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| TITLE | Capital Programme and Strategy 2021-2024 |
| FOR CONSIDERATION BY | The Executive on Thursday, 18 February 2021 |
| WARD | None specific |
| LEAD OFFICER | Deputy Chief Executive - Graham Ebers |
| LEAD MEMBER | Executive Member for Finance and Housing - John Kaiser |

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

The capital programme and strategy 2021 – 2024 sets out the capital investment for the benefit of the community and how this is funded.

RECOMMENDATION

The Executive is asked to note and recommend to Council the following:

- 1) the Capital Strategy for 2021 - 2024 - Appendix A;
- 2) the three-year capital programme for 2021 - 2024 – Appendix B;
- 3) the draft vision for capital investment over the next five years - Appendix C;
- 4) the use of developer contribution funding (s106 and CIL) for capital projects as set out in Appendix E. Approval is sought up to the project budget.

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2018 Prudential Code sets out the requirements in relation to the setting of a Capital Strategy within Local Authorities. The key objectives of the Code are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent, and sustainable.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to CIPFA's Prudential Code, which has been given legislative backing. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities – whether supported by government or entirely self-financed. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Using the guidance from the Prudential Code, every year the Council produce a **Treasury Management Strategy** and a **Capital Strategy**. Both strategies are closely linked and also support the Medium Term Financial Plan. The Treasury Management Strategy is considered in a separate report.

The Capital Strategy for the three financial years from 2021 – 2024 is intended to provide a high-level overview of how capital expenditure, capital financing and treasury

management contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

The Capital Strategy is set out in **Appendix A**.

This shows investment of £446m over the next three years across:

- Roads and Transport - £160m
- Housing, Local Economy and Regeneration - £156m
- Climate Emergency - £71m
- Environment - £23m
- Internal Services - £13m
- Children Services and Schools - £12m
- Adult Social Care - £11m

BACKGROUND

Key aims of the Capital Strategy (Appendix A)

The key aims of the capital strategy are to:

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities.
- Give clarity about how the Council identifies and prioritises capital requirements and proposals arising from various strategies, and how they will be managed within the limited capital resources available.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.

Capital Expenditure

Wokingham Borough Council has an ambitious capital programme which builds upon recent years of historic capital investment in the borough including regeneration of Wokingham town, new strategic roads, schools, and leisure facilities. The Council will continue to provide services and assets for residents to enjoy and to meet their needs.

The Capital Strategy is fundamental to the effective delivery of these key activities. The table below shows the planned capital expenditure for the next three years across the key activities. Note, these figures exclude any carry forwards from the current financial year.

| | 2021/22 £m | 2022/23 £m | 2023/24 £m | Total £m |
|--|---------------|---------------|---------------|-------------|
| Roads and Transport Continuous investment in highways infrastructure to meet the needs of current and future users of the network | 94.0 | 54.3 | 11.3 | 159.6 |
| Housing, Local Economy and Regeneration Delivering sustainability, a strong, robust, and successful economy that stimulates opportunities for all who work and live in | 72.6 | 64.6 | 18.8 | 156.0 |
| Climate Emergency Commitment to reduce carbon emissions and working towards becoming a carbon neutral Council | 22.2 | 27.2 | 21.6 | 71.0 |
| Environment Investment and enhancement of facilities across the borough benefiting communities and resident's wellbeing | 12.1 | 5.2 | 6.0 | 23.3 |

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| Internal Services Investment in Council assets and technology to continue to support all Council services and priorities | 3.9 | 4.6 | 4.1 | 12.6 |
| Children Services and Schools Dedicated in providing services and schools which ensure all children have the opportunity to achieve their goals potential | 3.4 | 3.1 | 5.4 | 11.9 |
| Adult Social Care An effective, high-quality care and support service to providing a better quality of life for residents | 7.2 | 2.9 | 1.0 | 11.1 |
| Total Capital Programme 2021/22 to 2023/24 | 215.4 | 161.9 | 68.2 | 445.5 |

A full breakdown of the areas above by individual scheme can be found in **Appendix B**.

The draft vision for capital investment over the next five years can be found in **Appendix C**.

Capital Resources (Funding of Capital Expenditure)

Like most Local Authorities, the Council has limited capital resources available and these are allocated to each scheme to ensure best value for money by maximising the use of grants, developer funding and capital receipts in order to minimise the need for revenue contributions and borrowing. Although borrowing does make a large portion of the capital resources, this has been calculated on a prudent, sustainable, and affordable basis. Each individual scheme is evaluated before being added to the capital programme.

The table below shows the estimated capital resources required to fund the three-year capital programme from April 2021 to March 2024.

| | 2021/22 | 2022/23 | 2023/24 | Total |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| Supported borrowing | (165.0) | (95.2) | (32.2) | (292.4) |
| Developer contributions (S106 / CIL) | (26.4) | (34.2) | (8.4) | (69.0) |
| Capital grants | (12.1) | (13.8) | (11.5) | (37.4) |
| Other contributions | (6.3) | (5.8) | (6.1) | (18.2) |
| General fund borrowing | (3.5) | (3.6) | (3.6) | (10.7) |
| Additional general fund borrowing* | 0.0 | (6.7) | (3.7) | (10.3) |
| Capital receipts | (2.2) | (2.6) | (2.7) | (7.5) |
| Total | (215.4) | (161.9) | (68.2) | (445.5) |

* Additional general fund borrowing is currently the funding gap for years 2 and 3. Through the budget process, this will be reduced to zero through using additional income (e.g. new grants or developer funding) and/or through reducing capital expenditure across the programme.

Developer Contributions

With regards to developer contributions funding. The Councils Finance Regulations require allocation of this funding to be approved. As set out in **Appendix D**, approval is sought up to the project budget for the capital scheme to allow flexibility if more funding becomes available during the year and can reduce borrowing costs. The Executive are asked to approve and recommend that Council approve the use of developer contribution funding (s106 and CIL) for capital projects as set out in Appendix D.

The capital programme drives the Treasury Management Strategy (see separate Executive and Council paper for the 18 February 2021), in terms of identifying and undertaking necessary borrowing. The graph below shows the estimated debt and debt repayment profile for the borrowing used to support the capital programme.

Supported Borrowing

A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing" in the table above.

Supported borrowing activities can be broken down as follows:

Investment in Wokingham Borough

- Regeneration. There is an ambitious programme of regeneration with the town centres of the borough. With the Council's low cost of capital and return on investment requirement compared to the private sector this allows the Council to take on and complete projects for the benefit of the local community that would otherwise not be delivered by the private sector.
- Economic Development. Likewise, the Council is able to use its resources to secure properties within town centres to ensure continued delivery of services to the community, whilst encouraging local businesses with security of tenure.
- Enabling infrastructure. The Council has always been positively proactive in delivering infrastructure in advance of developments.
- Local Employment Protection. The Council will invest to ensure local employers remain in premises and not lose economic business sites to alternative development.
- Housing. The Council has an ambitious affordable and social housing plan for the borough, delivered through its wholly owned subsidiary companies.

Invest to Save

The Council is also investing in activities which not only cover the financing costs and debt repayment for the scheme but make income each year to contribute to the costs of running the Council, reducing the burden on the local taxpayer whilst maintaining services. These are referred to as 'invest to save' funded projects, and examples are listed below:

- Leisure and sport facilities.
- Energy reduction / efficiency.
- Crematorium.
- Social care placements provision

Repayment of Borrowing

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt as well as the asset value generated.

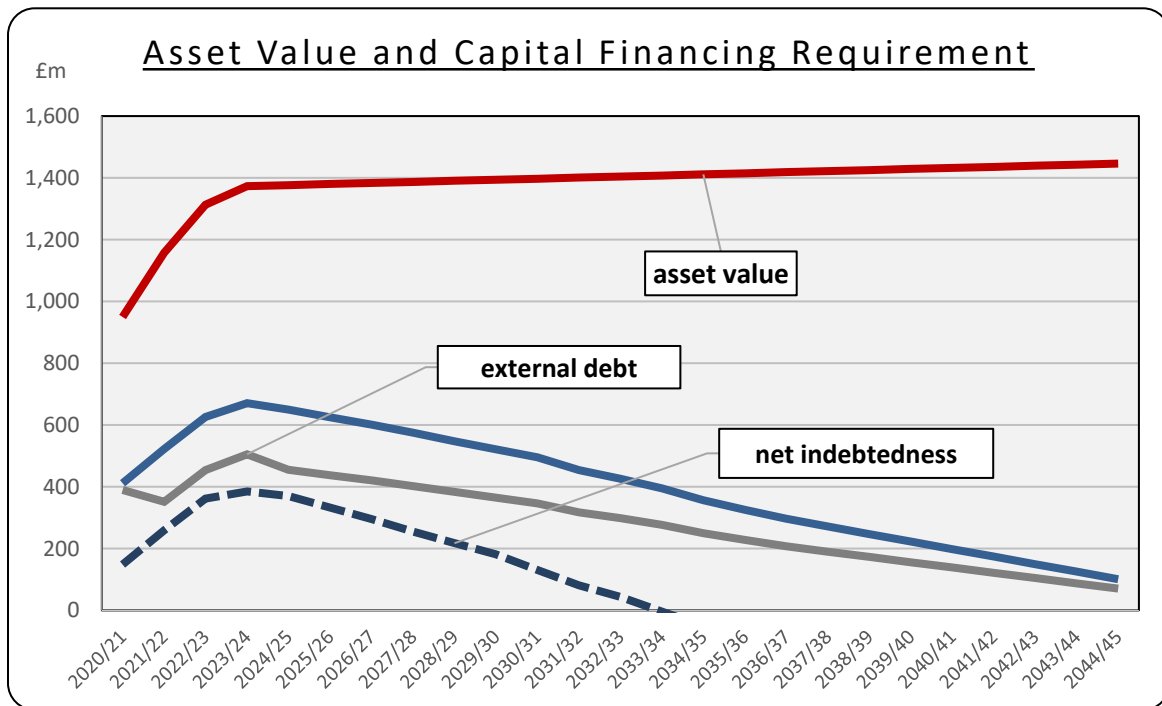
The graph includes three key lines in reference to debt:

- Capital financing requirement (CFR) - a technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.
- External debt – this is the actual amount borrowed with third parties. The difference between CFR and external debt is referred to as internal borrowing.
- Net indebtedness – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid, and the ongoing income will be transferred to benefit the general fund.

The graph is based on general fund only and excludes HRA as this is ringfenced. The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.



FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

| | How much will it Cost/ (Save) | Is there sufficient funding – if not quantify the Shortfall | Revenue or Capital? |
|-----------------------------------|-------------------------------|---|---------------------|
| Current Financial Year (Year 1) | £215.4m | Yes | Capital |
| Next Financial Year (Year 2) | £161.9m | Yes | Capital |
| Following Financial Year (Year 3) | £68.2m | Yes | Capital |

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| Other Financial Information |
| Please see the attached appendices for full details. |

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| Stakeholder Considerations and Consultation |
| N/A |

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| Public Sector Equality Duty |
| The specific projects and programmes of work will be assessed individually prior to implementation. |

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*

As highlighted in the Capital Strategy and appendices, the Council continues to invest in Climate Emergency across a range of capital schemes.

List of Background Papers

Appendix A - WBC capital strategy

Appendix B - WBC capital programme detail

Appendix C - WBC five-year capital vision

Appendix D - WBC capital Programme to be part/fully funded by developer contributions.

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