

# Capital Strategy

## 1 Introduction & Background

- 1.1 The Prudential Code for Capital Finance in Local Authorities 2018 introduced the requirement for the Council to produce a Capital Strategy. The purpose of the Capital Strategy is to firmly place decisions around borrowing in the context of the overall longer term financial position of the Council and to provide improved links between the revenue and capital budgets.
- 1.2 The Council's Capital Strategy demonstrates that it takes capital expenditure and investment decisions in line with corporate service strategies (see sections 2 & 3) and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The capital strategy also sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 1.3 The Council's capital strategy underpins the Council's Capital Programme which is a plan of how the Council will spend its capital resources on projects that will support and improve its assets.

## 2 Corporate Strategies

### Corporate Plan 2021-2023

- 2.1 The Council sees itself as the facilitator of a partnership approach to deliver the single unifying mission for everyone in Luton to work together to ensure that everyone can thrive and no-one has to live in poverty through the Luton 2020-2040 vision.
- 2.2 The Corporate Plan outlines the following key over-arching strategic priorities:
- 2.3 **Securing a strong economic recovery from COVID-19, which protects jobs, incomes and businesses and enables us to build a more inclusive economy**

Following the COVID-19 pandemic the Council will continue to focus on securing Luton's economic recovery while setting the foundations to reform our local economy to ensure future growth and prosperity in the town. Focus will be on delivering five target outcomes in the first five years including:

- a more skilled workforce that meets the needs of local employers
- more of our residents in high-value, well-paid jobs within Luton
- diversifying our economy, digital, creative industries, manufacturing and aviation
- a thriving town centre with the right mix of office, retail, residential and leisure space
- more money spent locally, with increased social value from the public sector and anchor institutions.

We are bringing forward a new Employment and Skills Strategy, our Employment Support Hub and our Town Centre Masterplan. We will establish an Employment and Skills Partnership Group. We will continue our Passport to Employment programme, to

work with partners through the Inclusive Economy Board. We will support staff through our People Plan. We will work with employers to make Luton a Real Living Wage town, with businesses to develop a Good Business Charter, with businesses through our Economic Recovery Plan, will work with businesses to deliver our Town Centre Recovery Plan. We will develop a new Heritage Strategy which sits alongside our Arts and Cultural Strategy for Luton. We will promote our town through our Think Luton Communications Strategy

### **Protecting the most disadvantaged in our town by prioritising services and interventions that alleviate the impact of poverty and reduce health inequalities**

**2.4** The Council will work with its partners focusing on reducing health inequalities and preventing people from falling into a cycle of deprivation as well as improving housing in the town. We will be focusing on five target outcomes:

- better and more equal healthy life expectancy for residents across Luton
- more of our residents will live in good quality and secure housing
- more of our families will be financially sustainable and fewer will experience being in a crisis
- greater support for mental wellbeing and reduced social isolation for people of all ages
- a safer community with fewer cases of domestic abuse, serious violence and drug and alcohol related harm

**2.5** We will work with partners through the Health and Wellbeing Board to deliver the actions in the Population and Wellbeing Strategy. We will deliver 4,000 new homes for residents including 500 affordable homes through the Housing Strategy and a new Community Safety Partnership Plan. Our council-owned housing company Foxhall homes will build 400 new homes by 2022. We will continue to work with partners to ensure we have the right homes, invest in our existing council homes to improve quality, energy efficiency and reduce fuel poverty, work closely with Luton Access and Luton Poverty Action Group.

**2.6** Making Luton a child-friendly town, where our children and young people grow up feeling happy, healthy and secure, with a voice that matters and the opportunities they need to thrive.

The council will work with partners, schools, further education, higher education and skills providers to ensure that we give our children and young people the best start in life. We will work with everyone in the town to ensure that Luton is recognised as a UNICEF child-friendly town. Delivery will focus on the target outcomes

- all of our children and young people will be able to access services that keep them safe and secure
- reduced health inequalities for all our children and young people
- children and young people with SEND will have the same opportunities as non-disabled children and young people
- excellent educational outcomes and increased aspiration and achievement for our children and young people
- our young people will have a voice that is heard and that matters.

Our Children's Improvement Plan will deliver on this outcome ensuring our children's services are rated as good or outstanding. We will continue to work with our Community Safety Partnership to protect young people, deliver on the Child Healthy Weight Strategy,

Luton Food programme, the SEND strategy, the Education Strategy, develop our Young People's Council and work with our Looked After Children panel.

### **Becoming a greener and more sustainable town, to meet our long-term ambition to be carbon neutral and climate resilient by 2040**

**2.7** The Council will play a leading role in shaping and delivering a Climate Change Action Plan. We will focus on delivering:

- Net zero carbon emissions from organisations, households and the council which will also include accelerated tree planting, improved natural green spaces and other green infrastructure and be delivered and supported by reskilling, retraining and conducting research to accelerate the move to a net zero economy
- Better air quality enjoyed by people which across Luton
- A greener transport network that supports employment and increased use of sustainable travel across Luton
- Increased walking and cycling by residents, workers and visitors in the town
- The most sustainable airport in the UK

The council will continue to work closely with residents and partners to shape a Climate Change Action Plan across the town. Our new Transport Strategy to enable people in Luton to choose more sustainable forms of transport supporting access to employment and opportunities. The Luton DART will be operational by 2022. We will maximise opportunities such as the National Skills Fund, the National Retraining Scheme and reemployment in Luton. Endeavour to achieve more Green Flag status parks.

### **A strong and empowered community supporting fairness, equality and local pride and speaking with a powerful voice**

**2.8** The Council will continue to work with our whole community and civil partners to deliver the target outcomes:

- a town built on fairness with equitable outcomes for all residents
- a continually cohesive community where our residents get along well with each other
- a meaningful voice for all our residents to shape the vision and direction of our town
- increased social responsibility and civic pride throughout our community
- a thriving voluntary and community sector that enables our residents to support themselves and each other, enabling individuals to support themselves.

We will establish a new social Justice Strategy and a new Citizens Forum. We will develop a programme based on an equity round table approach. We will work with partners to ensure services delivered are accessible ensuring Luton is a disability friendly town.

**2.9** This plan aligns other key strategies and frameworks such as Luton 2020-2040 which focuses on our town-wide vision for Luton by 2040, the People Plan and the Council's Future Ready Programme.

**2.10** **A future ready council, delivering modern and efficient services that help to deliver our vision for Luton 2020-2040**

**2.11** Alongside the strategic priorities that are directly aligned to the vision, this additional strategic priority focuses on ensuring that our organisation is match-fit to deliver on the

vision for Luton over the next 20 years. The Future Ready programme will be driven by the council's Future Ready Board. Our People Plan will continue to develop our workforce.

### **Luton 2020-2040**

- 2.12** The Council consulted with residents and partners across Luton to shape and co-produce a shared vision for the town for the next 20 years. The vision brings together all of the recommendations from the Inclusive Growth Commission with a clear focus on ensuring that everyone in Luton can benefit. It was also shaped by the COVID-19 pandemic

### **Local Plan 2011 - 2031**

- 2.13** The Local Plan was approved 7<sup>th</sup> November 2017 and sets out a proposed set of policies, development allocations and actions to meet the environmental, social and economic challenges facing the area over the 20 year plan period from 2011. The Local Plan provides a strategy for the distribution and level of development and supporting infrastructure, a set of proposals to meet that strategy, policies against which to assess planning applications, and proposals for monitoring the success of the plan.
- 2.14** The Council will take a strategic view in relation to capital investment ensuring a positive demonstrable impact on the community and economy of the borough. Decisions will take into account the relevant Council strategies, policies, frameworks and plans and the views of partners and stakeholders with whom the Council is involved. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget. All capital investment decisions will be made with reference to The Luton Local Plan.
- 2.15** The Local Plan proposes a spatial development strategy which focuses the majority of new development in the Borough over the plan period on eight Strategic Allocations, whilst protecting the remaining Green Belt from development and regenerating Luton Town Centre. Key elements of the plan include:
- Provision for approximately 8,500 new dwellings;
  - Sufficient employment land to provide for 18,000 new jobs;
  - Strategic Allocations at: Land south of Stockwood Park; London Luton Airport; Butterfield Technology Park; Napier Park; High Town; Power Court; the Creative Quarter; and Marsh Farm; and
  - Infrastructure, retail, leisure, services, community facilities and open spaces to serve a new hierarchy of Town, District and Neighbourhood Centres these corporate objectives.
- 2.16** It will be likely that the current adopted plan will undergo a review in the next 12 months. At that point there will be an opportunity to reassess the spatial strategy and a reassessment of the need for housing, employment and spatial growth. The lasting impacts of effects of the pandemic will become more evident at that stage and can inform the process towards the adoption of a new Local Plan covering the medium term.

**Medium Term Financial Plan and Strategy**

- 2.17** The Capital Strategy is supported by the Council's financial strategy by integrating capital planning with the Medium Term Financial Plan (MTFP) and Treasury Management Strategy to ensure the council is in a stable and sustainable financial health. The MTFP is concerned with all aspects of the Council's capital expenditure – its planning, prioritisation, management and funding – to support the maintenance of the current asset base, its transformation and borough wide growth aspirations.
- 2.18** The Medium Term Financial Plan sets out how resources will be prioritised in order to achieve the key priorities set by the Council. The current medium term plan is based on the need to find substantial levels of efficiency savings in future years. This plan sets out the Council's overall objectives and priorities, and how those can be achieved in the context of the major reductions in funding that the Council has witnessed, and the potential for more during the next spending review. It outlines predicted budget pressures, growth areas, and further savings targets.
- 2.19** The Capital Programme included sets out the next 5 years, in line with the medium term revenue projections. The estimated revenue costs of the capital programme are included in the revenue projections. Taking into account the reduction in future capital receipts to fund capital programme, the risks relating to the size of the programme are recognised as a risk for the Council. Excellent project management of the capital programme, to budget and to original specification, is fundamental to the Council's financial health, and therefore to its key objectives, particularly the one of being a financially sound and efficient council. In addition, it is essential that the schemes are built to minimise whole life running costs.

**3 Service Strategies****Asset Management Planning**

- 3.1** The Council's approach to asset management is essentially service led. Service Heads are actively engaged in establishing asset management priorities as part of their annual service planning. Service Annual Management Plans (AMPs) are reviewed annually alongside the preparation of the service plans and each service plan includes a summary of the asset management priorities identified for that service within its AMP. In addition, there is regular liaison throughout the year with Corporate Directors and service heads and Corporate Property Forum (CPF) is represented on a range of service improvement project boards and teams.
- 3.2** The Council agrees that all of its property is a corporate resource. Responsibility for the management of the Council's property assets sits with the Property & Infrastructure Division, which forms part of the Inclusive Economy Directorate. The Service Director of Property & Construction Division is the Council's designated Corporate Property Officer (CPO). The CPO is responsible for coordinating all aspects of asset management planning, including developing strategy and policy direction for managing property assets throughout the Authority.
- 3.3** The Council has established a Corporate Property Forum (CPF) which is described as 'the key strategic level officer group aimed at promoting the corporate management of assets and maximising the capital resources available to the Council in achieving its

strategic aims and service priorities through optimum utilisation of land and property assets in accordance with value for money principles’.

- 3.4** It is recognised good practice for Local Authorities to produce an Asset Management Plan setting out their broad objectives for the management, development and rationalisation of their Built and Land Asset base over a three to five year period.
- 3.5** The Council’s current property portfolio comprises of approximately 10,000 assets of various types and sizes ranging from individual dwellings and shops to large leisure centres and schools. The total area of land owned by the Council (excluding the road network) is nearly 600 hectares and represents about 14% of the total Borough area. The total capital value of the whole estate, as determined for accounting purposes, is in the region of £780 million.
- 3.6** This plan however focusses mainly on the Operational, Community and Commercial Estates, as separate and discrete strategies already exist for the Airport, Housing, Schools and Investment Estates. This particular part of the estate comprise of approximately 200 sites.
- 3.7** The Council’s general objectives with respect to its Operational, Community and Commercial Estate can be summarised below.
- Ensure the safety and wellbeing of occupants.
  - To collect a commercial rent based on valid market comparisons.
  - To ensure the most effective and efficient use of buildings and land to avoid underutilisation.
  - Reduce carbon emissions and energy consumption.
  - Facilitate agile working in operational buildings.
  - To reduce underlying expenditure on maintenance and repairs by focussing on planned, as opposed to reactive, maintenance.
  - To have a complete, comprehensive and up to date picture of the condition and compliance of all buildings.
  - To rationalise the Estate where possible to reduce overall maintenance, repair and operating costs and liberate sites for redevelopment.
  - Foster and support as appropriate small business start-ups.
  - Provide bases for third sector organisations at an affordable rent.
  - To support the release of sites for the development of affordable housing.
  - Obtain best value for open market disposals.
- 3.8** The Council continues to face severe budget pressures and is therefore forced to consider a range of radical options to reduce the cost of maintaining, repairing and operating its property portfolio. The options considered in this plan have in some cases already been evaluated and approved; in other cases they will require future member approval.
- 3.9** The Council also needs to dispose of those parts of its Estate that have become surplus to requirements to generate much needed capital receipts. Such disposals will, where appropriate be targeted at residential development and the creation of affordable homes.

### One Public Estate

- 3.10** The Council continues to work in partnership with local partners to show the value of working together and taking a strategic approach to asset management. At its heart, the programme is about getting more from our collective assets - whether that's catalysing major service transformation such as health and social care integration and benefits reform; unlocking land for new homes and commercial space; or creating new opportunities to save on running costs or generate income. This is encompassed in three core objectives:
- Creating economic growth (new homes and jobs)
  - Delivering more integrated, customer-focused services
  - Generating efficiencies, through capital receipts and reduced running costs.

### Highways Infrastructure Asset Management Plan

- 3.11** The Highways Infrastructure Asset Management Plan was approved by Executive 15<sup>th</sup> October 2018 to enable Luton Council to adhere to the 36 recommendations as prescribed in the Department of Transport's Code of Practice "Well Managed Highway Infrastructure" by October 2018. It adopts "a risk based approach" to managing the highway assets and will enable planned maintenance to be organised rather than reacting to defects with temporary repairs.
- 3.12** It also delegated the responsibility for making minor changes to the plan to the Service Director for Public Realm in consultation with the Portfolio Holder for Infrastructure and Transport.

### Work Programme for Integrated Transport, Highway Maintenance and Street Lighting

- 3.13** This is an annual report to Executive to approve the proposed Integrated Transport, Highway Maintenance and Street Lighting Capital Work Programme which details the 5 year programme of capital works, subject to full council approval for LBC funding and confirmation of Department for Transport (DfT) funding.
- 3.14** It also delegates to the Service Director – Property and Infrastructure in consultation with the Portfolio Holder for Infrastructure and Transport any minor amendments to the programme.

### Luton Council IT and Digital Strategy

- 3.15** The Council's strategy for ICT investment is set out in Luton Digital which aims to deliver improved efficiency and effectiveness in customer and business contact, as well as an enhanced employee and member experience and efficiency. It also reflects on industry best practice from the private and other public sector organisations that have excelled in their digital delivery.
- 3.16** It sets the framework for how decisions will be made when related to:
- Investment
  - Selection and deployment of technology

- Digital by design services

**3.17** The current strategy is being replaced by a new one which will support our organisational 'Future Ready' ambitions while also seeking to bring value and opportunity to the Town. This programme is also at the centre of the Council aim to transform service delivery, improve productivity, and deliver efficiency savings.

### **School's Capital Strategy**

- 3.18** A capital strategy specifically for schools is contained within the documentation generated from the Basic Need Strategy Group and LBC's Education Asset Plan. The schools capital programme is primarily funded from 3 funding pots received from the Department for Education: Basic Need (BN), Schools Condition Allocation (SCA) and Devolved Formula Capital (DFC). Educational Capital bids for government targeted funding is also a key source of funding.
- 3.19** Capital expenditure funded by Basic Need allocations based on pupil projections relates to school expansions and school places, the strategy for this expenditure is determined by the Basic Need Strategy Group (which includes the Service Director (Education, Support, Challenge and Intervention), Admissions & Planning Manager, and the Schools Estates & Strategy Manager). The group meets monthly to discuss the priorities for capital expenditure across the school estate, this will then feed into DMT, Policy Group & Executive. This feeds into the Capital Programme via the Schools Estates & Strategy Manager who includes agreed works.
- 3.20** Schools Condition Allocations grant is received yearly based on the number of maintained schools within the LA's school estate. The funded programme of works is determined by high level priorities. Schools are surveyed every five years by an independent CIPFA surveyor and the use of historic data. Each building is surveyed and elements are ranked as to their condition. High scoring elements are then collated and internal specialist surveyors visit to assess and verify their need for upgrading and items are ranked by priority in a planned maintenance programme. When reactive maintenance issues arise, schools notify the Schools Estates & Strategy Manager who will engage the appropriate internal professional surveyor to inspect, assess and feedback as to the urgency and when the works need to be carried out. Decisions are then made as to whether these qualify for central capital funding or school revenue funding.
- 3.21** Devolved Formula Capital funding is allocated via a lump sum to individual schools based on school size and pupil numbers. The capital works are determined by the individual schools that have autonomy, but with the help of the Schools Estates & Strategy Manager and P&C colleagues advice is offered, highlighting good practice and with the reference to the schools AMP which will identify and rank all elements based on a 5 year programme.
- 3.22** SEND funding grant award of £2.12m across 3 years awarded to invest in provision for special educational needs: new places and improvements, conversions or extensions to existing facilities.
- 3.23** The focus for education funding over the next 5 years: with a projected fall in main stream primary and secondary pupil numbers in the short term additional BN funding receipts are not expected in the near future. The £30m balance of secured ring fenced



expansion funding is being targeted to create places and meet the growing demand for those requiring Special Education Needs (SEN): c£3m for the expansion of our current SEN schools particularly the ACE at the Cutenhoe campus, c£2m for the new SEN secondary school in the former educational buildings in York Street, c£5m for a new SEN primary school, c£15m for a new secondary school in the heavily oversubscribed central area of the town, c£3m for specialist inclusion accommodation within secondary schools targeting those struggling to integrate. SCA funding of c£2.5m per year will continue to target high priorities like replacement boilers, pipework, roofs, wiring and safe guarding issues. SEND funding of c£1.5m targeting Visually Impaired (VI) and Autistic Severe Difficulties (ASD) within a main stream secondary school and enhancements at existing specialist schools.

### **Investment Property Strategy**

**3.24** The Investment Property Strategy was approved in January 2013 and amended in October 2017 and set out the strategy for capital expenditure on the acquisition of an Investment Properties Portfolio, for restructuring and rebalancing the portfolio through disposals, reinvestment and active management. Individual investment property acquisitions will be subject to an Executive Report which on approval will be included in the updated Capital Programme in the next capital monitoring report. The latest Capital Programme forms the basis for the capital strategy which is approved by Council each February. The Council regularly reviews its portfolio of assets with a view to establishing the return on investments and how it can be optimised and risks mitigated in light of the recent guidance issued by MHCLG and CIPFA and the need to cater financially for future capital expenditure, now taking account of the fact that further borrowing to finance capital expenditure for yield only is no longer permissible following a Treasury announcement to that effect in November 2020.

**3.25** The principal aim of the property investment strategy is to generate commercial returns for the Council. This commercial objective must be achieved within strict investment criteria to minimise risk and financial exposure. Every purchase will be assessed against the following criteria.

<b>Criteria</b>	<b>Restriction</b>
Geographical spread	Whole of UK
Lot size	£1 million - £7.5 million
Minimum unexpired lease term	Single let - 4 years Multi-let – retain at average 3 years
Tenant covenant strength	Retain current criterion and refer financial assessment of tenants to Finance
Initial yield	Minimum 7.0% (0.5%-1.5% margin over notional borrowing costs)

**3.26** The Investment Property portfolio is monitored and challenged by officers on a quarterly basis throughout the financial year, and annually by the Finance Review Group, to ensure risks are known and returns are maximised. More strategic periodic reviews will

be undertaken to challenge the portfolio make-up and quantum to minimise risk, whilst exploiting potential market opportunities.

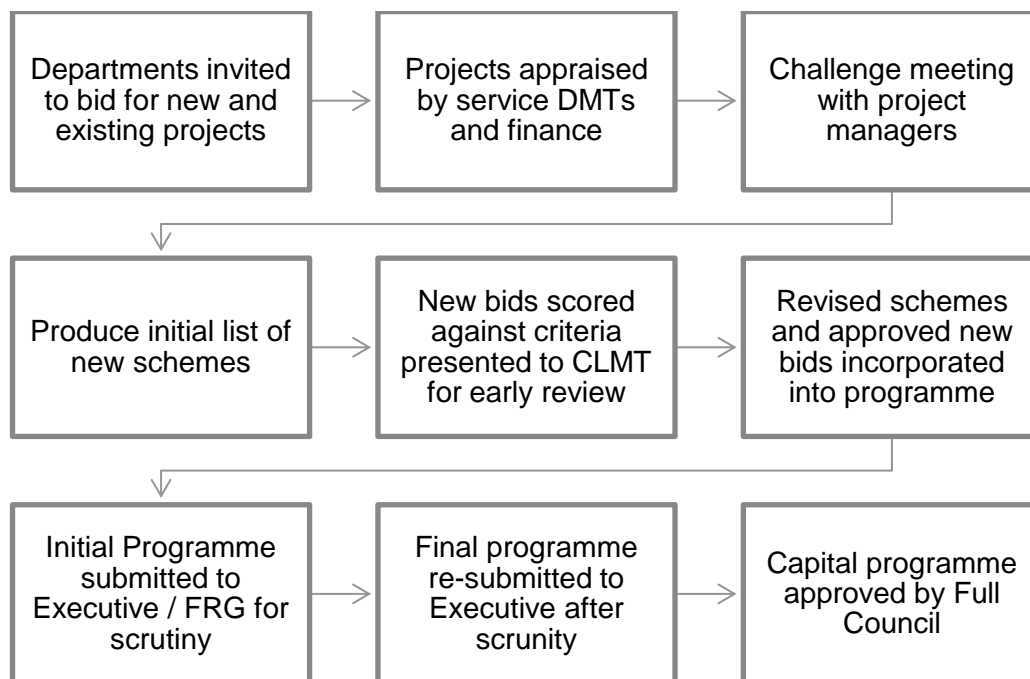
- 3.27** New prudential indicators have been established within the Treasury Management Strategy to monitor and quantify the level of investment and financial risk the council is exposed to. The Treasury Management Strategy is approved by Full Council every February.

## **4 Governance Framework**

### **Capital Programme**

- 4.1** The Council develops a Capital Programme alongside the revenue budget each year with approval for that programme at Full Council prior to publication. The programme is monitored monthly by officers and reported to Executive on a quarterly basis.

### **Capital Bid Process**



- 4.2** Capital bids are submitted by project holders as part of the budget setting process for the following financial year in order to be evaluated for inclusion in the next five year Capital Programme submitted for approval to Council. The bid application form requires the following information to be provided for all projects:

- A.** General Information – Project management, status and timescales.
- B.** Strategic Information – Project overview, strategic alignment, options appraisal and benefits realisation.
- C.** Financial Information – Project expenditure, specific funding and revenue implications.
- D.** Prioritisation – Self-assessed prioritisation scoring against the following areas:
  - Statutory obligations or legal requirement

- Existing contractual commitments
- Health & Safety
- Income generation or invest to save initiatives (self-financing)
- Ring-fenced specific project funding
- Asset value or remaining useful life enhanced
- Alignment to strategic priorities

- 4.3** Capital schemes are expected to be greater than £50,000 with small projects incorporated into wider annual programmes of works. This supports the financial accounting de-minimis of £10,000 for capital assets.
- 4.4** As part of the process capital bids are subject to challenge meetings where the proposed projects are scrutinised and budget holders provide further information to support their projects.
- 4.5** The Capital Programme approved in February each year may contain approvals in principle, but dependent on further information or due diligence. In these circumstances the capital budgets are not available to spend until all conditions have been met. This can be relevant to invest to save bids requiring further justification or project's dependent on the receipt of external funding.

### Annual Programmes

- 4.6** A significant proportion of the annual capital programme is for Annual Programmes. These programmes exist in the form of many smaller projects, and in general have a steady spend profile each financial year.
- 4.7** Each of these programmes needs to be scrutinised in more detail by an appropriate body to ensure value for money is achieved through detailed planning, effective procurement and budget monitoring. The following Annual Programmes generally incur in excess of £0.5 million per annum; Property Maintenance, Integrated Transport, Highways Maintenance, Schools Basic Needs, Schools Maintenance, Fleet Replacement Programme, ICT software, Equipment & Digitalisation and Private Sector Housing Grants.
- 4.8** It is critical these projects deliver value for money and support the Council's key strategic and operational objectives. The Council needs to assess the total Council resourcing is at the required level for each programme, and that project prioritisation is managed effectively and achieving the desired outcomes.

### Significant Projects

- 4.9** Strategically significant projects will need to pass through a more comprehensive governance process. Following the HM Treasury Business Case guidance; projects will need to satisfy the following 5 case model headings:
- 1. Strategic Case**

This section should demonstrate the project provides business synergy and strategic fit and is based upon a robust and evidence based case for change. This includes the rationale of why intervention is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved.

### 2. Economic Case

The main purpose of the Economic Case is to demonstrate that the project optimises value for money. It explains how this is achieved by identifying and appraising a wide range of realistic and achievable options in terms of how well they meet the project objectives and critical success factors agreed for the scheme; and subjecting selected options to a cost benefit analysis.

### 3. Commercial Case

The Commercial Case demonstrates that the “preferred option” will result in a viable procurement and well-structured contract. This section of the business case includes the planning and management of the procurement. It sets out how the “preferred option” will be procured competitively, in accordance with procurement regulations.

### 4. Financial Case

The Financial Case demonstrates that the “preferred option” will result in a fundable and affordable project. This section of the business case requires the capital and revenue requirements of the project over the expected life of the assets, together with an assessment of how the project will impact upon the balance sheet and budget.

### 5. Management Case

The Management Case demonstrates that the “preferred option” is capable of being delivered successfully. This section should demonstrate robust project management arrangements; including change and contract management and the monitoring and management of costs, benefits and risk.

- 4.10 Schemes identified as strategically important, high risk or requiring substantial debt financing will need to pass through additional member scrutiny (appointed by Finance Review Group) and be approved at Full Council as a standalone report.
- 4.11 Projects delivered by the Council’s wholly owned subsidiaries (e.g. London Luton Airport Ltd and Foxhall Homes Ltd) will be included within the Council’s Capital Programme as share capital and/or debt financing. These projects will need to pass through the same governance channels as any internally managed project, and they will need to be approved through the subsidiary governance procedures. As a result of the COVID19 pandemic, LLAL the Council’s wholly owned subsidiary is facing significant financial difficulties and the budget includes a report re “LLAL Framework for the funding and financing of stabilisation and recovery plan” which once approved will be an integral part of the capital strategy.

### Capital Programme Affordability

- 4.12 The Council needs to ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP/repayment of loans fund) and consideration of risk and the impact, and potential impact, on the authority’s overall fiscal sustainability.
- 4.13 During this period of constricting central government funding it has never been more important for the Council to maintain a prudent programme which delivers the maximum value for money possible. Within the Council’s restricted resources the annual budget process must prioritise the capital bids submitted and also assess against other

conflicting priorities and how the Council can maintain the delivery of its core services such as social care given the significant budget gap over the next four years MTFP.

### Monitoring

- 4.14** On a monthly basis the capital expenditure year to date and current budget annual profile will be circulated to all responsible project managers. It is the project managers responsibility to ensure;
- a. Expenditure meets the definition of capital expenditure
  - b. Expenditure is coded to the correct project budget
  - c. Expenditure is consistent with the approved scope of the project
  - d. Any forecasted overspend is reported immediately to finance
  - e. Project profiles are correctly reported
  - f. Annual expenditure is allocated to Council's assets, or identify Revenue Expenditure Funded Capital Under Statute (REFCUS)
  - g. Reporting of the project status and completion of a project to finance
- 4.15** In addition to the responsibilities to monitor expenditure, project managers are responsible, with the support of finance, for the co-ordination and management of project ring-fenced external funding.
- 4.16** Financial management and performance of the Council's approved and published Capital Programme is reported quarterly to Executive, Overview and Scrutiny Committee with an Annual Capital Outturn Report being produced at the end of each financial year.
- 4.17** The Annual Capital Outturn Report explains the variance of the actual capital expenditure for the year to its final capital budget. Any slippage of capital projects is identified throughout the year with the final position reported in the Annual Capital Outturn Report.
- 4.18** When projects are completed a post implementation review is carried out to determine the lessons learnt from the implementation of the project. These can be applied to future projects. Where completed projects relate to invest to save schemes evidence of savings being achieved is requested.
- 4.19** Subsidiaries will report regularly to their respective boards on the progression of their capital projects and their latest expenditure profiles. This information is reported to the Council's finance department on a minimum of every quarter.

## 5 Capital Programme Financing

- 5.1** There is a wide range of funding sources for the Capital Programme. Most notably is a distinction between specific project funding and general capital funding. Specific project funding is linked to a specific project, and more often than not the funding has strict conditions attached to how the funding can be used. It is the responsibility of the project manager to manage and monitor the receipt and use of project specific funding.
- 5.2** General capital funding can be used to finance the total net cost of the Capital Programme, and does not need to be identified against specific projects. Finance will monitor corporate resources with the involvement of the Property & Construction Division in respect of property and land sales.
- 5.3** The various funding sources can be explained across the following headings;

- Government grants
- Contributions from 3rd parties (including S106)
- Revenue Contributions
- London Luton Airport Limited (LLAL) No dividend is assumed for the foreseeable future.
- Capital receipts
- Prudential borrowing
- Other borrowing arrangements

**5.4** The funding of Capital Programme will reflect the financing strategy of the Council and will aim to make the best use of the resources available. As such funding decisions will be made in line with the council's Medium Term Financial Plan.

### **Government Grant**

**5.5** These include both non-ring-fenced, ring-fenced non-specific or ring-fenced specific resources as noted above. Examples include grants available from central Government Departments:

- The Department for Education provides Basic Need grant to fund expansion of school places and other annual grants for schools capital maintenance;
- The Department for Transport provides the LTP Block grant to fund integrated transport and highways works
- The Department of Health provides the Disabled Facilities Grant for the Council to finance works to private individuals' properties

**5.6** Other Capital grants include European Union Funding (whilst the UK remains within the EU), such as European Regional Development Funding and Heritage Lottery Funding.

### **Third Party Contributions**

**5.7** Council receives a number of external contributions from 3<sup>rd</sup> parties to fund, or partially fund capital projects. These contributions and donations will nearly always have strict spending conditions and be directly attributable to a named project.

**5.8** The majority of these contributions come from developers and are payable under the Section 106 Town and Country Planning Act 1990 and the Section 278 Highways Act 1980 to mitigate the impact of their development on the local area. S106 capital funding can only be used in accordance with the conditions set out in its agreement and will only be considered for inclusion to support specific capital projects once the funding has been received.

### **Revenue Contributions**

**5.9** Occasionally the service putting a capital project forward wishes to utilise its revenue budget to support the capital project. This will be considered on a case by case basis.

**5.10** Service areas can make contributions from their annual revenue surplus to earmarked capital reserves. An example is the revenue surplus from the Travellers site which is put into a reserve and used to fund capital works to the Travellers site.

- 5.11** As a result of the reduction in dividend the budget and MTFP makes allowance for £5m of Revenue Contribution to Capital Outlay to fund projects with a life of less than six years.

### **London Luton Airport Limited (LLAL) Dividend**

- 5.12** The Council is the sole shareholder of London Luton Airport Limited, a private limited company established pursuant to the Airports Act 1986 that owns the freehold of London Luton Airport. Until 2019/20, the Council received a dividend from LLAL, part of which is invested in the Capital Programme. It should be noted that due to impact of Covid-19 on the aviation industry, LLAL is unlikely to be in a position to pay a dividend for a number of years.

### **Property Disposal Capital Receipts**

- 5.13** Capital Receipts arise from the sale of the council's assets. The income received can be used to:
- Finance new capital investment e.g. Regeneration and commercial acquisitions (i.e. buying property for re-purposing where there is a sound business case to do so);
  - Reduce borrowing, notably under the Prudential Borrowing Framework;
  - Meet the needs of disposal costs, i.e. ear-marking receipts in the short term to be repaid once the receipt has been realised;
  - Finance and meet the cost of equipment e.g. ICT end user equipment or infrastructure;
  - Finance and meet the cost of asset replacement whether founded in condition, suitability, sufficiency or whole-sale replacement of life-expired equipment;
  - Replacement of plant or vehicles;
  - One off funding for transformation and change management projects, i.e. financing the cost of change.
- 5.14** Where the sale of an asset results in the requirement to repay grant, or the loss of a significant revenue stream, the receipt will be utilised for this purpose; once these liabilities have been provided for any remaining funds will be available for re-allocation.
- 5.15** The Councils Disposals Policy has provided clarity in terms of making decisions in relation to surplus properties and has provided a useful tool in managing conflicting priorities such as providing land for the development of affordable housing or new primary schools.
- 5.16** Capital receipts can be deemed to be ring-fenced to specific capital expenditure or used as general capital resources. For example, Right to Buy sales of HRA properties have specific conditions attached.
- 5.17** Central government do also have an interest in certain types of assets owned by the Council. Legislation dictates that certain sales can be restricted or a proportion of the receipt reclaimed. This is particularly relevant in terms of education land and right to buy sales.

### Prudential Borrowing

- 5.18** The residual net cost of the Capital Programme, after the application of all available funding, will increase the Council's Capital Financing Requirement (CFR). This will reflect the underlying need to borrow for the Council to fund the approved Capital Programme.
- 5.19** Local authorities are able to borrow to invest in their Capital Programme provided that the cost of that borrowing is affordable, sustainable and prudent in line with principles set out in the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code Guidelines and guidance issued by MHCLG.
- 5.20** The Prudential Code allows Local Authorities freedom and flexibility to finance their Capital Programmes by using borrowing which is not supported by Government grant.
- 5.21** Prudential Borrowing will also be considered to cover the cost of projects such as regeneration and investment, service transformation and where appropriate redundancy capitalisations, on a business case by business case basis. Since November 2020, however, borrowing to acquire property assets purely to produce an income return is no longer permitted.
- 5.22** Since 2012 when HRA Self Financing was introduced HRA borrowing was limited by the HRA Debt Cap set by Central Government. This meant that even if borrowing would meet the conditions of the Prudential Code it could not exceed the HRA Debt Cap. The HRA Debt Cap was removed 29<sup>th</sup> October 2018.
- 5.23** Individual business cases will now be developed for new investment projects within the HRA to ensure they deliver value for money, and are affordable within the HRA Business Plan.

### Other borrowing arrangements

- 5.24** All contractual arrangements, incorporating the use of an asset, entered into by the Council must be reflected in the Capital Programme and resulting CFR. This will ensure the full capital financing position and existing financial liabilities are acknowledged and transparently reported.
- 5.25** Currently the Council has a liability held on the Balance Sheet to reflect the Private Financing Initiative (PFI) in relation to the Challney School agreement. A PF2 arrangement was recently agreed to build Stopsley High School in the region, this however is not reflected on the Balance Sheet as the liability does not sit with the Council.
- 5.26** All existing service contracts which provide an asset used for the delivery of a service must be assessed to determine whether there is an explicit or underlying lease arrangement contained. If identified the asset and corresponding liability must be reflected in the financial reporting and capital financing of the Council.

## 6 Treasury Management

- 6.1** The Capital Financing Requirement (CFR) generated by the net cost of the Capital Programme each year, less the Minimum Revenue Provision (MRP), represent the Council's underlying need to borrow. Treasury Management, and its capital financing



revenue budget, has an intrinsic link to the Capital Programme; and will change with every capital budget decision.

- 6.2** The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus cash is invested in low risk counterparties providing adequate liquidity initially before considering investment return.
- 6.3** The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the long term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve long or short term borrowing or using longer term cash flow surpluses. On occasions any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 6.4** The Prudential Code includes the requirement to set prudential indicators, which are monitored and reported annually to Full Council.
- 6.5** In February the Council approves a range of prudential indicators that reflect its compliance with CIPFA guidance and the approach to capital expenditure and borrowing for the forthcoming year. As such, projects that are identified under the framework for change and which support the Council's corporate objectives and deliver an acceptable financial return as set out within robust business cases may utilise prudential borrowing. Within such cases a full financial appraisal will be required to ensure that all revenue implications of the cost of borrowing are taken into account.
- 6.6** Please see Annual Treasury Management Strategy for details on the following:
- A long-term projection of external debt, internal borrowing and the use of cash backed reserves.
  - Sensitivity analysis around capital expenditure, borrowing levels and capital receipts
  - How debt will be repaid over the life of the underlying debt
  - The authorised limit and operational boundary
  - Local Prudential Indicators
  - Treasury management governance procedures supporting decision making and risk management
  - Arrangements for the scrutiny of treasury management.

## **7 Risks**

### **Commercial Activity**

- 7.1** The Council has a strong reputation in Local Government for its commercial approach to service delivery and continues to be reported as one of the highest income generating Councils in the country.
- 7.2** The due diligence stage of all commercial decision is of the utmost importance. All commercial investments are supported by individual HMT compliant business cases that are subject to thorough risk assessment and stress testing and we also stress test the

whole investment portfolio to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of the project we also commission independent technical and legal advice.

- 7.3** The Council's commercial approach is supported by the Council's Corporate Plan. This strategy makes it clear that we will continue to invest wisely, mainly in the local area, to generate additional return and stimulate local economic growth and more local jobs, supported by robust governance processes.

### Risk Appetite

- 7.4** The sector's recognised definition of Risk Appetite is "the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time".
- 7.5** It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, one has to take some measure of risk. Therefore, risks need to be considered both in terms of threats to the Council as well as positive opportunities.
- 7.6** In general, the Council's risk appetite is formed by the substance of separate strategies approved by Executive; and expresses the Council's tolerance to risk in respect of capital preservation, meaningful liquidity and income volatility. The Council seeks to minimise and manage its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.
- 7.7** The Council is exposed to a number of risks, with varying elements which can be managed and needs to be understood, monitored, and mitigated where possible.

Risk Factor	Risk Appetite
Financial	Risks associated for different types of assets, covering property, housing and sector specific industrial investments. Focus is on maintaining security whilst focusing on income generation, with a lower appetite in achieving capital appreciation. The Council currently has no significant exposure to currency risk or more volatile or emerging markets.
Economic	The Council will be exposed to local economic risks as it supports growth in the local economy, housing market and the creation of jobs. Interest rate, inflation and other geopolitical risks will be kept to a nominal level.
Credit	In line with external treasury advice, there will be low appetite for unsecured non-investment grade debt. Investments will be secured or at investment grade. Due diligence will be completed for each investment to ensure credit risk is kept to a manageable level.
Operational	Exposure to risks associated with the delivery of statutory services. Detailed business continuity planning and a no tolerance approach to working outside of agreed processes and procedures is in operation.

Legislative / Political	Risks for entering into investments or arrangements which are contrary to current legislative or political views. This can be a volatile risk which must be monitored.
Environmental / Social	No appetite for environmentally negative risks. Low appetite for social risks, especially in the local region and always subject to full due diligence.

- 7.8** Each of these risks will be assessed on a decision by decision basis. In more strategic decisions the business case will cover each of these risks including the acceptable risk exposure and potential mitigation actions.

### **Balance Sheet Management**

- 7.9** The Council recognises the value its assets (both at single entity and group level) provides the local area in terms of service delivery and income generation. There is a risk associated with the level of capital investment made in its asset and the direct relationship with the cost of maintenance and the overall effectiveness of assets to provide the quality of service expected by the residents of the town.
- 7.10** There are underlying financial assumptions surrounding the value for money delivered by our assets, in terms of income generation and the level of service provided. These assumptions are tested annually during the budget setting process to reflect realistic income targets and manageable repairs and maintenance budgets. The Capital Strategy is pivotal in setting capital investment parameters to achieve value for money through optimal asset performance.

### **Affordability & Sustainability**

- 7.11** The Council must maintain an affordable, sustainable and prudent Capital Programme which is measured and can be afforded by local taxpayers and HRA residents. There are a number risks which must be managed to ensure the cost of capital financing does not significant vary from the current budget assumptions.
- 7.12** Capital slippage and overspends are the most likely risk to impact on revenue financing. The impact of changes in the gross expenditure of the programme can be significant in terms of MRP and debt interest. Initial project costings and timescales must be challenged and updated on a regular basis. This risk is managed by monthly monitoring reports and returns from project managers.
- 7.13** Benefits realisation is critical to a number of commercial and service efficiency projects. Original bids needs to have clear objectives which are tangible and realistic. Each realisable benefit must be monitored once projects have been completed. Benefits will be monitored using the savings tracker and by inclusion of budget savings. Any unrealised benefits will create budgetary pressures and trigger actions to remedy where possible.
- 7.14** The Housing Revenue Account is supported by a detailed Business Plan. Within this Business Plan are capital investment decisions and their associated revenue implications. These revenue implications impact on the cost of capital financing and the potential to deliver additional rental income. These assumptions are fundamental in achieving a self-financed HRA service. This risk will be mitigated by the impact of

## **APPENDIX O – Capital Strategy**

investment decisions reflected in the annual Business Plan and revised service budgets which are monitored effectively each month.