TITLE	**Capital Programme and Strategy 2024-2027**
FOR CONSIDERATION BY	Council on Thursday, 22 February 2024
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)
The capital programme and strategy 2024 – 2027 sets out the capital investment for the benefit of the community and how this is funded.

RECOMMENDATION
That Council consider the recommendations of the Executive in respect of the Capital Programme and Strategy 2024-2027 and approve.

1) the Capital Strategy for 2024 - 2027 - Appendix A;

2) the three-year capital programme for 2024 - 2027 – Appendix B noting that approval is sought for 2024/25 schemes only.

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 D. Approval is sought up to the project budget.

5) the Deputy Chief Executive (S151 Officer) will exercise, where possible the flexible use of capital receipts policy, as issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003.

6) approve delegation for the delivery (including awarding and signing of the contract) of the South Wokingham Distributor Road to the Deputy Chief Executive and Director of Place & Growth in agreement with Lead member for Finance and Lead Member for Highways subject to the scheme being fully funded from Homes England Grant and Developer Contributions.

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2021 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 2024 – 2027 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 c£520m over the next three years across (<u>including</u> carry forwards):

- Housing, Local Economy and Regeneration - c£215m
- Children Services and Schools - c£74m
- Roads and Transport - c£108m
- Environment - c£68m
- Internal Services - c£30m
- Adult Social Care - c£25m

Recommendation Five

The Executive are asked to note the Deputy Chief Executive (S151 Officer) will exercise, where possible the flexible use of capital receipts policy, as issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Further details of the flexible use of capital receipts policy are set out in section 11 of Appendix A.

The Guidance issued by the Secretary of State under section 16(2)(b) of the Local Government Act 2003 specified that; local authorities treat as capital expenditure, expenditure which:

i) is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners; and
ii) is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.
iii) is not incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments.

In further exercise of the Secretary of State's powers under section 20 of the Act, it is a condition of this direction that expenditure treated as capital expenditure in accordance with it only be met from capital receipts, within the meaning of section 9 of the Act and regulations made under that section (for current provisions see Part 4 of S.I. 2003/3146, as amended), which have been received in the years to which this direction and the previous direction.

In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

The Guidance provides a definition of expenditure which qualifies to be funded from the capital receipts flexibility. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

There are a wide range of projects that could generate qualifying expenditure. The key determining criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

Recommendation Six

The Executive are asked to approve delegation for the delivery of the South Wokingham Distributor Road (SWDR) subject to successful funding from Homes England and the estimated costs remaining within current budget approvals to Deputy Chief Executive and Director of Place & Growth in agreement with Lead member for Finance and Lead Member for Highways. The delegated authority will include awarding and signing of the contract and any funding agreement with Homes England.

The budget allocation is included in the current capital programme and planned to be carried forward from 2023/24 into future years to align with the latest delivery estimates.

The Council are working with Homes England to secure funding support to enable the delivery of the SWDR.

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 there 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. The list of schemes includes a mix of approval levels; some of which are permissions to spend, some are known schemes, and some require further understanding and detailed business cases prior to commencement.

The overall 2024/25 programme will be made up of new schemes identified in this report and schemes carried forward from 2023/24. The carry forwards identified from the 2023/24 capital budget are included for completeness. These are based on the amounts agreed in the quarter three capital monitoring report presented to the Executive and are therefore subject to change. Carry forwards are likely to be spent across a number of years.

	Carry Forwards 2023/24 £,000	2024/25 £,000	2025/26 £,000	2026/27 £,000	Total £'000
Housing, Local Economy and Regeneration Delivering sustainability, a strong, robust and successful economy that stimulates opportunities for all who work and live in.	140,035	20,709	27,691	26,098	214,534
Children Services and Schools Dedicated in providing services and schools which ensure all children have the opportunity to achieve their goals potential.	11,701	28,320	26,563	7,652	74,235

Roads and Transport Continuous investment in highways infrastructure to meet the needs of current and future users of the network.	76,342	10,952	11,969	9,158	108,420
Environment Investment and enhancement of facilities across the borough benefiting communities and resident's wellbeing.	40,591	3,570	13,309	10,509	67,979
Internal Services Investment in Council assets and technology to continue to support all Council services and priorities.	6,485	6,165	8,340	8,790	29,780
Adult Social Care An effective, high-quality care and support service to providing a better quality of life for residents.	18,336	3,831	1,987	995	25,149
Total Capital Programme 2024/25 to 2026/27	**293,492**	**73,547**	**89,859**	**63,202**	**520,099**

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. Budget estimates for years four and five are notably indicative and will be refreshed and amended in future MTFP submissions.

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 2024 to March 2027.

	Carry Forwards (Q3) 2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Supported borrowing	(208.7)	(19.5)	(29.0)	(21.8)	(279.0)
Developer contributions (S106 / CIL)	(41.0)	(2.5)	(8.6)	(0.6)	(52.7)
Capital grants	(18.4)	(29.0)	(29.1)	(15.0)	(91.5)
Other contributions	(0.3)	(6.2)	(7.7)	(5.9)	(20.1)
Capital receipts	(12.3)	(8.4)	(6.1)	(13.5)	(40.2)

General fund borrowing	(12.8)	(8.0)	(5.2)	(2.1)	(28.1)
Total	**(293.5)**	**(73.5)**	**(85.7)**	**(58.9)**	**(511.6)**

The capital programme currently has a budget shortfall of c£8.5m over three years which includes a fully funded year 1 programme. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure, additional CIL income from potential new developments and by maximising capital funding opportunities such as bidding for capital grants.

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 22 February 2024), 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:

<u>Investment in Wokingham Borough</u>

- <u>Regeneration.</u> 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.

- <u>Economic Development.</u> 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.

- <u>Enabling infrastructure.</u> 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.
- 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.

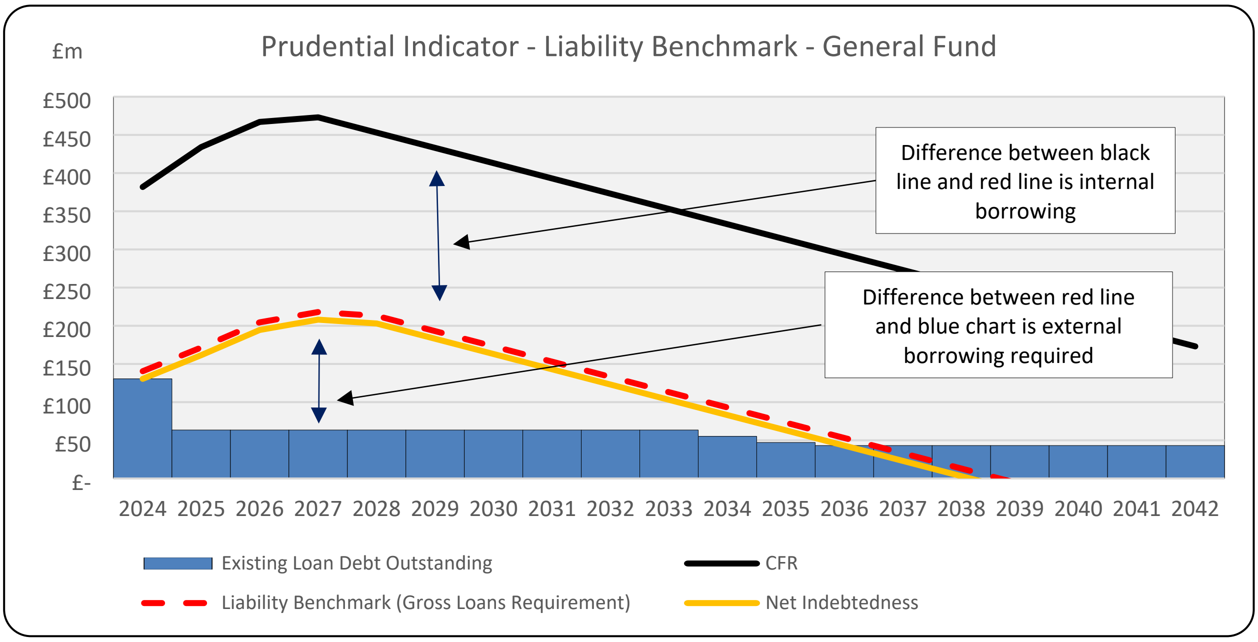
The Capital financing requirement (CFR) is a technical calculation of historic capital expenditure less that already paid for, plus estimated prudential borrowing over the medium term financial plan.

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, pending the level of further investment identified beyond the three year capital programme.

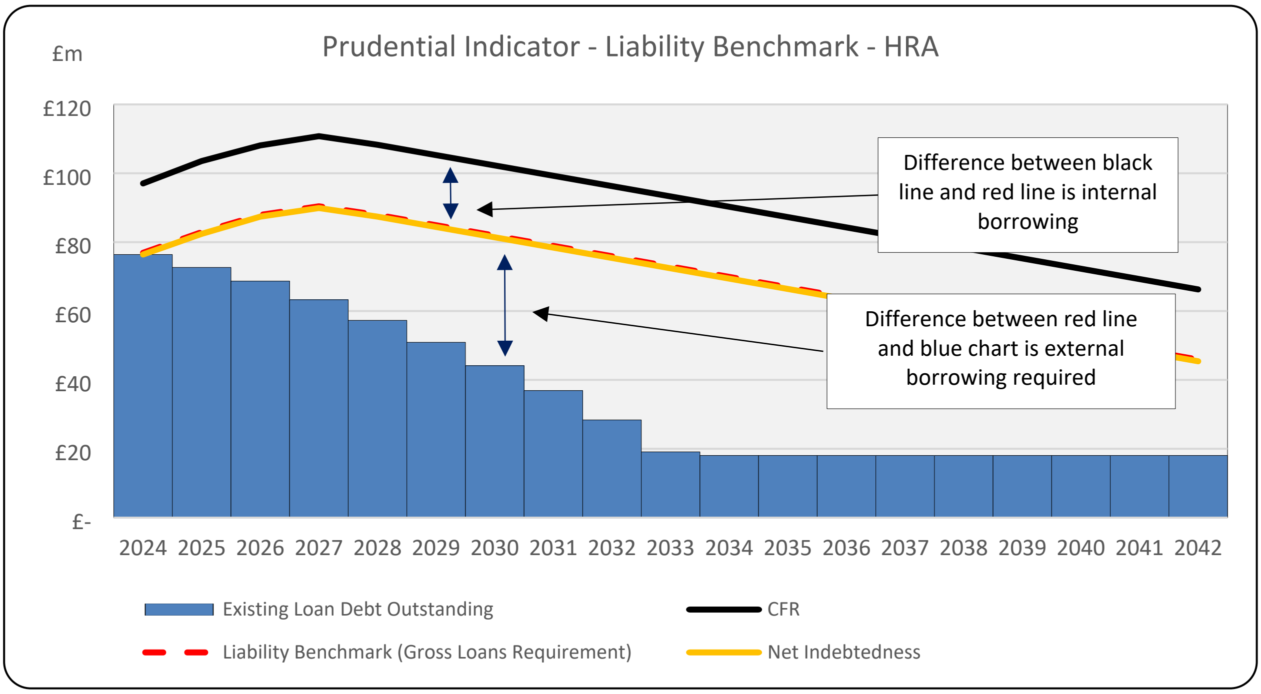
The CFR will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid, and the ongoing income will be transferred to benefit the general fund.

The general fund liability benchmark graph from the treasury management strategy highlights below with regards to the "CFR" line. The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m. Further information regarding the graph can be found in the treasury management strategy.

The Liability Benchmark for the General Fund Account is shown below;



The Liability Benchmark for the Housing Revenue Account is shown below;



The graphs represent our best estimate of spend and borrowing over the period of the three year Capital Programme and does not take into account any other capital expenditure beyond the 3 years.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and 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)	£74m (excluding Carry Forwards)	Yes	Capital
Next Financial Year (Year 2)	£90m	No	Capital
Following Financial Year (Year 3)	£63m	No	Capital

Other Financial Information
The capital programme currently has a budget shortfall in years 2 and 3 totalling c£8.5m. This will be balanced through a combination of reducing or reprofiling capital expenditure and maximising capital funding opportunities such as bidding for capital grants. The year 1 budget of £74m does not include any carry forwards from the 2023/24 capital programme. These are approved by Executive as part of the Capital monitoring outturn reports. All financing costs up to the point of the shortfall are provided for in the Medium Term Financial Plan. Please see the attached appendices for full details of the capital strategy.

Stakeholder Considerations and Consultation
N/A

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.

Reasons for considering the report in Part 2
None

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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