

# London Borough of Enfield

## Council

**Meeting Date 22<sup>ND</sup> September 2021**

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**Subject:** Capital Strategy 2022/23

**Cabinet Member:** Councillor Maguire

**Executive Director:** Fay Hammond, Executive Director - Resources

### **Key Decision:**

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### **Purpose of Report**

1. The purpose of the report is to set out the 2022/23 Capital Strategy.
2. The requirement to have an annual Capital Strategy approved by Council is a requirement that became mandatory in 2019/20 as part of the update to the Prudential Code. The main purpose of the Capital Strategy is to ensure the Council's investment in capital projects supports the delivery of its corporate objectives.
3. The strategy document is an overarching document which sets out the framework for the development, managing and monitoring of the Council's capital programme. It is integrated with the Council's Medium Term Financial Plan and Treasury Management Strategy and aligns with the Council's overall objectives.
4. In 2021/22 the Capital strategy was approved with the 10 year Capital programme. For 2022/23 the Capital strategy is being drafted in advance of the detailed 2022/23 to 2031/32 10 year Capital Programme. This aligns with the Medium Term Financial Strategy, which will also be presented to July Cabinet. Setting out the strategy in advance of development of the detailed programme will ensure the new capital programme is developed in line with the strategy, including any financial targets.
5. The main changes between the Capital strategy agreed in February 2021 and the 2022/23 strategy are additional information on how the new capital programme will be developed, including details of the new Development Investment Financial Framework(DIFF), increased detail and review of the capital programmes strategic risks and mitigations and additional information on the other strategies which link to the Capital strategy
6. 2022/23 will be the third year the Council is operating a Ten Year Capital Programme. The Ten Year Programme aligns with the Ten Year Treasury Management Strategy and improves the Council's ability to take a strategic view of planned capital investment and the impact on the Council's revenue budgets and overall borrowing.

## **Proposal**

7. Following approval and recommendation by Cabinet on the 7<sup>th</sup> July, Council is requested to:
8. Approve the 2022/23 Capital Strategy attached in Appendix 1

## **Reason for Proposal**

9. The key reason for the proposal is to set the Capital Strategy 2022/23. This is to facilitate long term financial planning which has become more important as the Council's Capital Programme becomes larger and more complex. Reporting on a rolling ten year basis assists the Council in understanding the impact of the capital investment being made, on the revenue budgets and overall level of borrowing. The Treasury Management Strategy is also being reported on a ten year basis.
10. To ensure the Capital programme remains affordable the Council has imposed a £2 billion borrowing cap. The underlying need to borrow to fund the capital programme is measured by the Capital Financing Requirement (CFR). As at 31 March 2021 the external borrowing required to fund the 2021/22 to 2030/31 10 year capital programme was forecast at £1.985 billion. Table 1 below provides the position incorporating the 2020/21 Capital programme outturn position.
11. The detailed work to develop the 10 year programme will ensure the new programme remains below the borrowing cap. In the event of the programme breaching the cap the following categories will be used to prioritise the programme, whilst also considering the Council's key strategic objectives regarding Housing and Regeneration
12. The Categories are:
  - Priority 1 – Fully grant funded
  - Priority 2 – Statutory /Health and Safety
  - Priority 3 - Medium term Financial Savings
  - Priority 4 - Match funding
  - Priority 5 – Other priorities aligned to the Council's strategic priorities

## **Relevance to the Council Plan**

13. The overarching aim of the Council's Capital Strategy is to provide a framework within which the Council's investment plans can be delivered. These plans are informed by the Council's strategic objectives as detailed in the Enfield Corporate Plan 2018 to 2022 and more recently the Enfield Council Plan which, identifies the following 3 key priorities:
  - i. Good Homes in well connected neighbourhoods
  - ii. Safe healthy and confident communities
  - iii. An Economy that works for everyone
14. The Council Plan also includes 4 cross cutting themes, i.e.

- i. A modern Council
- ii. Climate Action
- iii. Fairer Enfield
- iv. Early Help

which will inform the Council's work including capital investment across the Borough.

15. The Capital Strategy sets out the medium to long term context in which capital expenditure and investment decisions are made. It will assist in ensuring the Council understands the long term implications and risks of its investment decisions.
16. The full Capital Strategy, which explains how the Council invests its capital funds, the various sources of funding and how this facilitates the delivery of its objectives is a standalone published document, attached in Appendix 1

## **Background**

17. This report is seeking approval for the 2022/23 Capital Strategy. In the last two financial years the Capital strategy has been approved with the detailed 10 year capital programme. For 2022/23 the strategy is being approved in advance of the detailed programme, which will be presented to Council for approval in February 2022.
18. 2022/23 will be the third year the Council has moved to monitoring its Capital investment on a ten-year cycle. The Capital strategy is an annual document and will be approved alongside the Medium Term Financial Strategy, thereby ensuring both the Revenue and Capital strategy are fully aligned
19. The overarching aim of the Council's Capital Strategy is to provide a framework within which the Council's investment plans can be delivered. These plans are informed by the Council's strategic objectives as detailed in the Enfield Council Plan.
20. **Capital Strategy 2022/23**
21. The Capital Strategy is attached in Appendix 1. This is a standalone document, which will be published.
22. The updated Chartered Institute of Public Finance and Accountancy (CPIFA) prudential and Treasury management code made it mandatory for all local authorities to produce a capital strategy from 2019/20.
23. The overarching aim of Enfield's capital strategy is to provide a framework within which the Council's investment plans can be delivered. The Capital Strategy sets out the medium to long term context in which capital expenditure and investment decisions are made. It will assist in ensuring the Council understands the long term implications and risks of its investment decisions.
24. It is a corporate document and will form part of the Council's strategic planning framework, integrating with other key documents including the Corporate plan, Medium Term Financial Plan (MTFP), Asset Management Plan and the Treasury Management Plan. It will be refreshed on an annual basis and is an integral part of the Council's annual budget setting cycle.

25. The 2022/23 Strategy will incorporate the application of the Development Investment Financial Framework (DIFF). The updated framework is being finalised and has been developed in conjunction with Ernst and Young and updates and improves the appraisal template used to date. The benefits include:
- a. A standardised and systematic approach to the project appraisal of new and existing programmes
  - b. Clear governance regarding Capital programme development
  - c. Alignment of the Capital programme to the Council's Housing and Regeneration objectives
  - d. Improved management information, making it easier to compare and evaluate key programme metrics
26. In accordance with the DIFF, each programme will be reviewed under the following headings
- a. Project Viability
  - b. Project affordability
  - c. Operational and Funding Considerations
  - d. Routes to Delivery
27. The strategy sets out the Council's plans for Capital expenditure over the next year and, the financing of the expenditure and the associated risks. It will demonstrate how the Capital strategy forms part of the Council's overall governance framework for delivering its Corporate objectives. It also includes the Council's governance framework that underpins the financial management of the programme.
28. **2022/23 – 2031/32 Ten year Capital programme**
29. The detailed programme will be developed over the forthcoming months. The process will start with the completion and review of the appraisal templates for all existing programmes as well as any new programmes. This will provide the initial view of the new programme. The next step will be the prioritisation of all the programmes to ensure the borrowing cap of £2 billion is maintained. The cap will be managed through the review of underlying assets which underpin the debt, as well as reviewing the phasing of large scale projects, to ensure the cap is maintained.
30. **2021/22-2030/31 Ten Year Capital Programme**
31. Table 1 provides an overview of the Council's current ten-year Capital programme

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27-2030/31	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Good homes in well-connected neighbourhoods	449,254	254,778	297,060	194,499	206,337	932,246	2,334,174

An economy that works for everyone	88,733	48,334	25,678	20,646	12,139	44,378	239,908
Safe, healthy and confident communities	50,394	32,326	24,511	22,368	25,394	82,675	237,667
<b>TOTAL</b>	<b>588,380</b>	<b>335,438</b>	<b>347,249</b>	<b>237,513</b>	<b>243,871</b>	<b>1,059,298</b>	<b>2,811,749</b>
External Grants & Contributions	170,956	79,470	117,726	108,033	115,826	175,633	767,644
Revenue Contributions	348	0	0	0	0	0	348
Capital Receipts	12,105	9,459	6,213	7,234	7,492	8,664	51,167
Major Allowance Repairs	11,067	11,257	11,474	5,103	13,287	77,285	129,473
Earmarked Reserves	69,221	22,217	42,294	61,780	45,294	260,438	501,245
Borrowing	324,867	213,036	169,542	55,363	61,972	537,278	1,361,214
<b>TOTAL</b>	<b>588,380</b>	<b>335,438</b>	<b>347,249</b>	<b>237,513</b>	<b>243,871</b>	<b>1,059,298</b>	<b>2,811,749</b>

### 32. Capital Programme Funding

33. The capital programme is funded from several sources, each identified below. The reductions in Government funding mean the Council cannot rely solely upon these funding streams to meet the capital investment needs of the Council, especially in respect of regeneration. The Council has agreed to undertake commercial projects using wholly owned Council companies to acquire assets for housing and regeneration that can fund the necessary borrowing, either by selling acquired assets at a profit or using annual income flows to meet capital financing such as interest and provision for borrowing repayment.

34. The Capital programme is funded from:

- a. Grants and External contributions
- b. S106 and Community Infrastructure Levy(CIL)
- c. Capital Receipts
- d. Revenue Contributions
- e. Borrowing

35. The development of the 2022/23 to 2031/32 programme will include a review of all sources of funding to ensure grant opportunities and opportunities for alternative delivery options are fully explored, to assist in maintaining the Council's borrowing cap.

36. External Sources – Grants and Contributions

37. Whilst the Council has been notified of some of the grant allocations that can be expected to be received in 2021/22, confirmation has not been received for most grants beyond the current financial year. Further information will be provided as part of the Capital programme budget report which will be presented in February 2022.

### 38. Property Implications

39. Given the high-level perspective of this report, there are no specific property implications from within its contents. However, as the 10-year capital budget is implemented over time, it is certain that property implications will arise on specific projects and other activities. These will be addressed as necessary as they come forward in future reports.
40. **Equalities Impact of the Proposal**
41. The Capital programme seeks to reduce inequalities in the Borough , by for example investing in Regeneration programmes.
42. **Environmental and Climate Change Considerations**
43. These are included in the body of the report as relevant.
44. **Financial Implications**
45. The Section 151 Officer is required to keep under review the financial position of the Authority. The Capital Programme supports the discharge of this duty, the revenue implications of the Capital Programme proposed have been incorporated into the Medium-Term Financial Plan.
46. **Legal Implications**
47. The Council has a statutory duty to arrange for the proper administration of its financial affairs and a fiduciary duty to taxpayers with regards to its use of and accounting for public monies. This report assists in the discharge of those duties.
48. The Chartered Institute of Public Finance and Accounting (CIPFA) *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) underpins the system of capital finance. Local authorities determine their own programmes for Capital investment in non-current assets that are central to the delivery of quality local public services. As mentioned above in this report, The Prudential Code has been developed as a professional code of practice to support local authorities in taking decisions, such as those relating to capital strategies and programmes contained in this report. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
49. **Public Health Implications**
50. The Capital programme seeks to improve or impact upon the health and well-being of the Public in Enfield. This includes , for example improving the environment to encourage improving healthy lifestyles and delivering quality housing

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