



## **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:**

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**Policy context:**

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

**Financial summary:**

The Council is required to approve the Capital Strategy as per the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice. The Council is required to set a balanced budget and the capital strategy and subsequent capital programme form part of this process. The financial implications of this strategy are included as part of the 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.

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- 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.

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**Table 1 - Existing Capital Programme & Funding**

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

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### 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**

<b>Internally Funded Schemes Presented for Approval</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>Total £m</b>
<b>Bereavement Services</b>					
Cemetery Extension - Additional Funding	3.100	0.000	0.000	0.000	<b>3.100</b>
Cremator Replacement	1.250	0.000	0.000	0.000	<b>1.250</b>
<b>Customer &amp; Communications</b>					
Coronation Gardens Wall	0.030	0.000	0.000	0.000	<b>0.030</b>
Park Improvements	1.750	0.500	0.500	0.500	<b>3.250</b>
Gate Improvements	0.020	0.000	0.000	0.000	<b>0.020</b>
Play Area Improvements	0.100	0.000	0.000	0.000	<b>0.100</b>
Libraries (Public PC's, Network and Self Service Kiosks)	0.375	0.000	0.000	0.000	<b>0.375</b>
Sports Centre	3.328	2.062	0.000	0.000	<b>5.390</b>
Langtons	0.500	0.500	0.000	0.000	<b>1.000</b>
Bretons	2.625	0.000	0.000	0.000	<b>2.625</b>
<b>Childrens Services</b>					
Youth Offending Service - 10 Headley Close	0.100	0.000	0.000	0.000	<b>0.100</b>
<b>ICT Services</b>					
IT Devices Refresh	0.040	0.100	0.250	1.750	<b>2.140</b>
Server Infrastructure	0.000	0.120	0.050	0.050	<b>0.220</b>
Data Centre Improvements	0.040	0.020	0.020	0.010	<b>0.090</b>
Networking (Core & Campus)	0.530	0.080	0.080	0.080	<b>0.770</b>
WiFi Infrastructure	0.030	0.030	0.050	0.300	<b>0.410</b>
Audio Visual Equipment	0.100	0.050	0.010	0.010	<b>0.170</b>
Skype to MS Teams Migration	0.000	0.100	0.000	0.000	<b>0.100</b>
CRM Top Up	2.660	0.000	0.000	0.000	<b>2.660</b>
<b>Regeneration</b>					
Strategic Investment Pot	15.000	0.000	0.000	0.000	<b>15.000</b>
<b>Total Internally Funded Schemes</b>	<b>31.578</b>	<b>3.562</b>	<b>0.960</b>	<b>2.700</b>	<b>38.800</b>
<b>Externally Funded Schemes Presented for Approval</b>					
<b>Asset Management</b>					
Schools Conditions Programme (indicative)	2.015	0.000	0.000	0.000	<b>2.015</b>
<b>Adults</b>					
Better Care Fund/ Disabled Facilities Grant (indicative)	1.813	0.000	0.000	0.000	<b>1.813</b>
<b>Environment</b>					
TFL - Core Local Implementation Plan (indicative)	1.918	0.000	0.000	0.000	<b>1.918</b>
TFL - Local Transport Funding (indicative)	0.100	0.000	0.000	0.000	<b>0.100</b>
<b>Total Externally Funded Schemes</b>	<b>5.846</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>5.846</b>
<b>TOTAL NEW GF CAPITAL PROGRAMME</b>	<b>37.424</b>	<b>3.562</b>	<b>0.960</b>	<b>2.700</b>	<b>44.646</b>

\* 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:

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

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 Centre 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
<b>Total</b>	<b>248.670</b>	<b>1,501.925</b>	<b>251.880</b>	<b>166.900</b>	<b>500.500</b>

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

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

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	<b>237.568</b>
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Grants	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Section 106/ CIL	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Borrowing	8.785	28.097	125.218	43.212	27.303	19.444	11.577	2.693	<b>266.328</b>
<b>TOTAL FUNDING</b>	<b>8.785</b>	<b>28.097</b>	<b>223.468</b>	<b>98.212</b>	<b>57.303</b>	<b>65.979</b>	<b>19.360</b>	<b>2.693</b>	<b>503.896</b>

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
	<b>2.917</b>	<b>5.511</b>	<b>1.686</b>	<b>1.110</b>	<b>0.935</b>

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

## **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.

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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
<b>Total</b>	<b>71.588</b>	<b>283.257</b>	<b>439.671</b>	<b>226.856</b>	<b>182.914</b>

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
<b>Total</b>	<b>71.588</b>	<b>283.257</b>	<b>439.671</b>	<b>226.856</b>	<b>182.914</b>

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

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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
<b>Total CFR</b>	<b>273.343</b>	<b>365.633</b>	<b>573.532</b>	<b>689.048</b>	<b>780.078</b>

- 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%
<b>Total CFR</b>	<b>7.13%</b>	<b>9.30%</b>	<b>17.02%</b>	<b>21.00%</b>	<b>23.73%</b>

### **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:

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

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

<b>Flexible Use of Receipts</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total</b>
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
<b>Total Funding from Flexible Use of Receipts</b>	<b>3.808</b>	<b>2.492</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>6.300</b>

*\* 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.

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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

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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.