Havering
LONDON BOROUGH

CABINET

5 February 2025

Subject Heading:	**5 Year Capital Programme and Strategy – 2025/26 to 2029/30**
Cabinet Member:	**Councillor Christopher Wilkins** Finance
ELT Leads:	**Kathy Freeman** Strategic Director of Resources
Report Author and contact details:	**Mark White** Capital Strategy Manager
Policy context:	This report presents the Council's 5 year 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 5 year capital programme forms part of this process. The financial implications of this strategy are included as part of the 2025/26 Budget and tax setting 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

People – Things that matter for residents [ ]
Place – A great place to live, work and enjoy [ ]
Resource – A well run Council that delivers for People and Place [X]

SUMMARY

The Council is required by statute and as set out in the Prudential Code for Capital Finance in Local Authorities, 2021 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 2025/26 and five year Capital Programme to 2029/30.

RECOMMENDATIONS

Cabinet is asked to:

1. **Recommend to Council for consideration and approval** the 2025/26 Capital programme of £324m and £1,138m over the full five year period from 2025/26 to 2029/30.

2. **Recommend to Council for consideration and approval** the new capital projects being added to the capital programme for 2025/26 as set out in section 2.3 of this report.

3. **Note** any additional capital needs over and above what is specified in the capital programme for the relevant year will require separate business cases and be agreed by the Strategic Director of Resources (S151 Officer), Capital Strategy manager and Council Members as required and appropriate before being agreed by full Council.

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

5. **Note** that externally funded schemes can be added to the capital programme up to £500k as and when funding is confirmed.

6. **Approve** the capital strategy contained within this report noting its impact on both the capital programme and the financial implications for setting the revenue budget for 2025/26 to 2029/30.

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

8. **Approve** the Minimum Revenue Provision Policy Statement (section 9 of this report) which determines the amount of money set aside each year for the repayment of debt

9. **Agree** that the Strategic Director of Resources be authorised to re-profile capital budgets mid-year based on the updated forecasts provided by services and reported to the Executive Leadership Team as part of the capital monitoring process. This will assist in producing more accurate information for treasury management purposes.

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

1.1.2 The capital strategy is underpinned by Havering's vision to be the Havering you want to be a part of. Underpinning the new vision is the corporate plan and operating model so future capital investment will be focused into the delivery of this vision for the Council.

1.1.3 The strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. As a result of these constraints and concerns over revenue affordability the capital strategy is focusing on a 5 year period and, whilst a longer time frame is preferred the yearly nature of the finance settlement and uncertainty over the Council's finances means a shorter capital strategy is required.

1.1.4 Along with the uncertainty over central government funding the Council's own resources available to finance capital projects have reduced to a low level and will need replenishing before any further capital investments can be made. As a result the Council is considering and consulting upon a programme of asset disposals to address this situation and help finance the capital expenditure.

1.1.5 Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised as follows:

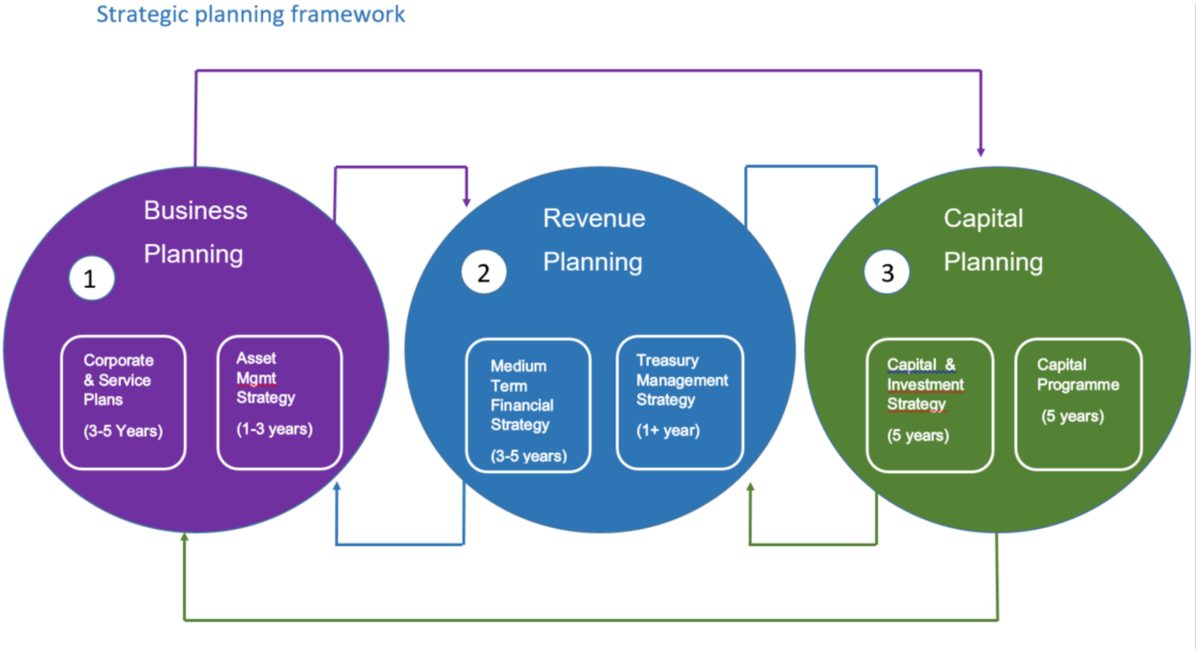
Internal Factors	**External Factors**
Corporate Priorities, as set out in the Council Plan	Government sponsored programmes e.g. Disabled Facilities Grants and the Schools Basic Needs programme
Investment identified in strategies, policies and plans	Unforeseen Emergency Works
Work needed to maintain property and other Assets	Works required to comply with legislation e.g. disabled access or health & safety requirements
Work needed to maintain the Council's Highways and other Infrastructure	Projects resulting from Partnership Activity
Vehicles, Plant and Equipment replacement needs	Availability of External Funding
ICT Investment and Replacement	Public Expectation that works should be carried out
Invest to Save Projects	

1.1.6 In addition, the Council recognises the vital contribution its Capital Investment Strategy and portfolio play in the economic growth of the borough. The Council is investing in major developments across the borough as part of its ambitious Regeneration programme which will deliver new and replacement affordable homes and enable self-sustaining communities to grow. It also welcomes the opportunity to work with the private sector to deliver its priorities and for the private sector to see Havering as a place it wants to invest in.

1.1.7 As well as the Council's Vision the Capital Strategy has clear links to many other strategies, policies and plans, the most significant of which are shown in the following table:

Links with Other Strategies, Policies and Plans
Asset Management Strategy
Investment Strategy
Medium Term Financial Strategy
Service and Financial Plans
Procurement Strategy
Housing Strategy (HRA Business Plan)
Arts and Cultural Strategy

Climate Change Plan
Treasury Management Strategy Statement (TMSS)



1.1.8 Any additional capital needs over and above what is specified in the capital programme for the relevant year will require separate business cases to justify the proposed expenditure, to be agreed by the Strategic Director of Resources, Capital Strategy manager and Council Members as appropriate before being agreed by full Council.

1.2 Asset Management

1.2.1 The Council has responsibility for assets used in service delivery including property, highways infrastructure (roads, footpaths, structures and lighting), land and council dwellings. It is important to understand the need, utilisation, condition and the investment and operating cost requirements of assets, whether owned or leased

1.2.2 When prioritising capital expenditure it is essential to understand the long term cost of maintaining and operating existing assets and their fitness for purpose and having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses. The backlog of maintenance in some key assets is recognised and alternative approaches to longer term solutions will be considered to address the risks this poses rather than continued capital investment by the Council in the same assets

1.2.3 Approved asset management plans are in place for property assets including dwellings that demonstrate the Council's stewardship of assets and a disposals strategy approved by Cabinet is also in place (see section 5 for further details). The disposals strategy includes using property and land effectively across the Council by using suitable sites for the building of affordable housing.

The Asset Strategy Model

1.3 Investment Property Strategy

1.3.1 The Council retains a property investment portfolio which although primarily held for supporting economic regeneration in the borough, also receives financial gain. These holdings stem from a mixture of historic purchases and assets always owned and held by the Council. The assets are managed by Property Services with the aim of maximising yield from the existing estate by removing liabilities and securing future income streams.

1.3.2 The property investment portfolio has a balance sheet value of over £47m and is expected to produce a rental income of circa £4.6m per annum. With economic regeneration being the main objective, the Council accepts higher risk on its commercial investment portfolio than with treasury investments. The principle risk exposure includes voids and falls in capital value. In order to minimise the liability to the Council the portfolio is actively managed by property services on a commercial basis. The income received from the Council's property investment portfolio contributes towards making the Council's funding more sustainable reducing the reliance on government funding, local business rates and council tax.

1.3.3 The Council currently has no plans to increase the number of Investment Properties via the capital programme but will keep this option under consideration. Additions to the investment property portfolio will be subject to business case analysis to demonstrate value for money as a key deciding factor.

1.4 Regeneration

1.4.1 With central government financial support for local public services declining, the Council has invested in a number of joint ventures and subsidiaries which are included in the capital programme.

1.4.2 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.

1.4.3 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 (HRA)

Being delivered through the Havering Wates regeneration LLP the programme has delivered the first 197 homes with a further 175 completing soon. The partnership will ultimately see up to 12 council estates regenerated to provide up to 5,000 urgently needed new homes in the borough

Bridge Close (HRA & GF)

Bridge Close is a dated industrial area close to Romford Station and lies within the Romford ring road. There is significant demand for addition housing and this proposal will provide up to 1,070 new homes. Whilst predominantly a housing scheme The GF element consists of a new school and medical centre that will be delivered as part of the development.

Rainham & Beam Park (GF)

Rainham & Beam Park is the only council regeneration scheme funded from the general fund. The vision for the project is to transformation of a declining industrial area into a new urban community providing much needed affordable housing. Spend to date has been around shaping development proposals, working on compulsory purchase orders and acquiring land for regeneration in Rainham. Activity has reduced due to complications around the delivery of Beam Park Station

1.4.4 In addition to the above housing projects there are two Infrastructure projects in the capital programme, Beam parkway and Romford Liveable Neighbourhoods. Both are road/place shaping projects aiming to improve driver and pedestrian safety and increase biodiversity through planting and greening. Both schemes are entirely funded through external grants, community infrastructure levy and S106 planning agreements so there is no impact on revenue expenditure through borrowing.

1.5 Governance of capital approvals

1.5.1 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. The capital programme reported provides financial implications for 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.

1.5.2 The process for including new schemes in the 2025/26 capital programme was undertaken as part of the corporate budget setting process. Due to the Council's financial position, only essential new schemes have been approved with all new projects being considered by senior officers and Members ahead of this report.

1.5.3 Any bids for capital funding outside the approved capital programme in year will 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.

1.5.4 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. Therefore a key aim of the Council's capital strategy is 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.

1.5.5 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; VFM does not mean opting for the lowest cost option. 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.

1.5.6 The Council has consciously chosen however, 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.

1.6 Access to Borrowing

1.6.1 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

1.6.2 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.

1.6.3 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.

1.6.4 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.

1.6.5 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.

1.6.6 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

The Council does not have any such schemes in its proposed capital programme.

2. 2025/26 – 2029/30:- Five Year Capital Programme

2.1 Overview

2.1.1 After taking into consideration the existing approved capital programme and associated re-profiling, 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 2025/26 as part of the closure of the 2024/25 accounts.

2.2 Existing Service Spending Capital Projects

2.2.1 The existing capital programme was approved as part of the 2024/25 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, re-profiling of certain projects spending plan are identified and have been included in the revised Capital programme in this report.

Table 1 - Existing Service Spending Capital Programme

Directorate	2025-26 Budget £m	2026-27 Budget £m	2027-28 Budget £m	2028-29 Budget £m	2029-30 Budget £m	Total Budget £m
Ageing Well	2.330	0.000	0.000	0.000	0.000	2.330
Living Well	0.742	0.000	3.353	0.000	0.000	4.095
Starting Well	18.994	19.000	0.000	0.000	0.000	37.994
People Total	**22.065**	**19.000**	**3.353**	**0.000**	**0.000**	**44.418**
Environment	9.950	7.000	7.000	0.000	0.000	23.950
Housing & Property (GF)	7.506	0.726	0.738	0.500	0.000	9.470
Planning & Public Protection	1.088	0.000	0.000	0.000	0.000	1.088
Place Total	**18.544**	**7.726**	**7.738**	**0.500**	**0.000**	**34.508**
Finance	1.404	0.000	0.000	0.000	0.000	1.404
IT, Digital and Customer	10.716	0.300	0.000	0.000	0.000	11.016
Resources Total	**12.119**	**0.300**	**0.000**	**0.000**	**0.000**	**12.419**
Total (Excluding HRA and Regeneration)	**52.728**	**27.026**	**11.091**	**0.500**	**0.000**	**91.346**

2.2.2 The corresponding budget approved for 2025/26 as part of the 2024/25 budget setting process was £33.724m with the difference being slippage and additional externally funding projects added throughout the year.

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

Table 2 - Existing Service Spending Financing

Financing	2025-26 Budget £m	2026-27 Budget £m	2027-28 Budget £m	2028-29 Budget £m	2029-30 Budget £m	Total Budget £m
Capital Receipts	9.572	0.050	2.691	0.000	0.000	**12.313**
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	**0.000**
Grants & Other Contributions	21.729	19.000	0.000	0.000	0.000	**40.729**
Borrowing	21.428	7.976	8.400	0.500	0.000	**38.304**
Total Funding	**52.728**	**27.026**	**11.091**	**0.500**	**0.000**	**91.346**

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 3 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

Internally Funded Schemes Presented for Approval	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
People - Starting Well						
Newtons Primary School - MUGA Facility	0.446	0.000	0.000	0.000	0.000	**0.446**
Scotts Primary School - SEN Space	0.451	0.000	0.000	0.000	0.000	**0.451**
Place - Environment						
Highways (Roads & Pavements)	0.000	0.000	0.000	6.000	6.000	**12.000**
Highways (Lighting)	0.000	0.000	0.000	1.000	1.000	**2.000**
Place - Housing & Property						
Town Hall - Heating Replacement	0.150	0.000	0.000	0.000	0.000	**0.150**
Yew Tree Lodge - New Heating System	0.200	0.000	0.000	0.000	0.000	**0.200**
Hornchurch Library - Heating	0.040	0.000	0.000	0.000	0.000	**0.040**
My Place - Acoustic Improvements	0.090	0.000	0.000	0.000	0.000	**0.090**
Langtons House - External Repairs and Entrance Improvements	0.100	0.000	0.000	0.000	0.000	**0.100**
Bretons Conditions Works	0.300	0.815	0.000	0.000	0.000	**1.115**
Bedfords Park Depot	0.080	0.000	0.000	0.000	0.000	**0.080**
Library Conditions Works	0.600	0.000	0.000	0.000	0.000	**0.600**
Mercury House External Repairs	0.130	0.000	0.000	0.000	0.000	**0.130**
Total Internally Funded Schemes	**2.588**	**0.815**	**0.000**	**7.000**	**7.000**	**17.403**

Externally Grant Funded Schemes Presented for Approval	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Place - Housing & Property						
Schools Conditions Programme (indicative)*	2.580	0.000	0.000	0.000	0.000	**2.580**
People - Ageing Well						
Better Care Fund/ Disabled Facilities Grant	2.552	0.000	0.000	0.000	0.000	**2.552**
Place - Environment						
TFL - Core Local Implementation Plan (indicative)	1.432	0.000	0.000	0.000	0.000	**1.432**
Total Externally Grant Funded Schemes	**6.564**	**0.000**	**0.000**	**0.000**	**0.000**	**6.564**

Externally CIL Funded Schemes Presented for Approval	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
People - Living Well						
Brittons Playing Field 3G Football Hub Development	1.200	0.000	0.000	0.000	0.000	**1.200**
Total New CIL Funded Capital Projects	**1.200**	**0.000**	**0.000**	**0.000**	**0.000**	**1.200**

Total New Capital Projects	**10.352**	**0.815**	**0.000**	**7.000**	**7.000**	**25.167**

* 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.

2.3.2 The bids include £0.898m for 2 projects at Newtons and Scotts primary schools. These are as a result of the sale of their respective caretaker houses which required DfE approval with the funds being ploughed back into the schools for capital initiatives.

2.3.3 Also included is an additional £7m per year in 2028/29 and 29/30 to extend the existing commitment to the resurfacing of roads and pavements. This is to provide certainty of budgets regarding re-tendering of long term contracts to undertake the work and achieve savings

2.3.4 Members are also asked to approve the addition of £2.505m for funding in respect of building works and electrical and mechanical improvement works urgently required across the Council's portfolio of properties. It should be noted that it is currently only possible to address the most urgent legislative compliance and emergency repairs within the current Corporate Landlord budget envelope.

2.3.5 In addition to the internally funded new schemes there are other indicative additional grant allocations for the schools condition programme, Disabled Facilities Grant and the TfL Local Implementation Plan for Highways. These sums are funded from a grant allocation and do not incur revenue financing costs.

2.3.6 A Community Infrastructure Levy (CIL) scheme was initiated in Havering in 2020/21 and the council receives CIL payments which are available to finance infrastructure spend. There has been significant work undertaken by the Infrastructure Steering Group on a protocol for managing the CIL process and to ensure that the council gets the best added value for the CIL it receives. The aim for the investment of the CIL is to ensure it is utilised to enhance the infrastructure of the council and it should therefore link to the Infrastructure and Local area plan. The development of the CIL monitoring and pipeline forecasting information will enable strategic decisions about where that investment should be made. The latest figures on the availability of CIL identifies the contributions banked and potential pipeline receipts. Prudent financial planning would dictate that the council allocates CIL funding in line with its priorities.

2.3.7 A two speed system has been set up for small bids up to £50k and large bids over £50k. Small bids can be agreed for funding to be released at any point during the year. This is to allow flexibility to deliver smaller projects in a more agile way and making securing match funding more likely. Large bids will be agreed as part of the annual Capital Programme and included in this report. This is in order to allow appropriate consideration of the financial implications taking into account other potential competing demands.

2.3.8 Members are asked to approve £1.2m to create a football hub site developing 2 new 3G artificial turf pitches in addition to the existing single 3g pitch, plus a new pavilion to service these pitches. There is a strategic shortfall of 3G pitches in the borough with a further 7 or 8 required as identified in the refreshed Playing Pitch Strategy. Brittons playing field has been identified as an area of need for these pitches. Brittons is situated in an area of identified deprivation and would benefit local residents to have access to first class facilities on their doorstep. As well as being fully funded from the community infrastructure levy, the project will also introduce a permanent leisure management operator at no cost to the Council to maximise the benefits of the hub site.

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

Table 4 – New Service Spending Financing

Funding Sources of Schemes Presented for Approval	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Capital Receipts	0.898	0.000	0.000	0.000	0.000	**0.898**
Revenue and Reserve Contributions	0.000	0.000	0.000	0.000	0.000	**0.000**
Grants & Other Contributions	7.764	0.000	0.000	0.000	0.000	**7.764**
Borrowing	1.690	0.815	0.000	7.000	7.000	**16.505**
Total Funding of New Capital Projects	**10.352**	**0.815**	**0.000**	**7.000**	**7.000**	**25.167**

2.4 Revised Housing Revenue Account Capital Projects

2.4.1 The HRA business plan and the 2025/26 HRA Rent Setting report is included elsewhere on this agenda. As well as setting out the revenue budgets for the financial year ending 31st March 2026 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 5 – Revised Housing (HRA) Capital Programme

Proposed HRA Capital Programme	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Stock capital investment	45.239	43.270	39.139	36.849	37.747	**202.245**
Other Improvements	0.000	0.000	0.000	0.000	0.000	**0.000**
Development/Acquisition	72.478	29.329	10.181	10.700	3.550	**126.238**
Demolition & Forward Funding	53.942	76.782	83.142	142.952	73.767	**430.585**
Other Regeneration	17.415	19.354	0.667	0.500	2.307	**40.243**
Total HRA Capital Expenditure	**189.074**	**168.735**	**133.129**	**191.001**	**117.372**	**799.311**

2.4.2 Whilst there is no direct provision made for the repayment of debt (and therefore no Minimum Revenue Provision) the inclusion of the repayment of loans has still been included in the long term business plan for the HRA. To reflect this in the service revenue expenditure, unlike in the General Fund, 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 6 – Revised Housing (HRA) Capital Financing

Proposed HRA Capital Programme	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Major Repairs Reserve (MRR)	10.877	11.222	11.773	12.346	12.820	**59.038**
RTB receipts (Allowable Debt)	1.516	0.232	0.241	0.250	0.259	**2.497**
RTB receipts (1-4-1 receipts)	8.285	0.782	2.656	3.869	2.423	**18.015**
Other Grants & Contributions	52.389	39.090	35.149	26.715	43.287	**196.629**
Revenue contributions (HRA)	1.733	1.733	1.733	0.000	0.000	**5.199**
HRA Prudential Borrowing	114.275	115.675	81.577	147.821	58.584	**517.933**
Total HRA Capital Funding	**189.074**	**168.735**	**133.129**	**191.001**	**117.372**	**799.311**

2.4.4 All HRA regeneration schemes will continue to be reviewed on a regular basis to ensure schemes are still viable and affordable as per the HRA business plan.

2.5 Regeneration Capital Projects

2.5.1 The table below shows a summary of the current spending plans (based on latest business plans) for all of the GF regeneration schemes being proposed. A full listing of the projects can be found in appendix 3.

Table 7 – Regeneration Capital Programme

Summary of Regeneration Programme	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Mercury Land Holdings	58.739	76.088	31.801	0.000	0.000	**166.628**
Rainham & Beam Park	4.840	2.500	2.500	0.000	0.000	**9.840**
Bridge Close (Medical facilities & School)	0.000	18.969	4.883	0.000	0.000	**23.852**
Farnham & Hilldene	6.396	12.131	1.266	0.000	0.000	**19.792**
Other Regeneration Schemes	2.752	0.000	0.000	0.000	0.000	**2.752**
Total GF Regeneration Programme	**72.727**	**109.688**	**40.450**	**0.000**	**0.000**	**222.864**

2.5.2 It should be noted that the proposed regeneration programme members are being asked to approve within this report is comparable in size to the regeneration programme approved as part of the budget setting process for 2024/25. Budgets for any schemes that Mercury Land Holdings are no longer progressing have been returned to the MLH reactive acquisition fund. Budgets will then be allocated to new projects as and when the schemes have followed the governance process with business cases having been approved.

2.5.3 The proposed funding of these schemes is set out in the table below:

Table 8 – Regeneration Capital Financing

Financing	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Capital Receipts	2.537	2.500	2.500	0.000	0.000	**7.537***
Revenue and Reserve Contributions	0.102	0.000	0.000	0.000	0.000	**0.102**
Grants & Other Contributions	2.613	12.185	0.000	0.000	0.000	**14.797**
Borrowing	67.474	95.004	37.950	0.000	0.000	**200.428**
Total Funding	**72.727**	**109.688**	**40.450**	**0.000**	**0.000**	**222.864**

* Use of capital receipts to finance the regeneration programme include £7.5m for potential CPO's relating to the Rainham & Beam Park housing zone. CPO's can only be initiated by the authority so any CPO's undertaken would be funded by receipts generated by immediately selling the property onto the Joint Venture.

2.5.4 With regeneration being the key objective, the Council considers the cost and return of its investment against the importance of building much needed affordable homes in the Borough, and estate renewal programme 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.

2.5.5 The primary reason for undertaking these schemes is regeneration delivering new homes in accordance with the Councils strategic aims and plans. The business cases have also 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 Medium Term Financial Strategy from the Council's wholly owned subsidiary Mercury Land Holdings 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.

2.5.6 The primary existence of these regeneration projects are for regeneration purposes and it's important to acknowledge that these income streams can be more volatile than other investments made solely for treasury purposes (details of which are set out in the 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 2025/26 to 2029/30 Five Year Capital Programme

2.6.1 Subject to Member approval, the following table sets out the proposed total combined capital programme for the financial years 2025/26 through to 2029/30 covering the existing capital programme, new bids, HRA and Regeneration:

Table 9 – Proposed Total Capital Programme

	2025/26 £m	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**Total £m**
People						
Ageing Well	4.882	0.000	0.000	0.000	0.000	**4.882**
Living Well	1.942	0.000	3.353	0.000	0.000	**5.295**
Starting Well	19.891	19.000	0.000	0.000	0.000	**38.891**
	26.715	**19.000**	**3.353**	**0.000**	**0.000**	**49.068**
Place						
Environment	11.382	7.000	7.000	7.000	7.000	**39.382**
Housing & Property (GF)	11.776	1.541	0.738	0.500	0.000	**14.555**
Planning & Public Protection	1.088	0.000	0.000	0.000	0.000	**1.088**
Regeneration & Place Shaping	72.727	109.688	40.450	0.000	0.000	**222.864**
	96.972	**118.229**	**48.188**	**7.500**	**7.000**	**277.889**
Resources						
Finance	1.404	0.000	0.000	0.000	0.000	**1.404**
IT, Digital and Customer	10.716	0.300	0.000	0.000	0.000	**11.016**
	12.119	**0.300**	**0.000**	**0.000**	**0.000**	**12.419**
Total GF Capital Expenditure	**135.807**	**137.529**	**51.541**	**7.500**	**7.000**	**339.377**
Housing & Property (HRA)	**189.074**	**168.735**	**133.129**	**191.001**	**117.372**	**799.311**
Total Capital Expenditure	**324.881**	**306.264**	**184.670**	**198.501**	**124.372**	**1,138.688**

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

Table 10 – Financing of Capital Programme

Financing	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Capital Receipts	22.807	3.564	8.088	4.118	2.682	**41.260**
Revenue and Reserve Contributions	12.712	12.955	13.506	12.346	12.820	**64.339**
Grants & Other Contributions	84.495	70.274	35.149	26.715	43.287	**259.920**
Borrowing	204.867	219.470	127.927	155.321	65.584	**773.170**
Total Funding	**324.881**	**306.264**	**184.670**	**198.501**	**124.372**	**1,138.688**

3. Prudential Indicators

3.1 Local Authorities are required by regulation to have regard to the Prudential Codes for Capital Finance and Treasury Management. These Prudential Codes require that all capital expenditure, investments and borrowing decisions are prudent, affordable and sustainable.

3.2 In 2021 the Code was updated to report and monitor a suite of Prudential Indicators to support and record local decision making that is publicly accountable. The Prudential Indicators cover the three areas:

- Capital Expenditure
- Treasury Management Indicators
- Affordability

This report focuses primarily on the capital expenditure indicators along with affordability of the capital programme. Treasury Management indicators and affordability are covered within the Treasury Management Strategy Statement.

3.3 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.

3.4 In 2024/25, including the Housing Revenue Account, the Council is planning capital expenditure of £216.073m as set out in the table below:

Table 11 – Prudential Indicator: Estimate of Capital Expenditure

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Service Spending	41.622	79.017	63.080	27.841	11.091
Regeneration Programme	1.792	22.251	72.727	109.688	40.450
Total General Fund	**43.414**	**101.268**	**135.807**	**137.529**	**51.541**
Council Housing (HRA)	82.970	114.805	189.074	168.735	133.129
Total	**126.384**	**216.073**	**324.881**	**306.264**	**184.670**

3.5 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.

3.6 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.

3.7 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 12 – Prudential Indicator: Capital Financing

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Capital Receipts	27.546	38.761	22.807	3.564	8.088
Revenue Contributions & Reserves	8.530	13.343	12.712	12.955	13.506
Grants & Other Contributions	24.731	57.762	84.495	70.274	35.149
Borrowing	65.578	106.207	204.867	219.470	127.927
Total	**126.384**	**216.073**	**324.881**	**306.264**	**184.670**

3.8 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 can be found in section 9 of this report.

3.9 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 £97m during 2024/25 raising from £618m to £716m. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 13 – Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Service Spending	151.468	168.152	184.773	185.601	185.802
Regeneration Programme	69.877	79.598	144.770	235.952	268.060
Exceptional Financial Support	0.000	32.500	120.075	244.990	396.355
Total GF Capital Financing Requirement	**221.345**	**280.250**	**449.619**	**666.542**	**850.217**
Council Housing (HRA)	397.320	435.931	543.249	656.888	735.713
Total Capital Financing Requirement	**618.664**	**716.181**	**992.868**	**1,323.431**	**1,585.930**

3.10 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, regeneration and the capitalisation direction. This indicator identifies the trend on the cost of capital against the net revenue stream and is set out in the table below:

Table 14 – Prudential Indicator: Ratio of GF Financing costs to Net Revenue Stream

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Service Spending					
GF Net Revenue Stream	182.000	198.000	204.000	213.000	222.000
Service Capital Financing Costs	12.049	13.290	15.319	17.223	17.484
Ratio of Financing Costs to Net Revenue Stream	6.6%	6.7%	7.5%	8.1%	7.9%
Regeneration Programme					
GF Net Revenue Stream	182.000	198.000	204.000	213.000	222.000
Regeneration Capital Financing Costs	4.960	5.250	7.505	12.774	17.706
Ratio of Financing Costs to Net Revenue Stream	2.7%	2.7%	3.7%	6.0%	8.0%
Exceptional Financial Support					
GF Net Revenue Stream	182.000	198.000	204.000	213.000	222.000
Capitalisation Direction Financing Costs	0.000	0.813	5.439	15.212	28.669
Ratio of Financing Costs to Net Revenue Stream	0.0%	0.4%	2.7%	7.1%	12.9%
Total					
GF Net Revenue Stream	182.000	198.000	204.000	213.000	222.000
Total GF Capital Financing Costs	17.010	19.352	28.264	45.209	63.859
Ratio of Financing Costs to Net Revenue Stream	9.3%	9.8%	13.9%	21.2%	28.8%

3.11 Similar to the above ratio but a further indicator to demonstrate affordability is the ratio of capital financing costs to Council Tax yield. This shows the proportion of Council Tax being used to finance historic and planned borrowing:

Table 15 – Prudential Indicator: Ratio of GF Financing costs to Council Tax Yield

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Service Spending					
Council Tax Yield	149.000	158.000	164.000	172.000	181.000
Service Capital Financing Costs	12.049	13.290	15.319	17.223	17.484
Ratio of Financing Costs to Council Tax Yield	8.1%	8.4%	9.3%	10.0%	9.7%
Regeneration Programme					
Council Tax Yield	149.000	158.000	164.000	172.000	181.000
Regeneration Capital Financing Costs	4.960	5.250	7.505	12.774	17.706
Ratio of Financing Costs to Council Tax Yield	3.3%	3.3%	4.6%	7.4%	9.8%
Exceptional Financial Support					
Council Tax Yield	149.000	158.000	164.000	172.000	181.000
Capitalisation Direction Financing Costs	0.000	0.813	5.439	15.212	28.669
Ratio of Financing Costs to Net Revenue Stream	0.0%	0.5%	3.3%	8.8%	15.8%
Total					
Council Tax Yield	149.000	158.000	164.000	172.000	181.000
Total GF Capital Financing Costs	17.010	19.352	28.264	45.209	63.859
Ratio of Financing Costs to Net Revenue Stream	11.4%	12.2%	17.2%	26.3%	35.3%

3.12 Whilst the above 2 affordability indicators cover the General Fund the equivalent ratio for the HRA to demonstrate affordability of the HRA capital spend within the HRA business plan is the ratio of capital financing costs to rental income. This shows the proportion of housing rents being used to finance historic and planned HRA borrowing:

Table 16 – Prudential Indicator: Ratio of HRA Financing costs to HRA Rental Income

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Housing Revenue Account					
HRA Rental Income	66.042	73.188	74.475	78.448	81.839
HRA Capital Financing Costs	18.619	20.831	24.479	30.003	34.815
Ratio of Financing Costs to Net Revenue Stream	28.2%	28.5%	32.9%	38.2%	42.5%

3.11 Additional Prudential Indicators covering capacity, controls and affordability relating to the Councils treasury position can be found in the Treasury Management Strategy Statement (TMSS) reported elsewhere on the agenda.

4. Disposals Policy

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 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 current Asset Disposal Programme was approved by Cabinet in January 2024 as the review and identification of new disposal and capital receipt opportunities is an essential contribution to funding the Council’s capital programme and significantly reduces the impact of capital financing costs on revenue.

5. Capital Receipts

5.1 The planned capital programme includes assumption of the generation of £30m capital receipts (£10m per year for 3 years) to help reduce the borrowing requirements and is reflected in the Asset Disposal Programme. Any shortfall in receipts will mean additional borrowing costs and therefore a pressure in the Medium Term Financial Strategy (MTFS).

5.2 Current forecasts indicate a shortfall in the capital receipts target of £4.3m although additional sites for disposal are being investigated.

5.3 It should be noted that income from capital receipts are generally applied to finance short life assets where capital financing costs would be high. On average for every £1m not achieved in asset sales this would equate to an additional pressure of £240k each year in the MTFS.

6.0 Flexible Use of Capital Receipts and Transformation

6.1 In December 2023, the Government announced the continuation till 2030 of the flexible use of capital receipts directive which allows Authorities to use capital receipts to finance revenue transformation expenditure for any project that is designed to generate ongoing revenue savings. Authorities are required to list each project and the savings that are being generated as a result of the project.

6.2 Further to the flexible use of receipts directive the government have also issued consultation on proposals to potentially extend the directive further to improve sector stability and efficiency. Implications on the consultation are being assessed however, the increased flexibility is more beneficial for those with excess capital receipts available. As Havering has traditionally used capital receipts to keep borrowing down initial thoughts are that the additional flexibility has limited benefits.

6.3 Flexible use of receipts is currently being reviewed and once implications of the new consultation have been established further updates will be made.

7.0 Exceptional Financial Support (EFS)

7.1 Since 2020, the government has agreed to provide a number of local authorities with support via the Exceptional Financial Support framework. Support provided via this framework is usually provided in the form of a capitalisation direction. Capitalisation directions permit a local authority to meet revenue costs through capital resources.

7.2 the Council has faced rapidly increasing demand pressures in 2024/25 which together with inadequate grant funding from central government has meant that in order to set a balanced budget for 2024/25 (a requirement by statute), the Council has had no choice but to apply for financial support via this framework.

7.3 In respect of the financial year 2024/25 the government has agreed to provide 19 councils with support to manage financial pressures via the EFS framework and for 11 of these this included agreement to support for prior years. Through the EFS framework, Havering has support agreed in principle for £21.2m in 2023/24 and a further £32.5m for 2023/24.

7.4 In 2023/24, the final outturn position meant a take-up of the EFS to the value of £18.1m was needed and this was funded from capital receipts meaning no increase in borrowing. This was significant as, at the time, funding a capitalisation direction through borrowing would also have led to higher interest rates on all borrowing not just any borrowing for the EFS.

7.5 The latest revenue projection for 2024/25 mean that the full allocation of £32.5m is expected to be required and the capital receipts position means that the authority will have no choice but to fund the revenue pressure from borrowing.

Whilst changes to the EFS framework have meant that higher interest rates will now not apply, this does equate to additional financing costs of around £3.2m per year (for 20 years as provision for the repayment of debt along with interest associated with the borrowing needs to be set aside.

8.0 Risk Management and Mitigation

8.1 For large complex projects, professional specialist external advice and services would be sourced to undertake due diligence and to understand the risks associated with the project and inform decision making

8.2 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.

8.3 Major regeneration and housing projects constitute most of the Council's capital portfolio and these inherently carry risk, most of which is outside the Council's control. Whilst the Council does not have control over these risks it is important to be aware of them and manage them as best as possible. These risks include but are not limited to:

- Interest Rate Risk – The Councils capital portfolio is heavily dependent on borrowing and is therefore exposed to fluctuations in interest rates. Interest rate risk is managed indirectly through the TMSS and through our treasury advisers Link Asset Services

- Inflation Risk – Capital projects, due to their often long time frame are particularly vulnerable to inflation. The Governments latest inflation forecasts indicate that inflation would rise to 2.6% in 2025 and then slowly return to 2% by the forecast horizon. Inflation risk is always a concern as slippage can potentially decrease the purchasing power. This can be mitigated by good project management, clearly identified cash flow projections and negotiating fixed price contracts where possible.

- Legislative – Changes in statute and regulations will impact capital projects as they must comply with current legislation. To mitigate this risk the Council must horizon scan and remain aware of any changes in the pipeline which might affect projects and make allowance accordingly through proper governance channels.

- Market health and commercial values – the portfolio is complex, and the successful delivery of various aspects of the project may depend to a large extent on the commercial environment. Examples are property rental income, capital receipts and the future health of the property market.

Assumptions are made which underpin projections with the Council relying on expert advice and good performance monitoring to mitigate this risk.

- Partners – Increasingly, major projects are not delivered solely by the Council itself, but by developers either alone or jointly with the Council or its delivery subsidiary. Whilst using a developer transfers risk away from the Council, this means extra costs and therefore a balance is required. Risks associated with newly required subsidiaries and joint ventures will decrease with time as experience is gained.

- Supplier financial stability – Like with any project the importance of the supplier's financial stability in fulfilling the Council's needs is vital. To mitigate this, the Council as part of the procurement of the contract, 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.

- Project delivery – In the main, these are unforeseen delays and increases in costs. Apart from building in contingencies there is a range of measures that can mitigate this risks. Effective scrutiny of business cases at the outset will ensure robustness of projects included in the programme. During the life of the project, risks are monitored with risk registers being properly maintained and updated. Regular highlight reporting keeps stakeholders informed to allow early intervention where necessary. In the case of complex major projects, professional experts are used at all required stages to ensure effective delivery.

- Portfolio delivery capacity – The capital programme set out in the capital strategy total over £1 billion over the 5 year life cycle. A priority is to ensure sufficient project delivery expertise, enabling support and supply chain capacity is available to deliver the Council's ambitions and outcomes, on time and to agreed costs. Whilst some of these costs can be capitalised and included in the capital cost of the project, projects will require revenue support such as support on governance and finance and procurement support. This risk can be mitigated by ensuring officers are suitably trained and equipped and that service plans include appropriate levels of expertise.

9. Minimum Revenue Provision Policy Statement

9.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the MHCLG *Guidance on Minimum Revenue Provision* updated in 2020 and again for 2025.

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

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

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

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

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

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

9.4 Although HRA CFR is not exempt from the MRP determination of a prudent charge can be nil, the rationale for this is that local authorities with HRA’s are required to charge depreciation to the surplus or deficit on the provision of service in the HRA, in accordance with the requirements of the item 8 determination and which is then transferred to the Major Repairs Reserve (MRR) in accordance with statute. This serves a similar function as MRP in that the cost of capital is passed to the revenue account over time. Further, unlike MRP, the MRR is not incorporated into the calculation of the CFR.

9.5` On the above basis no HRA MRP will be made. Any accounting events that would lead to debt not being set aside for repayment however, would be reviewed to assess the need for any voluntary MRP contribution from the HRA.

9.5 **Third party loans** – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan providing the loan repayment means that the debt will be repaid.

The Authority keeps under review all loans to 3rd parties and should there be an expectation that loans will not be repaid in full MRP would be made in this respect to insure that prudent provision is made for the repayment of debt.

10. Knowledge and Skills

10.1 All capital investment approvals are subject to robust consideration and challenge by members and officers from across the Council with extensive Local Government experience from varying backgrounds.

10.2 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, to ensure officers are kept abreast of new developments and to ensure their Continuous Professional Development.

10.3 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.

10.4 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 to ensure that members have the required skillset to scrutinise and challenge as appropriate.

10.5 The Council's property portfolio is managed by Its property services team within the Housing & property service. The team has extensive knowledge of the Havering property market and experience dealing with a mix of property types and professional work including landlord and tenant, statutory valuations, acquisitions and disposals and commercial and residential property management. Where required and with due diligence, the Council may also appoint external agents to advise on particular specialist matters or to access specialist expertise that may not be available 'in house'. An example of this is the appointment of RICS registered valuers to provide valuations required for the production of the statement of accounts.

REASONS & OPTIONS

Reasons for the Decision

The Council is required to approve the Capital Strategy as per the 2021 update 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 projects within 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

The Capital Strategy is a requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required by regulation to have regard to both codes when carrying out its duties under Part 1 of the Local Government Act 2003. This report has been produced in accordance with those requirements.

Human Resource Implications and Risks

The recommendations made in the report do not give rise to any identifiable HR risks or implications which would affect either the Council or its 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.

The extensive investment in the regeneration programme with the aim of delivering more affordable homes will also have a significant impact on 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.

Climate Change Implications and Risks

The Capital Programme presents opportunities for the Council to contribute towards its climate change targets of being carbon neutral by 2040.

All relevant developments within the Capital Programme are subject to individual governance and climate change impacts will therefore be assessed through project appraisals as part of the decision-making process for individual programmes and projects. It is vital that these programmes and projects consider how to maximise the funding available to achieve carbon reduction, where possible. Mitigating and adapting to climate change is being increasingly embedded within Council decision-making but we will continue to work to ensure spending decisions take account of the carbon impact.

BACKGROUND PAPERS

None