to find these households suitable alternative accommodation.

It is the Councils sole responsibility to demonstrate good title and deliver vacant possession on each of the 3 sites. In order that we can extinguish existing development rights, the sites will be appropriated under the Town and Country Planning Act into the General Fund and subsequently returned to the HRA. Any claims for compensation arising from extant rights or Right of Light issues are to be borne by the Council (HRA).

2.23 The expedited delivery of new homes has been a priority for the Council and the JV. Due to the progress of the vacant possession programme at the Waterloo Estate, as demonstrated in the table above, it was proposed by the development team and agreed in principle by the JV Board that the site be considered for demolition, prior to satisfying the conditions precedent, as stipulated by the JV's Development Agreement.

2.24 Two options for demolition have been considered for the Waterloo Estate – single-phase demolition and multi-phase demolition. Evaluation of both options determined that single phase demolition would best meet the Council's regeneration objectives by delivering:

- £5m savings in comparison to the phased option.
- Accelerated delivery of the development programme by approximately one year.
- Reduced security and estate management costs.
- Reduced disruption to surrounding residents and businesses.

2.25 To facilitate the demolition of the Waterloo Estate the Council will enter into a demolition contract with the JV, and fund the demolition to the cost of up to £8million.

3.0 **Scheme Review**

3.1 The current scheme design and development financial model anticipates that 1,750 new homes will be delivered in Work Package One, 98 fewer homes than reported at bid stage.

3.2 In line with the Council's objective to maximise the number affordable homes across its regeneration programmes, through further design development, updated financial appraisals and consultation, 97 more homes will be available on an affordable tenure. This has increased the proportion of affordable homes from 41% to 46%.

3.3 The increase in affordable housing has resulted in the reduction of the number of homes for open market sale, and therefore the financial subsidy that those units provide for the delivery of affordable homes. The movement schedules contained within the exempt report demonstrates how the financial model has been affected by the increased proportion of affordable homes.

	Demolitions		**Proposed**					
Site	Social Rent	Leasehold/ Freehold	Affordable Rent	LCHO	PRS	Open Market Sale	Total	% affordable Housing
Work Package One								
Napier and New Plymouth House	87	10	126	0	0	71	197	64%
Solar, Serena, Sunrise	55	0	80	54	0	41	175	77%
Waterloo	202	71	407	149	0	822	1378	40%

Estate (and Queen Street)								
Work Package Two								
Chippenham Road	20	12	115	25	0	66	206	48%
Farnham and Hilldene	90	27	145	0	0	395	540	27%
Brunswick Court	47	0	54	0	0	0	54	100%
Work Package Three								
Maygreen Crescent	88	23	94	24	0	177	295	40%
Delderfield House	14	0	22	0	0	0	22	100%
Dell Court	29	0	29	0	0	51	80	36%
Work Package Four								
Oldchurch Gardens	64	22	122	0	0	184	306	40%
Royal Jubilee Court	79	0	53	0	0	99	152	35%
Napier and New Plymouth Blue Line	0	51	63	62	0	188	313	40%
Subtotals	775	216	1310	314	0	2094	3718	44%
Total	**991**		**3718**					

3.4 Based on the 3,718 model, the 12 site programme would deliver 44% affordable housing, whilst more than doubling the number of occupied affordable homes across the sites. These figures are summarised for comparison in the table below:

	Now	**Future**	**Change**
Total number of homes	991	3718	+275%
Occupied General Needs homes	551	1123	+104%
Occupied Sheltered rented homes	224	187	-17%
Low Cost Home Ownership	0	314	+314
RTB losses	217	0	-100%
Total occupied affordable homes	775	1624	+110%

3.5 In February 2019, Chippenham Road was identified as an opportunity site for regeneration, given its close proximity to the proposed Farnham and Hilldene Estate development and the closure of the Council Housing Office.

3.6 Since the decision to include Chippenham Road in the 12 site programme, consultation has been carried out with key stakeholder groups. Evident from this has been the necessity for strategic alignment between the Chippenham Road and Farnham and Hilldene sites in order to develop a vibrant district Town Centre in Harold Hill.

3.7 It is envisaged that a comprehensive Harold Hill town centre development would be a flagship, place-making community-led regeneration programme that supports the socio-economic aspirations of the local community. Investment in this area would seek to get the most out of local community assets, with the intention of creating public spaces that promote health, happiness, wellbeing of residents and opportunities for growth for local businesses.

3.8 Initial appraisals on the proposal for comprehensive redevelopment in Harold Hill have been carried out and are being refined to reflect feedback received during initial consultations with stakeholders and principles of good place-making established during the planning process of WP1. In Spring 2020 a report will ask Cabinet to consider a proposal for comprehensive redevelopment, including targets for delivery such as cost and units. One option for the scheme would be development through the Havering and Wates JV.

3.9 The updated financial model assumes the removal of Delta Estate from the 12 Site Regeneration Programme. Our original proposal for the Delta Estate proposed that up to 495 new homes could be developed across the estate and presented a good opportunity to intensify affordable housing in close proximity to the upcoming Crossrail station at Gidea Park.

3.10 However, through further consultation and after revisiting the original capacity studies, carrying out more technical surveys and planning feasibilities of the area, it was determined that the proposed scheme would not meet the regeneration objectives agreed by the Council, nor the aspirations of local residents.

3.11 Work has continued to develop the additional opportunity and “blue line” sites. Based on the capacity studies carried out on these seven opportunities and blue line sites, an additional 1,293 new homes could be delivered, 44% of which would be affordable.

3.12 It is therefore proposed that the Council agree to move forward with the Napier and New Plymouth blue line opportunity, in place of the Delta Estate. Characteristically, blue line sites present a development opportunity in close proximity to the sites that have already been approved by Cabinet.

3.13 As presented above, capacity studies and preliminary planning assessments indicate a scope to deliver 313 new homes on the Napier and New Plymouth Blue Line site, 40% of which would be affordable. This site will be subject to as extensive site assembly programme, requiring the acquisition of 51 freehold properties.

4.0 **Financial Review**

4.1 The business case assumptions have been updated to reflect anticipated economic conditions and design development including enhanced design features and the reduction in open market housing cross subsidy due to the increased provision of affordable housing.

4.2 Key changes are summarised in the following text and in the exempt report.

4.3 **Unit Numbers –** The financial review assumes that 606 more homes will be delivered across the 12 site programme than that which was anticipated at bid stage. This is mainly attributable to the introduction of the Chippenham Road and Napier and New Plymouth Blue line sites.

4.4 **Affordable Housing** – The updated financial model assumes an additional 438 affordable units across the 12 sites since bid stage. This is the result of increased affordable provision across WP1, in addition to the high proportion of affordable housing proposed on the Chippenham Road site.

4.5 **Price per Affordable Rented Unit –** At bid stage an average offer price of £172,000 per plot for the affordable rented units. Forward funding has effectively increased this to £222,317 per plot as a result of: build cost inflation, design and development enhancements, reduction in private sale cross subsidy and the impact of providing more affordable housing and more family sized accommodation.

4.6 **Demolition of the Waterloo Estate –** It is proposed that the Council will enter into contract with the JV for the demolition of the Waterloo Estate, prior to meeting the Condition Precedent as set out in the Development Agreement. The anticipated costs of demolition is up to £8m.

4.7 **Forward Funding**

In February 2019, it was reported to Cabinet that due to the splitting of WP1 and effective removal of the cross-subsidy from Waterloo Estate, Napier and New Plymouth House would require forward funding to enable its development. The Council is essentially providing a grant to the LLP to fund the delivery of affordable housing and part of the development cost to deliver the scheme of Napier and New Plymouth. Following the financial review of this business plan, the forward funding requirement has increased from £12.3m to £14.9m as a result of design enhancements.

4.8 The forward funding agreement will be contracted in the form of a grant agreement between the Council and the JV LLP for the amount of £14.9m. The grant will be delivered in staged payments, certified by Ikon – the Council's employed agent and can only be used to deliver the development as per the planning permission and London Design Guide and Specifications. The JV will be required to monitor the development costs on a quarterly basis as part of the agreement.

4.9 Key changes to the Solar, Serena, Sunrise and Waterloo Estate schemes mean that forward funding is also required in order to unlock the development of these sites:

- Solar, Serena, Sunrise retirement village – an increased number of affordable homes, reduction in subsidy from open market sales, larger provision of communal spaces and design enhancements have led to an increase in the cost of delivering the scheme. The requirement of forward funding from the Council for this site is £15.9m.

- Waterloo Estate - an increased provision of affordable and 3 bed affordable homes, reduction in cross subsidy due to the reduction of homes for open market sale, enhanced provision of public realm and building designs have led to an increase in the cost of delivering the scheme. The requirement of forward funding from the Council for this site is £14.6m.

4.10 The financial figures identified in this report represent a point in time, and it is anticipated that as the development progresses, the housing market will revert to a period of growth in house prices, which will enhance the value of the scheme. Had the housing market performed in line with historic trends, it is estimated that open market and shared ownership revenues to HWR would have increased by £49 million, effectively eliminating the requirement for forward funding. The blended average cost to the HRA including shared ownership units is £180k per unit. This represents good value is significantly below what can be delivered from the market, other development partners and delivery models.

REASONS AND OPTIONS

5.0 **Reasons for the decision:**

5.1 To incorporate revised assumptions an updated programme into the Business Plan for the period 2019-20.

5.2 To continue to secure the Councils regeneration objectives for the 12 Site Regeneration Programme.

5.3 The optimisation of affordable housing provision to be purchased by the HRA, on advantageous terms via a Joint Venture vehicle, to help sustain the HRA long term.

5.4 To maximise the level of family housing and retirement provision in the borough.

5.5 **Other options considered:**

The adoption of the Business Plan is a consent matter. Without the Council's approval, as a Member of the LLP, the revised Business Plan could not be adopted and the current Draft Business Plan would be maintained. The Council is in contract with Wates as a commercial partner for the delivery of the regeneration of sites within work package one and share the associated costs. These commitments will need to be upheld.

5.6 Not approving the revised Business Plan may have a negative impact on the Council's ability to continue funding land acquisition which in turn will have implications with delivery targets including affordable housing delivery and achieving targets agreed with GLA in the Overarching Borough Intervention Agreements.

5.7 Not adopting the revised Business Plan may also give rise to negative market sentiment with a consequential impact on the wider development market that this scheme would otherwise seek to stimulate.

IMPLICATIONS AND RISKS

6.0 **Financial implications and risks:**

6.1 Detailed Financial information is contained within the exempt appendices.

10.0 **Legal implications and risks:**

10.1 This report follows a number of previous reports to Cabinet including the report in February 2019 which considered the first JV business plan.

10.2 The Council is being asked to approve the business plan dated January 2020, which includes a number of changes from the previous business plan that was approved.

10.3 The Council has entered into the joint venture LLP with Wates pursuant to a number of powers including the Housing Act 1985, the Housing and Regeneration Act 2008, the Local Government Act 1972 and the general power of competence in section 1 Localism Act 2011. The general power of competence will enable the Council to enter into the contract required with the JV LLP to carry out demolition works at the Waterloo Estate.

10.4 The Council is now contractually committed to progress the project in accordance with the agreements that have been entered into with Wates and the JV LLP, unless variations are agreed by the parties.

10.5 This report seeks approval for an amended work package one and sets out the financial and other implications of proceeding with the scheme.

10.6 The report indicates that the financial implications for the Council, and therefore the risks, compared with the report that was presented to members in February 2019 have changed. Land values and equity investment have reduced but there is an expected additional £149.2m borrowing anticipated compared with the approval in February 2019. The total capital cost of the 12 Estates programme has increased by £96.0m but that will provide an additional 438 affordable homes. Forward funding increases the risks to the Council as explained in the financial risks and sensitivities sections above.

10.7 The additional borrowing is capable of being met from the councils existing budgets as set out in the MTFS and as proposed in the 2020/21 budget process.

10.8 In view of the increase in affordable housing offered by the revised work package, the proposed increase in funding will be compliant with the state aid rules provided that the Council incorporates and enforces the requirements of the European Commission decision on services of General Economic importance (2012/21). This will be reflected in the relevant agreements.

10.9 The Council intends to use the power to override easements and other rights in section 203, Housing and Planning Act 2016 for the property to be disposed of to the JVLLP. To do so, it must first appropriate the land for planning purposes. Once the land has been appropriated, if the Council intends to grant a build lease to the JVLLP then this will constitute a disposal. The Council has the power to dispose of property appropriated for planning purposes in section 233 of the Town and Country Planning Act 1990.

10.10 If there is any HRA land that will not be appropriated, or if appropriated land is returned to the HRA before development, Secretary of State consent would be required before it could be disposed of to the JVLLP (disposal is broadly defined and includes not only a transfer of the freehold but also the granting of a lease, as is the intention here). However, a general consent has been issued by the Secretary of State that would be relevant in these circumstances. Consent A3.2 of the General Housing Consents 2013 permits disposal of vacant land, which includes land on which dwellings have been built provided (1) they have been demolished, or (2) are no longer fit for habitation and are due to be demolished.

10.11 The Council has a broad power to appropriate land for the purposes of Part II housing under section 19(1) of the Housing Act 1985. This power can be used by the Council to transfer the freehold of the land back into the HRA.

Paragraphs 10.12 – 10.31 are contained in the Exempt Report.

11.0 **Human Resources implications and risks:**

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

12.0 **Equalities implications and risks:**

12.1 The public sector equality duty under section 149 of the Equality Act 2010 ("PSED") requires the Council when exercising its functions to have due regard to: (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; and (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and to foster good relations between those who have protected characteristics and those who do not. 'Protected characteristics' include: gender, race and disability, sexual orientation, age, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment. The Council is committed to improving the quality of life for all, and supports wider social and economic growth through social and physical regeneration.

12.2 The wider implications associated with the project are addressed in the overarching Equalities Impact Assessment (EIA) appended to the January 2018 Cabinet report - 12 HRA Sites JV Procurement – Entering into a Limited Liability Partnership. Consequently all matters associated as a result of entering this agreement are addressed.

12.3 Officers are about to embark on a commissioning process to update site specific EIAs to re-evaluate the need of individuals and households affected by this regeneration programme. This will also include a site specific EIA for the Napier New Plymouth Blue Line site.

BACKGROUND PAPERS

NONE
Appendices

• Appendix 1. HWR Movement Schedule	EXEMPT
• Appendix 2. Havering Wates LLP Business Case	EXEMPT
Annex A - Havering Wates Regeneration- Summary of social Value-	EXEMPT
Annex B - Phase One Final, Havering Wates LLP Risk Register	EXEMPT
Annex C - Havering Wates LLP Cashflow	EXEMPT
Annex D - Cashflow Investment Pre-Uncon)	EXEMPT
• Appendix 3. Annex A - 12 Estate Dashboard- Base Case	EXEMPT
• Appendix 4. Annex A - Phase 1 Movement schedule	EXEMPT

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Havering LONDON BOROUGH

CABINET

12 February 2020

Subject Heading:	**HRA Budget for 2020/2021 and HRA Major Works Capital Programme 2020/21 – 2024/25**
Cabinet Member	**Councillor Joshua Chapman –** Lead Member for Housing
SLT Lead:	Patrick Odling-Smee, Director of Housing
Report Author and contact details:	Patrick Odling-Smee, Director of Housing Patrick.Odling-Smee@havering.gov.uk Rita Bacheta Strategic Finance Business Partner Regeneration and Housing 01708 432924 rita.bacheta@onesource.co.uk Martin Fahy Interim HRA Accountant 01708 432651 martin.fahy@havering.gov.uk John Price Finance Business Partner 01708 433595 j.price@havering.gov.uk
Policy context:	This report presents the HRA Budget recommendations for agreement by Cabinet and recommendation on to Council for consideration and approval.
Financial summary:	The Council is required to set an annual HRA Revenue Budget for 2020/21. This report includes recommendations to agree the HRA revenue spend budget, the rents and other charges, the HRA Major Works Capital programme, detailed in Appendix 1a and the Business Plan projections as outlined in Appendix 2a and 2b.
Is this a Key Decision?	**Yes**
Is this a Strategic Decision?	**Yes**
When should this matter be reviewed?	September 2020

Reviewing OSC Towns and Communities

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

This report sets a budget for the Council's Housing Revenue Account (HRA) and HRA Major Works and Capital Programme. An update on the HRA Business Plan is also provided.

Cabinet should note that during 2019/20 the Housing department became a new directorate reporting directly to the Chief Executive of the Council, led by a newly created Director of Housing and newly appointed senior management team.

The HRA remains a ring-fenced account that is used to manage and maintain the Council's own housing stock. The proposed budget will enable the Council to manage the stock to a good standard, maintain the existing stock to a decent standard and provide funding for a significant acquisition, new build and estate regeneration programme. It further sets rents, service charges and other charges for Council tenants and leaseholders for the year 2020/21.

As part of the new regulatory framework for local government housing services, following the Housing Green paper, councils are now subject to the Regulator of Social Housing's (RSH) Rent Standard. This has ended the annual 1% reduction that has applied for the past 4 years and re-established the CPI + 1% increase.

In order to change any HRA rent liability, the local authority must notify tenants and give 28 days' notice of any change after the authority has made a properly constituted decision of that change. This means that, following a Cabinet decision on rent levels to be charged in any year, the local authority must write to all tenants to advise them of the new rent liability for the following 12 months.

Should the Cabinet adopt the recommendations, a notification will be sent to tenants in the first week of March 2020**,** in order to make the new charge effective from the first week of April 2020.

RECOMMENDATIONS

That Cabinet:

1. **Approve** the Housing Revenue Account Budget as detailed in paragraph 3.6.

2. **Agree** that the rents chargeable for tenants in general needs Council properties owned by the London Borough of Havering be increased by 2.7% from the week commencing 6th April 2020.

3. **Agree** that the rents chargeable for tenants in supported housing Council properties, such as sheltered housing and hostels, owned by the London Borough of Havering, are increased by 2.7% from the week commencing 6th April 2020

4. **Agree** the four rent-free weeks for 2020/21 as being: week commencing 19th August 2020, the two weeks commencing 14th and 21st December 2020, and the week commencing 29th March 2021.

5. **Agree** that service charges and heating and hot water charges for 2020/21 are as detailed in paragraph 2.4.2 of this report.

6. **Agree** that the service charges for homeless households accommodated in the Council's hostels in 2020/21 are as detailed in paragraph 2.6.1 of this report.

7. **Agree** that charges for Houses in Multiple Occupation (HMO) leased and managed by the Council (General Fund) are set at the LHA Single Room Rate Applicable on the 6th April 2020. See para 2.3.2.

8. **Agree** that charges for garages should be increased by 2.7% in 2020/21 as detailed in paragraph 2.2.1 of this report.

9. **Agree** that the service charge for the provision of intensive housing management support in sheltered housing for 2020/21 shall be as detailed in paragraph 2.5.1 of this report.

10. **Agree** that the Careline support charge should be increased by 2.7% for 2020/21 as detailed in paragraph 2.5.4 of this report.

12. **Agree** that the Telecare support charges should be increased by 2.7% for 2020/21 as detailed in paragraph 2.5.4 of this report.

13. **Approve** the HRA Major Works Capital Programme, detailed in **Appendix 1a** of this report and refer it to full Council for final ratification.

14. **Approve** the HRA Capital expenditure and financing for the 12 Sites Joint Venture and other acquisition and regeneration opportunities detailed in paragraphs 3.5.1 to 3.5.21 and **Appendix 1b** of this report and refer it to full Council for final ratification.

REPORT DETAIL

1. BACKGROUND

1.1 As reported previously to Cabinet, the Localism Act 2011 changed the financial system for the management of council housing. The new system has provided freedom and independence for the local management of council housing finance by comparison to the previous national subsidy system.

1.2 The new system started in April 2012, and the Housing Revenue Account (HRA) business plan is designed to provide long-term management of the Council's housing assets. The Council has freedom to direct our resources to the best and most cost effective management of the Council's housing stock. However, we do not have complete freedom – some aspects remain centrally controlled, such as the use of capital receipts and rent setting - as highlighted by the mandated 1% reduction in rent that has been in place for the last 4 years.

1.3 This report sets out what HRA income the Council has available to spend on housing, the current HRA financial position and the proposed spending plans for 2021/22.

1.4 The regulation of the social housing has changed as a result of the Grenfell Tower disaster and the Housing Green Paper of 2019. The Government has instructed the Regulator of Social Housing to take a more proactive role in the implementation of the standards and quality of management of council housing. In particular, they are consulting on a new Home Standard that will specify the quality and safety of local authority housing. They have also implemented a new rent standard for all social housing and issued guidance to local authorities on the implementation of this standard.

1.5 The Council recognises that there is a need for good quality affordable homes, especially for vulnerable residents such as the elderly, those on low income and first time buyers, and has set out its ambition to meet these needs by using resources generated through the Housing Revenue Account Business Plan. The formula for setting social rent should enable registered providers, including councils, to set rents at a level that allows them to meet their obligations to their tenants, maintain their stock (to at least Decent Homes Standard) and continue to function as financially viable organisations.

1.6 However, there are many influences on the resources available to the HRA. These are all identified and quantified within the HRA Business Plan (HRA BP). The Business Plan is composed of various income and expenditure lines. Some of the lines are under the complete control of the Council, whilst some are affected by market conditions, government policy and legislation.

The lines in the business plan that have a direct impact on the income into the HRA BP include:

- Any capping of Local Housing Allowance (LHA) levels.
- Rent policy regarding supported housing rents.
- Service charge recovery.

The lines in the business plan which affect the levels of expenditure in the HRA BP include:

- Planned maintenance to existing stock.
- Responsive repairs costs to existing stock.
- Delivery of new build homes.
- Staffing costs.
- Financing costs of the borrowing in the HRA.
- Losses from bad debts, voids etc.

1.7 The first part of the enquiry into the Grenfell Fire was released in October and the recommendations have been incorporated into the council new fire safety strategy. While it is still not clear which of these recommendations will be implemented by the government the potential costs of implementing these recommendations have been included with the capital and revenue budgets for 2020/21 and into the business plan for future years as a precaution and to ensure that we fulfil our obligations as a good landlord to maintain the safety of tenants and leaseholders.

2. INCOME

2.1 Rents

2.1.1 The previous Government required Councils to reduce rents by 1% against July 2015 levels for four years. This reduced the rental income available to the HRA over the four years of the reduction by just below £8m. This significantly reduced the income in the business plan model by £68m over 10 years and this loss can never be recovered. From 2020/21, the HRA will revert to the original rent setting formula of up to CPI +1% for 5 years. CPI for September 2019 was 1.7% so the rent increase for 2020/21 will be 2.7%. The council does have discretion to set a lower rent however, given the increase comes after 4 years of rent cuts, it is recommended to implement the maximum increase allowed. This provides certainty for rents in council housing up to 2025.

2.1.2 Following the implementation of Universal Credit new social housing rents caps at LHA levels was introduced in 2019/20 to replace "limit rents". In Havering, the LHA levels for each bedroom size is above the levels of the 2020/21 social rents and so there is no impact on the HRA BP. The LHA levels have been frozen for many years, until this year, however this will also have no financial impact on the HRA BP as council rents are below existing LHA levels. Future announcements on LHA levels may have a future impact and this will be kept under review and reported annually as part of the rent setting report.

2.1.3 The 2020/21 average weekly rent, applying the 2.7% increase to all General Needs properties and Sheltered Housing units is £98.51. Individually, the average weekly rent for the General Needs properties is £99.61 and £84.43 for the Sheltered Housing units.

2.1.4 The rent charged to hostel residents will be increased in line with new general needs rents for 2020/21 – 2.7%.

2.2 Garages

2.2.1 It is proposed to increase the level of charges for garages in 2020/21 by 2.7%. There are currently a range of charges for garages within the high, medium and low demand bands. Currently over one third of our garages have low rates of occupancy. This is due to a combination of poor condition and low marketability. There is significant investment needed to bring the buildings and sites up to a good standard that will enable better utilisation of these assets and increase revenue whilst at the same time improving the amenities for residents. The increased charges will enable revenue to be raised to carry out a number of much needed improvements and support a review of the garages and parking arrangements. This issue is one of our tenants' key priorities. The increase means that the average charge for a high-demand garage will be £15.34 per week (£14.94 in 2019/20), £14.29 per week £13.92 in 2019/20), for a medium demand garage and £11.12 per week (£10.83 in 2019/20) for a low-demand garage.

2.2.2 These charges compare favourably with charges in the private market which range from £15.63 per week to £31.25 per week depending on location, size and condition.

2.3. Temporary Accommodation Rents and Charges

2.3.1 **Shared HMO Properties**. The charges for HMO properties leased and managed by the council has been historically set at the one bedroom LHA (£149) rates however since the implementation of Universal Credit residents have only been able to claim the single room rate (£79.72). This has meant many residents are not able to afford to pay the charge. It is therefore recommended that the single room rate is charged from 6th April 2020.

2.4 Service charges

2.4.1 The aim of the Council is to recover the costs of providing a service. We also ensure that the services they receive are value for money. There will continue to be a regular programme of reviews of services to make sure we deliver value to tenants and leaseholders.

2.4.2 The basis for calculation of service charges to ensure full recovery of the cost of the service is accepted practice where landlords are able to fully justify the cost base and calculation method and conforms to our legal requirements. It also maintains equality of charging between leaseholders and tenants. As a result of the restructuring that took place in 2019/20 there have been a review of management overheads on service costs. This has resulted in an increase for some services however, so in order to ensure any increased are affordable to tenants, a limit of 25% has been applied to the increases on each service charge line which has followed the practice adopted in the previous five years. On that basis, the service charges and heating and hot water charges for 2020/21 are detailed in the following table:

Service Charges	**2019/20 Weekly charge (£)**	**2020/21 weekly charge (£)**
Caretaking	4.86	4.97
Internal Block Cleaning	2.85	2.74
Bulk Refuse Collection	0.60	0.71
CCTV - Mobile Service	0.76	0.76
CCTV - Static Service	1.70	1.70
Community Wardens	1.12	
HRA Enforcement Services (replacing community wardens)		1.12
Door Entry	0.35	0.32
Grounds Maintenance	4.38	4.64
TV access	1.88	1.82
Heating	6.39	5.60
Heating and Hot Water	9.89	8.99

2.4.3 The Heating Service Charge has reduced slightly, due to the cost of fuel being lower.

2.4.4 The Council has recently undertaken consultation on changes to a new enforcement service, replacing the former community warden service. Residents have been advised that the charge will remain on the same as the previous cost as a result of the reorganisation and the service they receive from the new service will be enhanced.

2.5 Sheltered Intensive Housing Management Charge

2.5.1 The sheltered housing service directly engages with residents in schemes and in their homes. Following the modernisation programme over the last 2 years, the sheltered schemes are provided with direct intensive services and well-designed communal facilities. A recent review of service charges has shown that the service charge needs to reflect the full cost of providing the service. Therefore, charges in relation to Sheltered Intensive Housing Management service will increase from £8.83 to £11.04. This has been capped so the increase does not exceed 25% in line with previous commitments.

Service Charges	2019/20 Weekly charge (£)	2020/21 weekly charge without the 25% cap (£)	2020/21 weekly charge with the 25% cap. (£)
Sheltered Cleaning	7.00	9.81	8.75
Sheltered Intensive Housing Management	8.83	15.84	11.04

2.5.2 There are individual charges for sheltered schemes which will be levied separately so that residents will pay for services they use directly. This includes mobile scooter storage, which are lockable containers. There are several residents who do not use mobile scooters. A laundry token system will be introduced which will charge according to actual usage. Laundry facilities are based on commercial laundry equipment with renewal and replacement programmed each year.

2.5.3 Service charges – Careline and Telecare support

2.5.4 It is proposed that the Careline and Telecare service charges will be increased by 2.7% for 2020/21 as detailed below:

Service	2019/20 Weekly charge (£)	2020/2021 Weekly charge (£)
Careline – sheltered tenants	4.87	5.00
Careline – community users	5.20	5.35

Service	2019/20 Weekly charge (£)	2020/21 Weekly charge (£)
Telecare – base unit plus two sensors	7.56	7.76
Additional Telecare sensor	1.25	1.28

2.6 Hostels in the HRA

2.6.1 There are two hostels in the housing revenue account. Following a review of service charges there is a need to increase the charges to ensure full cost recovery. The service incurs significant costs due to security and facilities costs across 24-hour coverage. It is proposed to limit the increase to no more than 25%.

Additional Hostel Support

Service	2019/20 Weekly charge (£)	2020/21 Weekly charge (£)
Hostels - Additional Staffing Support (ASS)	13.28	16.60
Hostels – Service Charges (HSC)	26.68	34.47

3. THE HRA BUDGET 2020/21

3.1 The major expenditure from the HRA Business Plan is the investment in existing stock or the capital programme. The level of expenditure is controlled by each local authority and is dependent on the investment levels in the Asset Management Strategy (AMS). During 2020/21, the council will carry out a new stock condition survey, the results of which will inform investment decisions as part of a new Asset Management Strategy.

3.2 As detailed in the AMS, this level of expenditure allows decent homes levels to be maintained and all health and safety requirements to be met. In order to meet the decent homes target, planned expenditure on new kitchens, bathrooms and electrical systems remain at previous levels.

3.3 As the main level of income to the HRA BP comes from rents, it is imperative that the number of rental properties is maximised. The current HRA BP expects to lose 65 properties per year through RTB and other stock due to regeneration. This reduces rental income by around £0.168m per year, assuming a full year loss of income per property. Rent loss will also be incurred from the loss of properties through the regeneration programme. These losses have been factored into the business plan income projections.

3.4 Capital funded by revenue, has reduced from £5.0m to £1.917m, in line with the Business Plan requirements.

3.5 It is anticipated that an additional interest payment of £0.813m will be required, to cover the borrowing level necessary to fund the 2020/21 capital investment.

3.6 Draft HRA Budget 2020/21

	2019-20 Final Budget	2020-21 Final Budget	Variance
Income and Expenditure		£	£
Income			
Dwelling rents	(45,125,040)	(46,099,240)	(974,200)
Garages	(326,280)	(326,280)	0
Charges for services and facilities - Tenants	(6,042,560)	(5,816,040)	226,520
Charges for services and facilities - Leaseholders	(1,574,340)	(1,574,340)	0
Shared ownership	(142,530)	(142,530)	0
Other	(578,080)	(859,670)	(281,590)
Total Income	**(53,788,830)**	**(54,818,100)**	**(1,029,270)**
Expenditure			
Repairs and maintenance	7,304,380	7,216,180	(88,200)
Supervision and management plus recharges	24,869,680	24,844,330	(25,350)
Depreciation and impairment	16,590,400	16,590,400	0
Debt management costs	47,820	47,820	0
Bad debt	665,000	665,000	0
Total Expenditure	**49,477,280**	**49,363,730**	**(113,550)**
Net cost of HRA services	**(4,311,550)**	**(5,454,370)**	**(1,142,820)**
Interest payable and similar charges	6,262,090	7,075,000	812,910
Interest and investment income	(64,810)	(64,810)	0
Surplus or deficit for the year on HRA services	**1,885,730**	**1,555,820**	**(329,910)**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	1,885,730	1,555,820	**(329,910)**
Capital expenditure funded by the HRA	5,000,000	1,917,000	**(3,083,000)**
Reversal of impairment charge	(7,285,720)	(7,285,720)	
Net (income)/Expenditure	**(399,990)**	**(3,812,900)**	**(3,412,910)**

3.7 Capital programme

3.7.1 12 Sites Joint Venture Funding

The remaining provisions for expenditure below relate to the 12 sites joint venture proposals. A report on the revised Havering and Wates Regeneration Joint Venture (HWR JVLLP) Business Plan and Budget 2020/2021, is presented elsewhere on this Cabinet agenda. One of the recommendations on this report is:

That Cabinet agree:

Agree and Endorse the inclusion of a budget of £121.6m equity for the scheme together with a budget of £76.4m for potential land acquisition/CPO costs within the proposed HRA capital programme that will be considered by Cabinet in February 2020 in the annual rent setting and Capital Strategy and Programme report and this is recommended to Council for final approval in February 2020.

3.7.2 The update of the HWR JVLLP business plan has significant financial implications for the Housing Revenue Account and Capital Programme.

3.7.3 The following summarises the potential key changes that have been incorporated into the latest refresh of the HWR JVLLP Business Plan and Opportunity Site Assessments.

3.7.4 **Delta Estate**
It is proposed that the development of the Delta Red Line site is withdrawn from the scope of the 12 Estates programme. The scheme was earmarked to deliver 198 units of affordable housing at a cost of £19.0m, with a gross equity requirement of £14.7m and vacant possession costs of £5.9m.

3.7.5 **New sites**
It is proposed that HWR JVLLP formally adopt the Napier New Plymouth Blue Line site, with a gross equity requirement of £9.0m and vacant possession costs of £19.6m to deliver 125 units of affordable housing at a cost of £19.0m.

3.7.6 Napier & New Plymouth House (NNP) would require the Council to fund £14.9m. This would be in the form of a grant from the HRA to HWR JVLLP. Cabinet set an allocation of £12.3m aside in February 2019. Therefore, a further uplift of £2.6m is required.

Solar, Serena and Sunrise Estates (SSS) would require the Council to fund the value of the site £15.9m. This would be in the form of a grant from the HRA to HWR JVLLP.

Waterloo Estates (WQS) would require the Council to fund the value of the site £14.6m. This would be in the form of a grant from the HRA to HWR JVLLP.

It is proposed that the Council enter into contract with HWR for the demolition of Waterloo Estate, prior to meeting the Conditions Precedent as set out in the Development Agreement. The anticipated costs of demolition is up to £8.0m. This is in addition to the £4.1m set aside by Cabinet in February 2019 to bring forward the demolition of the Napier New Plymouth and Solar Serena Sunrise estates.

3.7.7 The current proposals for the 12 Sites require £121.6m to meet the Council contribution to the HWR JVLLP. Part of the equity would be in the form of HRA land, the net value of which is currently estimated at £4.7m (all 12 sites plus Chippenham Road), with the remaining £116.9m as cash funding. Cabinet approved an allocation of £117.9m in February 2019.

3.7.8 It should be noted that the Council is committed to achieving vacant possession for all 12 sites. Cabinet set an allocation of £79.9m aside in February 2019, including £20.0m for the acquisition of the land interests on the NNP blue line site.

3.7.9 As outlined above, an allocation of £287.7m should be set aside for the cost of acquiring the affordable housing developed by the HWR JVLLP (1,310 rented units). Cabinet set an allocation of £235.5m aside in February 2019, therefore an uplift of £52.2m is required.

3.7.10 The Council has secured £30.3m of GLA grant funding for phase 1 (the first four sites) and a further allocation of £11.4m to fund the development of Chippenham Road. On Work Packages 2, 3 and 4, it is currently assumed that grant funding would be secured on Royal Jubilee Court, Brunswick Court and Dell Court, with no assumption for grant on the remaining red line sites due to the GLA requirement for a successful tenant ballot on regeneration sites.

3.7.11 Grant is assumed for the blue line sites at the rates specified in the recent GLA Building Council Homes for Londoners funding prospectus.

3.7.12 The HWR JVLLP will develop 314 shared ownership units, with an assumption of buyers taking a 40% interest, with the exception of Solar, Serena, Sunrise, where it is forecast that HWR would yield an average receipt of 70% OMV. The Council, as freeholder, will take the residual interest at no direct cost. In effect, this value has been deducted from the valuation of the sites, when granting the build licence/lease to the HWR JVLLP.

3.7.13 It is intended that the HRA will purchase the shared ownership and social rent properties built by the HWR JVLLP. This will require a payment to the HWR JVLLP from the HRA of £287.7m which will be met within the HRA Revenue Budget, Capital Programme and associated business plan. It will also be necessary to make provision of £2.7m to cover the potential Stamp Duty Land Tax liabilities. In addition, the revised Solar, Serena, Sunrise proposal makes provision for 41 units of open market sale, yielding £15.2m to HWR. Given the nature of older person housing, and the relatively slow level of sales, it will be necessary to provide a longstop arrangement with HWR aside for the Council (HRA) to acquire any open market units remaining unsold after the agreed longstop date.

3.7.14 Bridge Close Joint Venture – Acquisition of Affordable Dwellings

3.7.15 It is intended that the HRA will purchase the shared ownership and social rent properties built by the Joint Venture. This will be subject to review of the HRA Business Plan and any necessary approvals by Cabinet and/or Council of the revised Housing Capital Programme. The units will be purchased on completion. This will require a payment to the Joint Venture from the HRA of £94.7m which can be met within the HRA business plan, along with estimated SDLT costs of £4.7m. This contribution will be reflected in the updated HRA Business Plan, subject to progression of this scheme.

3.7.16 Regulations applying to RTB receipts allow the use of right-to-buy (RTB) receipts to fund the provision of affordable rented units – these will be used to help meet the HRA’s acquisition costs in respect of this project, £6.7m. The RTB agreement with the Secretary of State allows the HRA to fund up to 30% of the costs of acquisition of social units from these receipts. In the regulations, “social” means that the units are for rental at a discount to the market rent. RTB receipts cannot be used in conjunction with GLA grant. Therefore, any units purchased with the help of RTB receipts cannot have had GLA grant used to part fund their build.

3.7.17 Acquisition of Affordable Dwellings

3.7.18 It is proposed that the HRA will purchase the shared ownership and social rent properties built by the North West Romford Development Vehicle (NWRDP). This will be subject to review of the HRA Business Plan and any necessary approvals by Cabinet and/or Council of the revised Housing Capital Programme. The units will be purchased on completion. This will require a payment to NWRDP from the HRA of £145.9m which will be paid from the within the HRA business plan, along with estimated SDLT costs of £5.9m. This contribution will be reflected in the updated HRA Business Plan, subject to progression of this scheme.

Grant is assumed for the blue line sites at the rates specified in the recent GLA Building Council Homes for Londoners funding prospectus. In addition, the shared ownership housing will be marketed to qualifying households. Receipts yielded from the initial disposal will augment grant funding secured to minimise the overall borrowing requirement.

3.7.19 Crow Lane Development

It is intended that the HRA will purchase 38 large family affordable homes from Hollybrook Ltd at the site at Crow Lane/Sandgate Close, Romford. The total cost of the 38 units is £15.356m, the use of right to buy receipts will reduce the cost of borrowing required for the scheme to and therefore, the net payment to Hollybrook Ltd from the HRA is £10.749m. The cost to the General Fund is £14.285m, for the remaining 44 units.

3.7.20 £26m over the next two years has been provided for additional acquisition opportunities that present good value for money for the HRA in the provision of affordable housing. These will each be subject to a detailed business case and formal approval.

3.7.21 Following the success of the scheme, with the purchase 33 properties in 2019/20, £13m has been provided for the buy-back of former council properties for use as social housing. This includes the contribution of right to buy receipts.

3.7.22 £13.9m over three years has been provided for to develop a new high quality welcome and assessment centre for homeless families subject to a detailed business case.

4. Major Works Budget – HRA 2020/21 – 2024/25 major works resources and proposed spend.

4.1 There has been considerable work carried out in the Property & Land Service to ensure that the current budget provision is sufficient to maintain the stock on an ongoing, timely basis and fulfil the Council's landlord obligations, particularly around health and safety.

4.2 For this year's budget setting, we have included an allocation of £0.75m for a one-off asset survey exercise to update and validate 25% of the housing stock condition data. This will enable more precise targeting of future financial investment and inform the 30-year business plan. This will also include an assessment of the need for future investment in estate and other environmental improvements.

4.3 The planned maintenance programme has also taken account of the need for additional investment in the Council's plant to ensure that replacements are programmed well in advance of components such as lifts and communal boilers reaching the end of their useful life. Overall, the planned maintenance replacement programme consists of £1.018m additional re-profiled expenditure.

4.4 Property and Land Services are also responsible for the direct delivery of new Council housing where the Council oversees the development and building of new council homes on land owned by the HRA. A new project identified to increase unit numbers on an existing block by utilising unused loft space is included for 2020/21. £0.85m build costs with the remaining £0.1m being on-costs for surveys and professional fees

4.5 As well as the direct delivery of new council homes, the HRA must make an ongoing capital contribution to ensure the timely maintenance of existing council housing and fulfil landlord obligations around the health and safety of residents. Primary amongst these considerations is an effective fire safety management regime, particularly in light of the tragic Grenfell Tower fire and the requirement to meet the Homes Standard.

4.6 The Council has reviewed its fire risk management strategy that is supported by an ongoing rolling programme of type 4 fire risk assessments. A budget of £2.235m has been allocated for works associated with fire risk such as upgrading fire doors, door surveys and fire prevention works. This funding will support the officer resources required to carry out the rolling programme of FRAs.

4.7 A review of the Council's asbestos programme has identified an additional requirement for asbestos surveys to be carried out in both communal areas and individual properties to ensure that the Council's asbestos register is kept up to date. This is an additional budget requirement of £0.35m that covers removal works and surveys to support the year's capital programme.

4.8 Additional budget of £1.5m has been allocated for improved inspection and works for communal electrical maintenance, emergency lighting, fire alarm & lightning protection installations and upgrades to ensure we are compliance with the latest guidance and the Regulator of Social Housing's Home Standard.

4.9 An additional provision of £0.03m has been requested for a new vehicle for the telecare service, on top of the usual £0.05m allocation for HRA equipment upgrades.

4.10 An additional £0.3m for upgrades of equipment associated with Door Entry, CCTV & communal electronic doors.

4.11 An additional £0.45m to complete the replacement of wooden balconies to the Hitchin & Sevenoaks Close estate.

5. 30 year Business Plan 2018/19 to 2047/48

5.1 Attached at Appendix 2a and 2b are extracts from the reworked HRA 30-year Business Plan financial model. Year 1 of the business plan is based on the 2020/21 budget.

5.2 The plan for the HRA is based on keeping a minimum of £10m in working balances and using current reserves above this figure to invest in the major works programme. It has been assumed that all available resources over and above those required for revenue spend, payment of interest on debt and maintaining reserves at £10m, are available for major works, for as long as the stock condition survey requires it.

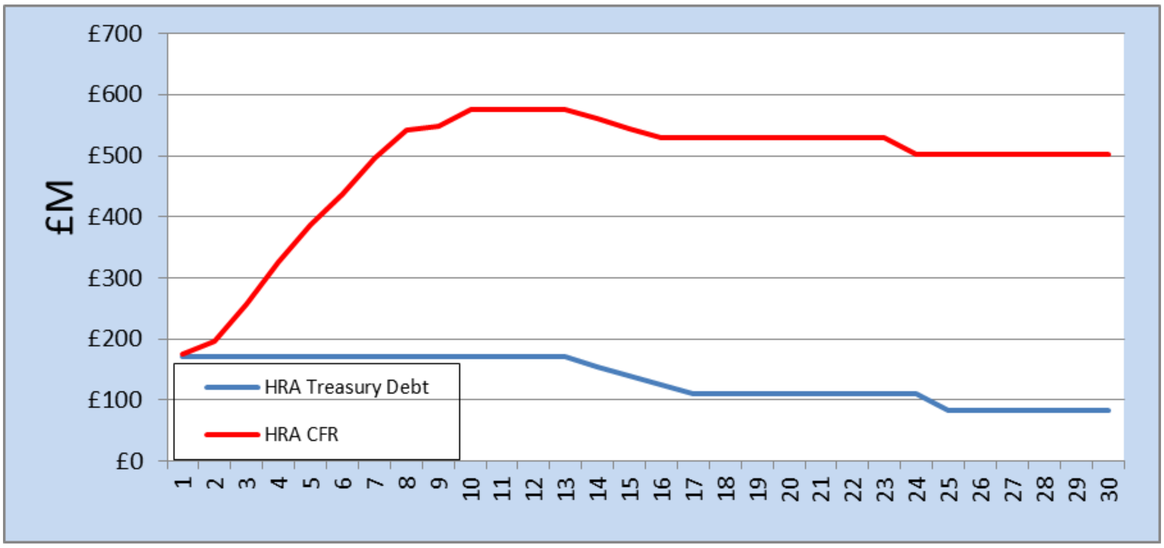
5.3 The Business Plan projections are based on the following assumptions:

- Right to Buy of sales completed above that originally anticipated and is projected at 65 in 2020/21 reducing to 50 per year from 2021/22.
- Majority of borrowing (self-financing debt) fixed at 3.26%
- Rental income is based on CPI +1 for the next 5 years then CPI onwards.
- Stock numbers based on the losses and increases according to the Regeneration programme.
- No repayment of debt with the 30-year business plan period.

5.4 In October 2018 the Government announced the immediate removal of the HRA borrowing cap (from 29th October 2018). This means the Council can borrow against the HRA assets to fund new development as long as the prudential borrowing rules are followed. The Business Plan assumes borrowing of £400m over and above the current £176m treasury debt. The borrowing is against the following projects, some of which is funded by HRA reserves, land and reinvestment of capital receipts.

Scheme	**Capital £m**
12 Estates	336
Bridge Close	105
NW Romford	154
HRA Acquisitions Fund	20
Reactive Acquisition Fund	26
Hostel Reprovision	14
Borough (South) Development Opportunities	8
Total	**663**

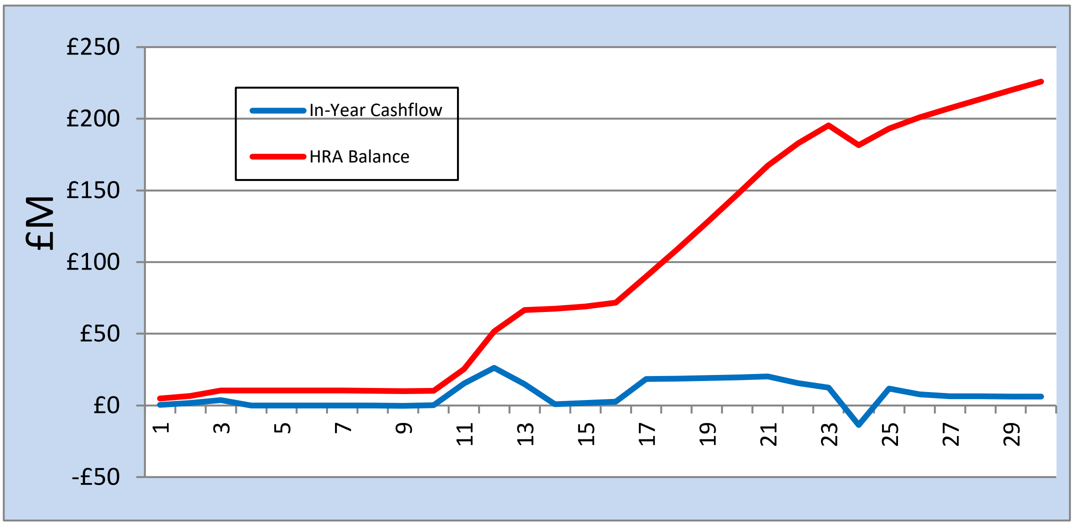
5.5 The HRA continues to increase borrowing until 2027/28, at which point the debt peaks at £576m with total additional borrowing of £400m.



CFR = Capital Finance Requirement

5.6 From 2041/42, the HRA debt remains at £502m and the annual cost of servicing this debt is £16m against a rental income of £82m. This is because the debt is made up of long-term loans that are not repaid until after the 30-year plan. There is enough income to cover the cost of debt but to note gross debt levels are over four times the total income levels. However, it also assumed that the value of stock does exceed the value of debt with the current Red Book valuation of approximately £555m.

5.7 The Business Plan makes provision for the repayment of some of treasury debt to leave an outstanding balance of £82m from 2043/44. It would be prudent, in future Business Plans, once projects have been completed, to make provision to reduce debt levels. This level of debt needs to be sustainable in the long term and supported through the Council's Treasury Management policy.



5.8 As the graph above demonstrates the balances recover from year 11 (2028/29) and therefore it is proposed to implement a HRA debt management strategy from 2028/29 that will ensure the debt is maintained at sustainable level to deliver ongoing investment in the existing stock and the new build. The stock condition survey referred to in paragraph 4.4 will form the basis of a long term asset management strategy that will inform the investment needs of the stock in the new business plan period. Specialist business planning advice will be sought and a report brought back to Cabinet with recommendations in 2020/21.

6. CONCLUSION

6.1 The Self-Financing Business Plan extracts (Appendix 2a and 2b) show that the Council is able to maintain and improve its stock and provide good quality housing services over the next 5 years. The Housing Revenue Account budget, which is set out in this report is designed to maintain a good level of service, and inject further resources into a programme of major investment in the housing stock that will maintain the Homes Standard of existing housing stock and provide significant funding for wide-ranging estate regeneration programmes. The long-term implications of this investment needs to be assessed when considering the viability and affordability of future investments.

REASONS AND OPTIONS

Reasons for the Decision

The Council is required to set the housing rent, service charges and a budget in accordance with the Local Government and Housing Act 1989 and set a budget that is not in deficit.

Alternative Options Considered

There are no alternative options in so far as setting a budget is concerned. However, there are options in respect of the various elements of the budget. These are considered in preparing the budget and cover such things as the rent and service charge increases, budget growth and major works programme proposals. The rationale for the levels of investment and levels of charges are contained within the body of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

HRA Revenue

This report largely concerns the financial implications and risks concerning the setting of the HRA budget for 2020/21 and the revision of the figures for the 30-year Business Plan. The HRA is sufficiently robust to generate a minimum estimated annual working balance reserve of £10m at the end of 2020/21 and for the following 3 years.

In addition to £10m reserves on the HRA, there is a bad and doubtful debt provision of £3.328m.

HRA Investment Capital Budget

Appendix 1a sets out the Major Works Programme 2020-21. This is funded from resources available for housing expenditure, which is summarised in the table below: -

	20/21	21/22	22/23	23/24	24/25	5 yr totals
Funded By	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Major Repairs Reserve	9.235	9.235	9.235	9.420	9.608	**46.733**
Right to Buy Receipts	1.460	1.460	1.053	1.053	1.053	**6.079**
Borrowing	41.759	68.121	60.192	52.046	57.663	**279.781**
Other receipts and grants	33.488	23.026	36.266	41.837	26.080	**160.698**
HRA Reserves	9.345	4.330	1.950	4.541	6.297	**26.462**
RCCO	1.917	7.424	7.527	10.685	18.033	**45.586**
	97.204	**113.596**	**116.223**	**119.581**	**118.734**	**565.339**

The capital programme incorporates the HRA capital funding requirements for the 12 Estates HWR JVLLP and sets aside sufficient capital resources to fund the acquisition of 321 affordable dwellings (30% affordable) from the Bridge Close HWR JVLLP. These commitments will require the Council (HRA) to borrow an additional £356m by the close of 2024/25.

Risks

Legal implications and risks:

Under Part VI of the Local Government and Housing Act 1989, any local authority that owns more than 200 units of housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute[i]. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

By section 76 of the Local Government and Housing Act 1989, the Council is required in January and February each year to prepare, and make available for public inspection, proposals relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

Section 76 also places a duty on local housing authorities: (a) to ensure that the annual budget for their HRA avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) if it seems that an end-of-year deficit may occur, to take all reasonably practicable steps to avoid it. The proposed HRA budget fulfils these requirements.

The report seeks approval for major investment estimates in relation to a variety of schemes. In compliance with Section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures that provide appropriate arrangements for the approval of major works estimates. The various major works schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular the maintenance and repaid of dwellings may be considered consistent with the Council's repairing obligations under Sections 9A[ii] and 11 of the Landlord and Tenant Act 1985.

The regulator may under section 194(2A) of the Housing and Regeneration Act 2008 set standards for registered providers requiring them to comply with specified rules about their levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).

The Equality Act 2010 requires the Council to have due regard to the public sector equality duty when carrying out its functions and have due regard to the need to eliminate discrimination and advance equality of opportunity. They must also show they have carried out an Equality Impact Assessment in reaching such decisions as introducing charges *to tenants*.

Human Resources implications and risks:

There are no HR implications arising from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An equalities impact assessment has been carried out. Of note, central government influences rent levels and the rent increases proposed within this report will be affordable to households on welfare benefits. Furthermore, best practice and guidance dictates that service charges should be set at a level that covers the cost of providing the service to which the charge relates. Therefore, the Council cannot operate in an unfettered way within regard to the rents and service charges it sets. That said, the Council has examined the proposals in this report from an equalities perspective.

60% of council tenants are in receipt of Housing Benefit. The proposed rents and service charges eligible for housing benefit are within the housing benefit caps for Havering, therefore those in most financial hardship, which can include particular minority groups, will be protected.

The investment in new homes through the HRA will benefit those in housing need in the borough and will therefore have a positive impact on households with protected characteristics.

The Council will monitor the impact of the increase across protected characteristics. We will ensure that anyone affected by the increase has equal access to advice and information in relation to income maximisation should they be unable to meet their rent/service charge liabilities. We will follow the guidelines set out in the income maximisation policy. The EIA will be updated in 6 months with information provided through the monitoring process and if required further activity will be undertaken to mitigate any adverse impact.

BACKGROUND PAPERS

1. *Policy statement on rents for social housing*, MHCLG 2019

Available at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/781746/Policy_Statement.pdf

Appendix 1a – Draft 2020/21 – 2024/25 HRA Major Works Capital

	20/21	21/22	22/23	23/24	24/25	5 yr totals
New Build Programme	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**
New Build Programme already funded	3.708		0	0	0	**3.708**
Total	**3.708**	**0**	**0**	**0**	**0**	**3.708**

	20/21	21/22	22/23	23/24	24/25	5 yr totals
Stock Upkeep works to maintain standards including Major Repairs	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**
Major Voids	0.450	0.450	0.450	0.450	0.450	**2.250**
Major Voids (Regen Moves)	0.300	0.300	0.300	0.300	0.300	**1.500**
Structural	0.150	0.500	0.500	0.500	0.500	**2.150**
Laterals & electrical risers	0.500	0.100	0.100	0.100	0.100	**0.900**
Emergency Lighting, Fire Alarms Upgrades, Lightning Protection	1.000	1.000	1.000	0.250	0.250	**3.500**
Commercial Communal Electrical Testing & Upgrades	0.060	0.060	0.060	0.060	0.060	**0.300**
Legionella	0.170	0.170	0.170	0.170	0.170	**0.850**
Fencing / Boundary Walls	0.060	0.060	0.060	0.060	0.060	**0.300**
Drainage/Sewers	0.050	0.050	0.051	0.052	0.050	**0.253**
Asbestos Work	0.650	0.650	0.650	0.650	0.650	**3.250**
External Redecorations	0.818	0.818	0.818	0.818	0.818	**4.090**
Careline equipment	0.080	0.050	0.050	0.050	0.050	**0.280**
Stock Condition Surveys	0.750	0.000	0.000	0.000	0.000	**0.750**
Aids and Adaptations	0.550	0.550	0.561	0.572	0.550	**2.783**
Door Entry, Satellite TV, CCTV & Automatic Doors	0.300	0.300	0.300	0.300	0.300	**1.500**
Total	**5.888**	**5.058**	**5.07**	**4.332**	**4.308**	**24.656**

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Stock Upkeep works to maintain standards including Major Repairs	20/21 £M	21/22 £M	22/23 £M	23/24 £M	24/25 £M	5 yr totals £M
Bathrooms	0.880	0.880	0.880	0.880	0.880	**4.400**
Kitchens	0.379	0.379	0.379	0.379	0.379	**1.895**
Roof Replacements	1.250	1.650	1.650	1.650	1.650	**7.850**
Boiler Replacements (Domestic)	1.500	1.500	1.500	1.500	1.500	**7.500**
Boiler Plant Upgrades (Communal)	1.200	1.200	1.200	1.200	1.200	**6.000**
Windows (Domestic)	0.500	0.375	0.375	0.375	0.375	**2.000**
Windows (Communal)	0.275	0.275	0.275	0.275	0.275	**1.375**
Electrical Testing & Assoc. Upgrades (Domestic)	0.800	0.800	0.800	0.800	0.800	**4.000**
Passenger Lift Upgrades	0.500	0.000	0.250	0.900	0.000	**1.650**
Kitchen/Bathrooms at Void stage (Routine)	0.270	0.270	0.270	0.270	0.270	**1.350**
Kitchen/Bathrooms at Void stage (Decant Voids)	0.210	0.210	0.000	0.000	0.000	**0.420**
Sheltered Housing Refurbishments	0.120	0.000	0.000	0.000	0.000	**0.120**
Total	**7.884**	**7.539**	**7.579**	**8.229**	**7.329**	**38.56**

	20/21 £M	21/22 £M	22/23 £M	23/24 £M	24/25 £M	5 yr totals £M
Contingency for Fire and Compliance Work	3.275	4.015	3.425	3.425	3.665	17.805
Total	**3.275**	**4.015**	**3.425**	**3.425**	**3.665**	**17.805**
TOTALS	**20.755**	**16.612**	**16.074**	**15.986**	**15.302**	**84.729**

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Appendix 1b - 2020/21 – 2024/25 HRA Regeneration and Acquisition Programme.

	20/21	21/22	22/23	23/24	24/25	5 yr totals
	£m	£m	£m	£m	£m	£m
12 Estates						
Affordable Housing (inc SDLT)	10.059	31.792	42.457	41.179	40.558	**166.045**
Partner Loan (Land)	0.000	0.590	1.208	0.479	0.616	**2.893**
Partner Loan (Cash)	10.651	22.010	16.573	7.125	11.643	**68.002**
NNP Gap Funding	10.695	16.034	9.746	4.262	0.000	**40.738**
Vacant Possession	10.812	4.219	1.677	7.841	12.086	**36.635**
Tenant Compensation	0.825	0.767	0.725	0.725	0.725	**3.767**
Demolition (NNP and SSR)	7.800	0.000	0.000	0.000	0.000	**7.800**
Bridge Close						
Affordable Housing (inc SDLT)	0.000	0.000	13.900	22.918	22.922	**59.739**
Acquisitions (Residential Properties)	0.000	3.009	0.000	0.000	0.000	**3.009**
North West Romford						
Affordable Housing (inc SDLT)	0.000	0.000	4.000	15.180	14.882	**34.061**
HRA Acquisitions Fund						
Affordable Housing (inc SDLT)	10.000	0.000	0.000	0.000		**10.000**
Reactive Acquisition Fund						
Affordable Housing (inc SDLT)	14.607	11.540	0.000	0.000	0.000	**26.147**
Hostel Reprovision						
Hostel reprovision	1.000	7.021	5.900	0.000	0.000	**13.921**
Rainham Opportunity Site						
Affordable Housing (inc SDLT)	0.000	0.000	3.965	3.887	0.000	**7.852**
Proposed Capital Programme (Including New Build and Funded Schemes)	**76.449**	**96.982**	**100.150**	**103.596**	**103.432**	**480.609**
	20/21	21/22	22/23	23/24	24/25	5 yr totals
Funded By	£m	£m	£m	£m	£m	£m
Major Repairs Reserve	9.235	9.235	9.235	9.420	9.608	**46.733**
Right to Buy Receipts	1.460	1.460	1.053	1.053	1.053	**6.079**
Borrowing	41.759	68.121	60.192	52.046	57.663	**279.781**
Other receipts and grants	33.488	23.026	36.266	41.837	26.080	**160.698**
HRA Reserves	9.345	4.330	1.950	4.541	6.297	**26.462**
RCCO	1.917	7.424	7.527	10.685	18.033	**45.586**
	97.204	**113.596**	**116.223**	**119.581**	**118.734**	**565.339**

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Appendix 2a: Draft HRA Projections from Business Plan - Years 1-10, 20 and 30.

Year £'000	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2040.41	2050.51
INCOME:													
Rental Income	47,355	49,352	51,995	53,412	56,825	58,364	60,674	62,721	65,022	68,014	70,380	81,998	95,009
Void Losses	-1,058	-1,026	-998	-1,030	-1,098	-1,133	-1,180	-1,225	-1,272	-1,333	-1,381	-1,624	-1,900
Service Charges	8,042	8,179	8,342	8,509	8,679	8,853	9,030	9,210	9,395	9,583	9,774	11,915	14,524
Non-Dwelling Income	333	458	1,380	2,164	2,750	3,210	3,868	4,244	5,118	5,439	5,667	5,701	5,530
Grants & Other Income	381	2,223	1,343	4,905	11,184	2,581	15,524	6,977	5,295	13,749	462	564	687
Total Income	**55,052**	**59,187**	**62,062**	**67,960**	**78,339**	**71,875**	**87,916**	**81,928**	**83,557**	**95,452**	**84,903**	**98,554**	**113,850**
EXPENDITURE:													
General Management	-25,381	-25,817	-26,473	-27,088	-27,806	-28,486	-29,138	-29,913	-30,610	-31,434	-32,180	-39,237	-47,810
Special Management	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Management	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	-130	-134	-138	-142	-146	-149	-152	-155	-158	-161	-164	-200	-244
Bad Debt Provision*	-674	-698	-730	-744	-783	-797	-823	-841	-867	-899	-926	-1,073	-1,237
Responsive & Cyclical Repairs	-7,341	-7,430	-7,546	-7,665	-7,831	-7,982	-8,233	-8,434	-8,739	-8,995	-9,221	-11,415	-13,358
Total Revenue Expenditure	**-33,525**	**-34,079**	**-34,886**	**-35,638**	**-36,566**	**-37,413**	**-38,346**	**-39,344**	**-40,373**	**-41,490**	**-42,491**	**-51,925**	**-62,648**
Interest Paid	-7,075	-8,975	-10,957	-12,702	-14,305	-15,933	-16,987	-17,239	-17,830	-17,805	-17,773	-16,328	-15,359
Finance Administration	-49	-50	-51	-52	-53	-54	-56	-61	-63	-63	-65	-72	-88
Interest Received	521	584	503	450	242	176	140	121	161	343	511	1,131	1,522
Depreciation	-9,235	-9,235	-9,235	-9,420	-9,608	-9,800	-9,996	-10,196	-10,196	-10,196	-10,196	-10,196	-10,196
Net Operating Income	**5,690**	**7,432**	**7,436**	**10,598**	**18,048**	**8,851**	**22,671**	**15,209**	**15,257**	**26,240**	**14,890**	**21,164**	**27,080**
APPROPRIATIONS:													
FRS 17 /Other HRA Reserve Adj	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0	0	0	-463
Revenue Contribution to Capital	-1,917	-7,424	-7,527	-10,685	-18,033	-8,964	-22,891	-15,028	0	0	0	-8,715	-15,131
Total Appropriations	**-1,917**	**-7,424**	**-7,527**	**-10,685**	**-18,033**	**-8,964**	**-22,891**	**-15,028**	**0**	**0**	**0**	**-8,715**	**-15,594**
ANNUAL CASHFLOW	**3,773**	**8**	**-91**	**-87**	**16**	**-113**	**-220**	**181**	**15,257**	**26,240**	**14,890**	**12,449**	**11,486**
Opening Balance	6,685	10,458	10,466	10,375	10,288	10,304	10,191	9,971	10,152	25,408	51,648	182,899	248,721
Closing Balance	**10,458**	**10,466**	**10,375**	**10,288**	**10,304**	**10,191**	**9,971**	**10,152**	**25,408**	**51,648**	**66,538**	**195,348**	**260,207**

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Appendix 2b: Draft HRA Capital Investment Requirement Projection from Business Plan

Year £'000	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2040.41	2050.51
EXPENDITURE:													
Planned Variable Expenditure	0	0	0	0	-93	-150	-406	-558	-913	-1,168	-1,358	-2,917	-3,462
Planned Fixed Expenditure	-28,735	-35,964	-31,155	-20,890	-24,854	-19,668	-25,907	-21,026	-8,895	-10,038	-10,611	-11,915	-16,663
Disabled Adaptations	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Capital Expenditure	-25,680	-20,049	-13,171	-7,687	-3,738	-3,813	-3,889	-3,967	-4,046	-4,127	-4,210	-5,132	-6,256
New Build Expenditure	-63,087	-57,582	-71,897	-91,005	-90,048	-75,750	-56,027	-48,481	-38,637	-17,254	-15,745	0	0
Procurement Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-117,502**	**-113,595**	**-116,223**	**-119,581**	**-118,733**	**-99,382**	**-86,229**	**-74,032**	**-52,492**	**-32,587**	**-31,924**	**-19,964**	**-26,380**
FUNDING:													
Major Repairs Reserve	9,235	9,235	9,235	9,420	9,608	9,800	9,996	10,196	-8,136	9,262	-4,017	10,196	10,196
Right to Buy Receipts	1,460	1,460	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053
HRA CFR Borrowing	62,057	68,121	60,192	52,046	57,663	45,403	6,489	27,616	0	0	0	0	0
Other Receipts/Grants	33,488	23,026	36,266	41,837	26,080	30,549	44,249	19,540	59,172	22,178	34,888	0	0
HRA Reserves	9,345	4,330	1,950	4,541	6,297	3,612	1,552	599	403	95	0	0	0
Revenue Contributions	1,917	7,424	7,527	10,685	18,033	8,964	22,891	15,028	0	0	0	8,715	15,131
Total Capital Funding	**117,502**	**113,595**	**116,223**	**119,581**	**118,733**	**99,382**	**86,229**	**74,032**	**52,492**	**32,587**	**31,924**	**19,964**	**26,380**

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CABINET **12 February 2020**	
Subject Heading:	**2020/21 Capital Programme and Strategy**
Cabinet Member:	**Councillor Damian White, Leader**
SLT Leads:	**Jane West** **(**Chief Finance Officer)
Report Author and contact details:	**Mark White** Capital Finance Manager 01708 433624 mark.white@onesource.co.uk.
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 2020/21 Budget Medium Term Financial Strategy report elsewhere on this agenda.
Is this a Key Decision?	**Yes**
When should this matter be reviewed?	Annually
	Overview and Scrutiny Board

Reviewing OSC:

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 2020/21 and the medium term.

RECOMMENDATIONS

Cabinet is asked to:

1. **Recommend to Council for consideration and approval** the 2020/21 and ongoing Capital Programme (subject to business cases for the regeneration schemes being approved in line with the governance process)

2. **Agree** that the Chief Financial Officer be authorised to allocate funding from the Capital Contingency included within the draft Capital Programme.

3. **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.

4. **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.

5. **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 2020/21 and beyond

6. **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, Prouder, Together. The Corporate Plan is being updated for 2020/ 21. 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.

1.1.3 The capital programme includes a continuing 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.

1.1.4 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 2020/21 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 and 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. 2020/21 – 2024/25 General Fund (GF) Capital Programme

2.1 Overview

2.1.1 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 Requirements under the Prudential Code require the Council to separate out its main Capital Programme from its Capital Investments.. 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)
- The revised 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 2020/21 as part of the closure of the 2019/20 accounts.

2.1.4 The 2020/21 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 2020/21 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 GF Capital Programme	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Adults				
Adults Services Other	2.650	0.000	0.000	**2.650**
Adults Total	**2.650**	**0.000**	**0.000**	**2.650**
Asset Management				
Corporate Buildings	3.932	0.000	0.000	**3.932**
Health & Safety	0.106	0.000	0.000	**0.106**
Libraries	0.285	0.000	0.000	**0.285**
Pre Sale Expenses	0.250	0.000	0.000	**0.250**
Schools Building Maintenance	1.041	0.000	0.000	**1.041**
Schools Expansions Programme	37.874	0.824	0.000	**38.698**
Asset Management Total	**43.487**	**0.824**	**0.000**	**44.311**
Bereavement Services				
Cemeteries & Crematoriums	2.067	0.000	0.000	**2.067**
Bereavement Services Total	**2.067**	**0.000**	**0.000**	**2.067**
Childrens				
Childrens Services Other	3.515	0.000	0.000	**3.515**
Childrens Total	**3.515**	**0.000**	**0.000**	**3.515**
Customer & Communications				
Art & Culture	0.313	0.000	0.000	**0.313**
Libraries	0.008	0.000	0.000	**0.008**
SLM	5.907	0.854	0.485	**7.246**
Customer & Communications Total	**6.228**	**0.854**	**0.485**	**7.567**
Environment				
Environment Services	0.020	0.000	0.000	**0.020**
Highways	12.000	2.000	2.000	**16.000**
Parking	0.900	0.000	0.000	**0.900**
Street Lighting	0.196	0.000	0.000	**0.196**
Environment Total	**13.116**	**2.000**	**2.000**	**17.116**
ICT Services				
ICT Infrastructure	0.620	0.620	0.620	**1.860**
ICT Services Total	**0.620**	**0.620**	**0.620**	**1.860**
Regeneration				
Bridge Close - Other Schemes	8.289	7.188	5.323	**20.800**
Regeneration - Economic Development	1.058	0.000	0.000	**1.058**
TFL	0.525	0.000	0.000	**0.525**
Regeneration Total	**9.872**	**7.188**	**5.323**	**22.383**
Total GF Capital Expenditure	**81.556**	**11.486**	**8.428**	**101.469**
Funding				
Capital Receipts	7.006	0.000	0.000	**7.006**
Revenue and Reserve Contributions	0.146	0.000	0.000	**0.146**
Grants & Other Contributions	41.044	0.824	0.000	**41.868**
Borrowing	33.359	10.662	8.428	**52.449**
Total Funding	**81.556**	**11.486**	**8.428**	**101.469**

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. 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

Table 2 - New GF Capital Schemes

Internally Funded Schemes Presented for Approval	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Bereavement Services					
Cemetery Extension - Additional Funding	3.100	0.000	0.000	0.000	**3.100**
Cremator Replacement	1.250	0.000	0.000	0.000	**1.250**
Customer & Communications					
Coronation Gardens Wall	0.030	0.000	0.000	0.000	**0.030**
Park Improvements	1.750	0.500	0.500	0.500	**3.250**
Gate Improvements	0.020	0.000	0.000	0.000	**0.020**
Play Area Improvements	0.100	0.000	0.000	0.000	**0.100**
Libraries (Public PC's, Network and Self Service Kiosks	0.375	0.000	0.000	0.000	**0.375**
Sports Centre	3.328	2.062	0.000	0.000	**5.390**
Langtons	0.500	0.500	0.000	0.000	**1.000**
Bretons	2.625	0.000	0.000	0.000	**2.625**
Childrens Services					
Youth Offending Service - 10 Headley Close	0.100	0.000	0.000	0.000	**0.100**
ICT Services					
IT Devices Refresh	0.040	0.100	0.250	1.750	**2.140**
Server Infrastructure	0.000	0.120	0.050	0.050	**0.220**
Data Centre Improvements	0.040	0.020	0.020	0.010	**0.090**
Networking (Core & Campus)	0.530	0.080	0.080	0.080	**0.770**
WiFi Infrastructure	0.030	0.030	0.050	0.300	**0.410**
Audio Visual Equipment	0.100	0.050	0.010	0.010	**0.170**
Skype to MS Teams Migration	0.000	0.100	0.000	0.000	**0.100**
CRM Top Up	2.660	0.000	0.000	0.000	**2.660**
Regeneration					
Strategic Investment Pot	15.000	0.000	0.000	0.000	**15.000**
Total Internally Funded Schemes	**31.578**	**3.562**	**0.960**	**2.700**	**38.800**

Externally Funded Schemes Presented for Approval	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Asset Management					
Schools Conditions Programme (indicative)	2.015	0.000	0.000	0.000	**2.015**
Adults					
Better Care Fund/ Disabled Facilities Grant (indicative)	1.813	0.000	0.000	0.000	**1.813**
Environment					
TFL - Core Local Implementation Plan (indicative)	1.918	0.000	0.000	0.000	**1.918**
TFL - Local Transport Funding (indicative)	0.100	0.000	0.000	0.000	**0.100**
Total Externally Funded Schemes	**5.846**	**0.000**	**0.000**	**0.000**	**5.846**
TOTAL NEW GF CAPITAL PROGRAMME	**37.424**	**3.562**	**0.960**	**2.700**	**44.646**

* The indicative schools conditions programme is set out in detail in appendix 2. If the grant differs from the indicative allocation the schemes will be adjusted accordingly.

The proposed funding of the new bids is set out as follows:

Funding Sources of Schemes Presented for Approval	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Capital Receipts	15.000	0.000	0.000	0.000	**15.000**
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	**0.000**
Grants	5.846	0.000	0.000	0.000	**5.846**
Section 106/ CIL	0.000	0.000	0.000	0.000	**0.000**
Borrowing	16.578	3.562	0.960	2.700	**23.800**
TOTAL FUNDING	**37.424**	**3.562**	**0.960**	**2.700**	**44.646**

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:

Project	Total Capital Financing Costs (incremental)				
	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Cemetery Extension - Additional Funding	46.500	201.500	0.000	0.000	0.000
Cremator Replacement	18.750	68.750	0.000	0.000	0.000
Coronation Gardens Wall	0.450	1.650	0.000	0.000	0.000
Park Improvements	26.250	103.750	35.000	35.000	27.500
Gate Improvements	0.300	1.100	0.000	0.000	0.000
Play Area Improvements	1.500	5.500	0.000	0.000	0.000
Youth Offending Service - 10 Headley Close improvements	1.500	4.000	0.000	0.000	0.000
IT Devices Refresh	0.600	10.100	25.250	80.000	376.250
Server infrastructure	0.000	1.800	26.550	11.500	10.750
Data Cente Improvements	0.600	8.900	4.600	4.450	2.150
Networking (core & campus)	7.950	115.150	18.400	18.400	17.200
Wi-Fi	0.450	6.900	7.200	15.250	64.500
Audio Visual Equipment	1.500	22.250	10.900	2.300	2.150
Skype to MS Teams Migration	0.000	1.500	21.500	0.000	0.000
Libraries (Public PC's,Network & Self Service Kiosks)	5.625	80.625	0.000	0.000	0.000
Sports Centre (South of Borough)	49.920	164.050	82.480	0.000	0.000
CRM Top Up	39.900	571.900	0.000	0.000	0.000
Langtons	7.500	27.500	20.000	0.000	0.000
Bretons	39.375	105.000	0.000	0.000	0.000
Total	**248.670**	**1,501.925**	**251.880**	**166.900**	**500.500**

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.

2.4.2 Table 4 below shows the current spending plans (based on latest business plans) for all of the regeneration schemes being proposed

	Previous years	Forecast 2019/20	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Regeneration Programme									
Joint Ventures									
Rainham & Beam Park Housing Zone	0.000	0.000	1.916	3.886	0.955	6.435	1.072	2.693	**16.957**
Rainham & Beam Park (potential CPO's funded from asset sales to JV)	0.000	0.000	35.000	15.000	0.000	0.000	0.000	0.000	**50.000**
Bridge Close	3.289	3.281	14.915	5.810	5.699	2.956	10.505	0.000	**46.454**
Bridge Close - land transfer	1.867	0.000	0.000	0.000	0.000	6.535	7.783	0.000	**16.185**
Bridge Close (potential CPO's funded from asset sales to JV)	0.000	0.000	30.000	0.000	0.000	0.000	0.000	0.000	**30.000**
Provision for Future Regeneration Opportunities	0.000	0.000	30.000	40.000	30.000	40.000	0.000	0.000	**140.000**
Mercury Land Holdings									
North Street - loans	3.628	5.806	0.218	0.000	0.000	0.000	0.000	0.000	**9.652**
Hornchurch Opportunities - equity (borrowing)	0.000	0.000	0.825	0.000	0.000	0.000	0.000	0.000	**0.825**
Hornchurch Opportunities - equity (land)	0.000	0.000	2.250	0.000	0.000	0.000	0.000	0.000	**2.250**
Hornchurch Opportunities- loans	0.000	0.000	2.875	4.500	0.330	0.000	0.000	0.000	**7.705**
Homelessness - equity	0.000	5.590	8.323	2.571	0.000	0.000	0.000	0.000	**16.484**
Homelessness - loan	0.000	8.385	12.485	3.856	0.000	0.000	0.000	0.000	**24.726**
Rainham Opportunity Site - equity	0.000	0.000	1.720	0.307	1.513	0.000	0.000	0.000	**3.540**
Rainham Opportunity Site - equity (funded from land sales)	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	**1.000**
Rainham Opportunity Site - loans	0.000	0.000	9.395	3.496	0.168	0.000	0.000	0.000	**13.059**
Quarles - Equity	0.000	0.000	6.199	0.000	0.000	0.000	0.000	0.000	**6.199**
Quarles Loans	0.000	0.000	0.893	4.599	4.430	0.142	0.000	0.000	**10.064**
Crow Lane Equity	0.000	2.575	0.000	0.000	0.000	0.000	0.000	0.000	**2.575**
Crow Lane Loans	0.000	2.460	2.744	0.501	0.000	0.000	0.000	0.000	**5.705**
St Georges Equity	0.000	0.000	3.693	0.000	0.000	0.000	0.000	0.000	**3.693**
St Georges Loans	0.000	0.000	14.937	0.724	0.766	0.164	0.000	0.000	**16.591**
Waterloo Equity	0.000	0.000	16.506	0.000	0.000	0.000	0.000	0.000	**16.506**
Waterloo Loans	0.000	0.000	7.575	12.961	13.442	9.747	0.000	0.000	**43.725**
Reactive Acquisition Fund Equity	0.000	0.000	5.600	0.000	0.000	0.000	0.000	0.000	**5.600**
Reactive Acquisition Fund Loan	0.000	0.000	14.400	0.000	0.000	0.000	0.000	0.000	**14.400**
TOTAL CAPITAL PROGRAMME	**8.785**	**28.097**	**223.468**	**98.212**	**57.303**	**65.979**	**19.360**	**2.693**	**503.896**

2.4.3 The proposed funding of these schemes is as follows

Funding Sources	Previous years	Forecast 2019/20	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Capital Receipts	0.000	0.000	98.250	55.000	30.000	46.535	7.783	0.000	**237.568**
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Grants	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Section 106/ CIL	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.000**
Borrowing	8.785	28.097	125.218	43.212	27.303	19.444	11.577	2.693	**266.328**
TOTAL FUNDING	**8.785**	**28.097**	**223.468**	**98.212**	**57.303**	**65.979**	**19.360**	**2.693**	**503.896**

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.

- 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.

- 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.

2.4.5 As 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.

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Rainham & Beam Park Housing Zone	0.029	0.183	0.267	0.159	0.434
Bridge Close	0.437	1.057	0.463	0.415	0.350
Mercury Land Holdings	2.451	4.272	0.956	0.536	0.151
	2.917	**5.511**	**1.686**	**1.110**	**0.935**

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. Full details of the additional pressures and savings for the individual schemes are included in the Medium Term Financial Strategy.

2.4.9 In addition to the income streams, 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's important to acknowledge that these income stream 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

Summary of Capital Programme	2020/21	2021/22	2022/23	2023/24	2024/25	2024/25	Total
	£m	£m	£m	£m	£m	£m	£m
Adults Services	4.463	0.000	0.000	0.000	0.000	0.000	**4.463**
Asset Management	45.502	0.824	0.000	0.000	0.000	0.000	**46.326**
Bereavement Services	6.417	0.000	0.000	0.000	0.000	0.000	**6.417**
Childrens Services	3.615	0.000	0.000	0.000	0.000	0.000	**3.615**
Customer & Communications	14.956	3.916	0.985	0.500	0.000	0.000	**20.357**
Environment	15.134	2.000	2.000	0.000	0.000	0.000	**19.134**
ICT Services	4.020	1.120	1.080	2.200	0.000	0.000	**8.420**
Regeneration	24.872	7.188	5.323	0.000	0.000	0.000	**37.383**
Sub Total	**118.979**	**15.048**	**9.388**	**2.700**	**0.000**	**0.000**	**146.115**
Regeneration Programme	223.468	98.212	57.303	65.979	19.360	2.693	**467.014**
Total Capital Expenditure	**342.447**	**113.260**	**66.691**	**68.679**	**19.360**	**2.693**	**613.129**
Funding							
Capital Receipts	120.256	55.000	30.000	46.535	7.783	0.000	**259.574**
Revenue and Reserve Contributions	0.146	0.000	0.000	0.000	0.000	0.000	**0.146**
Grants & Other Contributions	46.890	0.824	0.000	0.000	0.000	0.000	**47.714**
Borrowing	175.155	57.436	36.691	22.144	11.577	2.693	**305.695**
Total Funding	**342.447**	**113.260**	**66.691**	**68.679**	**19.360**	**2.693**	**613.129**

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 2020/21, Including the Housing Revenue Account, the Council is planning capital expenditure of £409.963m as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2018/19 actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
General Fund Services	30.275	116.080	118.979	15.048	9.388
Council Housing (HRA)	33.677	136.080	97.224	113.596	116.223
Regeneration Programme	7.635	31.097	223.468	98.212	57.303
Total	**71.588**	**283.257**	**439.671**	**226.856**	**182.914**

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:

	2018/19 actual £m	2019/20 actual £m	2020/21 actual £m	2021/22 actual £m	2022/23 actual £m
Capital Receipts	20.547	45.391	121.716	56.460	31.053
Revenue Contributions & Reserves	23.996	98.089	20.643	20.989	18.712
Grants & Other Contributions	16.296	45.391	80.378	23.850	36.266
Borrowing	10.748	94.386	216.934	125.557	96.883
Total	**71.588**	**283.257**	**439.671**	**226.856**	**182.914**

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 £207.899m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31/3/2019 actual £m	31/3/2020 forecast £m	31/3/2021 forecast £m	31/3/2022 forecast £m	31/3/2023 forecast £m
General Fund services	72.185	105.360	152.225	163.405	169.187
Council Housing (HRA)	174.669	203.288	240.149	311.189	381.735
Regeneration Programme	26.489	56.985	181.158	214.454	229.156
Total CFR	**273.343**	**365.633**	**573.532**	**689.048**	**780.078**

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.

Prudential Indicator: Ratio of Financing costs to Net Revenue Stream

	2018/2019 actual	2019/2020 forecast	2020/2021 forecast	2021/2022 forecast	2022/2023 forecast
General Fund services	2.47%	3.24%	5.24%	5.47%	5.95%
Council Housing (HRA)	3.81%	4.44%	5.25%	6.80%	8.34%
Regeneration Programme	0.85%	1.62%	6.53%	8.73%	9.45%
Total CFR	**7.13%**	**9.30%**	**17.02%**	**21.00%**	**23.73%**

3. Flexible Use of Receipts

3.1 Approved within the 2019/20 capital programme were the Oracle Cloud Enterprise Resource Planning System (Fusion) and the Customer Relationship Management system (CRM). These had budgets approved of £4.5m and £1.8m respectively and the intention was to fund these schemes through the flexible use of receipts directive. Therefore approval of these schemes was sought via the 2019/20 capital programme.

The budgets approved by Council are set out below:

Flexible Use of Receipts	2019/20	2020/21	2021/22	2022/23	2023/24	Total
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
Total Funding from Flexible Use of Receipts	**6.300**	**0.000**	**0.000**	**0.000**	**0.000**	**6.300**

A year on and with the projects now underway the projects have a revised profiling as follows:

Flexible Use of Receipts	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Oracle Cloud Enterprise Resource Planning System	3.130	1.370	0.000	0.000	0.000	4.500
Customer Relationship Management System	0.678	1.122	0.000	0.000	0.000	1.800
Total Funding from Flexible Use of Receipts	**3.808**	**2.492**	**0.000**	**0.000**	**0.000**	**6.300**

***** *The existing CRM budget is in addition to the top up sum of £2.660m included in the new capital bids as outline in table 2 earlier in the report*

4. Disposals

4.1 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.

5. Investments in the Regeneration Programme

5.1 Overview

5.1.1 With central government financial support for local public services declining, the Council has invested in a number of joint ventures and subsidiaries.

5.1.2 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.

5.1.3 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

5.1.4 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.

5.1.5 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.

5.2 Risk Management and Mitigation

5.2.1 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.

5.2.2 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 pipeline 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.

5.3 Knowledge and Skills

5.3.1 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.

5.3.2 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.

5.3.3 Member training was undertaken as part of the induction programme following the last 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 Implications and Risks

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.

Health and Wellbeing Implications and Risks

The Council is committed to improving the quality of life and wellbeing for all Havering employee's and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report the way councils spends its budgets on facilities and services does have the potential to impact on our overall health and wellbeing.

For example Investment in social infrastructure for public services is likely to have a positive impact on health and wellbeing in terms of providing facilities and services, social connectivity, skills improvement, employment and wealth creation. If social infrastructure is not invested and there is a lack of good quality roads, paths and public buildings the aesthetic quality of the environment can impact negatively on both physical and mental health and wellbeing.

Sitting behind this strategy are a number of processes to assess and improve the health impacts of the projects being proposed. For example, any capital building works such as the 12 estates regeneration project will be subject to the new local plan which includes a new policy requirement for development applications of 10 units or more to have a commensurate scale health impact assessment. This will highlight any positive impacts of the development on improved health and wellbeing and look for ways to mitigate any negative impacts.

In addition where appropriate, individual projects/programmes within this strategy will themselves be subject to a separate equalities and health impact assessment (EqHIA) which will identify in more detail potential negative impacts for mitigation or positive impacts.

Project Organization	Programme Area	Project	2020 Budget	2021 Budget	2022 Budget and Beyond
Adults Services	Adults Services Other	A2816 Adults Learning Disabilities Provision Build	2,650,000	0.00	0
Adults Services	**Adults Services Other Total**		**2,650,000**	**0.00**	**0**
Adults Services Total			**2,650,000**	**0**	**0**
Asset Management	Corporate Buildings	A2827 Central Depot Expansion	512,015	0.00	0
Asset Management	Corporate Buildings	A3116 Smart Working	3,300,000	0.00	0
Asset Management	Corporate Buildings	A3105 Air Conditioning - Corporate Landlord	60,000	0.00	0
Asset Management	Corporate Buildings	A2237 Corporate Buildings Replacement of Safety Film to Glass	59,500	0.00	0
Asset Management	**Corporate Buildings Total**		**3,931,515**	**0.00**	**0**
Asset Management	Health & Safety	A1200 H&S Fire Extinguisher Acquisitions	6,000	0.00	0
Asset Management	Health & Safety	A1801 H&S Corporate Buildings - Legionella Assessments	20,000	0.00	0
Asset Management	Health & Safety	A3087 H&S Corporate Buildings - Fire Risk Assessments	50,000	0.00	0
Asset Management	Health & Safety	A3088 H&S Corporate Buildings - Fire Doors	25,000	0.00	0
Asset Management	Health & Safety	A3089 H&S Corporate Buildings - Asbestos	5,000	0.00	0
Asset Management	**Health & Safety Total**		**106,000**	**0.00**	**0**
Asset Management	Libraries	A1000 Harold Hill Library Prgm, Harold Hill Projects: 2012-13 (Community Hubs)	284,631	0.00	0
Asset Management	**Libraries Total**		**284,631**	**0.00**	**0**
Asset Management	Pre-Sale Expenses	A2973 Pre-Sale Expenses - Land at Hall Lane Pitch & Putt (P01139)	250,000	0.00	0
Asset Management	**Pre-Sale Expenses Total**		**250,000**	**0.00**	**0**
Asset Management	Schools Building Maintenance	A2249 Royal Liberty Sch - Electrical Upgrade phase 2	85,636	0.00	0
Asset Management	Schools Building Maintenance	A2549 Emergency Condition Works to Education Buildings	600,000	0.00	0
Asset Management	Schools Building Maintenance	A2552 DDA Works 2017/18	50,000	0.00	0
Asset Management	Schools Building Maintenance	A2872 Branfil School Replace Flat Roof over Girls Toilet Area	10,470	0.00	0
Asset Management	Schools Building Maintenance	A2877 Ardleigh Green Junior Replace Pipeworks and Emitters	20,000	0.00	0
Asset Management	Schools Building Maintenance	A3020 Ardleigh Green Jr Sch Replace pipework & emitters phase 1	50,000	0.00	0
Asset Management	Schools Building Maintenance	A3026 James Oglethorpe Sch Window Replacement	5,270	0.00	0
Asset Management	Schools Building Maintenance	A3031 Mead Sch Windows Replacement Junior block	80,000	0.00	0
Asset Management	Schools Building Maintenance	A3032 Mead Sch Structural Repairs underpinning	50,000	0.00	0
Asset Management	Schools Building Maintenance	A3033 Nelmes Sch Upgrade lighting & ceiling tiles	55,000	0.00	0
Asset Management	Schools Building Maintenance	A3038 Rainham Village Sch Hot and Cold water pipework replacement	15,000	0.00	0
Asset Management	Schools Building Maintenance	A3040 Scotts Sch Emergency Lighting	20,000	0.00	0
Asset Management	**Schools Building Maintenance Total**		**1,041,376**	**0.00**	**0**
Asset Management	Schools Expansion Phase 3	A2330 Crownfield Jr Expansion 3FE to 4FE - Phase 3	500,000	0.00	0
Asset Management	Schools Expansion Phase 3	A2331 Broadford Sch Expansion 2FE to 3FE - Phase 3	35,000	0.00	0
Asset Management	Schools Expansion Phase 3	A2393 Hylands Prim Expansion 2 to 3 FE Phase 3	50,000	0.00	0
Asset Management	Schools Expansion Phase 3	A2394 Rainham Village Sch Expansion 2 to 3 FE Phase 3	100,000	0.00	0
Asset Management	Schools Expansion Phase 3	A2401 Brady Primary Expansion - 1 to 2 FE Phase 3	1,686,411	472,430.00	0
Asset Management	**Schools Expansion Phase 3 Total**		**2,371,411**	**472,430.00**	**0**
Asset Management	Schools Expansion Phase 4	A2604 Mead Sch 1FE Expansion Phase 4	996,854	0.00	0
Asset Management	Schools Expansion Phase 4	A2611 Marshalls Park Academy 6 to 8 Phase 4	2,575,000	0.00	0
Asset Management	**Schools Expansion Phase 4 Total**		**3,571,854**	**0.00**	**0**
Asset Management	Schools Expansions Unallocated	A2603 Phase 4 Expansions Unallocated	8,707,280	351,446.00	0
Asset Management	Schools Expansions Unallocated	A2947 SEN Unallocated Monies	970,334	0.00	0
Asset Management	Schools Expansions Unallocated	A2972 Nelmes Primary School - SEN Places	300,000	0.00	0
Asset Management	Schools Expansions Unallocated	A3007 Schools Basic Needs 2020/21	21,953,000	0.00	0
Asset Management	**Schools Expansions Unallocated Total**		**31,930,614**	**351,446.00**	**0**
Asset Management Total			**43,487,401**	**823,876**	**0**
Bereavement Services - Cems & Crems	Cemeteries & Crematorium	A2829 Replacement Programmable Logic Controllers & Analysers for Cremators	37,000	0.00	0
Bereavement Services - Cems & Crems	Cemeteries & Crematorium	A2832 Cemetery Expansion Phases 2 & 3	2,030,000	0.00	0
Bereavement Services - Cems & Crems	**Cemeteries & Crematorium Total**		**2,067,000**	**0.00**	**0**

Bereavement Services - Cems & Crems Total			**2,067,000**	**0**	**0**
Childrens Services	Childrens Services Other	A2814 Children with SEND Residential Provision - Build	1,350,000	0.00	0
Childrens Services	Childrens Services Other	A2815 Childrens Residential and Attached Semi Independent Provision Home	1,900,000	0.00	0
Childrens Services	Childrens Services Other	A2817 Refurbishment of Widecombe Close and Park End Road	150,000	0.00	0
Childrens Services	Childrens Services Other	A2936 Locality Based Childrens Centres Transformation	115,082	0.00	0
Childrens Services	**Childrens Services Other Total**		**3,515,082**	**0.00**	**0**
Childrens Services Total			**3,515,082**	**0**	**0**
Customer & Communications Service	Art & Culture	A2831 Queens Theatre - Addressing items identified through a condition survey	313,000	0.00	0
Customer & Communications Service	**Art & Culture Total**		**313,000**	**0.00**	**0**
Customer & Communications Service	Libraries	A2213 Libraries CCTV Replacement	8,331	0.00	0
Customer & Communications Service	**Libraries Total**		**8,331**	**0.00**	**0**
Customer & Communications Service	SLM	A2686 SLM - Central Park Leisure Centre - Refurbishment	296,962	90,000.00	149,916
Customer & Communications Service	SLM	A2687 SLM - Hornchurch Sports Centre - Redevelopment	5,399,250	764,000.00	255,084
Customer & Communications Service	SLM	A2688 SLM - Sapphire Ice & Leisure - Fit Out	210,664	0.00	80,000
Customer & Communications Service	**SLM Total**		**5,906,876**	**854,000.00**	**485,000**
Customer & Communications Service Total			**6,228,207**	**854,000**	**485,000**
Environment	Environment	A2957 Rise Park Flood Alleviation Scheme	20,000	0.00	0
Environment	**Environment Total**		**20,000**	**0**	**0**
Environment	Environment Highways	A3000 Highways Infrastructure Investment Programme	10,000,000	0.00	0
Environment	Environment Highways	A2821 Five Year Carriageway Resurfacing Programme	1,000,000	1,000,000.00	1,000,000
Environment	Environment Highways	A2856 Five Year Footway Resurfacing Programme	1,000,000	1,000,000.00	1,000,000
Environment	**Environment Highways Total**		**12,000,000**	**2,000,000**	**2,000,000**
Environment	Parking	A3001 Parking Investment	900,000	0.00	0
Environment	**Parking Total**		**900,000**	**0**	**0**
Environment	Street Lighting	A3106 Street Lighting LED Lantern Upgrades	196,000	0.00	0
Environment	**Street Lighting Total**		**196,000**	**0**	**0**
Environment Total			**13,116,000**	**2,000,000**	**2,000,000**
ICT Services	ICT Infrastructure	A2818 Infrastructure Improvements and Resilience	620,000	620,000.00	620,000
ICT Services	ICT Infrastructure	Axxxx Smarter Working - IT Equipment	0	0.00	0
ICT Services	**ICT Infrastructure Total**		**620,000**	**620,000**	**620,000**
ICT Services Total			**620,000**	**620,000**	**620,000**
Regeneration	Bridge Close	A3003 Bridge Close - School	8,289,000	4,910,000.00	2,455,000
Regeneration	Bridge Close	A3004 Bridge Close - Medical Facility	0	2,278,000.00	2,868,000
Regeneration	**Bridge Close Total**		**8,289,000**	**7,188,000**	**5,323,000**
Regeneration	Regeneration Eco Development	A2359 Romford Market Physical Works	708,350	0.00	0
Regeneration	Regeneration Eco Development	A1139 Romford Associated Projects	55,876	0.00	0
Regeneration	Regeneration Eco Development	A1296 Rainham Marshes Nature Reserve, Access and Development, Regen: 2013-14	158,307	0.00	0
Regeneration	Regeneration Eco Development	A1558 Rainham To Purfleet Path Phs 1, Regen: 2008-09	3,132	0.00	0
Regeneration	Regeneration Eco Development	A1805 Town Centre Regeneration - Local Improvement Projects (2014/15 core programme)	32,152	0.00	0
Regeneration	Regeneration Eco Development	A1956 Romford Town Centre	100,000	0.00	0
Regeneration	**Regeneration Eco Development Total**		**1,057,817**	**0**	**0**
Regeneration	TFL	A2900 Beam Parkway Major Scheme (Match funding commitment) LIP 18-19 TFL	525,079	0.00	0
Regeneration	**TFL Total**		**525,079**	**0**	**0**
Regeneration Total			**9,871,896**	**7,188,000**	**5,323,000**
Grand Total			**81,555,586**	**11,485,876**	**8,428,000**

* In October 2016, Cabinet approved phases 3 and 4 of the schools expansion programme as part of the Council's commissioning plan for education provision. A total of 19 schools have been expanded which has created an additional 3,106 permanent primary and secondary school places in the borough. The above programme includes a number of virements to the expansions schemes funded from external grants that are now no longer progresing or the scope of the project has changed

Appendix 2

2020/21 DRAFT CONDITION PROGRAMME

2020/21		
Branfil	Roof 1	£100,000
Clockhouse	Roofs 5, 6	£80,000
Crownfield Infants	Replace lighting	£30,000
Crowlands	Windows Hall KS2	£10,000
Engayne	Roofs 3, 5	£130,000
Gidea Park	Heating and Controls	£120,000
Harold Court	Roofs 1,2,3,4,5,7	£250,000
Harold Wood	Upgrade switchgear/ main distribution works	£40,000
Hildene	Roofs 1,3,10	£180,000
Hildene	Fire alarm and emergency lighting	£55,000
Hildene Nursery	Fire alarm and emergency lighting	£55,000
James Oglethorpe	Main distribution works	£50,000
James Oglethorpe	Roof 15	£60,000
Langton Infants	Hot water classrooms	£20,000
Mead	Replace ceiling and lights Hall Inf and Jnr	£45,000
Nelmes Junior	Lighting upgrade 1st Floor	£20,000
Parkland Infants	Replace Switchgear	£30,000
Parklands	Renewal of rear access roadway	£25,000
Parklands Juniors	Replace switchgear	£30,000
Parklands Juniors	Roof 1	£80,000
Parsonage Farm	Roofs 3, 4, 5	£100,000
RJMitchell	Emergency lighting	£20,000
Squirrels Junior	Roofs	£145,000
Squirrels Inf & Junior	Windows Hall and kitchen	£25,000
Squirrels Junior	Lightting upgrade	£25,000
Towers Infants	Roofs 4, 8, 10	£140,000
Various schools bid	Fire doors	£150,000
Total 2020/21		**£2,015,000**

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Havering
LONDON BOROUGH

CABINET

	12th February 2020
Subject Heading:	**Treasury Management Strategy Statement (TMSS) 2020/21 and Annual Investment Strategy (AIS) 2020/21, Treasury Indicators and Minimum Revenue Provision Policy Statement for 2020/21**
Cabinet Member:	**Councillor Roger Ramsey** **Cabinet Member for Finance & Property**
SLT Lead:	**Jane West** **(Chief Operating Officer)**
Report Author and contact details:	**Zainab Roberts / Stephen Wild** **Zainab.Roberts@havering.gov.uk** **Stephen.Wild@onesource.co.uk** **01708 434 306 / 0203 373 3881**
Policy context:	**The code of practice on treasury management 2017 recommends that the Treasury Management Strategy and Minimum Revenue Provision Statement are reported to a scrutiny committee for effective scrutiny.**
Financial summary:	**The Treasury Management Strategy forms part of the Council's overall budget strategy and financial management framework.**
Is this a Key Decision?	**Yes**

When should this matter be reviewed? **Bi-Annually**

Reviewing OSC: **Overview and Scrutiny Board**

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

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

SUMMARY

The TMSS and AIS are part of the Council's reporting procedures and are recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and its prudential code for capital finance in local authorities. The Local Government Act 2003 requires councils to comply with both codes.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management Indicators
- A Minimum Revenue Provision Policy (the means by which capital expenditure which is financed from borrowing is paid for by council tax payers)

RECOMMENDATIONS

Cabinet is asked to:

1. Approve the Treasury Management Strategy Statement (TMSS) 2020/21.
2. Approve the Treasury Management set out in Appendices 1 and 2 of this report.

3. Approve the Annual Minimum Revenue Provision (MRP) Statement for 2020/21 set out in Appendix 7 of this report.
4. Recommend the annual TMSS and MRP statements 2020/21 to Council for approval.
5. Delegate future changes required to this Strategy to the Chief Operating Officer in the consultation with the Cabinet Member for Finance and Property. This will provide the additional flexibility to swiftly respond to changing financial markets.

REPORT DETAIL

1. Introduction

1.1 The Authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.2 Revised reporting is required for the 2020/21 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

CIPFA define treasury management as "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as “regeneration programme”.

1.4 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.5 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

2. Key Considerations and Sustainability

2.1 Treasury Management Strategy for 2020/21

2.1.1 The strategy for 2020/21 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;

- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position; see table 1 below
- treasury indicators which limit the treasury risk and activities of the Council; Appendix 2
- prospects for interest rates; Appendix 3
- the borrowing strategy;
- policy on borrowing in advance of need; Appendix 4
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the policy on use of external service providers.

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

2.2 Training

2.2.1 One of the main requirements of the Treasury Code is the increased Member consideration of treasury management matters, and the need to ensure officers dealing with treasury management and investment are trained and keep their skills up to date. The Council addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.
- This requires all relevant Officers to keep their skills up to date by utilising both external and internal training, workshops and seminars, and by participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

2.3 Treasury Management Consultants

2.3.1 The Council uses Link Asset Services as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are agreed and subjected to regular review.

3. Service Delivery and Performance Issues

3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, shown in Appendix 1, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 Current Portfolio Position

3.2.1 The overall treasury management portfolio as at 31 March 2019 and the position as at 31st December 2019 are shown below for both borrowing and investments.

Table1: Current Portfolio Position

	TREASURY PORTFOLIO			
	Actual 31/3/19 £m	**Actual 31/3/19 %**	**Current 31/12/19 £m**	**Current 31/12/19 %**
Treasury Investments				
Banks & Building Societies	60.100	32	60.000	38
Government (including Local Authorities)	109.000	58	85.000	53
Money Market funds	14.490	8	10.880	7
Bonds	3.000	2	3.000	2
Total Treasury Investments	**186.590**	**100**	**158.880**	**100**
Treasury External Borrowing Local Authorities				
PWLB	203.235	96	203.235	96
LOBO loans from banks	7.000	3	7.000	3
Other loans	0.351	1		1

			0.351	
Total External Borrowing	**210.586**	**100**	**210.586**	**100**
Net Treasury Investments/(Borrowing)	**(23.996)**		**(52.586)**	

3.2.2 The Council's forward projections for borrowing are summarised below in Table 2. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2: Capital Financing Requirement (CFR)

£m	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
External Debt					
Debt at 1 April	241	210	273	366	574
Expected change in Debt	(31)	63	93	208	115
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**210**	**273**	**366**	**574**	**689**
The Capital Financing Requirement	**273**	**366**	**574**	**689**	**780**
Under / (over) borrowing	**63**	**93**	**208**	**115**	**91**

3.2.3 Within the above figures the level of debt relating to regeneration activities is detailed in table 3 below

Table 3: Regeneration Programme debt

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**

	Actual	Estimate	Estimate	Estimate	Estimate
Actual debt at 31 March £m	26	57	181	214	229
Percentage of total CFR %	9	15	31	31	29

3.2.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits – see Appendix 1

3.2.5 The Chief Operating Officer reports that the Council complied with the prudential indicator that the Council's gross borrowing in the current year does not exceed its CFR and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 Prospects for Interest Rates

3.3.1 Current Forecasts are shown in Appendix 3

3.3.2 The forecast anticipated consumer price inflation to remain around or slightly below 2% along with the expectation that the Bank of England will keep interest rates on hold at 0.75% until the situation on both Brexit and the global economy is clearer.

Our central case is that the EU withdrawal agreement will be approved by Parliament by the end of January 2020. The forecast assumes the Bank of England will raise interest rates to 1% in March 2021.

3.4 Borrowing Strategy

3.4.1 Caution will be adopted with the 2020/21 treasury operations. The Chief Operating Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.4.2 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.4.3 On the 9th October the PWLB unexpectedly announced that it was increasing its interest rates across all its new loans by 1% with immediate effect. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Operating Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation),then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

New Borrowing

3.4.5 The council's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

- Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the Council's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable;
- Temporary Borrowing: from the money market or other local authorities;
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources;
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio;
- PWLB: borrowing for periods across all durations where rates offer best value;

- Other borrowing arrangements: such as the use of leasing may be more cost efficient for some types of capital expenditure such as for vehicles and equipment.

3.4.6 The council will continue to borrow in respect of the following:
- Maturing debt;
- Approved (prudential) capital expenditure / capital investment;
- To finance short-term cashflow fluctuations.

3.4.7 The type, period, rate and timing of new borrowing will be determined by the Chief Operating Officer under delegated powers, taking into account the following factors:
- Expected movements in interest rates as outlined above;
- Maturity profile of the debt portfolio;
- The impact on the medium term financial strategy;
- Prudential indicators and limits.

Treasury Management Limits on borrowing activity

3.4.8. There are three debt related treasury activity limits. The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement. The indicators are:
- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure;
- Maturity structure of borrowing to manage refinancing risk.

3.4.9. The proposed indicators are set out in Appendix 2.

Policy on borrowing in advance of need

3.4.10. This is set out in Appendix 4 of this report.

Debt Rescheduling

3.4.11 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- o The generation of cash savings and / or discounted cash flow savings;
- o To fulfil the treasury strategy;
- o To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- o Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.5 **Annual Investment Strategy**

3.5.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report) which will be considered at the same meeting.

3.5.2 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018.

3.5.3 The key intention of the Guidance is to maintain the requirement for councils to invest prudently and that priority is given to the security and liquidity of investments before yield.
The Council's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity.
Within the prudent management of its financial affairs, the Council may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Council will not engage in such activity.

3.5.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk, its minimum credit criteria is set out in Appendix 5.

3.5.5 The Council will consider placing longer term treasury deals while investment rates are at historically low levels and where attractive interest rates with high quality counterparties become available.

3.5.6 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.5.7 Credit ratings should not be the sole determinant of the quality of an institution, this Council is not bound by the agency with the lowest rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.5.8 Treasury investment instruments identified for use in the financial year are listed in Appendix 6 under the 'specified' and 'non-specified' investment categories.

3.5.9 The Chief Operating Officer will, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.5.10 All investments will be denominated in sterling.

3.5.11 As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

3.5.12 Following the consultation undertaken by the MHCLG on IFRS 9 the Government introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

3.5.13 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing".

Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up.

3.5.14 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

3.5.15 Whilst the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

3.5.16 This Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

3.5.17 The local benchmark for investment is the 3 month LIBOR rate.

3.6 Loans to Third Parties

3.6.1 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Council’s internal cash balances as external borrowing is not permitted in such circumstances.

3.6.2 **Pension Fund Cash** - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Council to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Council. These balances are invested in accordance with the Council's Treasury Management Strategy.

The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Council. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.6.3 **Pension Fund Prefunding** – The Council can choose to enter into an agreement to made advance payment to fund the employee pension contribution for up to 3 years. The benefit of this is to take advantage of discount rate provided by the Pension Fund Actuary which will results in cash saving for the Council. The Council has not previously adopted such advance payments.

3.7 Treasury Indicators

3.7.1 The indicators cover 2018/19 -2022/23. The CIPFA Prudential Code and the TM code requires authorities to set treasury indicators and these are set out in Appendix 2. No breaches in the indicators are expected in 2019/20.

3.8 Minimum Revenue Provision (MRP)

3.8.1 The MRP Policy Statement 2020/21 is set out in Appendix 7 of this report.

3.9 Policy on the use of external service providers

3.9.1 The Council uses Link Asset Services as its external treasury management advisors.

3.9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Council ought to approve a Treasury Management Strategy Statement, the MRP Strategy and the Prudential Indicators.

Other options considered:

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Operating Officer, having consulted the Cabinet Member for Finance and Property, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2020/21, the budget for investment income has been set at £1.7m, based on an average interest rate of 0.8%. However this may need to be revised down during the year depending on the balance between internal and external borrowing with any corresponding offset made to the interest payable budget.

The budget for long term debt interest payable in 2020/21 has been increased from £10.5m to £13.2m. This is based on the existing average long term debt portfolio of £210m at an average interest rate of 3.6% and has been adjusted for anticipated borrowing for the 2020/21 capital programme.

Of the existing £210m of long term debt, £174m is in relation to the HRA, with a budget for debt interest payable of £5.8m.

The General Fund Budget for debt interest on external debt has been increased from £2.4m to £5.1m to allow for external borrowing to be undertaken should it be considered necessary in 2020/21 to fund the cost of borrowing for the increased capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Council must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA when considering its duty under section 3.

The Council has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report."

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employee's and residents in respect of socio-economics and health determinants. There are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE:

- London Borough of Havering – Treasury management strategy 2020/21 and MRP Policy statement.

Appendix 1

PRUDENTIAL INDICATORS

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2018/19 Actual	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Non-HRA	**30.275**	**116.080**	**118.979**	**15.048**	**9.388**
HRA	**33.677**	**136.080**	**97.224**	**113.596**	**116.223**
Regeneration Programme *	**7.635**	**31.097**	**223.468**	**98.212**	**57.303**
Total	**71.588**	**283.257**	**439.671**	**226.856**	**182.914**

* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate

£m					
Capital receipts	20.547	45.391	121.716	56.460	31.053
Capital grants	16.296	45.391	80.378	23.850	36.266
Revenue and Reserves	23.996	98.089	20.643	20.989	18.712
Net financing need for the year	**10.748**	**94.386**	**216.934**	**125.557**	**96.883**

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Regeneration Programme £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	8.785	28.097	223.468	98.212	57.303
Other Sources of Financing	0	0	98.250	55.000	30.000
Net financing need for the year	**8.785**	**28.097**	**125.218**	**43.212**	**27.303**
Percentage of total net financing need %	**81.74**	**29.77**	**57.72**	**34.42**	**28.18**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (OLTL) which relates to PFI scheme and finance leases. The Council currently has no such liabilities within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR – non housing	72.185	105.360	152.225	163.405	169.187
CFR – housing	174.669	203.288	240.149	311.189	381.735
CFR – Regeneration Programme	26.489	56.985	181.158	214.454	229.156
Total CFR	**273.343**	**365.633**	**573.532**	**689.048**	**780.078**
Movement in CFR	**16.969**	**92.290**	**207.899**	**115.516**	**91.030**

Movement in CFR represented by					
Net financing need for the year	10.748	94.386	216.934	125.557	96.883
Less MRP and other financing movements	1.875	2.096	9.035	10.041	5.853
Movement in CFR	**8.873**	**92.290**	**207.899**	**115.516**	**91.030**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Operating Officers reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	2.47	3.24	5.24	5.47	5.95
HRA	3.81	4.44	5.25	6.80	8.34
Regeneration Programme	0.85	1.62	6.53	8.73	9.45
Total	7.13	9.30	17.02	21.00	23.73

Prior to 2018/19 regeneration programme activities are not shown separately in this table

The estimates of financing costs include current commitments and the proposals in this budget report.

Appendix 2

TREASURY INDICATORS

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2019/20 Limit (actual)	2020/21 Limit	2021/22 Limit	2022/23 Limit
Debt	293	459	551	624
Other long term liabilities	10	10	10	10
Regeneration Programme	46	145	171	183
Total	349	614	732	817

The authorised limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2019/20 Limit	2020/21 Limit	2021/22 Limit	2022/23 Limit
Debt	439	688	827	936
Other long term liabilities	10	10	10	10
Regeneration Programme	68	217	257	275
Total	517	915	1094	1221

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair opportunities to reduce costs/improve performance.

The Code requires that for LOBO loans the maturity date is now deemed to be the next call date.

The indicators are:

Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure of large fixed rate sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	90%
12 months to 2 years	0%	90%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested for longer than 365 days	£75m	£75m	£75m

Appendix 3

PROSPECTS FOR INTEREST RATES

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Bank Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.20%**	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.20%**	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.44%**	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.44%**	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.00%**	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.00%**	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.85%**	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.85%**	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

The Bank of England Monetary Policy Committee ("MPC") has held its main interest rate steady at 0.75% with its rate-setting committee voting 7-2 in favour of keeping the current level.

The central bank maintained the dovish stance exhibited after its previous meeting, commenting in an accompanying statement: "If global growth fails to stabilize or Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected U.K. recovery."

Its forecast for U.K. GDP (gross domestic product) growth in the fourth quarter of 2019 was cut to +0.1% from the November forecast of +0.2%, reflecting the weakening of economic conditions shown in recent data.

Two MPC policymakers, Jonathan Haskel and Michael Saunders, voted to cut the main interest rate to 0.5%, as was also the case in November.

On the U.S.-China trade war, the Bank of England noted the "partial de-escalation of the U.S.-China trade war gives some additional support to the outlook" but highlighted that the continued sign of loosening in the U.K. labour market was another potential headwind.

The central bank has been grappling with uncertainty over Brexit for the past three years, and their focus now switches to what kind of trade deal the U.K will negotiate with the EU.

Following the Conservative Party's election victory, which all but ensures the U.K. will leave the EU before the January 31 deadline, Prime Minister Johnson has vowed to block any extension to the post-exit transition period beyond the end of 2020.

After raising rates in August 2018 to 0.75%, the MPC voted unanimously to hold rates during their September 2019 Policy meeting, reaffirming its pledge to gradual and limited rate rises under the assumption of a smooth Brexit and some recovery in global growth.
In August's Inflation Report, the BoE predicted a gradual increase in inflationary pressures, reaching above the inflation target of 2% by Q4 2020, and they forecast GDP growth to reach around 2.5% in 2022. Meanwhile, unemployment is expected to increase steadily up until Q3 2020, gradually decreasing from then on.

The US economy grew by an annualised 2.0% in Q2 2019, slightly below a preliminary estimate of 2.1% percent and following a 3.1% expansion in the previous three-month period, the second estimate showed.
The Fed decided to cut rates further by 25bps, lowering their target range to 1.75-2.00% during its September meeting, amid concerns about slowing global growth and trade wars.

On the 9th October 2019, the PWLB unexpectedly announced that it was increasing its interest rates across all its new loans by 1% with immediate effect.
While the Council's treasury management strategy permitted borrowing from a number of sources "it was not anticipated that any alternatives to PWLB would be utilised given the low cost of PWLB funding previously".

A further attraction of the PWLB had been "the low administration cost associated with raising funding, which was done by a simple phone call from officers when new borrowing was arranged".

The "significantly elevated resourcing requirement" of dealing with other lenders would depend on whether the currently underdeveloped market for lending to councils expanded now that the PWLB's rates were less attractive.

"The market which provides alternative funding to the PWLB for local authorities is not well developed,".

"Only a handful of authorities have raised funds via alternative routes, as PWLB rates have previously been at levels that competitors could not offer. This is now likely to change, and the market is likely to reassess the possibility of lending to councils."
The treasury team is liaising with LINK (the Council's Treasury Advisers) for alternative options to PWLB. e.g Pension Fund, LA to LA market, SPV etc.

Appendix 4

POLICY ON BORROWING IN ADVANCE OF NEED

The Council must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2020/21, plus the estimates of any additional CFR for the year 2019/20 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered;
- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow;
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles;
- Consider the positive and negative impacts of borrowing in advance of need on the Council's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 5

The Council's minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the Council works together with Link Asset Services (the treasury management advisor) to establish an operational lending list using Link's creditworthiness methodology.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.

   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

   The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The Authority's credit rating criteria for UK Building Societies in 2019/20 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.

4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

7. **Residential Mortgage Based Schemes** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.

8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

9. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured*	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	n/a	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	n/a	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	n/a	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	n/a	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m per authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds, Residential Mortgage Based Schemes (RMBS)				

* Includes Building Societies

Investment Limits

The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Appendix 6

Specified and Non Specified Investments

Specified investments:

The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Limits on specified investments are shown in table 1 below.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limits	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£35m	per Appendix 5, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 5, Table 1
Term Deposits	Local Authorities and other	UK Sovereign Rating	£35m	per Appendix 5, Table 1

	Public Institutions			
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 5, Table 1		per Appendix 5, Table 1
Money Market Fund		AAA [3]	£25m	
Enhanced Cash Funds		AA/Aa[4]	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	
1. £35m Limit per bank / banking group.				
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.				
3. Investments will be made with those MMF's which have a rating of AAA				
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating				

NON SPECIFIED INVESTMENTS

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 5, Table 1	10 yrs.	£75m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£20m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£95m**

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

	Cash Limit £m
Total long-term investments	75
Total Investments without credit ratings or rated below A- (subject to due diligence)	20
Total non-specified investments	**95**

Appendix 7

Minimum Revenue Provision Policy Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the MHCLG *Guidance on Minimum Revenue Provision* updated in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an “Adjustment A” of £2.9m on a reducing balance method

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, but under exceptional circumstances MRP the annuity or equal instalments method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The Council may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of

expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.

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