

**AGENDA ITEM: 11**

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Meeting	Cabinet Resources Committee
Date	21 July 2005
<b>Subject</b>	<b>Capital Strategy</b>
Report of	Cabinet Member for Policy and Performance
Summary	This report explains the need for a capital strategy and appends that strategy for consideration and seeks approval to its implementation.

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Officer Contributors	Pam Kettle, Head of Finance – Core Accountancy Dominic Campbell, Resources Performance and Strategy Manager
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A: Capital Strategy
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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## **1. RECOMMENDATIONS**

- 1.1 That the Capital Strategy as annexed to the report be approved and adopted and that the appropriate Chief Officers be authorised to implement the strategy reporting back on a regular basis upon progress as part of the budget process.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 In delivering 'a better council for a better Barnet', the appended strategy provides a corporate framework for the allocation and monitoring of capital expenditure and capital resources in line with all 5 corporate priorities as well as service level objectives.
- 3.2 The strategy also aligns with the objectives as laid out in the Asset Management Plan, ensuring value for money expenditure on corporate assets.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The principles of the Strategy will ensure the effective use of all available resources and effective management of local authority assets through the Asset Management Plan. The Council's capital programme includes planned spending of £195 million over the next three years, 2005/06 to 2007/08.

## **5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS**

- 5.1 The capital strategy forms an integral part of the strategic financial and service planning part of the annual budget setting process and supports decisions of the local authority capital investment under the prudential system. It sets the corporate framework and principles for future allocation and monitoring of capital resources.

## **6. LEGAL ISSUES**

- 6.1 None.

## **7. CONSTITUTIONAL POWERS**

- 7.1 Constitution, Part 3 - Responsibility for Functions, Section 3 - Powers of the Executive, paragraph 3.6 - terms of reference of the Cabinet Resources Committee.

## **8. BACKGROUND INFORMATION**

- 8.1 Whilst there is no formal requirement for local authorities to produce a capital strategy, it is considered good practice to do so.
- 8.2 The capital strategy is not a stand alone document but is linked to other strategic documents such as Council's Corporate Plan and Asset Management Plan, and provides a framework to help deliver and achieve effective use of resources. It is also a key driver of the council's annual budgeting process.

## **9. LIST OF BACKGROUND PAPERS**

- 9.1 None.

BS: JEL  
BT: PK

## **Capital Strategy**

London Borough of Barnet

**Resources Directorate**  
**April 2005**

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## **1. Purpose of Document**

- 1.1 Over the next three years (2005/06 to 2007/08), Barnet is planning to invest around £195m in its capital programme across a range of services and activities.
- 1.2 This document details the corporate strategy for the use and allocation of capital resources, both physical and financial. The Capital Strategy and its associated guidance is intended to:
  - ensure that spending decisions are matched to corporate priorities
  - ensure that both revenue and capital implications of decisions are fully considered
  - encourage the full and effective use of a wide range of funding sources
  - along with the Asset Management Plan and Accommodation Strategy, promote corporate ownership of property issues
  - outline the authority's approach to the prudential system of capital financing
- 1.3 The strategy is complemented by guidance for service areas in which the capital process, as part of the wider budget making process, is detailed. The guidance makes clear that any approaches for capital expenditure outside of the process detailed below will not be considered.
- 1.4 The strategy sets out:
  - a clear definition of capital
  - the sources of capital available to the authority
  - linkages to key local priorities, as laid out in the Corporate and Community Plans
  - Barnet Council's capital priorities and plans
  - how such investment decisions are made and monitored

## **2. Definition of Capital Expenditure**

- 2.1 The Local Government & Housing Act 1989 (section 40, subsections 2 and 3), updated through the Local Government Act 2003 and Local Authority (Capital Finance and Accounting) Regulations 2003, provide a definition of capital expenditure.
- 2.2 Capital expenditure is mainly in respect of buying, constructing or enhancing physical assets (including buildings, roads and immovable equipment) which provide benefit over several years. In this instance, enhancement relates to works which are intended to lengthen or increase substantially the open market value of the asset or increase substantially the extent to which an asset can be used.

### 3. Sourcing Capital Expenditure

3.1 There are a number of routes through which capital expenditure can be sourced by the authority. These include:

- **Prudential Borrowing:** Under the Local Government Act 2003 section 1, Local Authorities have been freed to borrow money to meet the requirements of their duties or to enable the prudent management of their financial affairs, within given limits determined by each local authority. This provides authorities with greater freedom to borrow so long as it can demonstrate it is affordable, prudent and sustainable. This is measured against a set of prudential indicators which are set each year as part of the budget setting process. Decisions on the overall level of prudential borrowing are taken as part of the capital strategy and financial planning processes.
- **Capital Receipts:** The Local Government Act 2003 section 9 subsections 1 and 2 define capital receipts as those funds generated through the sale of council assets.

Specifically in relation to the London Borough of Barnet, through its Property Services and Valuations Group within Resources, a systematic review of the council's property is undertaken on an annual basis leading to the disposal of identified property assets and the releasing of capital resources. There is a distinction between receipts generated from general fund properties and Housing Revenue Account properties as the rules around their application are different.

- **Major Repairs Allowance (MRA):** This is the major funding resource for expenditure on council dwellings. This is a cash grant that can only be spent on Housing Revenue Account properties. There is some flexibility as funds can be carried forward from one year to the next.
- **Contributions from Private Developments:** Significant resources are generated through contributions from private developments in the borough, for instance those levered into the authority through section 106 community benefits funding.

In addition, the council seeks to maximise the benefits accrued from external agencies through its use of capital resources and asset management, leveraging greater investment than would otherwise be possible. This approach is particularly evident in partnership working in regeneration projects.

- **External Funding:** This includes Central Government and European funding and other partnership working with other public, voluntary and private sector organisations.

- **Private Finance Initiative (PFI):** The use of PFI procurement can have a major impact on the delivery of the Council's objectives. Barnet is currently in negotiation on a PFI scheme for street lighting.
- **Revenue funding:** The council has the ability to fund capital expenditure directly from revenue, although this is clearly reliant on adequate funding in any given year.

#### 4. Strategic Framework

- 4.1 Within its overall aim of 'Putting the Community First', the London Borough of Barnet's corporate priorities as set out in the Corporate Plan include:
- A First Class Education Service
  - Tackling Crime
  - Supporting the Vulnerable in our Community
  - A Cleaner Greener Barnet
  - Repairing Roads and Pavements
  - A Better Council for a Better Barnet
- 4.2 The Community Plan sets out the aspirations of Barnet's community as delivered by the Local Strategic Partnership collectively. These priorities include:
- A Secure and Supportive Community
  - A Healthy and Caring Community
  - A Learning Community
  - An Environmentally Responsive Community
  - Fostering an Enterprising Community
- 4.3 The Capital Strategy has been developed with regard to these principles, outlining the strategy through which capital assets are employed as a key driver of service improvement, building on strengths and tackling weaknesses. It has clear links to and implications on the authority's medium-term financial strategy.
- 4.4 Other key policy links include those to:
- Asset Management Plan (as well as Education and Housing AMPs and service level Performance Management Plans)
  - 3-strand approach to regeneration
  - Annual efficiencies statement
  - Accommodation Strategy
  - Corporate ICT Strategy

## 5. A Capital Strategy for the London Borough of Barnet

5.1 In line with the strategic framework, the overarching objectives for capital investment are to:

- Meet corporate priorities through effective investment in priority projects to enhance the authority's frontline service outcomes
- Continue investment in support services to move the authority towards becoming:

*“A smaller entity with a smaller, but more efficient, corporate support function and a greater concentration of resources on service delivery; to be achieved through the use of systems and automation and the adoption of remote and mobile working”*

- Support the notion of 'invest to save', using capital wherever possible to reduce revenue requirements through long-term investments
- Maximise the impact of the authority's capital through leveraging in capital through alternative sources, particularly inter-agency and partnership working
- Maximise the benefits of capital through its application as a corporate resource
- Provide sufficient flexibility to act opportunistically where appropriate in meeting corporate priorities

## 6. Capital Programme Oversight

6.1 The capital programme is approved at the council tax setting and budget meeting of the council in March every year. During the year, new schemes may be added to the programme only if they have received member approval through committee reports or under delegated powers.

6.2 Development of the capital programme must be in line with the capital guidelines process. This will be coordinated through the **Capital and Assets Group (CAG)**, sponsored by the Director of Resources.

6.3 CAG is responsible for:

- Receiving and coordinating capital requests
- Assessment of all capital funding applications
- Production of a prioritised capital expenditure programme according to ranking through the weighted criteria set out in the guidance
- Assessing the level of capital resources available
- Performance review of all capital projects.