London Borough of Barnet: Capital Strategy 2019-20 to 2023-24

Version and status:	1.0
Date:	04/02/19
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Executive Summary

The Capital Strategy 2019-24 underpins the council's Medium Term Financial Strategy and, together with this, forms a key component of the council's strategic response to the financial challenges it faces and its ambitions for the borough, as set out in the corporate plan: Barnet 2024.

It sets out the council's approach to capital investment and provides both a mechanism to ensure capital investment is driven by and aligned with the council's corporate plan and a framework by which decisions on the capital programme are made and monitored.

The objectives of the capital strategy are to;

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

The capital strategy sets out how we deliver on those objectives, including the governance and financing arrangements.

The corporate plan is based on three strategic outcomes and supporting priorities. These, together with the outlined approach to delivering these within financial constraints, have shaped the broad priorities for our capital investment strategy:

- Driving and supporting responsible growth and development as a critical component of financial sustainability and independence
    - for example, Brent Cross regeneration
- Improving outcomes and supporting a reduction in demand on services
    - For example, investment in green spaces and leisure centres and reduced demand for local health and care services
- Enabling delivery of high value changes in the MTFS
    - For example, enabling the delivery of MTFS savings such as reductions in temporary accommodation costs through investment in housing
- Enabling delivery of new statutory requirements

    - For example, the systems replacement within Adult Social Care enabling the council to work in a way best suited to discharging statutory duties
- Maintaining a balanced and affordable approach to funding

The capital strategy will be refreshed every year as part of the budget planning process.

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1) Background

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 designed to be supportive of the council's other strategy framework documents.

2) 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."

3) Strategic Context

The capital strategy is driven by and supports the Barnet's five-year corporate plan: Barnet 2024. It underpins the Medium Term Financial Strategy (MTFS), and is aligned to the council's wider set of financial plans and policies including the Treasury Management Strategy, Debt Management Policy and Reserves & Balances Policy.

The preparation of the capital programme is an integral part of the financial planning process, including taking account of the revenue implications of the projects in the revenue budget setting process.

The corporate plan, Barnet 2024, is the overarching strategic ambition, framework, and plan for the entire council over the next five years. It sets out three strategic **outcomes**, a series of key **priorities**, and an **approach** to meeting these outcomes within the financial constraints.

The three strategic outcomes are

1. A pleasant well-maintained borough that we protect and invest in
2. Our residents live happy, healthy, independent lives with the most vulnerable protected
3. Safe and strong communities where people get along well

Each outcome is underpinned by a series of key priorities, as set out in the picture below.

The council's **approach** to meeting the strategic outcomes within its financial constraints also guides the decisions around the capital investment programme:

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

4) Objectives

The objectives of the capital strategy are to:

a) Maintain an affordable rolling capital programme of up to ten years
b) Ensure capital resources are aligned with the Council's strategic vision and corporate priorities
c) Undertake prudential borrowing only when there are sufficient monies to meet, in full, the implications of capital expenditure, both borrowing and running costs
d) Maximise available resources by actively seeking appropriate external funding and disposal of surplus assets

The Capital Strategy Board will lead on the strategic direction of capital investment for the Council, as well as on governance and financing, thereby ensuring the objectives are met.

5) Priorities

<u>Priority Areas for Investment</u>

The Council has limited financial resources and therefore must prioritise its capital investment decisions to meet the strategic outcomes and key priorities within the Corporate Plan as outlined in section 4 while delivering these within resource constraints.

Therefore, decisions will also consider the broad priorities of the capital investment strategy, which are as follows:

- Driving and supporting responsible growth and development as a critical component of financial sustainability and independence
- Improving outcomes and supporting a reduction in demand on services
- Enabling delivery of high value changes in the MTFS
- Enabling delivery of new statutory requirements
- Maintaining a balanced and affordable approach to funding

Some of the key areas that the Council will be investing in as part of its capital programme are outlined in the table below as well as their relationship to the Corporate Plan priorities and the main benefits delivered.

Investment area	Barnet 2024 Strategic Outcomes/Priorities	Main Benefits Delivered
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
Brent Cross (Thameslink station and funding for land acquisition)	Delivering on our major regeneration schemes including Brent Cross Cricklewood which will deliver 27,000 jobs and 7,500 new homes	- Area regeneration - New jobs and homes - Improved transport linkages
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
Colindale investment (excluding council 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
Colindale - 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
Schools	Investing in community facilities to support a growing population, such as schools and leisure centres	- Ensuring the borough has good schools and enough school places so all children have access to a great education

Investment area	Barnet 2024 Strategic Outcomes/Priorities	Main Benefits Delivered
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

6) Existing Capital Programme

The Council currently has a significant capital programme across both the General Fund and Housing Revenue Account.

In recent years, the amount in the approved capital programme has been reduced through deletion of schemes that are no longer required and the reprofiling of projects over a more realistic delivery period. This has been carried out to ensure that the Council's capital plans remain taut and affordable.

The latest approved budget for the Council's capital programme totals £682m over the latest MTFS period from 2019-20 to 2023-24.

A summary of capital budget allocations by Council Theme Committee is shown below.

Theme	Total £000	Key Investment Areas
Adults and Safeguarding	40,994	- Leisure and Sports Facilities
Assets, Regeneration & Growth	218,814	- Brent Cross - Development & regeneration - New office build
Children's Education & Safeguarding	74,357	- Schools
Community Leadership & Libraries	-	
Environment	44,937	- Roads and Highways - Vehicles - Greenspaces
Housing	138,108	- Housing
Policy & Resources	16,084	- Corporate transformation programmes
Total - General Fund	**533,294**	
Housing Revenue Account	149,345	- Housing - Extra Care Provision
Total - all services	**682,639**	

7) Financing

There are a range of potential funding sources which can be generated locally either by the Council itself or in partnership with stakeholders. The Council's capital investment must comply with the "Prudential Code for Capital Finance in Local Authorities" which provides local authorities with greater discretion over the level of borrowing they wish to take on in order to finance capital investment programmes. Nevertheless, the best value for money approach to financing capital expenditure is achieved by allocating specifically received funding first such as grant funding, followed by un-ringfenced capital funding, then other contributions and finally borrowing. This is because external borrowing has an impact on the revenue budget and could affect the Council's long-term financial position.

The main sources of capital funding the Council uses are summarised 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).

The table below summarises how the current approved capital programme is financed.

Theme	Total Funding						
	Grants	S106	Capital Receipts	Revenue	Capital Reserve	Borrowing	Total
	£000	£000	£000	£000	£000	£000	£000
Adults and Safeguarding	2,000	700	500	-	33,894	3,900	40,994
Assets, Regeneration & Growth	69,120	16,235	-	-	15,617	117,842	218,814
Children's Education & Safeguarding	53,386	8,270	1,736	-	5,099	5,866	74,357
Community Leadership & Libraries	-	-	-	-	-	-	-
Environment	7,603	1,067	4,861	-	40	31,366	44,937
Housing	8,205	5,791	22,895	683	-	100,534	138,108
Policy & Resources	-	-	11,102	200	16	4,766	16,084
Total - General Fund	140,314	32,063	41,094	883	54,666	264,274	533,294

Housing Revenue Account	**4,080**	**-**	**12,864**	**89,053**	**-**	**43,348**	**149,345**
Total - all services	**144,394**	**32,063**	**53,958**	**89,936**	**54,666**	**307,622**	**682,639**

Affordability

As mentioned previously, the prudential code allows the council to set its own borrowing limits based on revenue affordability, risk and any other relevant factors. The council uses prudential indicators which are key to ensuring the affordability, prudence and sustainability of its capital programme. These prudential indicators are kept under review and are reported to Financial Performance and Contracts Committee and Policy & Resources Committee and recorded in the TMSS.

A summary of the key prudential indicators used by the council is set out below. A more detailed definition / description is in appendix A.

Authorised limit for external debt: A control on the maximum level of borrowing and represents a limit beyond which eternal debt is prohibited. This limit reflects the external debt that could be afforded in the short term, but may not sustainable in the longer term.

Operational boundary: The limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

Capital Financing Requirement (CFR): Simply the total historic outstanding capital expenditure which has not yet been paid for. It is essentially a measure of the council's indebtedness and its underlying borrowing need.

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

	2019-20 Estimate (£000)	**2020-21 Estimate (£000)**	**2021-2022 Estimate (£000)**
CFR	754,843	799,160	847,542
Authorised Limit for external debt	759,843	804,160	852,542
Operational Boundary	654,843	699,160	747,542
Actual external debt	553,085	597,329	645,638

Further details on the council's prudential indicators can be found in the 2019-20 Treasury Management Strategy Statement.

Any advice on council funding sources such as borrowing, capital receipts or capital reserves is provided by the Capital Strategy Board (CSB). If council funding, such as borrowing, is identified as the funding source, an assessment of the revenue implications is undertaken. Details around a project's external financing form a key part of the internal business case.

The council's treasury management service is responsible for arranging the financing 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.

8) Governance

Oversight and decision making

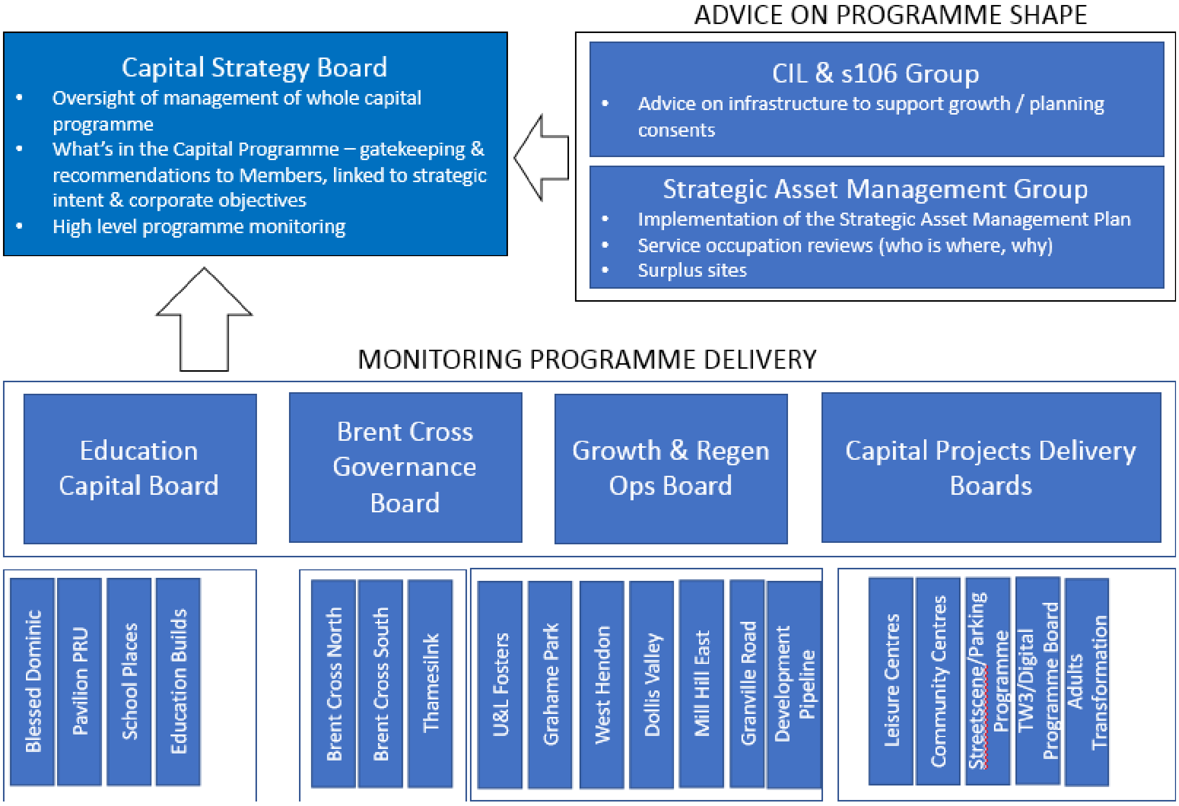
The Capital Strategy Board (CSB) has oversight of the Council's capital programme. The CSB is an officer body with a remit to advise the Council on its capital strategy and all property asset management. It is primarily an advisory body and takes any decision-making power from the delegated authority 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 is referred back to P&R Committee and/or Council in accordance with the Constitution.

The role of the Capital Strategy Board (CSB) 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.

An overview of the CSB's governance role and its place in the Council's structure is provided in the diagram below.



Additions to the Capital Programme

Throughout the financial year, business areas put forward proposals for new projects that are required to meet the needs of their services for consideration at the Capital Strategy Board.

All proposed schemes requiring capital investment provide capital bid forms, signed off by Finance Business Partners, including the following minimum information:

- 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 are scrutinised by the Capital Strategy Board where representatives will discuss and appraise the schemes based on reference to the capital strategy, corporate priorities, and evaluation criteria contained within the capital bid form. Recommendations are then 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 as part of the Budget Report to P&R in February and referred to Full Council for approval; thereby setting the full capital programme for future years.

Monitoring and Reviewing the Capital Programme

The decision-making framework and monitoring arrangements support effective delivery of the programme by ensuring projects are and continue to be realistic, not only financially but also with regard to timescales for deliver and benefits realisation.

Quarterly reports are developed based on the outcome of reviews at Finance Business Partner level and additional review and challenge at the Capital Strategy Board. The reports are scrutinised by elected members through the Financial Performance & Contracts Committee and provide a basis for the CSB to understand and address risks, and change forecasts where appropriate.

Changes to the Capital Programme

Any slippages or accelerated spending or deletions to the capital programme are approved by the Policy and Resources Committee.

a) *Deletions*
Regular formal challenge is provided to capital schemes throughout the capital programme from multiple sources such as Finance Business Partners (FBPs) and CSB members. 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 no longer being required. 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 continued inclusion within the capital programme, scrutiny by FBPs or CSB members 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.

9) Risk Management

The principal risks concerning any 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. Given that the council has limited reserves and no scope to increase its borrowing as a result of its revenue budget constraints, the council needs to adopt a low appetite approach to risk and investment.

Funding – All projects included within the programme are fully funded however there remains the risk that projects can overspend or not deliver the anticipated benefits resulting in revenue pressures for the council.. 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;

i. Where the timing of expenditure changes from the budget set, and,
ii. 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.

Appendix A: Prudential Indicators

Detailed description of prudential indicators

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.

Appendix B: 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.