



## **CABINET**

**17 February 2021**

**Subject Heading:**

**2021/22 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 2021/22 Budget Medium Term Financial Strategy report elsewhere on this agenda.

**Is this a Key Decision?**

**Yes**

**When should this matter be reviewed?**

Annually

**Reviewing OSC:**

Overview and Scrutiny Board

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

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

**SUMMARY**

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

This report sets out the Authority's Capital Strategy and presents the Council's proposed capital budget for 2021/22 and the medium term.

**RECOMMENDATIONS**

**Cabinet is asked to:**

1. **Recommend to Council for consideration and approval** the 2021/22 and ongoing Capital Programme noting the changes in accessing new borrowing set out in section 1.3
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.
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 2021/22 and beyond
6. **Note** the capital prudential indicators included within the capital strategy when approving the capital programme to ensure affordability.
7. **Agree** that the Chief Financial Officer be authorised to re-profile capital budgets mid-year based on the updated forecasts provided by services and reported to the Senior

Leadership Team as part of the capital monitoring process. This will assist in producing more accurate information for treasury management purposes.

<b>REPORT DETAIL</b>
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**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 rent setting report

The capital strategy is underpinned by the strategic aims of the – Cleaner, Safer and Prouder Together. The future capital investment will be focused into the delivery of these objectives for the Council.

1.1.2 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 an investment in the core infrastructure of carriageways and footways, and the capital programme recognises the commitment to managing the performance, risk and expenditure on its infrastructure assets.

1.1.4 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 was presented to Cabinet in January 2021 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.

- 1.1.5 The digital portfolio investment brings together all current and future technology and digital transformation projects clearly setting out how advances in the application of digital data and smart technologies will help to shape the digital future of our borough. It is essential to future proof and protect the resilience of council's systems against the risk of cyber-attacks.

## **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 2021/22 capital programme was undertaken as part of the corporate budget setting process. Project outlines were considered in terms of delivery of corporate objectives or operational plans, and a shortlist of schemes were approved for the production of outline business cases for consideration by Cabinet.
- 1.2.3 Any bids for capital funding outside the approved capital programme in year would need to include a business case demonstrating either a clear link to corporate objectives or the requirement to meet an operational imperative, establish the funding source to meet the cost and follow approval processes laid down in the Council's standing orders and financial regulations.
- 1.2.4 There is an established methodology for the development of project documentation and business cases, overseen by the corporate Programme Management Office. There is a corporate system which holds the key programme performance and delivery information used to manage and monitor the milestones, risk and outcomes of the programmes.
- 1.2.5 The above investments and processes are taking place against a background of austerity and significant uncertainty in the future sources of funding for local government. It is therefore a key aim of the Council's capital strategy that it delivers a financial return on investment, such as capital receipts or new revenue streams, or delivers key strategic priorities and benefits to the borough.
- 1.2.6 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.

- 1.2.7 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. Whilst there may be a commercial return resulting from a number of the schemes, this is not the predominant focus for the Council.

### **1.3 Access to Borrowing**

- 1.3.1 The government has acknowledged the valuable contribution that local authorities make to the social and economic infrastructure of this country, and is committed to the approach of local decision-making and accountability under the prudential regime when setting its capital programme
- 1.3.2 To support local investment and to encourage capital investment, local authorities can access low cost loans through the Public Works Loan Board (PWLb). The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in service delivery, housing, economic regeneration, treasury management, and occasionally preventative action, under the prudential regime.
- 1.3.3 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements, and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets primarily for yield. The government published its response to this consultation and implemented these reforms in November 2020.
- 1.3.4 The key change in the PWLB lending change as a result of these reforms is Local Authorities can no longer access PWLB funds without confirmation from the S151 Officer that the authority does not plan to buy investment assets primarily for yield in the next 3 years. This is confirmed both at the start of the year in a return to HM Treasury setting out the authorities capital plans and in any application to the PWLB for additional loans.
- 1.3.5 In addition to borrowing from the PWLB local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield.
- 1.3.6 As set out in the proposed capital programme below, prudential borrowing is a key financing source in the funding of the authority's capital programme so it is

important that the approved capital programme does not include any schemes that are primarily for investment purposes. Investment assets would usually have one or more of the following characteristics

- Buying land or existing buildings to let out at market rates
- Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority
- Buying land or buildings other than housing which generate income and are intended to be held indefinitely rather than until the achievement of some meaningful trigger

## **2. 2021/22 – 2026/27 Capital Programme**

### **2.1 Overview**

- 2.1.1 After taking into consideration the existing approved capital programme and associated reprofiling, 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 and the changes to PWLB lending require the Council to separate out its capital programme between its main Service Spending (education, highways & transport, social care, public health, culture & related services and environmental & regulatory services), Housing (HRA and GF) and Regeneration projects.

The following sections of this report do this:-

- Existing Service Spending capital projects(section 2.2)
  - New Service Spending capital projects (section 2.3)
  - Revised Housing capital projects (section 2.4)
  - Revised Regeneration capital projects (section 2.5)
- 2.1.3 The capital budgets submitted for approval of expenditure are presented reflecting anticipated slippage from the existing capital programme. Any additional slippage will be reported and rolled forward into 2021/22 as part of the closure of the 2020/21 accounts.

### **2.2 Existing Service Spending Capital Projects**

- 2.2.1 The existing capital programme was approved as part of last year's budget setting process. This programme is reviewed as part of the corporate monitoring processes each quarter and the progress against the budget is scrutinised. As a result of this review, reprofiling of certain projects spending plan are identified and have been included in the revised programme in this report.

2.2.2 The table below shows where significant changes to the profile have been made or existing projects have been paused

Programme Area	Previous Spend	Original 2020/21 Budget	Revised 2020/21	2021/22 Budget	2022/23 Budget and Beyond	Total remaining approved Budget	Comments
	£m	£m	£m	£m	£m	£m	
<b>Paused schemes</b>							
Corporate Estate Smart Working - Building Works - Mercury House	0.138	3.162	-	-	-	-	project paused - will be redirected into Asset rationalisation programme
Economic Development schemes	1.800	0.440	-	-	-	-	no specific plans for residual budget - future schemes would come forward with own business case
<b>Slipped schemes</b>							
Leisure - SLM contract Lifecycle capital investment - future maintenance	-	3.121	-	-	3.121	3.121	slip forward to later years of the contract, approval stands
Property	0.051	2.949		2.949		2.949	provision remains and rolled into next year
Potential acquisitions - Hornchurch PS					-		
Economic Development Romford Market Physical Works	0.352	0.748		0.100		0.100	Future works to be identified – provision rolled forward
Art & culture Langtons	-	0.500	-		0.500	0.500	paused
Art & culture Bretons	-	2.625	-		2.625	2.625	paused
Parks Improvements	-	1.750	0.600	1.650	1.500	3.750	Work underway, some programme slippage
Various parks schemes		0.569	0.451				Completion of some schemes, released residual budgets returned.
Asset management Depot expansion	7.985	0.527	-	0.527	-	0.527	paused
	<b>7.985</b>	<b>16.391</b>	<b>1.051</b>	<b>5.226</b>	<b>7.746</b>	<b>13.572</b>	

Paused Schemes

- 2.2.3 The project to refurbish Mercury House will be paused pending the asset rationalisation programme approved at Cabinet on 20 January 2021. The sum of £440,000 that had historically been rolled forward for economic development schemes has been removed from the programme as no specific investments are currently identified, and any capital bids for future programmes will come forward with associated business cases.

Slipped Schemes

- 2.2.4 An element of the SLM contract identified the need for planned lifecycle maintenance on the leisure facilities, and this had all been profiled into the current financial year. The reality is that this funding will be required but it is not expected to be called upon until years 5 onwards of the contract period. Therefore the approved provision has been rolled into the longer term capital programme.
- 2.2.5 Funding has been included in the capital programme for the acquisition of the Hornchurch police station. However at present there is no timeline to acquire that asset in this financial year, therefore the funding is to be rolled forward into the next financial year, 2021/22.
- 2.2.6 The programme of works on the Langtons and Bretons sites within the borough have not been progressed and it is proposed to pause these schemes and move the funding further into future financial years.
- 2.2.7 There are established programmes of works in the borough's parks where the works have been slipped into future years. The proposal is to move the capital provisions into the future years to reflect the revised profile of expenditure.
- 2.2.8 The approved scheme to expand the depot site has been slipped pending a review of the requirements for operations at the site. The programme has been paused to allow that work to take place and the provisions moved accordingly.
- 2.2.9 Following those changes Table 1 below sets out at programme level the existing 'service spending' projects that have already received approval from Members from prior years capital programmes. Appendix 1 sets out the full 2021/22 and beyond existing capital programme at a detailed project level.



**Table 1 - Existing Service Spending Capital Programme**

<b>Summary of Existing Approved GF Capital Programme</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>Total £m</b>
<b>Adults Services</b>	<b>0.076</b>	<b>0.023</b>	<b>0.000</b>	<b>0.098</b>
<b>Customer, Communication &amp; Culture</b>				
Art & Culture	0.050	0.000	0.000	<b>0.050</b>
Leisure - Other	5.140	3.125	0.000	<b>8.265</b>
Leisure - SLM	0.764	0.100	4.721	<b>5.585</b>
Libraries	0.223	0.010	0.000	<b>0.233</b>
<b>Customer, Communication &amp; Culture Total</b>	<b>6.177</b>	<b>3.235</b>	<b>4.721</b>	<b>14.134</b>
<b>Childrens Services</b>				
Childrens Services	0.020	0.005	0.000	0.025
Learning & Achievement	0.022	0.000	0.000	0.022
<b>Childrens Services Total</b>	<b>0.042</b>	<b>0.005</b>	<b>0.000</b>	<b>0.047</b>
<b>Environment</b>				
Environment - Highways	2.000	2.000	0.000	<b>4.000</b>
Environment - Parks	1.600	0.500	0.500	<b>2.600</b>
Environment - Street Lighting	0.200	0.000	0.000	<b>0.200</b>
<b>Environment Total</b>	<b>3.800</b>	<b>2.500</b>	<b>0.500</b>	<b>6.800</b>
<b>Registration &amp; Bereavement Services</b>	<b>5.850</b>	<b>0.000</b>	<b>0.000</b>	<b>5.850</b>
<b>Asset Management</b>				
Corporate Buildings	0.527	0.000	0.000	<b>0.527</b>
Health & Safety	0.098	0.078	0.007	<b>0.183</b>
Schools Conditions Programme	1.003	0.000	0.000	<b>1.003</b>
Schools Expansions	5.761	6.050	0.000	<b>11.811</b>
<b>Asset Management Total</b>	<b>7.390</b>	<b>6.128</b>	<b>0.007</b>	<b>13.525</b>
<b>Finance</b>				
Contingency	1.000	<b>0.000</b>	<b>0.000</b>	<b>1.000</b>
Internal Leasing	6.000	<b>0.000</b>	<b>0.000</b>	<b>6.000</b>
<b>Finance Total</b>	<b>7.000</b>	<b>0.000</b>	<b>0.000</b>	<b>7.000</b>
<b>Regeneration - Externally Funded</b>	<b>4.138</b>	<b>0.000</b>	<b>0.000</b>	<b>4.138</b>
<b>Total GF Capital Expenditure</b>	<b>34.472</b>	<b>11.891</b>	<b>5.228</b>	<b>51.591</b>

2.2.9 The funding streams to finance the above spend is as follows

**Table 2 - Existing Service Spending Financing**

<b>Financing</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>Total £m</b>
Capital Receipts	6.343	0.088	0.065	<b>6.496</b>
Revenue and Reserve Contributions	0.042	0.005	0.000	<b>0.047</b>
Grants & Other Contributions	11.157	6.073	0.000	<b>17.230</b>
Borrowing	16.931	5.725	5.163	<b>27.819</b>
<b>Total Funding</b>	<b>34.472</b>	<b>11.891</b>	<b>5.228</b>	<b>51.591</b>

**2.3 New Service Spending Capital Projects**

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 3 – New Service Spending Capital Projects

<b>Internally Funded Schemes Presented for Approval</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
<b>Parking</b>							
Traffic CCTV Cameras	1.000	1.000	1.000	1.000	0.000	0.000	<b>4.000</b>
<b>Highways</b>							
Roads and Pathways Enhancement	10.000	10.000	0.000	0.000	0.000	0.000	<b>20.000</b>
Infrastructure - Verges for parking	0.206	0.300	0.300	0.000	0.000	0.000	<b>0.806</b>
<b>Environment</b>							
Enforcement CCTV	3.500	0.000	0.000	0.000	0.000	0.000	<b>3.500</b>
<b>Customer, Community &amp; Culture</b>							
Additional Leisure Centre Build Costs	2.400	0.000	0.000	0.000	0.000	0.000	<b>2.400</b>
<b>ICT Services</b>							
Digital Portfolio*	7.670	7.023	8.200	4.930	3.630	2.830	<b>34.283</b>
CRM System	1.807	1.021	0.042	0.000	0.000	0.000	<b>2.870</b>
Smart Working Plus	1.666	0.000	0.000	0.000	0.000	0.000	<b>1.666</b>
<b>Asset Management</b>							
Town Hall Site Development - Initial works	1.500	0.000	0.000	0.000	0.000	0.000	<b>1.500</b>
Asbestos Survey	0.100	0.000	0.000	0.000	0.000	0.000	<b>0.100</b>
Fire Door Replacement Programme	0.065	0.000	0.000	0.000	0.000	0.000	<b>0.065</b>
Tractor Barn structural works	0.035	0.000	0.000	0.000	0.000	0.000	<b>0.035</b>
<b>Total Internally Funded Schemes</b>	<b>29.948</b>	<b>19.344</b>	<b>9.542</b>	<b>5.930</b>	<b>3.630</b>	<b>2.830</b>	<b>71.224</b>

  

<b>Externally Funded Schemes Presented for Approval</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
<b>Asset Management</b>							
Schools Conditions Programme (indicative)*	2.130	0.000	0.000	0.000	0.000	0.000	<b>2.130</b>
<b>Adults</b>							
Better Care Fund/ Disabled Facilities Grant (indicative)	2.056	0.000	0.000	0.000	0.000	0.000	<b>2.056</b>
<b>Environment</b>							
TFL - Core Local Implementation Plan (indicative)	1.957	0.000	0.000	0.000	0.000	0.000	<b>1.957</b>
<b>Total Externally Funded Schemes</b>	<b>6.143</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>6.143</b>
<b>TOTAL NEW GF CAPITAL PROGRAMME</b>	<b>36.091</b>	<b>19.344</b>	<b>9.542</b>	<b>5.930</b>	<b>3.630</b>	<b>2.830</b>	<b>77.367</b>

\* The detailed digital portfolio programme is set out in appendix 2.

\*\* The indicative schools conditions programme is set out in detail in appendix 3. If the grant differs from the indicative allocation the schemes will be adjusted accordingly.

- 2.3.2 The investment in the CCTV on Highways ensures that the technology on the highways is refreshed to support keeping the traffic moving across the borough.
- 2.3.4 The inclusion of £10m for a further two years in roadways and pathways improvement continues the council's commitment to the Highways Investment Programme, and will maintain the highways across the borough. This sits alongside the investment in the base programme for carriageways and footways repair.
- 2.3.5 The infrastructure investment in the conversion of grass verges in specific locations and the installation the new parking bays to provide additional parking capacity for residents. This investment will allow a number of schemes and a business case will be established to identify the locations where the investment will be most beneficial.
- 2.3.6 The CCTV infrastructure across the borough is critical in enabling enforcement and community safety protection across the borough. This programme will enable a refresh of the technology in place and the cost of the programme is split between the HRA and the general fund based on the location of the technology. This provision represents the general fund contribution.
- 2.3.7 The construction of the new leisure centre in Rainham has been through design development and the tendering exercise has led to a revision of the estimated cost of the project. The increase results from a combination of meeting statutory development requirements and price increases since the original development plan was drawn up. Negotiations are under way considering design re-engineering options to ensure the costs are managed, so the final requirement may be reduced.
- 2.3.8 The corporate investment in the Digital Portfolio will support the strategic overview, consolidation and delivery of the Council's digital and efficiency aspirations as set out within the Corporate Plan. A report to Cabinet on 27 January outlined the planned investment and business case for the programme which will be developed in phases. This report outlined the objectives of the investment, enhancing the robustness of the council's technology, reducing the risk of technology failure impacting service delivery and risk of data breach or data release through improvements to core connectivity,
- 2.3.9 This proposed capital investment funds the Phase 1/ Year 1 activities as set out, at a value of £6.3m above the existing IT capital budget allocation. It will also enable further discovery and feasibility work to be undertaken, to complete more detailed business cases for each project proposed within the Digital Portfolio programme.
- 2.3.10 The Asset Management bids include the financial implications of a report presented Cabinet on 27 January 2021 outlining asset rationalisation proposals and which approved the immediate programme of building works necessary to reconfigure and remodel accommodation within the Town Hall campus to support the building consolidation proposals. This has superseded the scheme already included in the existing programme for the refurbishment of Mercury House and this scheme has been put on pause.

2.3.11 In addition there are minor schemes for the corporate landlord to enable estate maintenance and safety works.

2.3.12 The funding streams to finance the proposed new projects are as follows:

**Table 4 – New Service Spending Financing**

<b>Funding Sources of Schemes Presented for Approval</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Capital Receipts	11.142	2.000	0.000	0.000	0.000	0.000	<b>13.142</b>
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Grants	6.143	0.000	0.000	0.000	0.000	0.000	<b>6.143</b>
Section 106/ CIL	0.206	0.300	0.300	0.000	0.000	0.000	<b>0.806</b>
Borrowing	18.600	17.044	9.242	5.930	3.630	2.830	<b>57.276</b>
<b>TOTAL FUNDING</b>	<b>36.091</b>	<b>19.344</b>	<b>9.542</b>	<b>5.930</b>	<b>3.630</b>	<b>2.830</b>	<b>77.367</b>

2.3.13 As can be seen from the above table a significant element of the new capital projects are funded from prudential borrowing. This will have the result of additional capital financing costs charged to revenue over the life of the assets. These costs are factored into the MTFS and where possible off set against income generated or savings made as a result of the projects. The capital financing costs as a result of the additional borrowing for the additional projects are set out below:

**Table 5 – Revenue Impact of New Service Spending**

	<b>Incremental Impact to Revenue</b>							
	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>	<b>Total £m</b>
Interest Costs associated with additional Borrowing	0.279	0.535	0.394	0.228	0.143	0.097	0.042	<b>1.718</b>
Repayment of Principal (MRP) associated with additional borrowing	0.000	1.403	1.809	1.848	1.186	0.726	0.566	<b>7.538</b>
<b>Total Capital Financing Costs associated with additional borrowing</b>	<b>0.279</b>	<b>1.937</b>	<b>2.203</b>	<b>2.076</b>	<b>1.329</b>	<b>0.823</b>	<b>0.608</b>	<b>9.256</b>

2.3.14 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 Revised Housing (HRA) Capital Projects**

2.4.1 The HRA business plan was approved by Cabinet on 16 December 2020 and the 2021/22 HRA Rent Setting report is included elsewhere on this agenda. As well as setting out the revenue budgets for the financial year 2021/22 the plan also sets out the medium term capital programme for Housing. A summary of the plans can be seen in the table below:

Table 6 – Revised Housing (HRA) Capital Programme

<b>Proposed HRA Capital Programme</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>Total £m</b>
Stock capital investment	28.936	27.253	25.874	27.748	29.709	36.421	<b>175.940</b>
Other Improvements	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Development/Acquisition	83.060	73.867	80.058	42.718	38.021	40.153	<b>357.876</b>
Demolition & Forward Funding	19.495	21.924	52.011	88.817	133.268	103.082	<b>418.596</b>
Other Regeneration	27.304	19.926	16.797	8.367	4.095	6.340	<b>82.828</b>
<b>Total HRA Capital Expenditure</b>	<b>158.795</b>	<b>142.970</b>	<b>174.740</b>	<b>167.649</b>	<b>205.093</b>	<b>185.994</b>	<b>1,035.240</b>

2.4.2 Whilst there is no direct provision made for the repayment of debt (and therefore no MRP) the inclusion of the repayment of loans is included in the long term business plan for the HRA. To reflect this in the service revenue expenditure, unlike for the GF, depreciation is a true cost to the service which is then used to finance capital expenditure through the mechanism known as the Major Repairs Reserve (MRR).

2.4.3 Included within the HRA business plan is how the service are proposing to finance the capital expenditure and is summarised in the table below:

Table 7 – Revised Housing (HRA) Capital Financing

<b>Sources of Financing</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>Total £m</b>
Major Repairs Reserve (MRR)	31.035	9.305	9.305	9.480	9.659	9.842	<b>78.626</b>
RTB receipts (Allowable Debt)	1.460	1.065	1.073	1.080	1.074	1.067	<b>6.819</b>
RTB receipts (1-4-1 receipts)	10.290	5.290	6.887	5.939	6.015	4.375	<b>38.795</b>
Other Grants & Contributions	45.364	4.829	35.208	26.661	62.706	66.845	<b>241.612</b>
Revenue contributions (HRA)	1.917	8.796	3.223	5.104	1.875	14.466	<b>35.382</b>
HRA Prudential Borrowing	68.729	113.685	119.045	119.385	123.764	89.398	<b>634.006</b>
<b>Total Funding</b>	<b>158.795</b>	<b>142.970</b>	<b>174.740</b>	<b>167.649</b>	<b>205.093</b>	<b>185.994</b>	<b>1,035.240</b>

## 2.5 Revised Regeneration Capital Projects

2.5.1 Included within the capital programme are a number of Regeneration schemes that because of their size, 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 together all these schemes, along with the Council's full capital programme, but Members are asked to review the individual business cases for a full understanding of each of the schemes.

2.5.2 The table below shows the current spending plans (based on latest business plans) for all of the regeneration schemes being proposed.

Table 7 – Revised Regeneration Capital Programme

	Prior years £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 and beyond £m	Total £m
<b>Regeneration Programme</b>									
<b>Joint Ventures</b>									
Rainham & Beam Park Housing Zone - Equity	0.000	3.075	3.473	16.913	0.000	0.000	0.000	1.953	<b>25.414</b>
Rainham & Beam Park (potential CPO's funded from sales to JV)	0.000	0.250	16.240	33.510	0.000	0.000	0.000	0.000	<b>50.000</b>
Bridge Close - New School	0.000	0.000	0.000	7.827	7.827	0.000	0.000	0.000	<b>15.654</b>
Bridge Close - New Medical Facility	0.000	0.000	0.000	0.000	5.146	0.000	0.000	0.000	<b>5.146</b>
Farnham & Hilldene - Com Properties	0.000	0.000	0.000	0.000	0.000	0.000	2.656	14.395	<b>17.051</b>
Farnham & Hilldene - Medical Centre	0.000	0.000	0.000	2.884	1.718	0.000	0.000	0.000	<b>4.602</b>
Provision for Future Regeneration Opportunities	0.000	0.000	55.000	45.000	40.000	0.000	0.000	0.000	<b>140.000</b>
<b>Mercury Land Holdings</b>									
North Street - loans	9.277	0.375	0.000	0.000	0.000	0.000	0.000	0.000	<b>9.652</b>
Quarles JV - Equity	0.000	6.100	0.000	0.000	0.000	0.000	0.000	0.000	<b>6.100</b>
Quarles JV - Loans	0.000	0.000	0.000	1.625	2.063	0.000	0.000	0.000	<b>3.688</b>
Quarles PRS - Equity	0.000	0.000	1.500	0.000	0.000	0.000	0.000	0.000	<b>1.500</b>
Quarles PRS - Loans	0.000	0.000	0.000	2.375	1.313	0.000	0.000	0.000	<b>3.688</b>
Homelessness - equity	0.000	0.000	4.746	4.760	4.738	4.760	4.738	0.000	<b>23.742</b>
Homelessness - loan	0.000	0.000	7.119	7.140	7.106	7.140	7.106	0.000	<b>35.611</b>
Crow Lane - Equity	2.575	0.996	0.000	0.000	0.000	0.000	0.000	0.000	<b>3.571</b>
Crow Lane - Loans	2.460	8.240	0.145	0.000	0.000	0.000	0.000	0.000	<b>10.845</b>
Waterloo - Equity	0.000	0.000	13.793	0.000	0.000	0.000	0.000	0.000	<b>13.793</b>
Waterloo - Loans	0.000	0.000	9.192	12.540	12.540	9.405	1.279	0.000	<b>44.956</b>
Roneo - Equity	0.000	0.000	3.474	0.000	0.000	0.000	0.000	0.000	<b>3.474</b>
Roneo - Loans	0.000	0.000	3.637	7.993	0.019	0.000	0.000	0.000	<b>11.649</b>
Rainham JV/LBH - Equity	0.000	0.000	9.000	0.000	0.000	0.000	0.000	0.000	<b>9.000</b>
Rainham JV/LBH - Loans	0.000	0.000	10.500	10.500	0.000	0.000	0.000	0.000	<b>21.000</b>
Reactive Acquisition Fund Balance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4.389	<b>4.389</b>
<b>Total Regeneration Programme</b>	<b>14.312</b>	<b>19.036</b>	<b>137.819</b>	<b>153.067</b>	<b>82.470</b>	<b>21.305</b>	<b>15.779</b>	<b>20.737</b>	<b>464.525</b>

2.5.3 The proposed funding of these schemes is predominantly from prudential borrowing with a small element of capital receipts. Details are set out in the table below:

Table 8 – Revised Regeneration Capital Financing

<b>Funding Sources</b>	<b>Previous years</b>	<b>Forecast 2020/21</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Capital Receipts	0.000	0.250	71.240	78.510	40.000	0.000	0.000	0.000	<b>190.000</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	14.312	18.786	66.579	74.557	42.470	21.305	15.779	20.737	<b>274.525</b>
<b>TOTAL FUNDING</b>	<b>14.312</b>	<b>19.036</b>	<b>137.819</b>	<b>153.067</b>	<b>82.470</b>	<b>21.305</b>	<b>15.779</b>	<b>20.737</b>	<b>464.525</b>

#### 2.5.4 Details of the regeneration schemes included 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. A report outlining a revised approach to funding Bridge Close was approved by Cabinet on 16 December 2020, and the capital requirements are included in the capital programme.

- 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.

#### 2.5.5 Like with the new capital projects, if schemes within 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.

Table 9 – Revenue Impact of the Regeneration Capital Programme

	Incremental Impact to Revenue							
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Interest Costs associated with additional Borrowing	1.280	2.117	1.755	0.957	0.556	0.392	0.311	<b>7.369</b>
Repayment of Principal (MRP) associated with additional borrowing	0.509	1.799	1.084	0.872	0.238	0.290	0.398	<b>5.189</b>
<b>Total Capital Financing Costs associated with additional borrowing</b>	<b>1.789</b>	<b>3.916</b>	<b>2.839</b>	<b>1.829</b>	<b>0.794</b>	<b>0.682</b>	<b>0.709</b>	<b>12.558</b>

- 2.5.6 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.
- 2.5.7 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.
- 2.5.8 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.
- 2.5.9 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.
- 2.5.10 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 Treasury Management Strategy Statement (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.



**2.6 2021/22-2026/27 Total Capital Programme**

2.6.1 Subject to Member approval, the following table sets out the proposed total capital programme for the financial years 2021/22 through to 2026/27:

Table 10 – Proposed Total Capital Programme

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
<b>Adults Services</b>	<b>2.132</b>	<b>0.023</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>2.154</b>
<b>Customer, Communication &amp; Culture</b>							
Art & Culture	0.050	0.000	0.000	0.000	0.000	0.000	<b>0.050</b>
Leisure - Other	7.540	3.125	0.000	0.000	0.000	0.000	<b>10.665</b>
Leisure - SLM	0.764	0.100	4.721	0.000	0.000	0.000	<b>5.585</b>
Libraries	0.223	0.010	0.000	0.000	0.000	0.000	<b>0.233</b>
<b>Customer, Communication &amp; Culture Total</b>	<b>8.577</b>	<b>3.235</b>	<b>4.721</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>16.534</b>
<b>Childrens Services</b>							
Childrens Services	0.020	0.005	0.000	0.000	0.000	0.000	<b>0.025</b>
Learning & Achievement	0.022	0.000	0.000	0.000	0.000	0.000	<b>0.022</b>
<b>Childrens Services Total</b>	<b>0.042</b>	<b>0.005</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.047</b>
<b>Environment</b>							
Environment - Highways	12.206	12.300	0.300	0.000	0.000	0.000	<b>24.806</b>
Environment - Parks	1.600	0.500	0.500	0.000	0.000	0.000	<b>2.600</b>
Environment - Street Lighting	0.200	0.000	0.000	0.000	0.000	0.000	<b>0.200</b>
Environment - TFL	1.957	0.000	0.000	0.000	0.000	0.000	<b>1.957</b>
Environment - Parking	1.000	1.000	1.000	1.000	0.000	0.000	<b>4.000</b>
Environment - Public Protection	3.500	0.000	0.000	0.000	0.000	0.000	<b>3.500</b>
<b>Environment Total</b>	<b>20.463</b>	<b>13.800</b>	<b>1.800</b>	<b>1.000</b>	<b>0.000</b>	<b>0.000</b>	<b>37.063</b>
<b>Registration &amp; Bereavement Services</b>	<b>5.850</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>5.850</b>
<b>Asset Management</b>							
Asset Rationalisation	1.500	0.000	0.000	0.000	0.000	0.000	<b>1.500</b>
Corporate Buildings	0.727	0.000	0.000	0.000	0.000	0.000	<b>0.727</b>
Health & Safety	0.098	0.078	0.007	0.000	0.000	0.000	<b>0.183</b>
Schools Conditions Programme	3.133	0.000	0.000	0.000	0.000	0.000	<b>3.133</b>
Schools Expansions	5.761	6.050	0.000	0.000	0.000	0.000	<b>11.811</b>
<b>Asset Management Total</b>	<b>11.220</b>	<b>6.128</b>	<b>0.007</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>17.355</b>
<b>Finance</b>							
Contingency	1.000	0.000	0.000	0.000	0.000	0.000	<b>1.000</b>
Internal Leasing	6.000	0.000	0.000	0.000	0.000	0.000	<b>6.000</b>
<b>Finance Total</b>	<b>7.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>7.000</b>
<b>ICT Infrastructure</b>	<b>11.142</b>	<b>8.044</b>	<b>8.242</b>	<b>4.930</b>	<b>3.630</b>	<b>2.830</b>	<b>38.818</b>
<b>Regeneration Programme</b>	<b>141.957</b>	<b>153.067</b>	<b>82.470</b>	<b>21.305</b>	<b>15.779</b>	<b>20.737</b>	<b>435.315</b>
<b>Total GF Capital Expenditure</b>	<b>208.382</b>	<b>184.302</b>	<b>97.241</b>	<b>27.235</b>	<b>19.409</b>	<b>23.567</b>	<b>560.136</b>
<b>HRA Capital Expenditure</b>	<b>142.970</b>	<b>174.740</b>	<b>167.649</b>	<b>205.093</b>	<b>185.994</b>	<b>0.000</b>	<b>876.446</b>
<b>Total Capital Programme</b>	<b>351.352</b>	<b>359.042</b>	<b>264.890</b>	<b>232.328</b>	<b>205.403</b>	<b>23.567</b>	<b>1,436.582</b>

2.6.3 If the capital programme is agreed the capital expenditure will be financed as follows:

Table 11 – Financing of Capital Programme

Sources of Financing	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Capital Receipts	95.080	88.558	47.084	7.089	5.442	0.000	<b>243.252</b>
Revenue and Reserve Contributions	18.143	12.533	14.584	11.534	24.309	0.000	<b>81.103</b>
Grants & Other Contributions	22.335	41.581	26.961	62.706	66.845	0.000	<b>220.427</b>
GF Prudential Borrowing	102.110	97.326	56.876	27.235	19.409	23.567	<b>326.523</b>
HRA Prudential Borrowing	113.685	119.045	119.385	123.764	89.398	0.000	<b>565.277</b>
<b>Total Funding</b>	<b>351.352</b>	<b>359.042</b>	<b>264.890</b>	<b>232.328</b>	<b>205.403</b>	<b>23.567</b>	<b>1,436.582</b>

### 3. Prudential Indicators

3.1 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 included within the annual statement of accounts.

3.2 In 2021/22, including the Housing Revenue Account, the Council is planning capital expenditure of £351m as set out in the table below:

Table 12 – Prudential Indicator: Estimate of Capital Expenditure

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Service Spending	77.807	94.386	70.563	31.235	14.770
Council Housing (HRA)	61.831	158.795	142.970	174.740	167.649
Regeneration Programme	15.155	19.036	137.819	153.067	82.470
<b>Total</b>	<b>154.793</b>	<b>272.216</b>	<b>351.352</b>	<b>359.042</b>	<b>264.890</b>

The Service Spending on 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 Council Housing (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, particularly the Bridge Close scheme. The HRA business plan (which includes full details of the proposed HRA capital programme) is an item elsewhere on the agenda.

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

Table 13 – Prudential Indicator: Capital Financing

	<b>2019/20 actual £m</b>	<b>2020/21 Forecast £m</b>	<b>2021/22 Forecast £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Forecast £m</b>
Capital Receipts	18.231	27.816	95.080	88.558	47.084
Revenue Contributions & Reserves	26.937	35.443	18.143	12.533	14.584
Grants & Other Contributions	27.347	94.516	22.335	41.581	26.961
Borrowing	82.278	114.441	215.795	216.370	176.261
<b>Total</b>	<b>154.793</b>	<b>272.216</b>	<b>351.352</b>	<b>359.042</b>	<b>264.890</b>

- 3.4 Debt (Borrowing) 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.

- 3.5 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 £206.791m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 14 – Prudential Indicator: Estimates of Capital Financing Requirement

	<b>2019/20 actual £m</b>	<b>2020/21 Forecast £m</b>	<b>2021/22 Forecast £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Forecast £m</b>
Service Spending	100.366	124.546	155.956	175.340	181.385
Council Housing (HRA)	197.217	265.946	379.631	498.675	618.061
Regeneration Programme	55.844	73.688	135.384	206.691	234.765
<b>Total Capital Financing Requirement</b>	<b>353.427</b>	<b>464.180</b>	<b>670.971</b>	<b>880.707</b>	<b>1,034.211</b>

- 3.6 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 service spend, housing and regeneration. This indicator identifies the trend on the cost of capital against the net revenue stream and is set out in the table below:

Table 15 – Prudential Indicator: Ratio of Financing costs to Net Revenue Stream

	<b>2019/20 Actual</b>	<b>2020/21 Forecast</b>	<b>2021/22 Forecast</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
Service Spending	3.20%	4.41%	5.82%	7.34%	8.46%
Council Housing (HRA)	4.45%	5.84%	8.17%	10.53%	12.79%
Regeneration Programme	1.64%	2.19%	3.78%	6.27%	7.35%
<b>Total Capital Financing Requirement</b>	<b>9.30%</b>	<b>12.44%</b>	<b>17.78%</b>	<b>24.13%</b>	<b>28.60%</b>

- 3.7 Additional Prudential Indicators can be found in the Treasury Management Strategy Statement (TMSS) which can be found elsewhere on the agenda

#### **4. Disposals**

- 4.1 As the Council has pursued a policy of selling surplus sites for many years it becomes more difficult to identify new sites for disposal that do not pose challenges, either technically or in terms of planning, and especially in respect of objections to disposal that arise in many cases. Nonetheless, constant and on-going appraisal of property assets to identify disposal opportunities is a best practice tenet on all local authorities.
- 4.2 Nationally, councils are shifting their approach and considering sites for self-development in line with corporate need. Through capital spend; they are able to generate savings and new forms of revenue income.
- 4.3 The Council's Asset Management Plan states that land and property assets should only remain in Council ownership if they:
- need to be retained in Council control for the provision of services
  - are of great value to the Council, community and other stakeholders and are in need of the degree of protection from development or other uses afforded only by ownership
  - are investment properties providing a financial return that can fully satisfy relevant investment criteria.

- 4.4 As well as ensuring that the portfolio of retained property is suitable for the operational needs of the Council, there is a continuing need to generate capital receipts from the disposal of assets in order to pursue capital projects. The review and identification of new disposal and capital receipt opportunities makes an essential contribution to funding the Council's capital programme.
- 4.5 The combination of these factors has highlighted the need for a continuing systematic review of the Council's assets to ensure that those that continue to be retained match one of the definitions referred to above and those that do not are considered for disposal or re-use.

## **5. 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.

## **6. Knowledge and Skills**

- 6.1 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.
- 6.2 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.
- 6.3 Member training is undertaken as part of the induction programme following any election and in particular for new Members. Specialist training and advice is also provided to relevant cabinet portfolio members which is either conducted by members of staff or external specialist sources.

## **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 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 employees 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 the Council 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.

## **BACKGROUND PAPERS**

**None**