London Borough of Barnet: 2019-20 Capital Strategy

1) Introduction

In December 2017, the Chartered Institute of Public Finance & Accountancy issued a revised Prudential and Treasury Management Code, requiring all local authorities to produce a Capital Strategy report from 2019-20 onwards.

This capital strategy meets the requirement by setting out Barnet's capital investment programme and how it contributes to the achievement of its strategic outcomes as detailed in the Corporate Plan, while considering resource availability and the wider financial context. It is intended to be supportive of the Council's other strategy framework documents.

The capital strategy is laid out as follows:

- Objectives
- Definition
- Corporate Strategy
- Current Capital Programme
- Financing
- Governance
- Preparing and approving the Capital Programme
- Monitoring
- Changes to the Capital Programme
- Risk identification & management
- Capitalisation policy

2) Objectives

The main objectives of the capital strategy, as per the Council's Financial Regulations, are as follows:

- To maintain an affordable rolling capital programme of up to ten years
- To ensure capital resources are aligned with the Council's strategic vision and corporate priorities
- To undertake prudential borrowing only when there are sufficient monies to meet, in full, the implications of capital expenditure, both borrowing and running costs
- To maximise available resources by actively seeking appropriate external funding and disposal of surplus assets

Investing in the future is a key strand of the Council's response to the scale of the challenge facing local government from funding reductions and increasing demand on services. Barnet will not be able to support the growth needed to ensure the Council's financial independence without investment for the future.

Barnet's Capital Strategy is aligned to its Medium Term Financial Strategy (MTFS), and all other relevant financial and non-financial strategies.

3) Definition

Capital expenditure referred to in the strategy is consistent with the definition within the Chartered Institute of Public Finance and Accountancy's (CIPFA) Accounting Code of Practice as;

"…Expenditure that results in the acquisition, construction, or the enhancement of non-current assets (tangible or intangible) in accordance with proper practices… All other expenditure must be accounted for as revenue expenditure unless specifically directed by the Secretary of State."

4) Corporate Plan

The capital strategy supports Barnet's draft five-year corporate strategy, Barnet 2024, which focuses on three strategic outcomes with key priorities in each, as set out in the visual below.

Barnet 2024 also outlines the approach taken by the Council in meeting the strategic outcomes, which comprises the following:

A Fair Deal

- Standing up for Barnet so it gets its fair share of resources including police and general funding
- Effective management of resources and contracts to ensure we can keep council tax low and provide value for money for the tax payer
- Focusing resources to deliver targeted extra support at those who need it most, while continuing to deliver priority universal services

Maximising Opportunity

- Taking a commercial approach to generating income and looking for new opportunities to generate revenue from our estate
- Making use of evolving technology and innovation to help us achieve better outcomes and become more efficient
- Capitalising on opportunities from responsible growth and development to increase income and boost the local economy

Shared Responsibility

- Working with residents and the community to share responsibility to ensure Barnet thrives
- Providing early intervention and prevention services so residents can live independently for as long as possible
- Collaborating locally with health partners and the police to achieve better outcomes for Barnet

Efficient and Effective Council

- Reviewing the way that we work and deliver services to make best use of resources, including strong financial management
- Providing residents with the assistance they need at the first point of contact and greater access to online services and support
- Ensuring that residents are treated equally, with understanding and respect, and all have access to quality services

5) Current Capital Programme

The Council currently has a significant capital programme across both the General Fund and Housing Revenue Accounts, supporting the achievement of its strategic outcomes. Capital proposals are considered within the Council's overall medium to long term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This involves taking account of the revenue implications of the projects in the revenue budget setting process.

The latest approved budget for the Council's capital programme totals £641m over the latest MTFS period from 2018-19 to 2024-25.

A summary by Theme Committee is shown below.

Directorate								
	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**Total**
	£000	£000	£000	£000	£000	£000	£000	**£000**
Adult & Safeguarding	25,611	12,515	-	-	-	-	-	**38,126**
Assets, Regeneration & Growth	81,938	87,177	4,677	21,617	750	250	-	**196,409**
Children's, Education, Libraries & Safeguarding	39,166	34,741	500	-	-	-	-	**74,407**
Environment	21,031	13,618	-	-	-	-	-	**34,649**
Housing	70,436	54,025	6,974	-	-	-	-	**131,435**
Policy & Resources	13,284	3,120	-	-	-	-	-	**16,404**
General Fund Total	**251,466**	**205,196**	**12,151**	**21,617**	**750**	**250**	-	**491,430**
Housing Revenue Total	**39,889**	**71,818**	**19,589**	**18,049**	-	-	-	**149,345**
Total- all services	**291,355**	**277,014**	**31,740**	**38,666**	**750**	**250**	**-**	**640,775**

<u>Selected Major Scheme Details</u>

Some of the larger investment areas that the Council will be delivering as part of its current programme are outlined in the table below. The main benefits the investment will deliver and the strategic priorities supported are also provided. Many of the investment programmes will support multiple priorities, but only the most relevant is included here.

Investment area	Barnet 2024 Strategic Outcomes/Priorities	Main Benefits Delivered	Non-Delivery Risk
Housing	Ensuring decent quality housing that buyers and renters can afford, prioritising Barnet residents	- Increase the Council's stock of affordable social housing - Enhance Barnet as a successful London suburb through delivery of quality new places and improved neighbourhoods - Reduction in need for and cost of temporary and emergency accommodation - Supporting Barnet residents, promoting independence, learning and well-being	- Continued shortfall of affordable housing and reliance on expensive temporary accommodation - Failure to deliver identified revenue savings
Brent Cross (Thameslink station	Delivering on our major regeneration schemes	- Area regeneration - New jobs and homes	- Lack of quality housing and job opportunities in

and funding for land acquisition)	including Brent Cross Cricklewood which will deliver 27,000 jobs and 7,500 new homes	- Improved transport linkages	the area
Sports and physical activities- i.e. construction of two leisure centres	Investing in community facilities to support a growing population, such as schools and leisure centres	- Two new leisure centres at New Barnet and Copthall - Targeted increase in sport and physical activity participation among residents - Cost neutral leisure service provision with average income to council of £1.6m per annum	- Potential financial impact on service provision
Colindale investment (excluding office build)	A pleasant, well maintained borough that we protect and invest in	**-** Help deliver the regeneration of Colindale - Improved green and open spaces for area residents - Improved transport infrastructure in the area - Possible additional income generated through Controlled Parking Zone implementation	- Poorer outcomes for Colindale residents - Reduced attractiveness of area
Barnet Council new office build	A pleasant, well maintained borough that we protect and invest in	- Delivers financial benefits through accommodation savings - Non-financial benefits for staff from move to a more 'agile working' environment - Forms part of the wider regeneration of the Colindale area	**-** Additional costs to current lease arrangements/operational costs
Schools	Investing in community facilities to support a growing population, such as schools and leisure centres	- The council has a duty to provide good school places. Ensuring the borough has good schools and school places so all children have access to a great/outstanding education	- Additional pressure on borough to meet statutory educational duties
Investment in roads and highways	Improving roads, pavement and transport connections	**-**Improving the condition of roads - Making travel safer and more attractive - Support the use of low emission vehicles	

More details of the council's capital programme can be found in Policy & Resources Committee papers on www.barnet.moderngov.uk.

6) Financing

Funding Sources

The best value for money approach to financing capital expenditure is achieved by allocating specifically received funding first, followed by unringfenced capital funding,

then other contributions and finally borrowing. The council seeks to use a wide range of funding to finance its capital investment programme, which are laid out below.

- **External Capital Grants:** capital grants from central government departments (Transport for London, Education Funding Authority) or other partners;

- **Section 106s:** developer contribution towards infrastructure; confined to specific areas and to be used within a specific timeframe;

- **Community Infrastructure Levy (CIL):** developer contribution towards infrastructure; can be used borough wide but still has time restrictions on use; paid into infrastructure reserve;

- **Capital Receipts:** these are proceeds of capital sales (land, buildings, etc.) and are re-invested into purchasing other capital assets; and

- **Borrowing:** typically Public Works Loan Board loans to support capital expenditure; this type of capital funding has revenue implications (i.e. interest and provision to pay back loan).

<u>Affordability</u>

Details around a project's external financing should be added to the bid/business case. Where there is specific capital grant funding this should be included along with the grant determination letter (where applicable).

Any decisions on council funding sources such as borrowing, capital receipts or capital reserves are taken by the Capital Strategy Board (CSB), more details on which can be found in a later section. If council funding such as borrowing is identified as the funding source then there needs to be an assessment of the revenue implications. Finance Business Partners should be involved in helping to calculate and model these costs.

The council's treasury management service is responsible for the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations as well as maintaining a financially sustainable position.

The council uses prudential indicators which are key to ensuring the affordability, prudence and sustainability of its capital programme.

The council sets its own borrowing limits based on revenue affordability, risk and any other relevant factors.

The key prudential indicators used by the council are as follows:

Authorised limit for external debt: This is a control on the maximum level of borrowing and represents a limit beyond which eternal debt is prohibited. This limit

needs to be set or revised by the full Council and reflects the external debt that, while not desired, could be afforded in the short term, but may not sustainable in the longer term.

Operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Capital Financing Requirement (CFR): The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's indebtedness and its underlying borrowing need. Any capital expenditure which has not been immediately paid for which increase the CFR. The CFR does not increase indefinitely as the minimum revenue provision (MRP) is a statutory annual revenue charge that broadly reduces the indebtedness in line with asset's life, and so charges the economic consumption of capital assets as they are used.

The current prudential indicators for the council are summarised in the table below.

	2018-19 Budget (£m)	**2019-20 Budget (£m)**	**2020-21 Budget (£m)**	**2021-2022 Budget (£m)**	**2022-2023 Budget (£m)**	**2023-2024 Budget (£m)**	**2024-2025 Budget (£m)**
Authorised Limit for external debt	*The table is shown here for illustrative purposes only and will be completed in a future draft*						
Operational Boundary							
CFR							
Actual external borrowing							

7) Governance

The Capital Strategy Board (CSB) has oversight of the Council's capital programme. The CSB is an officer body with a remit to advise the Council on its capital strategy and all property asset management. It is mainly an advisory body and takes any decision-making power from the delegated authority of officers attending as set out in the Financial Regulations and the Council's Constitution. It makes decisions only in accordance with the existing priorities agreed in the budgetary framework. It also ensures that necessary consultation is carried out with the Council Management Team (CMT) and Policy and Resources Committee (P&R) and relevant directors as part of the decision-making process. Any decision or policy that is outside the agreed budget or policy framework will be referred back to P&R Committee and/or Council in accordance with the Constitution.

The role of the body is as follows:

- lead on the development and maintenance of a Capital Strategy that is consistent with Council priorities;
- identify and monitor the resources available to fund the capital programme ensuring all approved schemes are fully funded;
- within this framework, develop and manage the Capital Programme; and,
- monitor the progress of the capital programme and key variances between plans and performance.

The CSB reports to the Policy & Resource Committee who are responsible for strategic policy, finance and corporate risk management including recommending the Capital and Revenue Budget, Medium Term Financial Strategy and Corporate Plan to Full Council.

8) Preparing and Approving the Capital Programme

The existing Capital Programme covers all directorates/theme committees for a period of up to 10 years. Each year during the summer, as part of the budget setting process, Directorates will put forward proposals for new projects that are required to meet the needs of their services for consideration at Board and to be added to the Capital Programme.

All proposed schemes requiring capital investment must provide business cases including the following minimum information (see below for example):

- Description of the scheme;
- The estimated financial implications, both capital and revenue;
- The expected outputs, outcomes and contribution to the Council's Priorities;
- Risk assessment and appraisal with potential mitigations; and
- Any urgency considerations (e.g. statutory requirements or health and safety issues).

Business cases will be scrutinised by the Capital Strategy Board where representatives will discuss and appraise the schemes based on reference to the capital strategy, corporate priorities, asset management strategy. There will be a recommendation put to CMT for additions to be included in the December Budget Headlines Report.

These proposals along with the officer approved Capital Programme are then presented to P&R in February and referred to Full Council for approval; thereby setting the full capital programme for future years.

For in year additions these will need to be presented and agreed at CSB before being requested at a P&R committee.

9) Monitoring the Capital Programme

For effective delivery of the Capital Programme it is important that the programme is realistic in terms of projects that can be delivered on time, within budget and that achieves the desired outcomes.

The Project Sponsor and Project Manager should meet their Finance Business Partner quarterly, improving the level of monitoring and scheme profiling moving forward.

Therefore, the capital programme is monitored with quarterly reports being produced for the Financial Performance & Contracts Committee. These quarterly reports are used the basis for a review to ensure schemes are as up to date as possible and any changes to forecasts or risks are discussed.

10) Changes to the Capital Programme

Any slippages or accelerated spending or deletions to the capital programme must be approved by the Policy and Resources Committee. The process for additions is covered earlier in section 9.

a) Deletions

Regular formal challenge is provided to capital schemes throughout the capital programme. Scrutiny is applied when expenditure has not yet been incurred or is lower than the anticipated profile of payments. Consequently, deletions are identified which remove projects which are recognised as not currently being planned for delivery. Removing unnecessarily planned capital expenditure not only reduces the revenue requirement but also supports good financial management in accurately forecasting project costs and reducing slippage.

b) Slippage & Accelerated Spend

In addition to the process of challenge of schemes of the continued inclusion within the capital programme, scrutiny has been provided to the profiling assumptions of every scheme. As major capital works can span many financial years, there is a need to plan over a longer time horizon. Expanding the planning period enables existing schemes to spread the cost over a more reasonable delivery period.

11) Risk Identification and Management

The principal risks concerning the capital programme are around funding of the current and future projects, variations in the cost from agreed budgets and the projects not delivering the planned outcomes. These risks are minimised by the processes that have been incorporated into the Council's normal practices.

Funding – All projects included within the programme are fully funded. Where external funds are being used the funds will be secured with funding agreements prior to their inclusion or received in advance. Where conditions apply careful monitoring will be in place to ensure the terms are met to prevent possible loss. Where borrowing is required the revenue costs will be built into the Medium Term Financial Strategy.

Cost Variation – These fall into two categories; (a) Where the timing of expenditure changes from the budget set, and, (b) Where the overall cost of the projects changes from the approved budget.

- This may result in a change to the borrowing profile of the Council and therefore have revenue implications. It may also affect the overall outcome of the project as decisions may need to be taken to ensure that the project that can be completed, with a potential impact on benefits delivered.
- Managers are required to ensure adequate budget is in place prior to the commencement of projects. Budget should include a contingency sum to allow for possible anticipated variations where prices are not fixed with contractors. Careful monitoring and timely reporting is required to reduce the effects of cost variations. Budgets will be re-profiled to ensure timing changes are captured. Managers are required to identify alternative funding sources where overall cost variations occur during the delivery to contain them before sums are committed.

Delivery of Outcomes – Outcomes must be measured and compared against original objectives to ensure value for money and to reduce risk.

- Risk may increase if project delays cause disruption to the service and require interim solutions with both financial and non-financial consequences. The CSB will meet throughout the year to discuss progress on projects and makes decisions to minimise risk.
- If planned savings are not produced from the investment the revenue budgets may have a shortfall which will have to be addressed. It is therefore essential that careful evaluation of business cases and financial models are carried out and approved prior to the projects commencing.

11) Capitalisation Policy

Capital expenditure as defined in section 2 is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Any expenditure on an asset that is under £10,000 is considered non-enhancing and is treated as revenue expenditure. Any acquisitions such as equipment and vehicles for less than £10,000 are assessed and included in Property, Plant and Equipment if considered appropriate to do so.

In accordance with *IAS 16- Property, Plant and Equipment* assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The costs of assets acquired other than by purchase is deemed to be at fair value, unless the acquisition does not have commercial substance. In the later case, where an asset is acquired via an exchange, the cost of the acquisition via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Further details of the Council's capital expenditure accounting policies can be found in the Council's published Statement of Accounts which are available at www.barnet.gov.uk.