

Report for: Overview & Scrutiny 6th June 2016

Item number:

Title: The Council's Capital Strategy and 10 year Capital Programme.

Report authorised by: Tracie Evans – Chief Operating Officer

Lead Officer: Anna D'Alessandro – Deputy S151/Head of Corporate Finance

Ward(s) affected: ALL

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

1. Describe the issue under consideration

- 1.1. Cabinet approved the Council's Capital Strategy in December 2015. This strategy has been developed to ensure that the Council takes a longer-term view of the assets required to deliver its Corporate Plan priorities and to support its Medium Term Financial Strategy (MTFS).
- 1.2. The Council's Corporate Plan and Capital Strategy are ambitious for regeneration and growth that will deliver a range of improved outcomes for its residents. Both also seek to secure stability for financial planning purposes 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. To deliver the outcomes in the Capital Strategy and Corporate Plan a number of more detailed long-term capital investment proposals have been put forward by Priority Boards. The Capital Board (as detailed in section 10 below) has overseen a robust scrutiny process in order to develop an affordable and deliverable 10 year programme. Together with existing approved schemes in the current approved Capital Programme, these new investment proposals will form the refreshed long-term programme underpinning approved capital budgets in the MTFS.
- 1.4. This report sets out the detailed programme, in line with the MTFS, for Cabinet to recommend to full Council for approval.

2. Cabinet Member Introduction

- 2.1. This report recommends a detailed programme of capital schemes in support of the Council's long term Capital Strategy.
- 2.2. The 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.

2.3. 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 for the Council.

2.4. 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.

3. Recommendations

3.1. That the Committee:

1. Reviews the 10 year capital programme (Appendix 1), which replaces the current capital programme.
2. Notes programme of schemes being developed for future Business Case approval through the Capital Board (Appendix 2) and rejected schemes (Appendix 3).
3. Notes the affordability position and proposed capital financing arrangements.
4. Notes the proposed Governance and role of Capital Board in developing scrutinising and challenging the programme.

4. Reasons for decision

4.1. To update approved capital programme aligned to the Capital Strategy.

4.2. To set out governance arrangements for future development of programme and strategy.

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 and supports the Corporate Plan. 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 a challenging financial climate. By taking a longer-term view these risks can be mitigated and

managed over time. The Council's MTFS will continue to be updated with the on-going revenue effects of capital decisions.

6. Background information

- 6.1. The Corporate Plan identifies 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 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 continue to be considered and reflected in the Council's MTFS. This will be 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. Members have recently agreed to commence the process of identifying a partner in the Development Vehicle through a competitive dialogue process and this approach is clearly signposted in the strategy.

7. Capital Strategy – Key Points

7.1. The Capital Strategy will:

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

8. Proposed 10 year Capital Programme

8.1. In order for the proposals to be recommended for inclusion into the 10 year Capital Delivery pipeline, projects were required to meet an overall threshold of 60% of the following criteria:

- **Priority** - The project delivers on priority objectives; has clear outputs articulated and can demonstrate a positive impact on service;
- **Savings** - The project delivers savings; avoids costs and is able to generate new income;
- **Readiness** - The project has a detailed and credible programme; key project stages are already approved and delivery resources are in place;
- **VfM** - The project provides an efficient and effective solution; provides a return on investment and supports growth in capacity;
- **Urgency** – The project supports an important statutory requirement; addresses a risk of service/business failure or addresses an urgent need; and
- **Leverage** - The project is able to bring in external finance and partners share in project risk/delivery.

8.2. The projects listed in Appendix 1 met the above criteria and have been recommended for inclusion into the Capital delivery pipeline.

8.3. Proposals that did not meet the minimum threshold score and require further refinement and/or business case development are listed at Appendix 2. Priority Boards can re-submit proposals to the Capital Board for consideration as part of the rolling 10 year Capital programme.

9. Financing and affordability

9.1. The main capital financing elements of the 10 year programme and their proportion of the total as shown below:

- Government/TfL/GLA – 33%
- Borrowing – 32%
- Community Infrastructure Levy (CIL)/section 10/Private Developers – 18%
- Disposals/Capital Receipts – 11%
- Other - 6%

9.2. Funding of the capital programme will require Members to undertake a significant level of prudential borrowing. Borrowing is paid for using the Council's revenue account which also pays for the Council's day-to-day service delivery and therefore it is important to ensure that proportionality of debt against the cost of servicing that debt is kept under review.

9.3. Financial modelling has taken place to ensure that the Council is able to afford the level of debt fund the Capital Programme. This has demonstrated the Council does have sufficient financial capacity to undertake this programme. The financial modelling has been built into the Council's MTFS.

9.4. The Capital Board will closely monitor the delivery of projects and ensure that projections as to timing of spend are accurate and timely, so that the affordability calculation is continually refreshed and therefore the Section 151 Officer can ensure that sufficient capital funding is available to deliver the agreed programme and that the amount of headroom for new projects is known.

9.5. Quarterly updates will be provided to Cabinet on the Capital Programme and affordability.

10. Governance

10.1 In order to ensure the delivery of the Capital Strategy a Capital Board has been constituted with members of the Corporate Leadership Team, acting as a gateway for proposals.

10.2 Performance of the capital programme will continue to be monitored through the Council's regular financial monitoring information, key decision reports, 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 Statement of Accounts.

10.3 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 will be refreshed to take account of such changes on a regular basis.

- 10.4 All project proposals for Capital Board consideration must be approved and authorised by Priority Boards. Priority Boards should submit robust Project Briefs for Capital Board scrutiny and interrogation. The Capital Board will convene at pre-determined dates throughout the year.
- 10.5 Occasionally, the Capital Board may identify a business opportunity as part of its strategic place-shaping role. In these instances, the identified project opportunity will be allocated to the relevant Priority Board to develop, manage and monitor.
- 10.6 Priority Boards will be responsible for monitoring performance and delivery of approved projects on a day-to-day basis, with Capital Board oversight on projects with two or more rising Amber/Red status.

11 Risks

- 11.1 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.
- 11.2 A key difference in the approach in 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.
- 11.3 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.
- 11.4 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. 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.

12 Contribution to strategic outcomes

- 12.1 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 provides some of the key strategic levers necessary for the Council to establish a firm financial position for the future.

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

- 13.1 This report has been written and approved by the Chief Finance Officer as responsibility for the preparation of the Capital Strategy resides within her portfolio. All financial matters have been covered.
- 13.2 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. Moving forward, the revisions to policies and implementation of proposals referred to in the Capital Strategy will require targeted legal advice and support.

14 Use of Appendices

Appendix 1 – Proposed Programme of recommended schemes (GREEN LIST)

Appendix 2 – Schemes which require further business cases (AMBER LIST)

Appendix 3 – Rejected schemes (RED LIST)

15 Local Government (Access to Information) Act 1985

- MTFS
 - December Cabinet
- 16.1 For access to the background papers or any further information please contact Anna D'Alessandro – Interim Deputy S151/Head of Corporate Finance.