Capital Strategy 2024-27

WOKINGHAM BOROUGH COUNCIL

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1. Introduction

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. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

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.

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.
- Giving an outline of future commitments so that the affordability of both the long term plan and any new proposals can be properly understood.

3. Governance Framework & Core Principles

As part of the annual budget process, the capital vision including any new capital scheme bids is reviewed. The Council develops a three year capital programme, of which year 1 is fully funded, and years 2 and 3 have indicative funding. This forms part of the Council's Medium Term Financial Plan (MTFP) and is approved at Council in February having previously been reviewed by Community and Corporate Overview and Scrutiny Committee (CCOSC).

Throughout the budget setting process, assistant directors and the corporate leadership team review and scrutinise new and existing capital bids to ensure they still meet the Councils prioritises. This is supported by the finance team.

Based on these evaluations the attached Capital Programme has been prepared. Members are presented with the proposed capital budget submission 2024/25 for recommendation to Council (Appendix B).

The Capital Programme includes a mix of different approvals and bud proposals; some of which are permissions to spend, some are known schemes and others require further understanding and detailed business cases prior to commencement.

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 vision and priorities.
- The Council is ultimately responsible for approving the Treasury Management Strategy, Capital Strategy and Capital Programme.
- The Executive receives regular capital monitoring reports (on a quarterly basis), 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 vison for providing the majority of the needed housing in the borough, through its four strategic development locations.

The major development projects ongoing in the Capital Programme are:-

Arborfield Garrison major development - This development includes 3500 new homes, 2 new primary schools, a secondary school, community and local shopping facilities, sports hub and gym, open spaces and roads including the Arborfield Relief Road project, an extension of Nine Mile Ride and improvements to the California Crossroads junction and Barkham Bridge.

Shinfield Parish major development – Based around the villages of Shinfield, Spencers Wood and Three Mile Cross, this development initially included 2500 new homes, 2 new primary schools, school expansion, community and local shopping facilities, sports hub, open spaces and roads including the Shinfield Eastern Relief Road project.

North Wokingham major development – This development initially includes 1500 new homes, a new primary school, local community and shopping facilities in a new neighbourhood centre, enhancements to the sports hub at Cantley Park, open spaces and roads including the North Wokingham Distributor Road project.

South Wokingham major development – This development includes 2500 new homes, 2 new primary schools, local shopping and community facilities, allotments, 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.

Other ongoing major regeneration and development projects is the borough include:-

Gorse Ride Estate redevelopment - Working to regenerate the Gorse Ride Estate in order to provide high-quality affordable homes in a great community.

Wokingham Town Centre Regeneration – This redevelopment provides residential housing alongside Elms Field to compliment the retail, food store, cinema, hotel and play area which have been successfully completed. In addition the provision of a new Leisure facility to replace the Carnival Pool facility, which includes a new pool and leisure facility, provision of 4 court sports hall, a new library and food/beverage offering and 55 residential apartments.

Climate Emergency – Develop solar farms to create a renewable energy infrastructure. Energy reduction projects at existing properties to make them energy efficient (e.g., LED lighting, cavity walls). Active travel, improving traffic flow and reducing incidents which cause delays (including using CCTV cameras).

New SEND Schools – Provision of two new special educational needs school at Rooks Nest Farm. The new schools will help the Council meet its statutory duties to Children and Young People with Special Education Needs. It will provide high quality, local special school places at a lower cost than alternative out of borough independent and non-maintained special schools (INMSS) and with reduced transport costs.

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, properties held for economic development, 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.
- Parks, playgrounds and open spaces.
- Economic development and 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, 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. Acquisition Of Land And Buildings For Economic Development And Regeneration

The council will acquire land and buildings within the borough boundaries for the primary reason of economic development, regeneration or to protect local employment for residents.

The reasons for acquisition of property are primarily;

- Market and economic opportunity
- Economic development and regeneration activity in the borough
- To maintain and safeguard local employment within the borough

Any acquisition is supported by strong, robust and prudent financial business case, and signed off by the councils S151 officer in accordance with delegations approved by Council.

7. Capital Loans

The Council will make loans for two main reasons. These can be treasury management loans (i.e. investments) or capital loans. All treasury management loans are made within the guidelines set out in the treasury management strategy.

The Council has discretion to make capital loans for a number of reasons, primarily for housing or economic development. Under the accounting code of practice, these loans are required to be 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 will form part of the capital programme and are agreed by Executive. All loans will be subject to close, regular monitoring.

8. Capital Expenditure 2024-2027

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

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. Carry forwards are likely to be spent across a number of years.

Table 1 Capital Programme 2024-2027

	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**

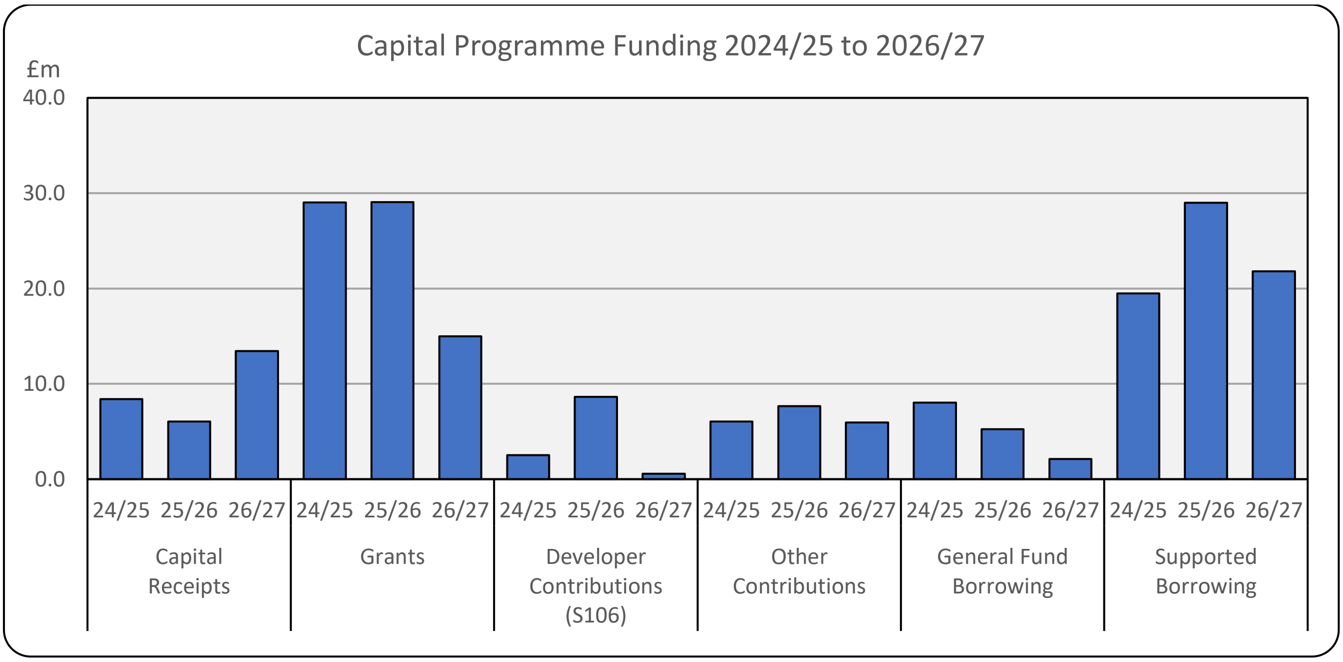
9. Capital Funding and Capital Reserves

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 and graph below set out the capital funding for the next three years.

	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.



10. Financing Need (Borrowing)

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund 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". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents

The table below sets out the total borrowing need for the Council. This is known as the capital financing requirement (CFR) and is an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

It is important to note that the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally, saving on interest costs. This is know as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The following tables shows the CFR balance for supported borrowing and general fund borrowing.

Table 3 Capital Finance Requirement (CFR)

	Supported Borrowing				General Fund Borrowing			
	23/24	24/25	25/26	26/27	23/24	24/25	25/26	26/27
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	270	276	311	334	98	106	123	133
Expenditure in year	25	43	54	23	17	21	14	4
Repayments in year (MRP + Fund Swaps)	(19)	(8)	(31)	(17)	(9)	(4)	(4)	(4)
Closing balance	**276**	**311**	**334**	**340**	**106**	**123**	**133**	**133**

It is important to note, the “expenditure in year” row is an estimate of actual capital expenditure to be incurred in the financial year based on a detailed analysis of project spend, timing and delivery and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends. This ensures a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables as these are setting out the permission to allocate capital budget to a project.

The following table shows the CFR balance for the housing revenue account.

	Housing Revenue Account			
	23/24	24/25	25/26	26/27
	£m	£m	£m	£m
Opening balance	82	97	104	108
Expenditure in year	16	8	7	5
Repayments in year	(1)	(2)	(2)	(2)
Closing balance	**97**	**104**	**108**	**111**

The repayments of the Housing Revenue Account CFR are known as Voluntary Revenue Provision (VRP). These are set out as part of the HRA budget setting and form part of the budget setting process. A key driver for the increase in the prudential borrowing relate to Gorse Ride Redevelopment. Capital receipts and additional rental income will be received once the project is completed and will be used as additional VRP to reduce the HRA CFR balance.

In approving the inclusion of projects within the capital programme the Council ensures all 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 Minimum Revenue Provision (MRP) policy in line with MRP guidance produced by the Department for Levelling Up, Housing and Communities. 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 22 February 2024.

11. Flexible Use of Capital Receipts Strategy

Introduction

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non- Right to Buy housing stock assets to fund the revenue costs of service reform and transformation.

Guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to 2019/20. In the Provisional Local Government Settlement 2018/19 (announced 19 December 2017) the Government confirmed that the flexibility to use capital receipts to help meet the revenue costs of transformation will be extended to 31st March 2022. This has since been extended by a further 3 years from April 2022. The Guidance requires local authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy.

This document constitutes the Flexible Use of Capital Receipts Strategy for Wokingham Borough Council and requests approval where available to use capital receipts from sale of assets to fund qualifying expenditure.

The Guidance

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.

The Council's Proposals

The Council intends to use the capital receipts flexibility to fund or part fund the following projects. Included in the table are expected annual savings generated from this investment and form part of the saving plans associated with the medium term financial plan.

Project	Qualifying Expenditure Estimate £m	Expected Annual Savings £m
Adult Social Care – Demand Management	£0.8m	
Childrens Services – Transformation Programme	£2.2m	
Chief Executive – Digital / Change Programme	£1.0m	
Resources & Assets – Commercial & Procurement	£0.3m	
Place & Growth – Procurement	£0.2m	
Total	**£4.5m**	**£3.5m - £5.5m**

The Prudential Code

The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed project. The capital expenditure prudential indicators will be amended and approved as appropriate.

The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this project within the Council's Statement of Accounts.

Monitoring the Strategy

The strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred.

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. These are captured in the Medium Term Financial Plan (MTFP) process.

13. Risk Appetite

This section considers the council's risk appetite with regard to its capital investments, 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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