

APPENDIX I

CAPITAL INVESTMENT STRATEGY

Effective capital investment is essential to the delivery of the council's priorities and capital assets are a key resource contributing to the prosperity and well-being of Havering. The council's medium term financial strategy is supported by the capital strategy, and recognises the links between capital and revenue resources. The capital investment strategy is intrinsically linked to the revenue budget strategy. The revenue implications of capital expenditure and funding decisions are explored and accounted for on an on-going basis. These are reflected as appropriate and include the consideration of the challenging financial climate which the Council faces.

The Capital Investment Strategy is in place to drive forward the financial planning process and make best use of capital resources. The Capital Investment Strategy will continue to be reviewed and developed to integrate and support the delivery of the Council's Corporate Vision – 'Havering - Making a Greater London' and its four cross cutting priorities - Communities, Places, Opportunities and Connections.

The capital management framework has been under review and as a result a revised capital programme, profiled over a 5 year MTFS period is in place. However the business cases of schemes within that programme are assessed on a whole programme life basis. The revised capital programme recommended for approval includes the Development programme, incorporating the Mercury Land Holdings investments and the regeneration proposals of the 12 Estates, Bridge Close and Rainham- Beam Park. These are long term capital investments and it is critical that they are considered along with revenue funding. Over the whole life of a capital project there may be a wide range of cost and cost saving implications. The whole life cost and potential income returns of each capital investment project will be considered from the earliest stage of project development.

The capital strategy informs the treasury management strategy. The capital financing requirement is established from the approved capital programme, with the planned profile adjusted to allow for known capital programme slippage, and this is compared to the funding streams known at any given time.

The strategy will drive the development of the future Capital Programme over the medium term and will be further developed during 2018 to ensure that it integrates with and supports the delivery of the Council's Corporate Vision. There are three core elements to the Council's future Capital Investment Plans:

Invest to Save - Efficiency Programme

The 2017/18 capital approval includes a budget of £5m which was made available to fund an 'Efficiency Programme' to enable capital investment projects that will deliver:

- On-going reductions in revenue expenditure (i.e. cashable savings)
- On-going cost avoidance measures to avoid future increases in expenditure (i.e. non-cashable savings)

This resource, added to other existing invest to save budgets within the capital programme, subject to approval, will be invested in developing local social care residential provisions thereby enabling people to stay in Havering and the council to make revenue savings from expensive out of borough placements. These proposals will be supported by robust business cases and implementation of projects will be subject to benefits realisation management to ensure that investment delivers the stated benefits including financial benefits in terms of savings.

The principle of invest to save remains a key element of the capital strategy, and with the limited availability of financial and other resources, remains one of the evaluation measures of business cases. Efficiency savings and service improvements can be achieved by doing things not just better but differently. It is recommended that individual schemes that are forthcoming in the year with the identification of funding streams are considered by the officer Strategic Capital Asset Management Group (CAMG) with the final scheme approval being delegated to the Chief Financial Officer in consultation with the Leader of the Council and Lead Member for Financial Management. All schemes would require a robust business case demonstrating the link between investment and delivery of revenue savings and/or income returns.

Development programme - Mercury Land Holdings and Regeneration schemes

In 2016/1, £100m was included in the capital programme for Regeneration and Development schemes to be funded by prudential borrowing subject to approval of robust business cases. The majority of this provision is being used to fund the Mercury Land Holdings investment programme included in the business plan agreed by cabinet in December 2017 and the acquisition of land from and awarding of a loan to Havering College agreed in June 2017.

In addition Cabinet has given approval for the progressions of three regeneration schemes

- 12 Estates programmes, regenerating and redeveloping 12 of the councils housing estates
- Bridge Close
- Rainham –Beam Park.

These schemes have been subject to demonstration of robust business cases, linked to long term capital and revenue investment plans integrated within the MTFS and robust due diligence mechanisms. The physical and social infrastructure benefits that should result from the regeneration programmes are also recognised as part of the benefits of the capital investment. Ensuring the realisation of all the benefits is part of the programme management requirement. The importance of managing and monitoring delivery of these programmes has been recognised with the proposal of a governance structure including the Regeneration board, and the establishment of robust client side management structures.

Asset Management

The delivery of Council services is dependent upon the effective utilisation of resources including its asset base to provide services to the community. Investment in core assets such as highways, buildings and IT is essential to the delivery of

effective services over the medium to long term. Capital investment in assets is informed by effective asset management and planning.

Investment in ICT should reflect the roadmap for investment and corporate direction of travel as outlined in the INCt Strategy. This document is under development and should inform and direct ICT investment strategies to ensure the delivery of the corporate vision.

The Council's approach to capital asset management includes the review of existing assets in terms of suitability for purpose, alternative and future use, and maintenance requirements. The aim for the Council to rationalise its asset portfolio and only retain assets that support the delivery of its goals, offer value for money or in some other way are important for community, heritage or other significant social purpose. The current Asset Management plan covers the period from 2015 to 2019, and will need to be refreshed during 2018/19 within the context of the capital strategy.

Overall Approach

The Council will continue to adopt a prudent capital programme taking into account the views of the local community and wider stakeholders as far as possible in line with its corporate priorities and will seek to:

- protect, maintain and develop existing assets and infrastructure – the backlog of repairs to existing assets such as school buildings, office accommodation, and infrastructure assets such as roads and paths;
- develop new facilities for which there is significant public demand or upgrading assets to meet the expectations of local people, and obtaining value for money from the use of our assets and resources;
- support the delivery of the Council's transformation programme and further initiatives to improve efficiency and effectiveness e.g. through the adoption of new technology to realise revenue savings or improve service delivery to the community.
- The Council will seek to continue to improve efficiency and value for money, in particular to:
 - maximise asset utilisation;
 - ensure assets are fit for purpose and health and safety compliant;
 - facilitate and promote community use;
 - explore alternative management arrangements e.g. leases to community groups;
 - explore opportunities for innovative ways to procure and deliver capital projects to maximise the resources available;
 - developing invest to save initiatives with agreed levels of return expected from such investments
 - consider the wider aspects of capital projects, for example whole life asset costs, return on investments, equality and diversity, and environmental implications;
 - investigate shared usage/ownership arrangement with other local authorities, partners and stakeholders.

Financing

The Council will finance capital expenditure through a combination of:

- Capital Receipts
- External Funding
- S106 Contributions or future CIL receipts
- Revenue Contributions to Capital
- Capital Grants
- Prudential Borrowing

Each funding stream will be considered in terms of risk and affordability in the short and long term.

The current and future economic climate has a significant influence on capital funding decisions. As a result planned disposals are kept under regular review to ensure the timing maximises the potential receipt where market conditions are not favourable. Review of this will be consolidated within the Strategic CAMG remit. Capital expenditure will only be permitted where funding streams have been identified and confirmed.

Prudential borrowing will be used to fund regeneration and development initiatives, where a robust business case can be made to finance the investment from an income or savings stream. The rates of return expected from investment of corporate resources will be ratified as part of the business case approval and gateway process to be approved in the capital strategy. Every effort is made to maximise grant funding, leverage opportunities and other external funding opportunities, where they are consistent with the Council's Corporate Vision. Use of grant funding will however only be made where the cost to the Council is minimised or where this – both capital and revenue – can be contained within existing resources.

Where expenditure is to be financed through capital, this will only occur where funds have been realised. Neither capital receipts generated through disposals nor S106 contributions will be committed to fund projects until they are actually received. This is due to the complex conditions and timing issues that can be associated with them. The Council is also continuing to attract private investment into Council facilities through exploration of potential partnership and outsourcing arrangements, and this has led to the development of the regeneration schemes included in the capital programme for financial approval, and the establishment of the joint venture organisations.

This funding approach has been made with reference to the Council's current and longer term financial position, the prudential code, the current and projected economic climate, and the Council's asset management strategy as set out in the Corporate Asset Management Plan. The revised prudential code, released by CIPFA in January this year, includes changed requirements for the capital strategy. These are outlined in the body of the report in section 9, paragraphs 9.22 onwards.

The capital programme will continue to be reviewed on an annual basis. This will consider items such as new funding opportunities and Corporate priorities outlined in the corporate vision. In year changes e.g. the availability of additional external

funding, will be made on an ongoing basis as part of routine programme management. These will be implemented with regard to the Council's Constitution and agreed procedures.

Three elements of the capital strategy development will be completed and approved over the next three months.

- Capital investment approval process including a gateway review process for business cases. This will include the consideration of a prioritisation approach to ensure the investments support corporate vision.
- Capital programme Governance process, including the Strategic Capital Assets Group
- Integration of the capital financial management analysis into the Execview programme management system