

Capital Strategy

1. Introduction

- 1.1 Under the Prudential Code the Council is required to have a Capital Strategy which sets out the long-term context in which capital expenditure and investment decisions are made. The strategy should consider how capital investment is aligned with corporate priorities. Capital plans must also be affordable and sustainable.
- 1.2 Capital expenditure is where the Council spends money on assets, such as property that will deliver an economic benefit for more than one year. In local government this could include expenditure on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.
- 1.3 The Council has a range of capital resources which it uses to both deliver its services and meet strategic objectives. It is important that where these are physical assets that they are maintained in an acceptable state of repair to enable them to continue to be used and/or maintain their value. For Barking & Dagenham capital investment will be in four main areas:
 - Corporate - e.g. on-lending to subsidiaries or equity stakes
 - Corporate assets - e.g. office space
 - Directorate - to enable service delivery e.g. operational assets
 - Economic growth - to facilitate regeneration in the borough
- 1.4 For corporate and operational assets investment, this should be underpinned by Asset Management Strategies and plans which, among other things, looks at the value-for-money aspect of investment needs. Often changes in law and compliance with regulations means that some assets are no longer economic to maintain and/or efficient to use in service delivery. Consideration may need to be given to asset disposal.
- 1.5 As well as providing the overarching framework to support capital investment in the Council's proposed capital programme, the Capital Strategy should consider the financing of those investment plans. By their nature, capital investment has financial consequences for many years into the future and it is important to consider the impact on future council taxpayers when considering the affordability and sustainability of the Council's plans.
- 1.6 Funding for capital investment is derived from:
 - Capital grants from central government or other bodies e.g. TFL
 - General Fund revenue contributions
 - Capital receipts (excluding HRA right-to-buy receipts) from asset disposal
 - Reserves (revenue reserves can be used)
 - S106/CIL funds
 - Debt (borrowing, leasing, PFIs)

- 1.7 Where borrowing is undertaken, the Council is required to set aside amounts each year in its General Fund revenue budgets to meet Minimum Revenue Provision (MRP) costs in line with its approved MRP Policy (see Appendix 3). Charging MRP each year to the Council's revenue budget is a way of setting aside funds to repay the borrowing that has been undertaken.
- 1.8 An important consideration in formulating capital investment plans is, therefore, how much will need to be funded through borrowing and what is affordable in the Council's proposed revenue budgets.
- 1.9 Capital investment impacts the prudential indicators which are required under the 2020 Prudential Code, and these are outlined in Appendix 2. One of those indicators demonstrates net financing costs as a percentage of the Council's net revenue budget. Consideration will need to be given to any proposed significant increases in this indicator as this may give an indication as to affordability.
- 1.10 High inflation and increased interest rates have had a significant impact on the Council's capital strategy particularly in relation to its Investment & Acquisition Strategy (IAS). Whilst a number of schemes are still progress and assets under construction, viability of new schemes has been severely impacted with many pipeline schemes now stalled pending appropriate solutions being found to viability.
- 1.11 The Capital Programme sets out the strategic direction for the Council's capital management and investment plans and is an integral part of the medium to long term financial and service planning and budget setting process.
- 1.12 The Local Government Act 2003 Section 25 sets a specific duty on the Council's Chief Financial Officer (S151 Officer) to make a report to the authority for full Council to consider when it is considering its budget and funding for the forthcoming year. The Capital Programme forms part of the budget and funding for 2025/26 to 2027/28.
- 1.13 This report sets out the Capital Programme for 2025/28 for the Council's General Fund (GF) and the Investment and Acquisition Strategy (IAS). The HRA position has been separately reported to Cabinet.

3. Capital Programme 2025/26 to 2027/28

- 3.1 Given the current pressures on the General Fund revenue budget and the lack of previously accumulated General Fund capital receipts, the main resource available to meet future capital demands is prudential borrowing for 2025/26, limiting any new capital schemes which are not externally funded.
- 3.2 The Council's current gross capital programme proposed for 2025/26 is £168.4m, including £25.2m for the General Fund services, £112.3m for the IAS strategy and £30.9m for the HRA. This will give a requirement for additional borrowing in 2025/26 of £119.9m.
- 3.3 The Council's Capital Programme 2025/26 to 2027/28 is set out in the table below:

Capital Expenditure	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
GF - CARE & SUPPORT	3,673	0	0	0
GF - INCLUSIVE GROWTH	3,273	1,236	0	0
GF - CIL	654	0	0	0
GF - TFL	6,771	2,200	0	0
GF - ICT	1,582	2,973	416	0
GF - COMMUNITY SOLUTIONS	4	0	0	0
GF - CULTURE & HERITAGE	989	494	30	29
GF - PARKS COMMISSIONING	4,860	263	0	0
GF - MY PLACE	3,015	1,290	0	0
GF - PUBLIC REALM	10,474	6,367	207	0
GF - EDUCATION, YTH & CHILD	20,861	10,398	8,150	0
GF - SALIX	80	0	0	0
Total GF Capital Expenditure	56,236	25,221	8,803	29
IAS				
IAS Residential	174,453	108,388	15,152	1,472
IAS Commercial	5,466	3,960	0	0
Total IAS	179,919	112,348	15,152	1,472
HRA				
HRA Stock Investment	20,010	27,908	37,760	29,033
HRA Estate Renewal	4,874	0	0	0
HRA New Build Schemes	3,819	2,960	0	0
HRA Total	28,703	30,868	37,760	29,033
Total Gross Capital Programme	264,858	168,437	61,715	30,534
Financed by:				
HRA/MRR	-27,237	-26,303	-37,028	-28,306
CIL/S106	-1,679	0	0	0
Revenue	-4,602	-2,250	-207	0
Capital Receipts	-301	-1,730	-732	-727
Capital Grants	-39,379	-18,278	-8,150	0
Total Financing	-73,197	-48,561	-46,117	-29,033
Financed by Borrowing	191,661	119,875	15,598	1,501
PFI Additions	187	224	234	253
Lease Additions (IFRS16)				
Net financing need for the year	191,848	120,099	15,832	1,753

3. Investment and Acquisition Strategy

- 3.1 The Council has an ambitious long-term Investment Acquisition Strategy based up regenerating the Borough and making a significant increase in housing supply with around 3,000 residential units built or in development. This has required a large-scale borrowing programme to fund £2bn of capital spend across 60 schemes. Schemes are developed by Be First and ongoing management then passes across to Reside.
- 3.2 Each development is based upon a Cabinet approved business case and variations to spend also need Cabinet approval. In addition to variations in capital spend on the project the main financial variable against the original business case is the cost of borrowing at the point that the scheme moves from development to management by Reside is the rate of interest applied to the long-term borrowing to fund the asset normally over a 50-year period. The sharp upward trend in interest rates means that new projects need to be charged at a rate significantly above the 2% average for the Council's historic long term PWLB borrowing. The higher borrowing cost may make the developed scheme unviable for Reside so the interest rate charged is therefore reduced to ensure viability for the project. This has an adverse impact on the long-term cash flows back from Reside to fund the borrowing costs. The Council can mitigate this in part by delaying long term borrowing until the interest rates come down. The aggregate impact of this on the revenue costs of the IAS programme on the Council's revenue budget are included in the separate Cabinet budget report.
- 3.3 A breakdown of the IAS gross forecast spend is set out below:

	2024/25	2025/26	2026/27	2027/28
	£	£	£	£
Becontree Avenue 200	64,368	0	0	0
Becontree Heath	327,516	0	0	0
Chequers Lane	0	0	0	0
Crown House	151,458	0	0	0
GEP2 Block C	-143	0	0	0
GEP2 Block E2	2,042,517	-1,487,189	0	0
GEP2 Block F	2,565,418	1,830,824	0	0
GEP3A Plot I	4,408,968	628,849	0	0
GEP3A Plot J	1,111,214	0	0	0
Grays Court	0	0	0	0
GWP1	649,816	0	0	0
GWP2	6,520,321	0	0	0
House for Artists	0	0	0	0
Industria	1,464,580	0	0	0
Mellish Close	931,817	0	0	0
Oxlow Lane	860,490	1,149,413	0	0
Padnall Lake P1	673,197	150,585	0	0
Padnall Lake P2	1,731,267	605,065	0	0
Sacred Heart	0	0	0	0
Sebastian Court	323,439	0	0	0

Sugden Way	-1,000	0	0	0
Weighbridge	0	0	0	0
Wivenhoe	0	0	0	0
Completed & Handed Over at 31/12/2023				
12 Thames Road	5,402,539	3,004,474	0	0
Beam Park P6	51,538,129	49,072,201	9,729,562	1,105,757
GEP3B	73,222,232	40,807,011	11,113,048	1,507,875
Roxwell Road	8,635,852	6,690,377	426,354	0
Town Quay Wharf	3,421,144	351,355	0	0
Transport House	16,388,865	602,482	0	0
Trocoll House	96,569	197,619	642,224	0
Woodward Road	5,577,831	968,074	0	0
On-Site (Post-G4)				
Barking Riverside Health and Leisure Hub	0	0	0	0
Beam Park P7	0	0	0	0
Brockelbank	0	0	0	0
Dagenham Heathway Public Realm	135,059	2,869,376	0	0
Dagenham Heathway Redevelopment	867,841	4,537,509	230,543	0
GEP2 Block E1	0	0	0	0
Gascoigne Road	309,868	1,096,118	0	0
GWP3	0	0	0	0
Jervis Court	87,115	0	0	0
Padnall Lake P3	0	0	0	0
IP Approved (Pre-G4)				

3.4 Additionally the Council has a Commercial portfolio of 25 properties, largely acquired for Regeneration purposes, valued at £198m. The portfolio is subject to a major review.