

Report for: Cabinet 15th December 2015

Item number: 14

Title: The Council's Capital Strategy.

Report authorised by: Tracie Evans – Chief Operating Officer

Lead Officer: Neville Murton – Lead Finance Officer.

Ward(s) affected: ALL

**Report for Key/
Non Key Decision:** Non Key.

1. Describe the issue under consideration

- 1.1. The Council's capital programme has in recent years been developed alongside the annual budget setting process and has tended to be based on the extent to which capital receipts have been available to support expenditure.
- 1.2. The Council's Corporate Plan sets out its ambition for regeneration and growth in order to deliver a range of improved outcomes for its residents and also to secure the Council's financial sufficiency as government support reduces and the Council becomes more reliant on locally determined sources of funding such as Council Tax and Business Rates.
- 1.3. A Capital Strategy has been developed to ensure that the Council takes a longer term view of the assets required to deliver its priorities and to support its Medium Term Financial Strategy so that it includes a realistic assessment of its capital needs, the associated resources necessary to deliver its ambition and the benefits flowing from its investments.

2. Cabinet Member Introduction

- 2.1. The development of a Capital Strategy provides the basis which will underpin our discussions about the need for assets and our approach for acquiring and maintaining our operational assets as well as the key role that the Council's assets play in delivering our key priorities of regeneration, business growth, growth in employment and housing growth.
- 2.2. As we develop our longer term thinking on asset usage it is equally important that we consider our approach to financing capital expenditure so that we are able to maximise the impact of investments that deliver future financial growth to the Council.
- 2.3. However, we must also acknowledge the additional risks that such an approach exposes us to and continue to ensure that we both manage those

risks appropriately and reflect fully the impact of our decisions in our financial strategy.

2.4. The creation of a long term Capital Strategy provides us with a clear opportunity to be ambitious with our investment plans and I commend the proposed strategy to you.

3. Recommendations

3.1. Cabinet are asked:

- To approve the Council's Capital Strategy (Appendix 1).
- To note the process for agreeing the detailed schemes to be included for approval as part of the Council's Capital Programme (Paragraph 6.8).

4. Reasons for decision

4.1. In order to guide its capital investment priorities and provide the basis for investing in its assets the Council has developed a Capital Strategy. The strategy considers the external environment and the financial context within which the Council is operating in order to ensure that long term investment is based on a firm understanding of its priorities, needs and constraints.

5. Alternative options considered

5.1. The Council could continue to determine and approve an annual capital programme based on its immediate needs; however this approach has been discounted as it will tend to prioritise those projects which can be developed quickly rather than those that support a more strategic view of the Council's needs. It will also potentially be limited by short term decisions on funding options which may not be the most effective approach.

5.2. There are a number of funding approaches that have also been considered ranging from restricting expenditure to the extent to which capital receipts can continue to be generated, to a longer term view based on leveraging additional external resources and anticipating revenue streams in support of borrowing. There is a need to keep under review the balance between the Council's ambition and the risks associated with borrowing in an uncertain financial climate, but by taking a longer term view these risks can be smoothed over time. The Council's Medium Term Financial Strategy will continue to be updated with the on-going revenue effects of capital decisions.

6. Background information

6.1. The Council's Corporate Plan identifies its priority areas and outcomes. Whilst many of the outcomes sought are provided on an on-going basis to residents and businesses from the Council's revenue budget, they often rely on assets being available to support delivery e.g. buildings and infrastructure. The acquisition and maintenance of these assets is generally capital expenditure and the Council approves a capital programme setting out its expenditure plans for these assets.

- 6.2. In addition the Council has a key role in shaping and encouraging development in its area so that Haringey develops as a place where people can live and work.
- 6.3. Previously an annual process has taken place alongside the development of the Council's revenue budget and Medium Term Financial Strategy (MTFS) and there are clearly linkages between these processes. However, this approach has certain constraints which can limit projects where the benefits are less certain or take longer to materialise.
- 6.4. The financing of the programme has tended to shape the schemes which were included; capital receipts and external funding has been used primarily to determine the capital expenditure priorities and size of the programme. Some invest to save projects have been undertaken by utilising prudential borrowing but these have been limited.
- 6.5. In order to improve the Council's planning for its capital needs and to better reflect investment in those assets which will assist in the delivery of its outcomes, a longer term view of its capital needs has been developed and set out in the Capital Strategy.
- 6.6. The strategy will give longer term planning certainty for those areas where on-going maintenance of assets is a feature of service delivery e.g. road maintenance. The strategy also considers at an overall level appropriate approaches to financing the Council's capital needs; the detail of the approach will however, continue to be considered and reflected in the Council's MTFS and annual budgets in addition to the review of capital financing controls exercised through prudential borrowing indicators and treasury management reports.
- 6.7. The strategy also reflects the alternative approaches to delivering the investment in assets within the borough that are currently being explored; members have recently agreed to commence the process of identifying a partner and to highlight the benefits that can be achieved through a Development Vehicle and this approach is clearly signposted in the strategy.
- 6.8. An initial ten year view is being developed to establish the Council's capital ambition in line with its strategic priorities and underpinning principles and this initial programme will be refined with members in the new year (2016) so that an agreed programme, for a ten year period, can be proposed and agreed alongside the 2016/17 revenue budget, including any relevant revenue budget implications for that and subsequent years.
- 6.9. In time it will be possible to develop proposals spanning longer timeframes as we become more confident in projecting costs, benefits and our longer term priorities become clearer.
- 6.10. Following the Autumn Statement 2015 including the Spending Review announcements it is our intention to revise and extend the existing financial

strategy commencing in May 2016 and the longer term financial implications of the ten year programme will be reflected in that strategy.

6.11. The Strategy has been developed taking account of relevant external influences such as the funding regime and government and other relevant local or regional plans. The strategy is attached as Appendix 1 and reflects a number of principles which underpin its development.

6.12. The Capital Strategy: -

- will reflect members' priorities as set out in the Corporate Plan;
- will balance the need to maintain the Council's existing asset base against its future ambition and associated long term asset needs;
- will recognise that growth is the strategic driver for financial self-sufficiency;
- will be affordable in the context of the Council's financial strategy;
- will seek to ensure value for money through achieving a return on investment or by supporting service efficiency and effectiveness;
- will be flexible to respond to evolving service delivery needs;
- will seek to maximise investment levels through the leveraging of external investment;
- will recognise the value of assets for delivering long term growth as opposed to being sold to finance capital expenditure;
- will recognise the financial benefits and risks from growth generated through investment to support investment decisions; and
- will reflect the service delivery costs associated with growth when assessing the level of resources available for prudential borrowing.

Governance

6.13. Alongside the Capital Strategy a Capital Board has been constituted to oversee the development and on-going implementation of the Capital Strategy. This Board will provide senior officer oversight of programme schemes and act as a gateway for new scheme proposals ensuring that only schemes which accord with the strategic principles are developed.

6.14. The following Senior officers are members of the Capital Board:

- Tracie Evans (Chair) – Chief Operating Officer
- Zina Etheridge – Deputy Chief Executive
- Lyn Garner – Director of Planning, Regeneration and Development
- Jon McGrath – Assistant Director Corporate Property and major Projects
- David Airey – Assistant Director Corporate programmes and CIO

6.15. Members will continue to exercise overall control through the Council's regular reporting in the quarterly financial monitoring information, key decision reports where schemes exceed the relevant financial or constitutional

thresholds and through an update reports alongside its revenue budget considerations, the MTFs, the Council's outturn reporting and the Council's statutory Statement of Accounts.

- 6.16. The Capital Strategy will also be kept under review in the light of changes to the Council's overall strategic objectives through amendments to the Corporate plan and refreshed to take account of such changes on a regular basis.

Risks

- 6.17. It is important for members to understand the interactions, costs and risks associated with the Capital Strategy: borrowing for capital expenditure purposes has an impact on the Council's revenue position as do investments which deliver growth in the Council's revenue base i.e. investment in houses to generate Council Tax receipts and investments in regeneration which may deliver business rate growth and employment growth.
- 6.18. A key difference in the approach within the proposed Capital Strategy is the assumption that borrowing will be used to support capital expenditure. Members consider annually as part of the Treasury Management Strategy, a number of prudential indicators which are largely concerned with ensuring the affordability of capital expenditure decisions. This will become an even more important mechanism for members to review against the risks associated with a long term programme supported by prudential borrowing in addition to other forms of supporting capital expenditure e.g. capital receipts and grants.
- 6.19. Interest rates are at historic low levels but will not remain at such levels indefinitely. The Council's Treasury Management activities will seek to optimise borrowing efficiency and minimise costs based on the long term financing needs of the capital expenditure programme, but fundamentally the costs of borrowing have to be affordable.
- 6.20. It is proposed that some investment supported by borrowing will take place in advance of expected or anticipated benefits in the form of additional income or reduced costs and, in order to minimise the risks associated with this approach, it is proposed that the period of time against which future receipts can be anticipated should be restricted to a maximum of three years.

7. Contribution to strategic outcomes

- 7.1. Capital expenditure fundamentally provides the infrastructure for the Council to deliver its core functions and deliver its ambitions, particularly in the areas of regeneration and housing growth. The successful delivery of these outcomes provide some of the key strategic levers necessary for the Council to establish a firm financial position for the future.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

- 8.1. Currently the Council has to provide for the cost of borrowing in two ways:

- Interest costs associated with external borrowing; and
- A Minimum Revenue Provision (MRP) set aside as a proxy for the repayment of the capital sums borrowed.

8.2. Based on current interest rates together with the effect of the Council's existing MRP policy approved by members annually, the total estimated cost of borrowing which will need to be reflected in the Council's revenue budget assumptions equates to around 5% per annum with a range of between 4.5% and 7.5%.

8.3. This means that for each £10m borrowed a sum of £500k (£450k to £750k) will need to be demonstrated as affordable **each year** within the Council's revenue expenditure plans. In addition the annually set and agreed borrowing limits in the Council's Treasury Management Strategy will need to confirm that higher borrowing levels are affordable.

8.4. In assuming revenue capacity from future growth, account must be taken of the additional costs of service delivery; by only assuming that a proportion of such growth is available for other purposes such as borrowing the risk from over committing will be mitigated.

8.5. The Assistant Director of Corporate Governance has been consulted on this report. There are no direct legal implications arising out of this report's recommendations. Going forward, the revisions to policies and implementation of proposals referred to in the Capital Strategy will require targeted legal advice and support.

9. Use of Appendices

Appendix 1 – Proposed Capital Strategy

10. Local Government (Access to Information) Act 1985

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- 10.1. For access to the background papers or any further information please contact Neville Murton – Head of Finance (Budgets and Accounting Team).