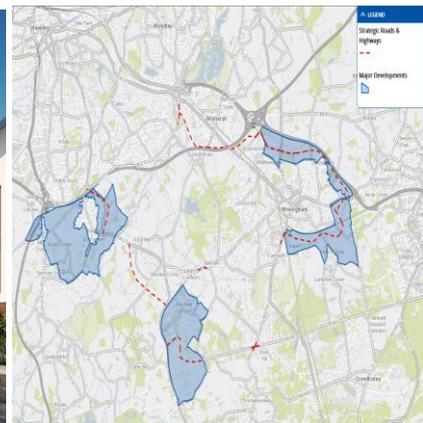
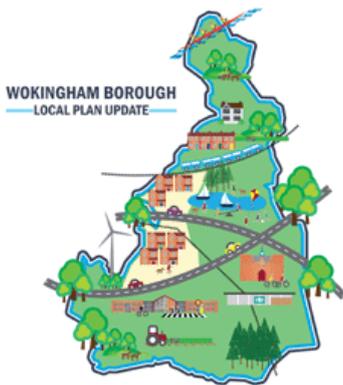


Capital Strategy 2020-21



**WOKINGHAM
BOROUGH COUNCIL**

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1 Introduction

The updated Prudential Code and Treasury Management Code of Practice, issued in December 2017, set out new requirements in relation to the setting of a Capital Strategy. Detailed guidance on these new Codes were issued in August and September 2018. Additionally, new statutory guidance was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in March 2018 outlining new requirements for the Capital Strategy.

The guidance places a responsibility on senior finance officers to report the capital strategy to Council and specifically report on the associated risks on prudence, sustainability and affordability.

2 The aims of the capital strategy

The capital strategy aligns with the Council's priorities and key Council strategies. The strategy is integrated with the medium term financial strategy and treasury management strategy.

The Capital Strategy is the document that sets out the following principles:

- To drive the authority's ambitious capital programme and identifying the optimum level of investment
- Supporting transparent options appraisal
- Giving an outline of future commitments so that the affordability of both the long term plan and any new proposals can be properly understood.
- Comparison of different capital schemes through:
 - Measuring financial and non-financial impacts
 - Benchmarking to assess future performance
- This report will provide a strong basis for decision making and accountability

3 Governance framework & core principles

The current 10 year capital vision and any new capital scheme bids is periodically reviewed. The Council seeks to allocate scarce capital resources in line with the Council's vision, priorities and underpinning principles by scoring and evaluating the capital programme by the capital prioritisation group.

The group consist of senior officers from each directorate with support from the financial specialist team. The objective of the group is to create a balanced, achievable capital programme with clear objectives and outcomes (value and delivery) aligned with the Council's strategy objectives. To enable the group to do this the following tasks will need to be carried out:

- To produce a balanced capital programme
- To review and approve bids for capital funding
- To agree the use of contingency
- To make recommendation on carry forwards
- To review and approve in-year increases to project budgets (within overall budget limits)
- To ensure alignment of capital programme with the Council Plan objectives.
- To monitor the capital programme outturn in terms of delivery and expenditure.
- To ensure realistic profiling of project spend.

The scoring was against the Council key priorities which are as follows:

- Economic prosperity
- Community safety
- Sustainable towns and parishes
- Affordable housing
- Tackling congestion
- Impact of development
- Clean green and enjoyable spaces
- Promoting quality of life for vulnerable adults
- Ensuring opportunity for all children
- Ensuring physical and mental wellbeing
- The bids are also scored on three additional criteria:
 - Value for money
 - Is ring-fenced funding available?
 - Risk/legislation

Based on these evaluations the attached capital programme has been prepared. Members are presented with the proposed capital budget submission 2020/21 for recommendation to Council (Appendix B).

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- The Council approves the Council vision and priorities
- The Council is ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and capital programme
- The executive receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the capital programme
- Portfolio holders are assigned projects in line with their responsibilities
- Scrutiny committees can call in Cabinet reports, receive and scrutinise reports
- All projects progressing to the capital programme follow the constitution, and financial regulations
- The capital programme is subject to internal and external audit.

4 Capital vision planning

Wokingham borough Council's capital vision is created alongside its vision for providing the majority of the needed housing in the borough, through its four strategic development locations.



[Arborfield Garrison major development](#) - this development includes new homes, two new primary schools, a secondary school, local shopping facilities, open spaces and roads including the Arborfield Relief Road project, an extension of Nine Mile Ride and improvements to the California Crossroads junction

[Gorse Ride Estate redevelopment](#) - We're working to regenerate the Gorse Ride Estate in order to provide high-quality social, affordable and market value homes in a great community,

[Shinfield Parish major development](#) – based around the villages of Shinfield, Spencers Wood and Three Mile Cross, this development includes new homes, two new primary schools, school expansion, local shopping facilities, open spaces and roads including the Shinfield Eastern Relief Road project

[North Wokingham major development](#) – this development includes new homes, a new primary school, local shopping facilities in a new neighbourhood centre, open spaces and roads including the North Wokingham Distributor Road project

[South Wokingham major development](#) – this development includes new homes, two new primary schools, local shopping and communities' facilities, new open spaces and roads including the South Wokingham Distributor Road project

These major developments will accommodate a total of about 10,000 homes in carefully planned new or extended communities, by 2026

The Council maintains an approved capital vision that covers a ten year period. This is broken down further to a three year balanced medium term financial plan capital programme and four to ten year vision. The ten year vision is a living document and is reviewed on a regular basis. The three year capital programme is reviewed and balanced as part of the annual budget setting process (Medium Term Financial Plan - MTFP). The MTFP also contains the revenue impacts of the capital programme.

Work is currently underway on an updated local plan which will shape the future of Wokingham Borough. See the Council's Local Plan Update page on the Council's Web site.

<https://www.wokingham.gov.uk/planning-policy/planning-policy-information/local-plan-update/>

5 Asset management

The overriding objective of asset management within the Council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The Council's property portfolio consists of operational property, investment property and property held for specific community or regeneration purposes. The Council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. Schools, office buildings.
- Investment properties held to provide a financial return (revenue income stream and/or capital appreciation) to the Council that supports service provision.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the Council's business management arrangements and is crucial to the delivery of efficient and effective services; as such the ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets. The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

6. Commercial activity and investment property

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

In the context of the Capital Strategy, the Council is using capital to invest in property to provide a positive surplus/financial return. Where permitted and appropriate, the Council may fund the purchase of the property by borrowing money. Borrowing forms part of the Council's Treasury Management Strategy (TMS). The rental income streams should exceed the cost of financing the loans and repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for the local population.

The reasons for commercial and property investments are primarily

- Financial returns to fund services to residents
- Market and economic opportunity
- Economic development and regeneration activity in the Borough
- To maintain employment within the borough

A list of schemes are shown at Appendix E

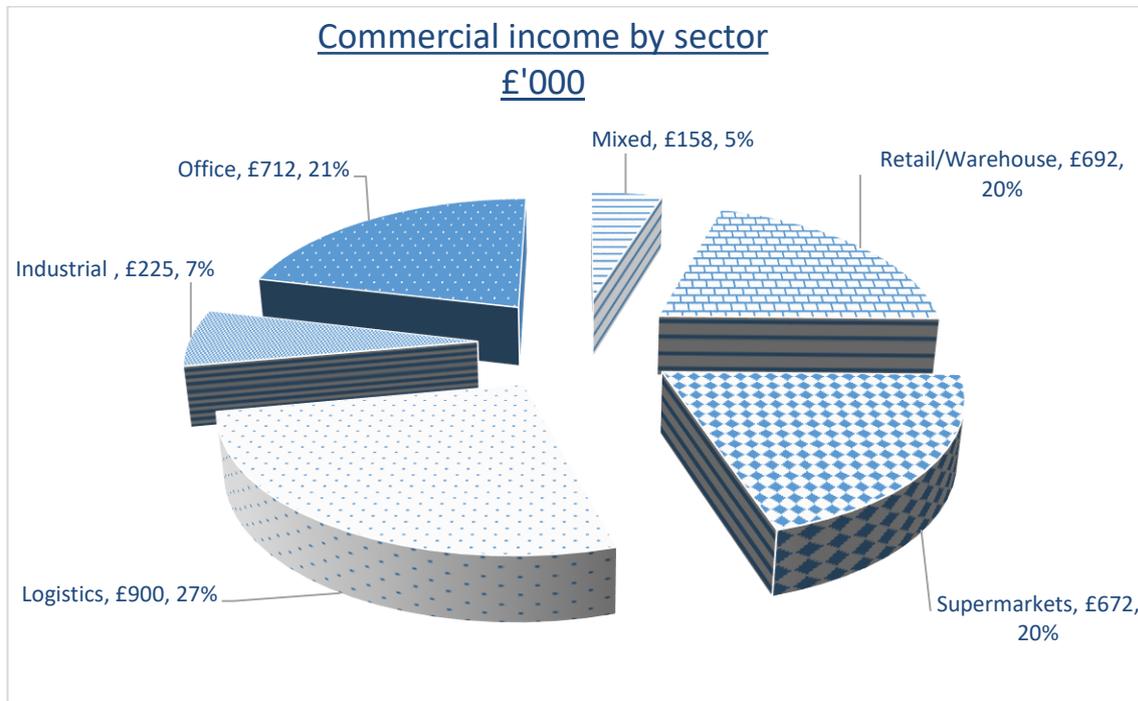
Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process

For further information please refer to the following reports:

- Investment Strategy approved by Executive on 28th September 2017.
- Property Investment Group considered by executive on the 20th January 2020

Investment performance:

The current performance of the portfolio is disclosed on the Council's web site. The pie chart below demonstrates the annual gross income of 5.26% per annum by sector type.



The 5.26% reduces to approximately 1.88% after capital financing costs (including a minimum revenue provision see the Treasury Management Strategy for further information Appendix E page 2)

8 Loans

The Council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure. In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent. The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Executive. All loans will be subject to close, regular monitoring.

9 Capital Expenditure 2020-2023

The following table shows a breakdown of expenditure over the next three years broken down into expenditure categories:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Investment and Regeneration Delivering sustainability, a strong, robust and successful economy that stimulates opportunities for all who work and live in	65,908	67,847	66,457	200,212
Roads and Transport Continuous investment in highways infrastructure to meet the needs of current and future users of the network	46,226	68,857	69,592	184,675
Climate Emergency Commitment to reduce carbon emissions and working towards becoming a carbon neutral council	16,060	15,595	18,838	50,493
Children Services and Schools Dedicated in providing services and schools which ensure all children have the opportunity to achieve their goals potential	8,865	7,725	11,098	27,688
Environment Investment and enhancement of facilities across the borough benefiting communities and residents wellbeing	7,425	12,135	5,155	24,715
Adult Social Care An effective high-quality care and support service to providing a quality of life which residents need	7,378	7,206	2,937	17,521
Internal Services Investment in Council assets and technology to continue to support all Council services and priorities	5,445	2,976	2,958	11,379
Total Capital Programme 2020/21 to 2022/23	157,307	182,341	177,035	516,683

10 Capital funding and capital reserves

The following table shows the breakdown of available funding for the capital programme and the estimated capital reserves.

	1st April 2020 £'000	1st April 2021 £'000	1st April 2022 £'000
Opening Capital Reserve	2	1,437	1,569
Borrowing	84,296	135,862	143,288
Developer Contributions	34,733	30,743	19,842
Capital Grants	26,211	8,110	6,023
Contributions from revenue	7,352	7,607	6,520
Capital Receipts	6,150	150	50
Add: Total Available Funding	158,742	182,473	175,723
Less: Total Capital Programme Expenditure	157,307	182,341	177,035
Closing Capital Reserve	1,437	1,569	257

11 Financing need (borrowing)

The table below shows the breakdown of the borrowing requirement for the 2020-23 capital programme between the scheme types

	2020/21 £'000	2021/22 £'000	2022/23 £'000
MRP and HRA borrowing	11,097	7,270	5,595
Wokingham Housing Ltd borrowing	5,000	8,000	10,000
Town Centre Regeneration borrowing	7,351	19,522	5,911
Invest to Save borrowing	58,173	57,601	52,083
S106 forward funded borrowing	467	14,769	22,852
CIL forward funded borrowing	1,458	27,950	46,098
Salix funded borrowing (climate emergency)	750	750	750
	84,296	135,862	143,288

In approving the inclusion of schemes and projects within the capital programme the Council ensures all of the capital and investment plans are affordable, prudent and sustainable. In doing so the Council will take into account the arrangements for the repayment of debt, through a prudent MRP policy in line with MRP guidance produced by the Ministry of Housing, Communities and Local Government. The capital financing charges and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium term financial plans. This enables members to consider the consequences of capital investment alongside other competing priorities for revenue funding.

Existing Council debt is therefore the consequence of historical capital expenditure. The Council can temporarily utilise other resources in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing.

A summary of our external and internal debt over the medium term financial plan time period, can be found in the Treasury management strategy approved by executive on the 20th February 2020.

12 Long term revenue implications of capital investment decisions

Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Council must have explicit regard to consider all reasonable options available.

13 Risk appetite

This section considers the Council's risk appetite with regard to its capital investments and commercial activities, i.e. the amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time. It is important to note that risk will always exist in some measure and cannot be removed in its entirety. A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the Council's low risk appetite. Subject to careful due diligence, the Council may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the Council's revenues or the ability to deliver its statutory duties more effectively and efficiently.

14 Knowledge and skills

The Council has professionally qualified staff across a range of disciplines including finance, legal and property and follow continues professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

External professional advice is taken where required.

15 Training

Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge the capital and treasury decisions taken.

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