

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2021-2031

11 FEBRUARY 2021

REPORT OF CABINET MEMBER: Cllr Neil Cutler - Deputy Leader and Cabinet Member for Finance and Risk

Contact Officer: Neil Aitken Tel No: 01962 848099 Email: naitken@winchester.gov.uk

WARD(S): ALL

PURPOSE

The Capital Investment Strategy sets out the Council's capital spending programme and the principles which underpin this in order to deliver the desired priorities as set out in the Council Plan.

It details the overall programme for the next 10 years, how this will be financed, and the impact of the programme on the Council's Medium Term Financial Strategy.

It includes several prudential indicators as required by the CIPFA Prudential Code for Capital Finance and the Ministry of Housing, Communities & Local Government (MHCLG) Statutory Investment Guidance and, in addition to outlining how the Council ensures it has access to the right knowledge and skills (internal and external), it details how it ensures elected Members have sufficient knowledge and skills to undertake their governance role.

RECOMMENDATIONS:

That Cabinet recommends to Council:

1. The Capital Programme and Capital Programme Financing (Appendices A and B to the report) be approved.
2. The Minimum Revenue Provision (MRP) Policy Statement (Appendix E) be approved.

3. The Flexible Use of Capital Receipts Strategy (Appendix G) including the proposed use of capital receipts towards severance costs be approved.
4. The Prudential indicators detailed in the report and its appendices be approved.

That Cabinet:

5. Subject to Council approval of the capital programme, approves IMT equipment and software expenditure (£534,000 in 2021/22) as detailed in paragraph 11.8.6.
6. Subject to Council approval of the capital programme, approves additional expenditure of £250,000 on essential repairs to the Weirs as detailed in paragraph 11.2.2.
7. Delegates authority to the S151 officer to approve expenditure of up to £260,000 on decarbonisation works to City Offices, as outlined in paragraph 11.2.2, subject to a satisfactory business case and Council approval of the capital programme.
8. Notes the requirement to ensure Members have the right knowledge and skills to undertake their governance role.

IMPLICATIONS:1. COUNCIL PLAN OUTCOME

- 1.1. The investment of capital resources will contribute to the achievement of the Council's main objectives and priorities in the Council Plan. The Capital Strategy is an integral part of the Medium Term Financial Strategy and impacts directly on the Treasury Management Strategy.

2. FINANCIAL IMPLICATIONS AND COMMENTS OF THE S151 OFFICER

- 2.1. The forecast capital programme over the next 10 years to 2030/31 totals £403 million of which £62.3 million is General Fund and £340.7 million is Housing Revenue Account.
- 2.2. The proposed financing is made up of £191.5 million of prudential borrowing, £106.6 million from revenue including earmarked reserves, £66.4 million of capital receipts and £38.5 million of capital grants and contributions.
- 2.3. Further details are provided in the supporting information section below and in the appendices to the strategy.
- 2.4. The Council will need to increase its external borrowing but the amount and timing of this is dependent on the delivery of the capital programme and on the Council's overall reserve position. Further information, including borrowing limits, is set out in the Treasury Management Strategy (CAB3282).
- 2.5. Included in the Prudential Code is the requirement that "the chief finance officer should report explicitly on the affordability and risks associated with the capital strategy and, where appropriate, have access to specialised advice to enable them to reach their conclusions". The statement below is the Winchester City Council Chief Finance Officer's response
- 2.6. Affordability and risk are key considerations within this capital strategy. The strategy aims to support the financial viability of the organisation. Return on investment/ payback is also a key consideration. The strategy provides an overall positive return to the General Fund as well as supporting the delivery of the key priorities in the Council Plan. The risk section is articulated below and importantly, business cases for new schemes are required to ensure that risks are adequately covered. One of the most significant risks is capacity to deliver the individual projects contained within the strategy and adequately identifying resources required at the commencement of projects is a crucial element of the business case process. The HRA capital programme is a key element of the Housing Revenue Account (HRA) Business Plan which is refreshed annually; individual schemes are assessed for affordability within the overall context of this plan, which now reflects the investment required to deliver 1000 new homes over the next 10 years in line with the "Homes for All" Council Plan priority.

- 2.7. From 2021/22 the strategy includes remaining unallocated funding for the Strategic Asset Purchase (SAP) scheme of £19.5m as well as £1.0m for the provision of parking at the Dean in Alresford. There is a strong governance programme around the process for purchases made through the scheme, ensuring a positive contribution to the Council Plan as well as an investment return where possible. The total funding set aside is reasonable within the overall context of the Council's capital strategy and the scale of the Council's balance sheet.
- 2.8. It should be noted that the recent 1% reduction in the Public Works Loans Board borrowing rate will improve the affordability of schemes subject to borrowing and the opportunities considered as part of the SAP scheme. There have been no purchases within the 2020/21 financial year; however, the scheme remains an important element of the Strategy.
- 2.9. Over the next ten years, the strategy forecasts up to £402.5m of capital spend. Within this financial context and the Council's balance sheet (£596.7m of fixed assets as at 31 March 2020), the Council has a long history of managing and acquiring assets to support its objectives. The Council also utilises our treasury management advisors, Arlingclose, to consider the implications of the prudential code and the impact on the treasury management strategy.
- 2.10. The strategy articulates a wide range of new and existing activities. This blends some major regeneration ambitions, new infrastructure, and significant investment in housing as well as smaller schemes that are more local.

### 3. LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1. The Council's Capital Investment Strategy Statement follows the latest codes of practice, and the Ministry of Housing, Communities & Local Government (MHCLG) and the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance.
- 3.2. Individual projects included within the programme will be carefully considered in relation to legal and procurement issues and separate approvals sought as appropriate.

### 4. WORKFORCE IMPLICATIONS

- 4.1. Project resources for individual projects are identified as part of the business case development.

### 5. PROPERTY AND ASSET IMPLICATIONS

- 5.1. Many of the projects and schemes within the Capital Programme are related to the Council's properties and assets and therefore aligning the programme with the Asset Management Plan is an important consideration. The

Programme and Capital Board (PAC) plays a key role in ensuring that this process takes place and that funds are identified to improve the Council's assets in line with its Strategies and Plans.

## 6. CONSULTATION AND COMMUNICATION

- 6.1. Appropriate engagement and consultation is undertaken for all individual projects and schemes.
- 6.2. The Scrutiny Committee discussed the report at its meeting held on 2 February 2021. At the conclusion of questions and debate, the Committee agreed that there were no particular matters that it wished to raise for Cabinet to consider further.

## 7. ENVIRONMENTAL CONSIDERATIONS

- 7.1. Tackling the climate emergency and creating a greener district is a key priority for the council. A number of the schemes in the programme deal specifically with the climate emergency and environmental considerations will be part of the business case supporting all capital projects.

## 8. EQUALITY IMPACT ASSESSEMENT

- 8.1. Equality Impact assessments will be considered as part of the business case for specific capital projects.

## 9. DATA PROTECTION IMPACT ASSESSMENT

- 9.1. Data Protection Impact assessments will be considered as part of the business case/approvals for specific capital projects

## 10. RISK MANAGEMENT

- 10.1. In setting out this strategy, and when considering the programme and the projects within in it, reference is made to the Council's risk appetite as set in section 11.11.

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Property</i> Council assets not fully utilised	An effective capital strategy and its delivery helps to ensure council assets are used to achieve the council's priorities	Investment in the council's assets can increase income generation  Identification of assets suitable for sale can generate capital receipts which can be reinvested in

		assets or used to reduce the overall borrowing need.
<i>Community Support</i> Projects are unsupported by the community or the community's needs are not met	Engagement is undertaken for key projects to ascertain community and stakeholder views	Engagement with the community ensures the council's capital programme meets the needs of the district's citizens and businesses
<i>Timescales</i> Projects not delivered on time resulting in a delay in benefits to the council	The 10 year strategy and its associated governance structures including regular review by the Programme and Capital (PAC) Board and quarterly by Scrutiny/Cabinet	
<i>Project capacity</i> Failure to deliver major capital schemes due to insufficient staff resources	Ensure robust business cases are taken forward and sufficient resources are available to deliver the projects.	Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and other schemes to be chosen should any schemes not progress
<i>Financial / VfM</i>	Detailed elsewhere within the report	None
<i>Legal</i>	Considered as part of the approval process for individual capital schemes	None
<i>Innovation</i>	Considered as part of the approval process for individual capital schemes	Strategy includes new schemes to innovate
<i>Reputation</i>	Considered as part of the approval process for individual capital schemes	None
<i>Other</i>		

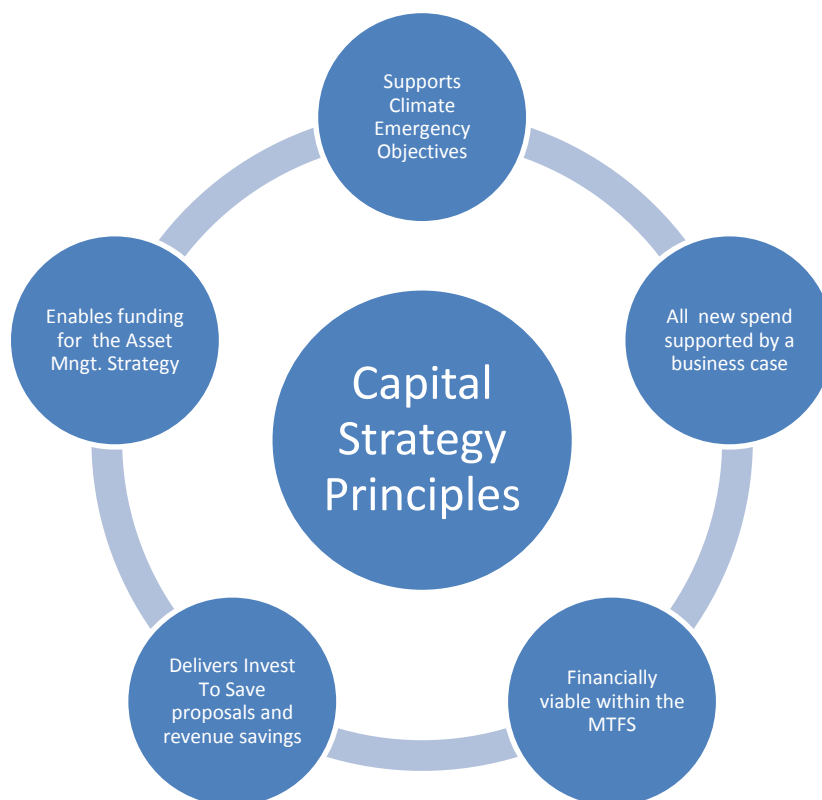
## 11. SUPPORTING INFORMATION:

### 11.1. Purpose

- 11.1.1. The primary purpose of this strategy is to identify and progress schemes to help deliver the Council Plan and to help make the Council self-sufficient in order to be able to deliver the level of required services. It outlines how the

council ensures that individual schemes and the programme as a whole are both deliverable and financially viable.

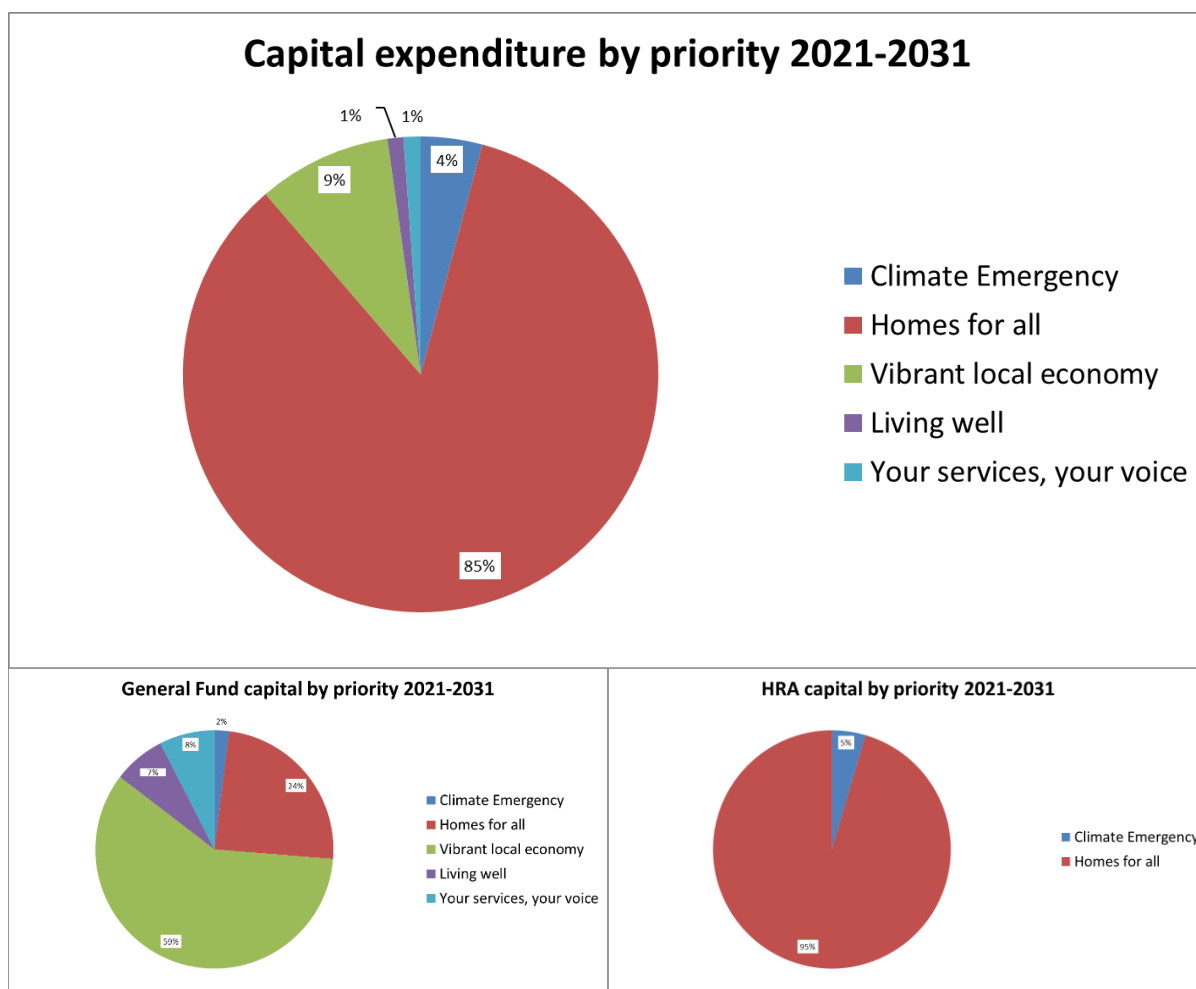
- 11.1.2. The Strategy sets out the council's capital spending programme and the principles which underpin this to deliver the Council Plan:



- 11.1.3. The City Council's capital programme incorporates both the General Fund (GF) and the Housing Revenue Account (HRA) capital requirements to support service provision and links with the Council Plan, Housing Business Plan, Asset Management Plan, IMT strategy and Medium Term Financial Strategy. This capital investment strategy provides a framework for the development and implementation of the capital programme.
- 11.1.4. As detailed in the Council's Medium Term Financial Strategy (MTFS), the council is facing a significant reduction in its anticipated financial resources. It is vital therefore that the council maximises the use of its capital investment in the district over the next decade. As government grant to the council reduces, the council needs to utilise its capital programme to drive the most effective and efficient use of financial resources for the district's residents.
- 11.1.5. The Council Plan details how the council will deliver its five strategic priorities: Tackling the climate emergency and creating a greener district, Homes for all, Vibrant local economy, Living well, and Your services Your Voice. Several of these priorities will be delivered through capital spend

and associated projects including, for example: additional investment in the council's housing stock to improve energy efficiency and help tenants reduce their carbon emissions; the provision of new housing and maintenance of existing housing stock; major regeneration schemes; provision of new leisure facilities; and flood prevention schemes.

11.1.6. The following charts illustrate the percentage of total capital expenditure forecast for each of the council's priorities (NB the charts are based on the main priority for each project or scheme; however, many meet more than one priority):



11.2. The Capital Programme

11.2.1. Over the period 2021 to 2031, the council's total estimated capital expenditure is £403m of which £62.3m is General Fund and £340.7m is Housing Revenue Account. The following table summarises the capital programme by year for the period. Further detail by project is included in Appendix A.



Capital Expenditure 2021 - 2031	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	TOTAL Est. £m
General Fund	39.9	8.4	2.0	2.0	1.6	1.7	1.6	1.7	1.7	1.6	62.3
HRA	36.9	57.2	40.1	30.7	28.5	29.5	30.7	31.6	32.1	23.5	340.7
<b>Total Expenditure</b>	<b>76.8</b>	<b>65.6</b>	<b>42.1</b>	<b>32.7</b>	<b>30.1</b>	<b>31.2</b>	<b>32.3</b>	<b>33.3</b>	<b>33.8</b>	<b>25.1</b>	<b>403.0</b>

11.2.2. The programme includes the following **key projects** (quoted budget figures are for the period 2021-2031 and do not include prior years):

### **Priority: Tackling the Climate Emergency & creating a greener district (£17.1m)**

Tackling the Climate Emergency is a theme that is integral to *all* that the council does.

- More than £15.5m budget has been allocated over the next 10 years to invest in the **council's housing stock to improve energy efficiency and reduce emissions**.
- A total of £279,000 expenditure has been approved in 2020/21 to carry out **energy management projects** such as the installation of solar PV. In addition, a further £1m budget has been allocated over 3 years from 2021/22 funded by prudential borrowing. Expenditure will be subject to a business case as new projects are identified. As well as reducing the council's carbon emissions it is anticipated that projects will provide additional income and/or savings to the council over and above the cost of borrowing.
- Winchester's defences against flooding will be strengthened by the completion of the **Durngate flood relief scheme** which was granted full planning permission in November 2019.
- The installation of up to 36 **Electric Vehicle (EV) charging points** in car parks across the district commenced in 2020/21 following the approval of £120,000 expenditure.
- In November 2020, WCC were successful in securing a grant from the Salix Decarbonisation Fund (SDF) in order to undertake a feasibility study to **decarbonise City Offices** and the public conveniences in line with the council's target to be carbon neutral by 2024. The feasibility study was undertaken in December 2020 by GEP who recommended that the following works are undertaken:
  - LED lighting upgrade (toilets)
  - Replacement of hand dryers (toilets)
  - Double glazing (city offices)

- Additional solar PV (city offices)
- Ceiling insulation (city offices)
- Air source heat pump (city offices)

An application for a further grant of £260,000 from the SDF to undertake these works has been applied for. If the council is successful in securing the grant the works must be completed by September 2021 in line with the grant conditions. In addition, a grant application for £55,000 has been submitted to secure funding for a heat decarbonisation plan (feasibility work) for the Guildhall and West Wing.

- In addition to the projects outlined above, measures to tackle the climate emergency are included in other projects. For example, additional EV charging points and solar PV are being installed as part of the new Sport & Leisure Park project, at the new decked car park at the former Vaultex site, and as part of the redevelopment of Bishop's Waltham depot.

#### **Priority: Homes for all (£340m)**

- Over the next 10 years, £239m has been allocated to the council's New Build programme to enable the delivery of **one thousand council homes**.
- A total of £70m has been allocated to major repairs and maintenance of our existing housing stock in addition to £1.7m to improve fire safety.
- £4m for the establishment of a **Housing Company** to support the delivery of sub-market rented housing and alternative tenures.
- An estimated £11m of Disabled Facilities Grant to provide necessary adaptations to private homes in addition to £9.1m for adaptations to the council's own stock.

#### **Priority: Vibrant local economy (£36.7m)**

- The **Strategic Asset Purchase Scheme (SAPS)** seeks to identify assets for the council to acquire which will assist it in meeting its strategic objectives whilst also generating ongoing revenue streams. Following a number of successful acquisitions a budget of £19.5m remains in order to continue the acquisition of property to support the council's ambitions, and in line with the principles of the 'double win' that have been established to date.
- A budget of £0.5m has been allocated for the demolition of **Friarsgate medical centre** and the installation of an interim open space prior to further development. Demolishing the building now rather than waiting for

the main development will bring forward estimated savings on business rates and ongoing maintenance (circa £64,000 per annum).

- Works to **Kings Walk** at an overall cost of £0.2m including: ground floor & public realm - external greening, lighting, internal alterations to create a refreshed image; loading bay activation - create external event space for letting and/or regeneration of the area; and to enhance connectivity and visibility between Kings Walk and the High Street..
- A total budget of £270,000 has been allocated to convert **eighteen71 café** into a self-contained unit for lease to a food and beverage tenant. This will generate significant savings on existing costs and provide a new rental income for the council.
- A provisional budget of £5m has been included to redevelop the **former Goods Shed site** which would provide several small business units. After borrowing costs, this could generate an estimated surplus income of between £50,000 and £70,000 per annum. Feasibility work is currently under way and the results of this are expected early in 2021.
- The redevelopment of the **depot at Bishop's Waltham** is expected to be completed in 2021 and involves the construction of three new terraced industrial units, including hard and soft landscaping, and will provide much needed entry level accommodation for small businesses.
- Following a successful bid for Local Enterprise Partnership (LEP) funding, total expenditure of £6.3m has been approved to build a decked car park of up to 300 spaces at the former **Coventry House (Vaultex)** site following its acquisition and demolition.
- In addition, a total of £3m has been identified for various car park improvements throughout the district including refurbishment works at **Chesil car park**, and provision of a new **car park at the Dean in Alresford**.
- Following the successful completion of phase 1 **essential repairs to the Weirs**, the level of deterioration is far more significant than first estimated and consequently an additional budget of £250,000 (bringing the overall total to £550,000) has been allocated for the remaining phases. The increased budget will be funded by an additional contribution of £100,000 from Hampshire County Council and by prudential borrowing at an estimated cost of £8,000 per annum over the expected life of the works.

#### Priority: Living Well (£4.6m)

- The construction of a state of the art **Sports & Leisure Park** in the Bar End area will be completed in spring 2021. £0.4m has also been approved for the decommissioning of the existing leisure centre as well as the provision of alternative facilities for the users of North Walls park.

- A budget of £1.4m has been allocated to replace the **King George V Pavilion** and £0.8m to replace **North Walls pavilion**. The council is working closely with key stakeholders and is exploring funding sources such as external grants.
- Over the next 4 years, £790,000 has been allocated for the **replacement or refurbishment of several play areas and a skate park**.
- **Community Infrastructure Levy (CIL) – Community projects**. In addition to previous years, £0.6m of CIL funded capital grants have been awarded to community groups for projects expected to take place in 2021/22. The scheme allows community groups to apply for a share of between £10,000 and £200,000 for essential infrastructure projects. £250,000 remains unallocated.

**Priority: Your services Your voice (£4.5m)**

- The final **transfer of HRA Garages to the General Fund** in 2020/21 will provide the HRA with capital resources to enable it to finance its new build schemes and will provide the General Fund with additional ongoing income to protect existing services.
- The council continues to invest in keeping its **IMT** up to date including the provision of appropriate equipment to reduce cost and the consumption of paper and investing in remote working solutions to reduce the need for staff to travel and therefore the council's carbon footprint.

11.2.3. The following are **key considerations for future years**:

- Following the council's declaration of a **Climate Emergency** and its goal of becoming carbon neutral as a council by 2024 and as a district by 2030, significant work was undertaken in 2020/21 and two projects to install solar panels, including on a third party building, were approved in year. More such projects are expected in the next 12 to 24 months and several buildings in the council's stock have been identified for potential retro-fitting to reduce carbon emissions. In some cases, such as with the installation of solar panels, the projects pay for themselves and deliver a small surplus to the council. However, some projects may not provide sufficient income or savings to cover the associated cost of borrowing and will therefore increase the overall revenue costs to the council; there are a number of possible sources of grant funding for these projects and the council will explore these opportunities where appropriate in order to reduce the financial impact.
- **Central Winchester Regeneration (CWR)** – the council continues to consider options to regenerate the city centre. The CWR project aims to deliver a mixed use, pedestrian friendly quarter that is 'distinctly Winchester' and supports a vibrant retail and cultural/heritage offer; set within an exceptional public realm. Ultimately, it will support business and

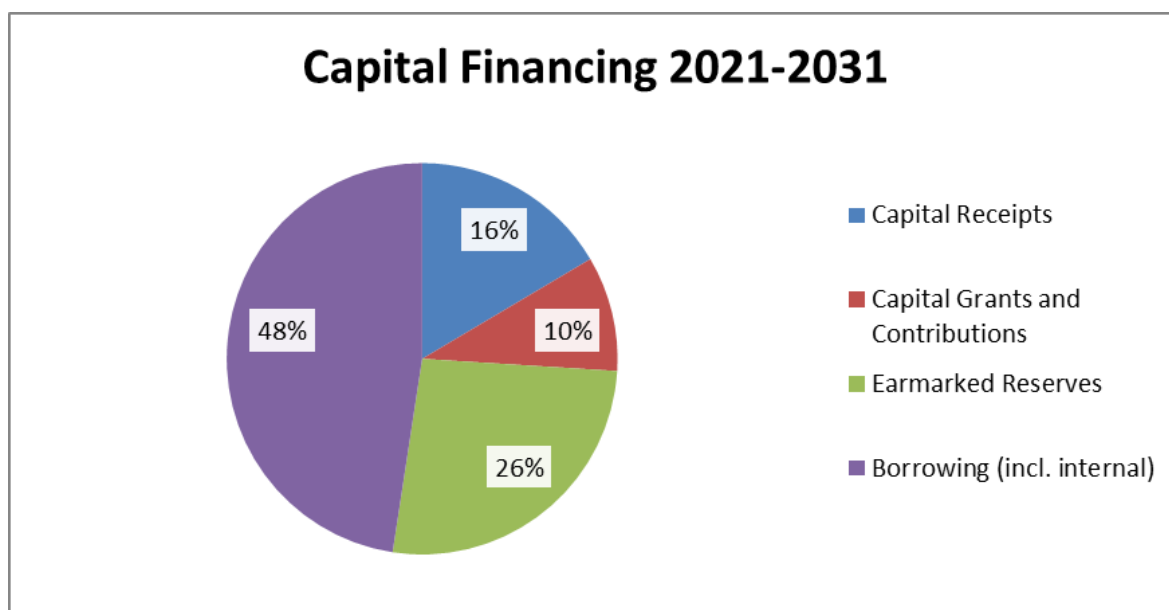
the city centre economy, and make it a more attractive place for residents and visitors alike.

- A number of potential schemes will be required following the publication of the **Winchester Movement Strategy** Phase 2 report. Where possible, external funding sources will be explored including Community Infrastructure Levy (CIL) contributions and grant funding such as the Local Enterprise Partnership (LEP).
- Once the recently commissioned scoping report for the council's **Green and Blue Infrastructure** is published, the next stage, still to be fully determined, will look at an action plan for future green and blue related infrastructure projects that will ensure the incorporation of future tree planting; creation of accessible to all open spaces; and the biodiversity action plan as well as providing stronger guidance/policy for planning when determining applications.
- North Walls Park Plan – the recreation ground will be facing new challenges as a result of closure of River Park Leisure Centre and therefore the council has commissioned a consultant to develop a complete park plan for the site. There will be a report to Winchester Town Forum (WTF) in early 2021 with an update. Budget requirements will be brought to the forum in due course for the required improvements to the site.

### 11.3. Financing the Capital Programme

- 11.3.1. The council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.
- 11.3.2. The main sources of finance for capital projects are as follows:
- Capital receipts (from asset sales);
  - Capital grants (e.g. Disabled Facilities Grant);
  - External contributions (e.g. Section 106 developers’ contributions and Community Infrastructure Levy (CIL));
  - Earmarked Reserves (e.g. the Major Investment Reserve, the Property Reserve, the Car Parks Property Reserve, and the IMT Reserve);
  - Revenue contributions; and
  - Borrowing, including internally (also known as the “Capital Financing Requirement”).

- 11.3.3. Full details of the proposed financing for the 2021-2031 capital programme are provided in Appendix B and is summarised in the following graph:



- 11.3.4. Borrowing (or Capital Financing Requirement) makes up a significant element of the council's proposed financing over the next 10 years. In recent years the council has had sufficient cash and investment balances to be able to internally borrow but will now need to increase its external borrowing in addition to the £156.7m the council has already borrowed as a result of the HRA self-financing settlement. The impact of this borrowing is estimated as part of the revenue consequences of the capital programme (see Appendix C) and is incorporated into the Medium Term Financial Strategy and the Housing Revenue Account business plan. The council works closely with its external treasury advisors (Arlingclose) to identify the optimum borrowing strategy to provide a balance between achieving certainty of future costs (i.e. locking-in on long-term fixed rates) and the overall cost of borrowing.
- 11.3.5. Before committing the council to borrowing, consideration is given to the forecast savings and/or income a new project may generate and how this will contribute to the financing costs as part of its respective business case. The capital financing requirement is reduced over the life of individual assets in the General Fund by a statutory annual contribution from revenue referred to as the Minimum Revenue Provision (MRP). In addition, the council can elect to reduce its borrowing need by making additional contributions from revenue or from the sale of assets (capital receipts). Planned MRP is as follows:

*Replacement of debt finance in £ millions*

	2019/20	2020/21	2021/22	2022/23	2023/24

	actual	forecast	budget	budget	budget
Minimum Revenue Provision (GF)	0.5	0.5	0.6	1.2	1.2
Reserves (HRA)	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>1.2</b>	<b>1.2</b>

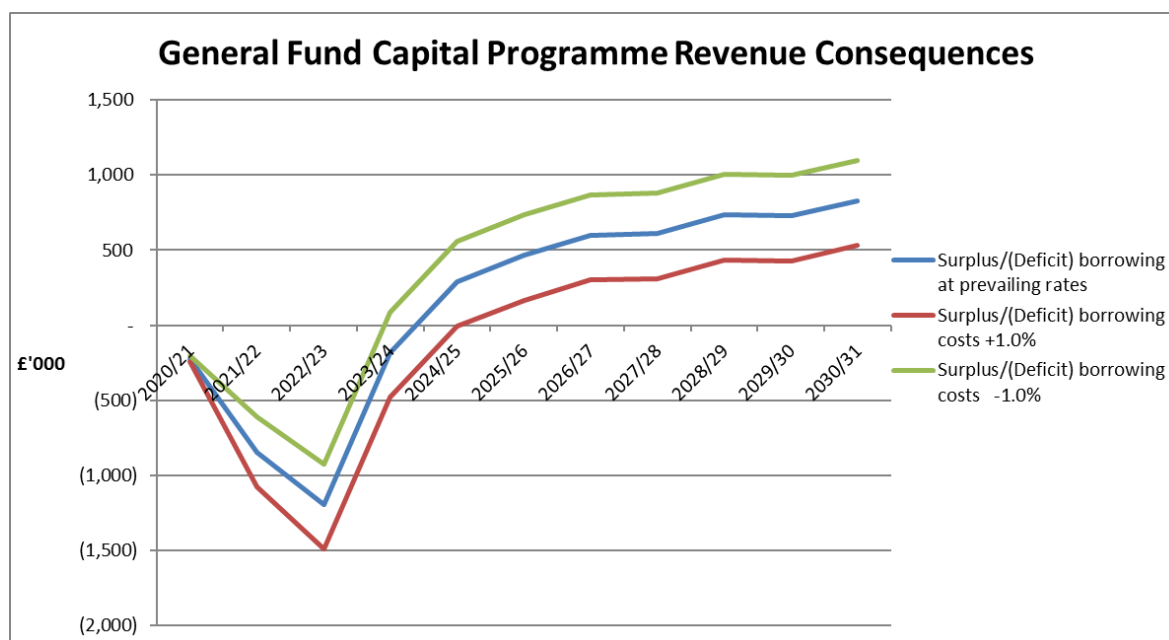
The council's full MRP statement is available at Appendix E.

- 11.3.6. The council's cumulative outstanding amount of debt finance (borrowing need) is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and voluntary contributions from revenue or capital receipts. CFR is estimated to increase by up to £65.7m during 2021/22 subject to full delivery of the Capital Programme.

*Estimates of Capital Financing Requirement (CFR) in £ millions*

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
General Fund	41.2	69.9	94.9	94.1	93.1
Housing Revenue Account	162.8	166.4	192.1	236.5	256.8
<b>TOTAL CFR</b>	<b>204.0</b>	<b>236.3</b>	<b>287.0</b>	<b>330.6</b>	<b>349.9</b>

- 11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB3282).
- 11.4. Revenue Consequences of the Capital Programme on the General Fund
- 11.4.1. Appendix C details the impact of the Capital Programme on the council's General Fund. Not all projects provide savings or generate income but, in aggregate, the capital programme is forecast to have a positive net benefit to the General Fund from 2024/25. There is an overall negative impact on the General Fund prior to this year which reflects significant expenditure on preliminaries and costs associated with major projects early in their lifecycle.
- 11.4.2. A significant proportion of the council's programme is likely to be financed by borrowing and this exposes the council to the risk of changing interest rates. The council can mitigate against this by borrowing early where it is advantageous to do so and by taking out a basket of loans of mixed duration including longer-term fixed rate loans. The graph below illustrates the impact on the General Fund at prevailing long-term rates available to the council as well as the impact of a change in those rates by 1.0%:



11.4.3. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP, and any revenue funded reductions in the borrowing need are charged to the General Fund (GF) or Housing Revenue Account (HRA) income and expenditure statements as appropriate, offset by investment income receivable. The net annual charge is known as financing costs - this is compared to the net revenue stream: Council Tax, Business rates, and general government grants in the case of the GF; and rents and other charges in the case of the HRA.

*Prudential Indicator: Proportion of financing costs to net revenue stream*

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
GF financing costs (£m)	(0.2)	0.1	1.0	1.7	1.8
GF proportion of net revenue stream	-1.0%*	0.6%	6.3%	11.5%	13.7%
HRA financing costs (£m)	5.2	5.2	6.0	6.2	6.7
HRA proportion of net revenue stream	17.3%	18.3%	20.7%	20.9%	21.2%

\*in 2019/20 investment income exceeded interest payable and MRP

11.4.4. **Sustainability** – due to the long-term nature of capital expenditure and financing, the revenue implications of the expenditure in the next few years will extend up to 50 years in the future. It is imperative therefore that the council ensures that the proposed programme is prudent, affordable, and sustainable. This is achieved by ensuring that the governance and procedures outlined in this strategy are followed; by incorporating and



considering the revenue impact in the context of the medium term financial strategy (MTFS); by undertaking financial appraisals of individual projects as part of their business cases on a whole life basis; and, for HRA expenditure, incorporating the impact in the 30 year business plan.

#### 11.5. Capital Receipts

- 11.5.1. When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to reduce debt from prior year capital expenditure. Repayments of capital grants, loans, and investments also generate capital receipts. Forecast capital receipts and their use in funding capital expenditure is detailed in Appendix D.
- 11.5.2. Ordinarily capital resources, such as capital receipts, can only be used to finance capital expenditure (i.e. the creation or enhancement of a capital asset). However, in 2018 the MHCLG Secretary of State issued a direction to local authorities in order to give local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings, including through redundancy. By using capital receipts, the Council is able to avoid the negative impact on its annual revenue budget of significant one-off costs. The council has £194,000 in qualifying receipts available that it plans to use for severance costs in 2020/21. Further detail is provided in the Flexible Use of Capital Receipts Strategy at Appendix G.
- 11.5.3. In order to effectively manage its estate the council commenced an asset challenge programme in 2018/19. This process is reviewing all of the council's assets on a rolling basis to establish why the council holds assets; what options the council has to, for example, increase income, dispose, hold or develop; and when these can be realised.

#### 11.6. The approval process and Project and Programme management

- 11.6.1. For effective delivery of the Capital Programme it is important that the programme is realistic in terms of projects which can be delivered on time, within budget, and whilst achieving the desired outcomes. The council has a number of programme and project management procedures in place to help to ensure successful delivery of the capital programme, from the initiation and approval of projects to effective performance monitoring and post-implementation review.
- 11.6.2. The resource requirements for each corporate project are assessed as part of the development of the outline business case and associated project plan and initially identified in the Business Justification Case which is considered by the Programme and Capital Board (PAC). This is then considered in relation to the whole programme of projects to determine the cumulative impact of delivery on staff resources. This can have an impact on resourcing in key service areas such as identifying project managers, and other key areas such as the legal, finance and estates teams

depending upon the nature of the projects. Where required, external support is commissioned to provide resources which cannot be met internally.

11.6.3. The PAC Board, the role of which is to monitor the programme and project delivery together with identifying and addressing resource issues, meets on a regular basis to consider such issues.

11.6.4. Cabinet and Performance Panel receives quarterly updates on financial performance as well as key projects many of which are in the capital programme.

#### 11.7. Asset Management Plan (AMP)

11.7.1. The AMP seeks to address both the spending priorities for the maintenance of operational property and the development of the non-operational estate to assist economic development and provide both capital receipts and revenue income streams. The most recent AMP covering the period to 2021 was approved in December 2016 (CAB2870 refers).

11.7.2. The council owns a well located portfolio of property which has the potential to provide an increasing level of income for the council, whilst other sources of income may be restricted in growth. Due to the covid-19 pandemic, rental income in 2020/21 and in the immediate term is under pressure. There remains the risk that, particularly with respect to retail properties within the council's portfolio, the economic impact of covid-19 may be prolonged. However, one of the council's priorities is to ensure the district continues to have a vibrant local economy once the pandemic is over through the schemes outlined in the capital investment strategy and other initiatives. The value of the council's portfolio can be unlocked by undertaking prudent development or refurbishment schemes on existing property to be let as well as identifying potential asset sales as detailed in 11.5 above.

11.7.3. The Capital Programme (Appendix A) includes specific projects in line with the AMP. In addition, a £200,000 annual budget, funded by the Property Reserve, has been allocated to support reactive maintenance and smaller scale refurbishments as they arise.

#### 11.8. IMT Asset Management Plan

11.8.1. The purpose of the IMT Service is to deliver cost effective robust data processing and voice services to support the productivity and ambitions of the council. The IMT Service uses good practice methodologies (ITIL3) to ensure the quality control of supportable, sustainable and secure services.

11.8.2. The council has formulated a digital transformation strategy which has been a key focus since 2018 and aims to enhance how the council engages and transacts with its customers whilst seeking efficiencies, savings and improvements. The council is also keen to build on Smart City initiatives

particularly in relation to transport / parking and tourism applications which will help to meet wider objectives.

- 11.8.3. The Council formed an IT delivery partnership with Test Valley Borough Council (TVBC) over ten years ago that shares an infrastructure platform that continues to produce both capital avoidance and revenue financial savings. The assets which constitute the shared platform are jointly procured and owned. Other capital assets which are required solely for the use of either party will continue to be funded independently. This will be reflected in setting out investment requirements.
- 11.8.4. It is paramount that a funding provision be made available to ensure that the IT infrastructure remains fit for purpose and capable of delivering sustainable and supportable services. Equipment must be maintained in a condition which supports the needs of the business.
- 11.8.5. The Asset Management Plan for IT infrastructure recognises this requirement for fit-for-purpose equipment through a programme of continuous investment. Generally, equipment will require refreshment after 4-5 years, at intermittent intervals due to the practical constraint of delivery and implementation. The Asset Management Plan for IT assumes the need to refresh infrastructure items on a like-for-like basis, and proposed costs reflect this. In reality, after five years the technology will have “moved on” and new developments, offering further advances, will be considered and may give greater benefits for the same investment.
- 11.8.6. The following table sets out the proposed IMT capital expenditure for 2021/22 to be financed from the IMT reserve:

<b>IMT Capital 2021/22</b>	<b>£'000</b>
Equipment	104
Corporate Network	170
Remote working investments	60
Telephony replacement	180
Software	20
<b>Total</b>	<b>534</b>

#### 11.9. Housing Revenue Account (HRA)

- 11.9.1. The HRA capital programme takes full account of priorities detailed in the council's Housing Strategy, its 30 year HRA Business Plan and the Housing Asset Management Strategy.
- 11.9.2. Appendix A provides summary detail on the HRA capital programme for 2021/22 and forecasts to 2030/31. Further detailed information can be found in the Housing budget paper (CAB3290).

## 11.10. Commercial and non-Treasury Investment Activities

11.10.1. The council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day to day activities such as when income is received in advance of expenditure (known as **treasury management investments**);
- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and
- to earn investment income (**commercial investments**)

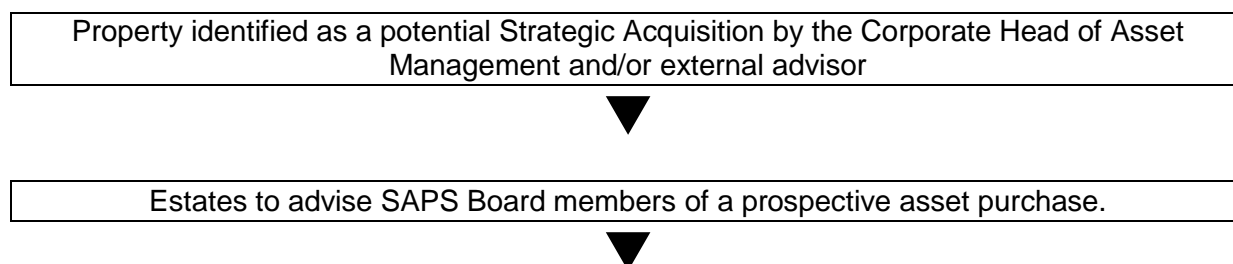
11.10.2. The council's Treasury Management Strategy, and associated limits and indicators, is reported in CAB3282. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.

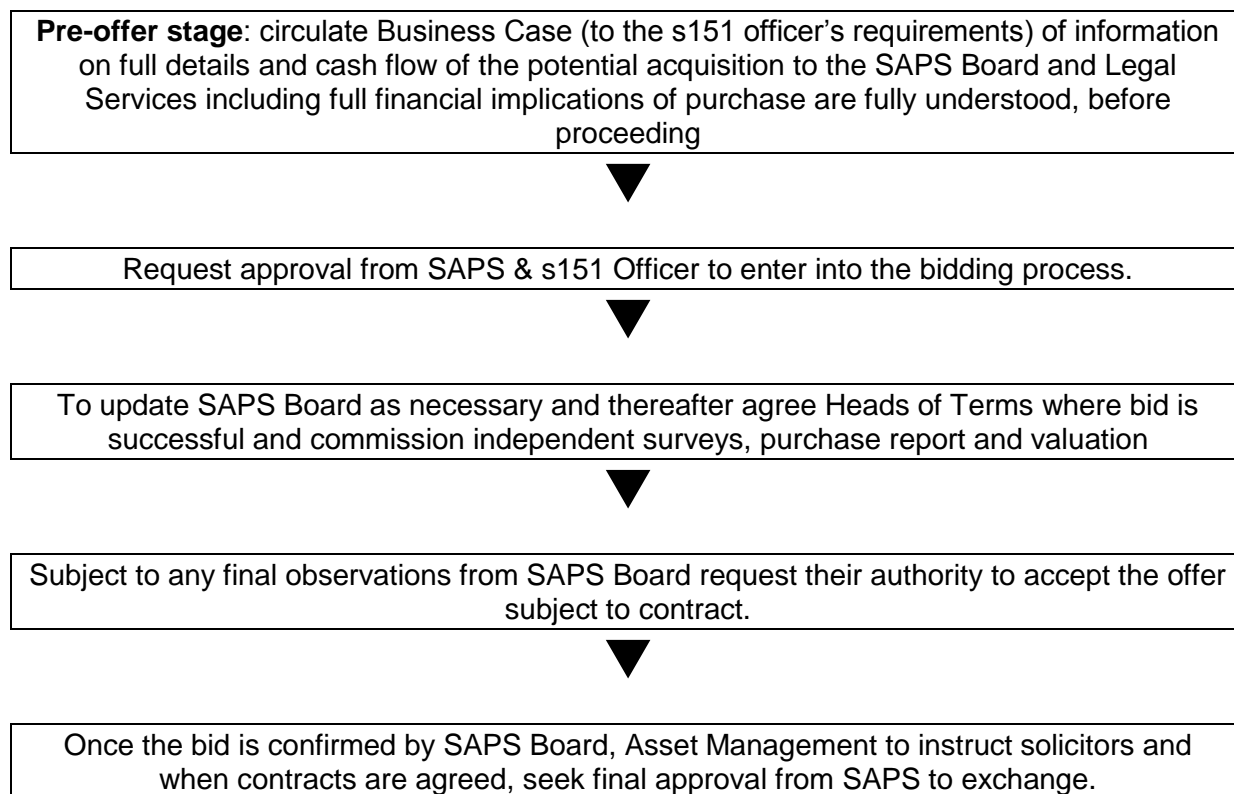
11.10.3. As noted elsewhere in this report, the council's Asset Management Plan seeks to develop the estate to assist economic development and provide both capital receipts and revenue income streams.

11.10.4. Individual projects are supported by appropriate business cases and the programme as a whole is monitored to ensure that sufficient resources are available, both financial and in respect of staff. Where appropriate, the council will procure additional external resource when either there is insufficient officer availability or when specialist advice and support is required.

11.10.5. In addition to this, Council approved a Strategic Asset Purchase Scheme (SAPS) in January 2017 (CAB2872 refers). As part of this a SAPS Board was created which includes members and officers; the board receives recommendations of potential purchases and the s151 officer has delegated authority to make acquisitions up to £4m following discussions with the board, subject to due diligence, or recommend to Cabinet and Council to approve for acquisitions above £4m.

11.10.6. The following flowchart details the process:





#### 11.11. Risk Appetite

- 11.11.1. The council's Risk Appetite Statement is an integral part of the council's Risk Management Policy. It ensures that the opportunities the council is willing to take to achieve its strategic priorities and objectives are measured, consistent and compatible with the council's capacity to accept and manage risk; and that they do not expose the Council to unknown, unmanaged or unacceptable risks. The Policy was most recently updated and approved in September 2019 (CAB3176) and is due to be updated again in March 2021.
- 11.11.2. During the course of the year the council will take fair, measured and targeted levels of risk to achieve the priority objectives included in the Council Plan. There will be opportunities for the council to be innovative or work differently and any identified risks will need to be considered against the anticipated cost or efficiency benefits.
- 11.11.3. The council's risk appetite has four key elements and against each is the level of risk that the Cabinet is prepared to accept. These are set out below and will be used to assess projects as they are initially assessed and thereafter progressed.

Risk levels and description Key elements	Minimal As little risk as reasonably possible	Cautious Prefer limited delivery options	Open Consider all potential options	Seek Eager to be innovative
<b>Financial/VFM</b>	Very limited financial loss if essential (up to £100,000) VfM (focusing on economy) is primary concern	Some limited financial loss (from £100,000 to £500,000) Consider benefits and constraints beyond price	<b>Will invest and risk losing (from £500,000 up to £2m or 10% of value – which ever is the lower of the two) for larger potential financial return Value and benefits considered, not just cheapest price</b>	Invest and risk losing (from £2m up to £5m) for best possible return Resources allocated without firm guarantee of return
<b>Exposure to Challenge</b>	Be very sure we would win challenges	Limited tolerance for sticking neck out Reasonably sure we would win challenges	<b>Challenge is problematic, but takes the necessary steps to manage and win this. Gain outweighs adverse consequences</b>	Chances of losing challenge are real with significant consequences
<b>Innovation, Quality, Outcomes</b>	Innovations avoided unless essential or commonplace Essential systems or technology development only	Prefer status quo and avoid innovation Limited systems or technology development	Innovation supported New ways of working or using technology explored.	<b>Innovation pursued Actively seek new ways of working or using new technology</b>
<b>Reputation</b>	No chance for significant repercussions Avoid exposure to attention	Little chance of significant repercussions Mitigation in place for undue interest	<b>Will expose to scrutiny and interest Management of reputation through actively listening and talking</b>	New ideas experimented at the risk of damage to reputation
<b>Appetite</b>	<b>Low</b>	<b>Moderate</b>	<b>High</b>	<b>Significant</b>

## 11.12. Knowledge, capacity, and skills

- 11.12.1. In order to deliver the Capital Programme it is essential that the council has access to the right knowledge and skills.
- 11.12.2. Internally the council employs fully qualified and experienced staff such as accountants, solicitors and surveyors. It is fully supportive in providing access to training, both internal and external, to enable those staff to complete their Continuing Professional Development (CPD) requirements.
- 11.12.3. Where the council does not have the knowledge, capacity, or skills required, use is made of external advisors and specialists in their field. The council currently employs Arlingclose Ltd as their Treasury advisers, Wilks Head & Eve to undertake its year end valuations, and other specialists as required to support, for example, its major projects.
- 11.12.4. In addition, the council ensures that its members are suitably experienced to undertake the governance responsibilities commensurate to their roles by providing training opportunities (internally and externally provided) and access to workshops either within the council or with its local government partners. There are a number of mandatory training sessions for members throughout the year including, for example, Code of Conduct training and training for the Audit & Governance Committee. A risk management workshop for members, facilitated by Protector Insurance, took place in

October 2020. In December 2020 several members attended a briefing session provided by the council's treasury advisors Arlingclose.

11.12.5. The council also procures, when required, expert advice and assistance externally such as financial and legal advice.

12. OTHER OPTIONS CONSIDERED AND REJECTED

12.1. None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

The Capital Strategy and Programme are approved annually.

Other Background Documents:-

None

APPENDICES:

Appendix A – Capital Programme 2021-2031

Appendix B – Capital Programme Financing 2021-2031

Appendix C – Revenue Consequences of General Fund Capital Programme 2021 to 2031

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2021/22

Appendix F – Investment activities

Appendix G – Flexible Use of Capital Receipts Strategy