

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2022-2032

9 FEBRUARY 2023

REPORT OF CABINET MEMBER: Cllr Margot Power, Cabinet Member for Finance and Value

Contact Officer: Liz Keys Tel No: 01962 848226 Email: lkeys@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. At a time when financial resources are under pressure, careful decisions must be made when considering capital investments in order for the council to deliver the objectives of the council plan, and to achieve the best outcomes possible for its citizens.

It includes several prudential indicators as required by the CIPFA Prudential Code for Capital Finance and the Department for Levelling Up, Housing and Communities (DLUHC) 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 Investment Strategy be approved including:
  - the Capital Programme and Capital Programme Financing (Appendices A and B to the report);

- the Minimum Revenue Provision (MRP) Policy Statement (Appendix E);
- the Flexible Use of Capital Receipts Strategy (Appendix G); and
- the prudential indicators detailed in the report and Appendix F.

That Cabinet:

2. Subject to Council approval of the capital programme, approves
  - IMT equipment and software expenditure (£120,000 in 2023/24) as detailed in paragraph 11.8.7; and
  - up to £320,000 of additional expenditure for the demolition of Friarsgate Medical Centre in respect of the overage payable as detailed in paragraph 11.2.4.
3. Delegate authority to the Corporate Head of Service: Economy & Communities, in consultation with the S151 officer, to incur capital expenditure in accordance with the requirements of the UK Shared Prosperity Fund as detailed in paragraph 11.2.4.
4. Notes the requirement to ensure Members have the right knowledge and skills to undertake their governance role and that the ongoing support and training offered to members is continued and enhanced as required.

## 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.
- 1.2. More detail on specific projects supporting the priorities in the Council Plan is set out in section 11.2

### 2. FINANCIAL IMPLICATIONS AND COMMENTS OF THE S151 OFFICER

- 2.1. The forecast capital programme over the next 10 years to 2032/33 totals £470.0 million of which £37.4 million is General Fund and £432.6 million is Housing Revenue Account.
- 2.2. The proposed financing is made up of £188.5 million of prudential borrowing, £136.3 million from revenue including earmarked reserves, £108.2 million of capital receipts and £37.0 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 (CAB3390).
- 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 always key considerations within the capital strategy and are particularly important given the constraints on the local government sector in terms of the funding available and the prevailing economic conditions. The strategy aims to support the key regeneration and place shaping priorities in the Council Plan as well as helping the council achieve its ambitious carbon neutral goals and, in the HRA, providing much needed new housing. 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. As a consequence of high inflation and the increased cost of borrowing available to the council, a number of schemes have been paused from the programme while consideration is given to value engineering, alternative proposals or meanwhile uses while projects are paused until the economic environment improves. The Strategic Asset Purchase Scheme (SAPS) budget has been reduced to £4m following changes to the Public Works Loan Board (PWL) lending criteria and the Prudential Code which mean that the council can no longer make purchases primarily for yield – surplus income from such investments cannot be used to support wider services but should be incidental and support the viability of the scheme or similar schemes elsewhere in the district. The total budget set aside for this programme is reasonable within the overall context of the council’s capital strategy and the scale of the Council’s balance sheet. Should potential purchases be identified in excess of the allocated budget, approvals will be sought through the usual governance processes as defined by the constitution.
- 2.8. Over the next ten years, the strategy forecasts up to £470.0m of capital spend of which £432.6m is HRA and £37.4m is General Fund. Whilst this is an ambitious programme of works, the council has a long history of successfully managing and acquiring assets to support its objectives while minimising the associated risks. The proposed programme is considered affordable, sustainable, and prudent. The council also utilises its treasury management advisors, Arlingclose, to consider the implications of the prudential code and the impact on its treasury management strategy.
3. LEGAL AND PROCUREMENT IMPLICATIONS
  - 3.1. The council’s Capital Investment Strategy Statement follows the latest codes of practice, and the Department for Levelling Up, Housing & Communities (DLUHC) 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. The Programme and Capital Board (PAC) plays a key role in ensuring that this process takes place when considering business case and gateway decisions.
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 Council's Asset Management Strategy 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. The council held a Residents Survey in 2022 and the views of a representative sample of over 1,700 residents across the district were sought. In addition to feedback on local priorities; views on emerging policy; and the relative perceived importance of council services; questions were asked on how to balance the budget to inform development of the Capital Strategy. Specifically:
- 74% agreed that the council should maximise use of its assets.
  - 54% agreed that the council should dispose of council buildings.
- 6.2. Appropriate engagement and consultation is undertaken for all individual projects and schemes.
- 6.3. The Scrutiny Committee discussed the report at its meeting held on 7 February 2023. Due to the dispatch date of Cabinet any particular matters that the Committee wishes to raise with Cabinet will be reported at the meeting.

## 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. PUBLIC SECTOR EQUALITY DUTY

- 8.1. The council is committed to ensuring its services are accessible to all its residents and that full consideration is given to obligations under the Public Sector Equality Duty in addition to any consultation comments.
- 8.2. Under the Council's Financial Procedure Rule 7.4, the inclusion of a scheme in the capital programme shall not constitute authority to incur expenditure until a full project report has been submitted by the appropriate Service Lead in consultation with their Corporate Head of Service and the S151 officer and approved in line with the limits set out in the constitution. As part of the approval to spend for each scheme, an Equality Impact Assessment must be completed before the project can proceed.

9. DATA PROTECTION IMPACT ASSESSMENT

9.1. Data Protection Impact assessments are 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.

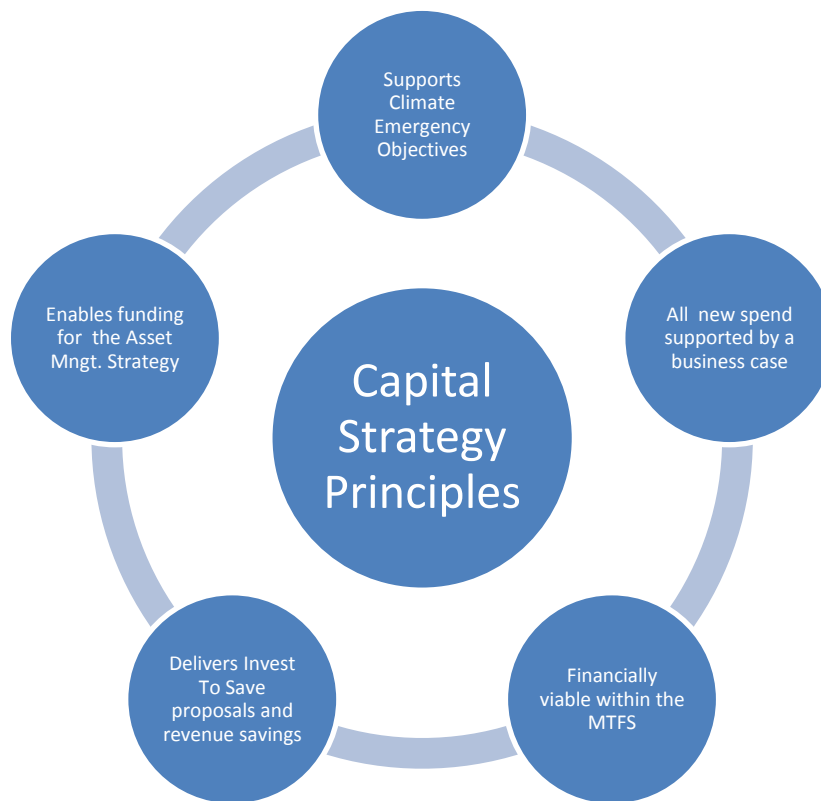
<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Property</i> Council assets not fully utilised	An effective capital strategy and its delivery helps to ensure council assets are used to achieve the council's priorities	Investment in the council's assets can increase income generation  Identification 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	Ensure robust business cases are taken forward	Consideration of a wide base of potential capital /

schemes due to insufficient staff resources	and sufficient resources are available to deliver the projects.	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	In some cases projects may generate savings or new income in addition to achieving the council's objectives
<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	Delivering council objectives via the capital programme can enhance the council's reputation

## 11. SUPPORTING INFORMATION:

### 11.1. Purpose

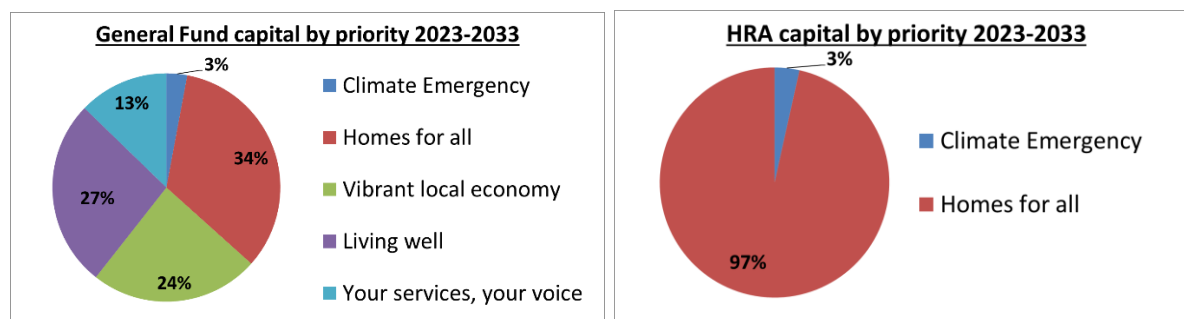
- 11.1.1. The council is in a privileged position to be able to invest in local projects that directly improve the quality of life for local people, support the economy or protect the environment. Therefore the primary purpose of this strategy is to identify and progress schemes to help deliver the Council 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. However, financial pressures across the sector mean that the principles which underpin the strategy are carefully considered when prioritising schemes in the Capital Strategy. 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 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, the Asset Management Strategy, 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 over the medium term. 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; the refurbishment of council's existing assets; and provision of leisure facilities.



- 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. For example, while a project may have a primary purpose of improving the local economy it may contain elements such as the installation of solar panels in order to tackle the climate emergency):



## 11.2. The Capital Programme

- 11.2.1. The council has made further progress in 2022/23 in delivering its capital programme. In the General Fund, projects completed or due to complete this year include:
- The decarbonisation of City Offices via the removal of asbestos and the installation of modern windows throughout. This work was partially funded (£260,000) by a grant from the Public Sector Decarbonisation Scheme fund.
  - Important repair works at the Weirs, which has involved the replacement of the timber piles and the filling of voids beneath the footpath next to the River Itchen to mitigate against the risk of collapse and potential flooding.
  - Play area refurbishments at Abbey Gardens and North Walls, designed to be inclusive and enable children of all abilities to play and learn together.
  - Over £0.5m of grants paid over for community projects funded by the Community Infrastructure Levy (CIL), providing money direct to local groups
  - Disabled facilities grants (totalling over £0.8m by the end of December) enabling those in private or housing association properties to stay in their homes by funding necessary adaptations
- 11.2.2. In addition to the required investment in major works to the existing stock to maintain the current decent homes standard, significant additional funding towards a challenging new build programme is included within the

programme to facilitate the delivery of the council's objective of 1000 new homes for local people within the life of the current 10 year plan, major projects included are:

- Winnall Flats with 76 units (35 shared ownership, and 41 market rent) – not complete
- 54 units at North Whiteley (27 shared ownership, and 27 affordable) – 12 complete
- Barton Farm with 60 units 45 affordable rent and 15 shared ownership)
- Southbrook Cottages (6 units of affordable) delivered to Passive House standard

11.2.3. Over the period 2023 to 2033, the council's total estimated capital expenditure is £470.0m of which £37.4m is General Fund and £432.6m 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 2023 - 2033	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	TOTAL Est.
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
General Fund	16.4	6.2	2.1	2.1	1.8	1.8	1.8	1.9	1.7	1.6	37.4
HRA	30.0	49.3	50.7	47.7	43.6	44.2	44.1	48.3	46.6	28.0	432.6
<b>Total Expenditure</b>	<b>46.4</b>	<b>55.5</b>	<b>52.8</b>	<b>49.8</b>	<b>45.4</b>	<b>46.0</b>	<b>45.9</b>	<b>50.2</b>	<b>48.3</b>	<b>29.6</b>	<b>470.0</b>

11.2.4. The programme includes the following **key projects** (quoted budget figures are for the period 2023-2033 and do not include prior years):

### **Priority: Tackling the Climate Emergency & creating a greener district (£16.2m)**

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

- £15.1 m has been allocated over the next 10 years to invest in the **council's housing stock to improve energy efficiency and reduce emissions.**
- Following the installation of Solar PV at the council's depot and at Marwell Zoo, a further £1m budget has been allocated for **energy management projects** over 4 years from 2023/24 provisionally funded by prudential borrowing. Expenditure will be subject to a business case as new projects are identified and the council will seek to identify external grant funding where possible. 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.

- 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 were installed at the new Sport & Leisure Park and the new decked car park at the former Vaultex site. The design of new pavilion at King George V playing fields includes elements to ensure a sustainable and energy efficient building such as high performance insulation and solar PV.
- Furthermore, the Carbon Neutrality Roadmap, which details how the council's ambitious carbon neutrality targets will be met, has indicated significant work is required by the council to reduce its carbon footprint. This is likely to require additional capital projects which, once identified and costed, will be included in the capital programme.

### **Priority: Homes for all (£430.1m)**

- Over the next 10 years, £314m has been budgeted for the council's New Build programme to enable the delivery of **one thousand council homes**.
- An estimated £93m will be spent on major repairs and maintenance of our existing housing stock including £0.5m to improve fire safety; £20m on roof replacements; £18m on heating and hot water systems; £16m on communal areas works; and £15m on new kitchens.
- In order to support those who might be unable to easily access the private sector rental market a budget of £0.3m is allocated for the establishment of a **Housing Company**, based on a leasing model, which will support the delivery of alternative tenures. The company will be a wholly-owned subsidiary of the council.
- An estimated £12.3m of Disabled Facilities Grant to enable people to stay in their own homes where possible by providing necessary adaptations to private homes in addition to £9m for adaptations to the council's own stock.

### **Priority: Vibrant local economy (£9.0m)**

- The **Strategic Asset Purchase Scheme (SAPS)** seeks to identify assets for the council to acquire which will assist it in meeting its strategic objectives such as regeneration whilst also generating ongoing revenue streams in order to ensure a scheme is financially viable overall or to be recycled in other similar schemes. In prior years, an allocation of just over £20m remained for the SAPS scheme. Following changes to the PWLB lending terms and the Prudential Code, the council can no longer purchase assets primarily for yield and must do so for service reasons

only, including regeneration. Any surplus income must be incidental to the scheme or recycled in similar schemes elsewhere and cannot be used to fund wider services. The SAPS board (see section 11.10) can approve purchases up to £4m if the minimum score criteria is met. Any other purchases must follow the usual governance process as defined by the constitution. For these reasons, the budget allocation has been reduced to £4m in 2023/24.

- A budget of £0.7m has been allocated for the demolition of **Friarsgate medical centre**, and the installation of an interim open space focused on archaeological works 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). As expected when we purchased the site, index-linked overage is payable when development commences. Works planned are expected to trigger the overage which is estimated to be up to £320,000 depending on the date it is triggered, at which point the amount of indexation will become payable.
- Works to **Kings Walk** at a cost of £0.3m including: ground floor & public realm - external greening, lighting, internal alterations to create a refreshed image and to enhance connectivity and visibility between Kings Walk and the High Street.
- In addition, a total of £3.95m 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**.

#### **Priority: Living Well (£10.0m)**

- Following a successful application, the council has been awarded grant funding of £1.0m (of which a minimum of £0.46m is to be spent on capital) as part of the **UK Shared Prosperity Fund (UKSPF)** the primary goal of which is to “build pride in place and increase life chances across the UK”. This funding will support projects over the next two years led by both the council and by key stakeholders and partners. In addition, the council has been awarded a further £0.75m from the **Rural England Prosperity Fund** which is a top-up to the UKSPF and supports capital projects that address the particular challenges rural areas face. As well as supporting the Living Well priority, projects will help the district achieve its Climate Emergency and Vibrant Local Economy priorities.
- A budget of £2.5m (£3.3m including prior years) has been allocated to replace the **King George V (KGV) pavilion**. As well as offering a modern facility for its users, it will help the council achieve its carbon neutral goals by incorporating several features including EV charging points, solar panels, an air source heat pump, and a green roof.

- Over the next 3 years, £0.7m has been allocated for the **replacement or refurbishment of several play areas** that are the responsibility of Winchester Town Forum **and a skate park** at the King George V playing fields.
- **Community Infrastructure Levy (CIL) – Community projects.** In addition to previous years, £0.8m of CIL funded capital grants have been awarded to community groups for projects expected to take place in 2023/24 as well as £0.3m available for new grant applications. The scheme allows community groups to apply for a share of between £10,000 and £200,000 for essential infrastructure projects.
- £120,000 has been set aside in the 10 year programme for replacement equipment including cycling bikes, gym equipment, and group exercise equipment at **Meadowside Leisure Centre**.
- Proposal for the future use of the old **River Park Leisure Centre site** have not been determined but £2m has been included in 2024/25 for the demolition of the existing building in order when required. The exact timing is uncertain and to be determined as part of the wider plans for the site. This expenditure will be funded from the capital receipts reserve and offset by any capital receipt from the disposal of the site.

#### **Priority: Your services Your voice (£4.8m)**

- The majority of the budgets are for long term capital maintenance works to the council's operational assets. This includes the replacement of the City Offices heating system which is nearing the end of its economic life and is inefficient to run. Its replacement with a more efficient system will reduce carbon emissions by at least 60,000 kg CO<sub>2</sub> per annum and provide ongoing energy savings; a budget of £100,000 has also been allocated for additional solar PV so that further savings can be made if an electric system replaces the current gas-powered heating.
- Proposals to develop the former depot at Bar End have not been finalised but it will be necessary to relocate the bone store to F2. A total budget of £150,000 is required of which £75,000 is capital (new racking) and £75,000 revenue (relocation costs).
- 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.

#### 11.2.5. Future capital ambitions and **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, further capital projects will be required to meet this goal in addition to

those already carried or in the capital programme. Exploratory work is being undertaken on the potential for the council to invest in a solar farm in the district with more feasibility to be carried over the next 12 months. 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.

- Since the Capital Strategy 2022-2032 was set, the cost of borrowing has increased considerably (the 40 year annuity rate at the end of 2021 was circa 2% and at the end of 2022 was 4.8%). This coupled with significant construction inflation over the past year means several schemes included in the prior capital strategy that had not yet commenced had insufficient budget provision and/or are no longer viable. As a consequence, the following budgets have been removed from the programme while consideration is given to value engineering, alternative proposals or meanwhile uses while projects are paused until the economic environment improves: the Goods Shed (£5m), 59 Colebrook Street (£0.55m), the Casson Block (£0.7m). In addition, a budget of £0.5m has been removed in respect of the refurbishment of 158-159 High Street while negotiations continue with regards to Central Winchester Regeneration (CWR). Once WCC have appointed a development partner for the CWR site 158-159 High Street may then be considered within the wider regeneration scheme.
- Survey work has been undertaken to identify the costs of refurbishment the council's **public conveniences** throughout the district in line with council's Pride of Place objectives. Consideration will be given to the level of refurbishment required, the phasing of works, and the future management of some public conveniences where appropriate. A business case will be brought forward in due course. A sum of £200,000 has been included in the car parks budget in 2023/24 to enable the priority refurbishment of public conveniences in Chesil and Worthy Lane parks as part of the initial phase.
- A number of potential schemes will be required in respect of the **Winchester Movement Strategy**. Where possible, external funding sources will be explored including Community Infrastructure Levy (CIL) contributions and grant funding such as the Local Enterprise Partnership (LEP).
- As stated in the Asset Management Strategy (CAB3777 refers), the council's non-housing property assets play a significant role in generating rental income and creating opportunity for social, economic, environmental, cultural and regeneration interventions. As part of this it essential that sufficient funds are set aside in the Property Reserve and

survey work is to be commissioned to establish the total needs of the estate over the next several years with a key tenet being the decarbonisation of the council's estate. It is essential to regularly review the performance of the council's property portfolio and make active decisions on retention, disposal or rental/leasing options to best support council objectives. Part of the remit of the council's Property Board, a member/officer group, is "Asset Challenge" which commenced in 2018/19 and involves reviewing the council's assets on a rolling basis to ensure the best use is made of them and, where appropriate, recommend investment in or disposal of assets.

- **Central Winchester Regeneration (CWR)** – 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 economy, and make it a more attractive place for residents and visitors alike. Working with a development partner, it is not anticipated that the council will be making further capital investment in CWR but it is expecting to put its assets into the scheme.
- **Future of Waste** - new services for food waste and other changes to waste and recycling collection will be introduced in early 2025. This will require additional capital investment in refuse vehicles and new bins for homes. Whilst the government has committed to new burdens funding for collection authorities, the amount is unknown and we expect the nationwide need for food waste refuse vehicles and new bins for homes to drive up the prices which will require the council supplement new burdens funding and to this end a reserve of £500,000 will be created (CAB3388 refers).
- **GIS 3D Mapping tool** - the introduction of 'spatial data visualisation' for the Planning service. Procuring a tool to digitally map places will help people visualise planning applications, regeneration schemes and the design of wider areas. This tool will help the council's customers understand the impact of future planning applications and regeneration schemes by presenting a 3D map of what it could look like. It is anticipated that a capital budget of up to £150,000 will be required.
- **Station Approach Public Realm** – Work to explore whether a viable scheme can be brought forward in the Station Approach area is underway. It is envisaged that a strategic case will be submitted to Cabinet in June 2023. Once any master-planning is being considered and consulted on this scheme for the public realm will also be reviewed.
- **North Walls Park Plan** – the North Walls Park Plan was brought to Winchester Town Forum in November 2021 following a public consultation (WTF303). Feasibility work is required to determine future funding requirements and this will be reported back in due course

- Up to £1m will be required for the **Brooks car park ventilation system** which has been in operation since its opening. The exact timing and cost will need to be determined and the solution will not only provide cleaner air but will reduce carbon emissions and running costs.

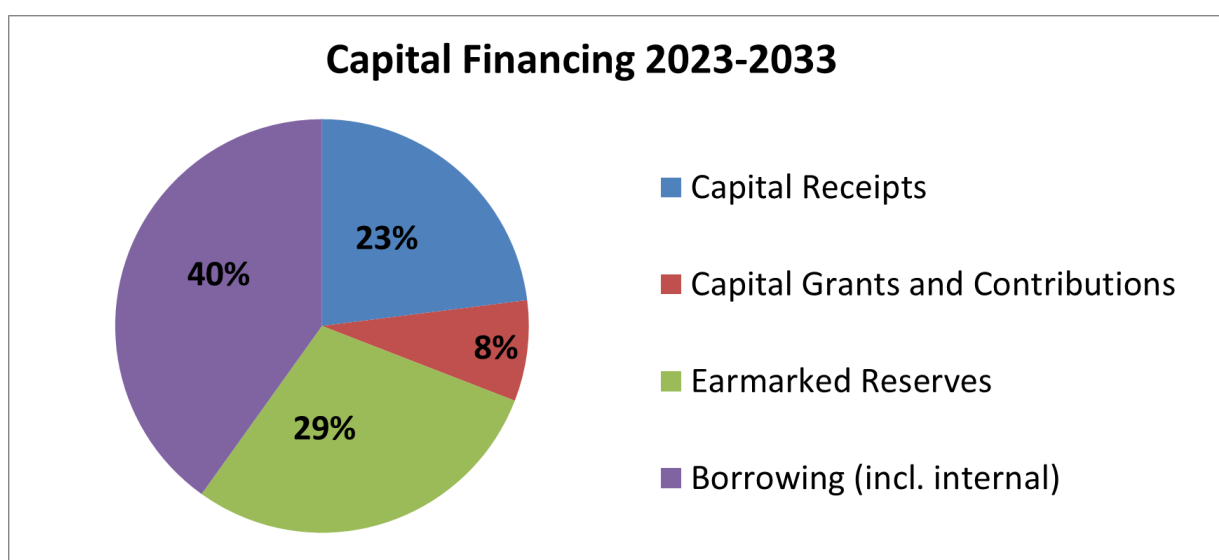
### 11.3. Financing the Capital Programme

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 2023-2033 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, in the future, need to increase its external borrowing in addition to the £166.7m the council has already borrowed on behalf of the HRA. 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*

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Minimum Revenue Provision (GF)	1.2	1.5	1.6	1.6	1.6
Reserves (HRA)	0.8	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>

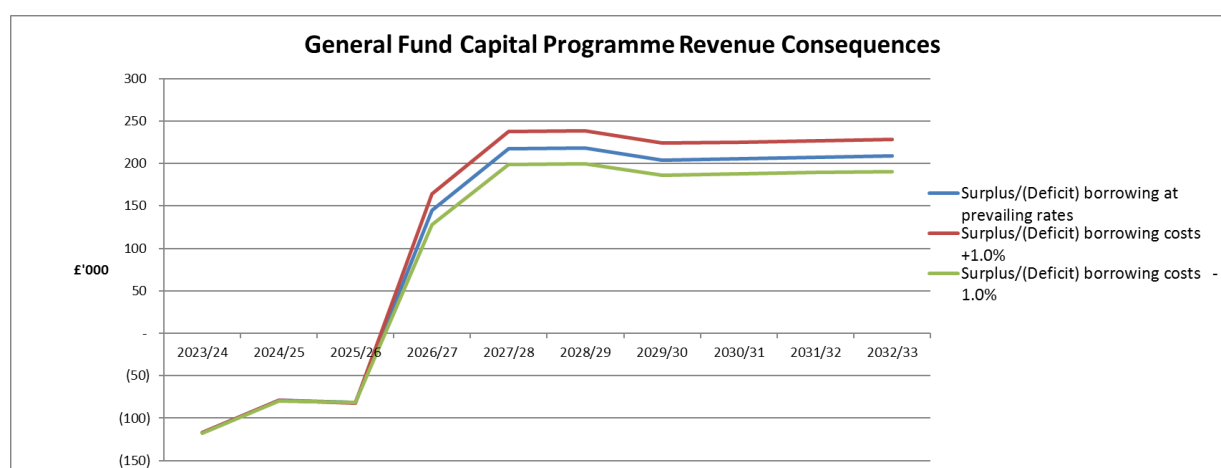
The council's full MRP statement is available at Appendix E.

- 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 £2.7m during 2023/24 subject to full delivery of the Capital Programme.

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

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
General Fund	72.8	71.9	74.6	73.7	67.3
Housing Revenue Account	186.0	202.3	202.3	203.8	232.2
<b>TOTAL CFR</b>	<b>258.8</b>	<b>274.2</b>	<b>276.9</b>	<b>277.5</b>	<b>299.5</b>

- 11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB3390).
- 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 2025/26.
- 11.4.2. Part of the council's programme is 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. 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*

	2021/22 actual	2022/23 forecast	2023/24 budget	2023/24 budget	2024/25 budget
GF financing costs (£m)	1.3	1.6	1.6	1.8	1.7
GF proportion of net revenue stream	7.0%	9.1%	8.4%	8.6%	9.8%
HRA financing costs (£m)	5.5	6.0	6.8	6.1	7.6
HRA proportion of net revenue stream	17.9%	19.9%	21.1%	17.5%	21.0%

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 used £194,000 in qualifying receipts for severance costs in 2020/21 which will continue to provide significant ongoing savings of over £700,000 per annum. In 2021, the

government confirmed that the direction would be extended by another 3 years from 2022/23; while the council has no plans to make further redundancies, it may use qualifying capital receipts, when appropriate, to help fund the revenue costs of any transformation projects identified. 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 involves reviewing all of the council's assets on a rolling basis to establish why the council holds assets; what options the council has, for example, to 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, procurement 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 Strategy (AMS)
  - 11.7.1. The emerging AMS 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 AMS covering the period to 2027 was approved in January 2023 (CAB3377 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. During the first two years of the covid-19 pandemic rental income was under pressure. This was monitored carefully and a “Rent Abatement” programme supported tenants through this period, resulting in only one business having to give up their tenancy due to business failure. There remains the risk that, particularly with respect to retail properties within the council’s portfolio, the current economic downturn may be prolonged. 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. However, over the past year there has been a significant increase in construction inflation as well as an increase in the cost of borrowing available to the council. This has resulted in a number of redevelopment schemes being reviewed and removed from the active programme as they are currently either commercially or financially unviable. Possible alternatives, including meanwhile uses, are currently under consideration.
- 11.7.3. The Capital Programme (Appendix A) includes specific projects in line with the underlying asset management plan held by the council’s Estates team. 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.
- 11.8.3. As part of our Covid recovery strategy, the council has introduced hybrid working and staff may work up to 50% of the time remotely. A key element of this is the IT investment to enable flexible working from a range of locations (specifically the roll-out of laptops and hybrid meeting room solutions). Coupled with the digital transformation strategy, this will help to make services agile and customer focused; making them more accessible than ever to all our customers.
- 11.8.4. 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.

- 11.8.5. 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.
- 11.8.6. 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. This is particularly relevant with the advent of ‘cloud storage’ and a full IT and digital strategy review is planned for 2023/24.
- 11.8.7. The following table sets out the proposed IMT capital expenditure for 2023/24 to be financed from the IMT reserve:

<b>IMT Capital</b>	<b>2022/23</b> <i>Revised forecast</i>	<b>2023/24</b>
	<b>£'000</b>	<b>£'000</b>
Equipment	50	95
Corporate network	200	15
ArcServe backup	48	
Telephony replacement		10
Uninterruptable power supply (UPS)	20	
Meeting rooms equipment	80	
<b>Total</b>	<b>398</b>	<b>120</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 2023/24 and forecasts to 2032/33. Further detailed information can be found in the Housing budget paper (CAB3387).

## 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**)

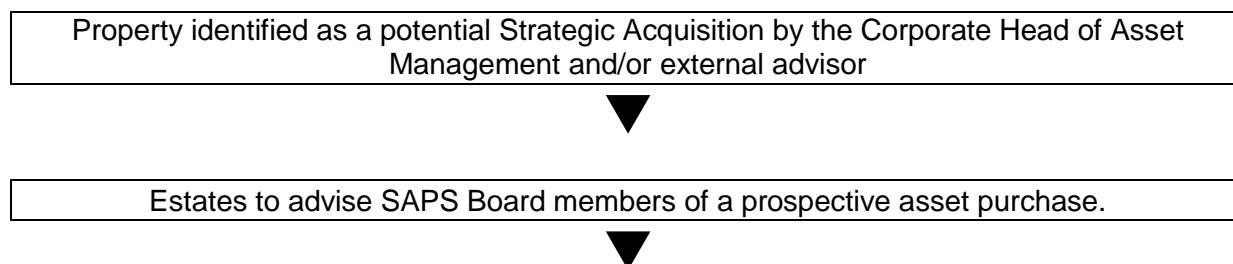
11.10.2. The council's Treasury Management Strategy, and associated limits and indicators, is reported in CAB3390. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.

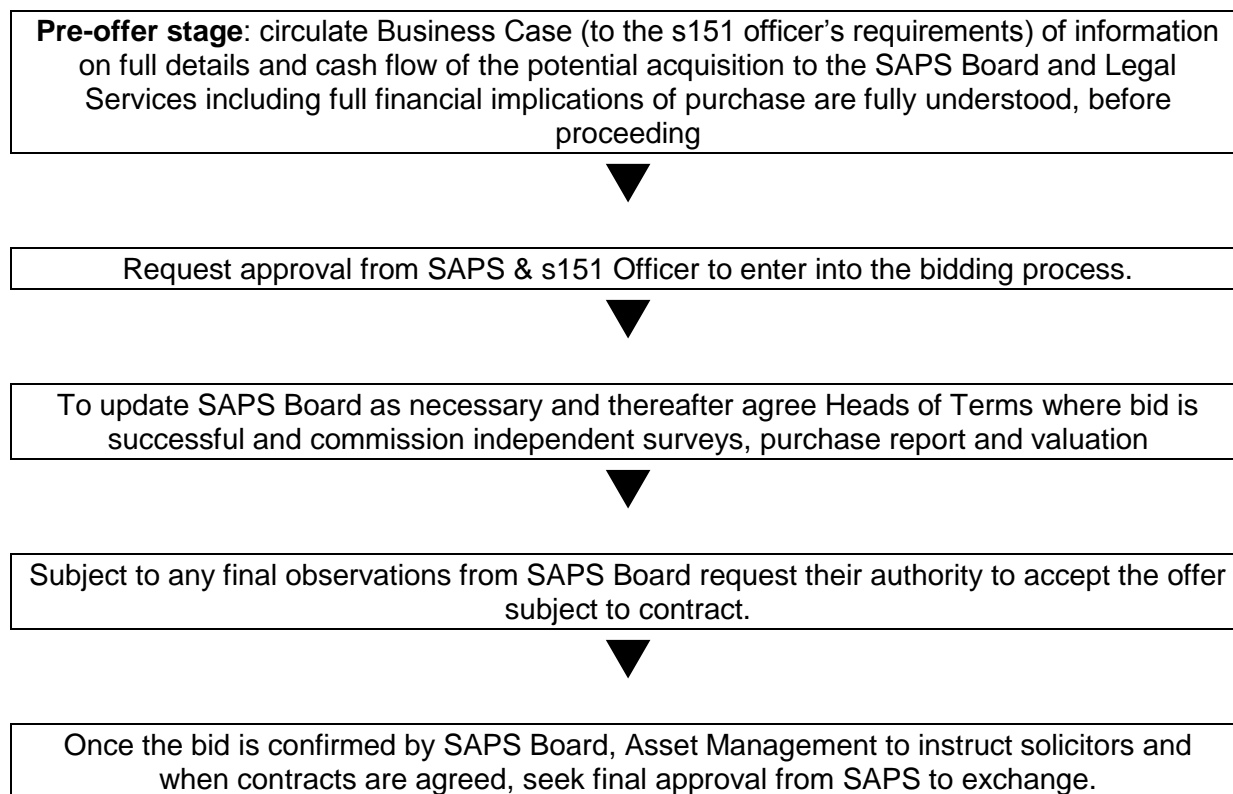
11.10.3. As noted elsewhere in this report, the council's Asset Management Strategy seeks to develop the estate to assist economic development and provide both capital receipts and revenue income streams.

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 March 2022 (CAB3338). The Policy is subject to review in March 2023 and the risk appetite detailed below may therefore change.
- 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 Risk Appetite Statement supports members and officers in decision making by setting out where the cabinet is comfortable taking different levels of risk, and which levels of risk are unacceptable. The council's risk appetite is considered in conjunction with the risk section of all committee reports when decisions are made.
- 11.11.4. The council's current overall risk appetite is defined as MODERATE (see table below for definitions). This means the council remains open to innovative ways of working and to pursue options that offer potentially



substantial rewards, despite also having greater level of risks. However, the council's preference is for safe delivery options which have a lower degree of risk, especially for those services required by statute.

Risk Appetite Definitions	
<b>Avoid</b>	No appetite. Not prepared to take risk.
<b>Adverse</b>	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognising that these will have little or no potential for reward/return.
<b>Cautious</b>	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.
<b>Moderate</b>	Tending always towards exposure to only modest levels of risk in order to achieve acceptable outcomes.
<b>Open</b>	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.
<b>Hungry</b>	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.

11.11.5. Risk appetite is not a single, fixed concept and there will be a range of appetites for different risks which may vary over time. The council's risk appetite by corporate priority and guiding principles are set out below.

Council Plan Priority	Risk Appetite	
<b>Tackling the climate emergency</b>	Moderate	Maintaining good levels of standards we tend towards exposure to modest levels of risk in order to achieve acceptable outcomes.
<b>Homes for all</b>	Open	We invest when there is a good likelihood of return and opportunities to grow, choosing innovative options in order to deliver a significant contribution.
<b>Living well</b>	Moderate	Often working with partners we will continue to encourage and deliver; usually taking moderate to low risk options.
<b>Vibrant local economy</b>	Moderate	Promoting and supporting opportunities we tend towards exposure to modest levels of risk in order to achieve satisfactory outcomes.
<b>Your services, your voice</b>	Cautious	It is important the council is getting its best from available resources whilst ensuring long term sustainability. We will seek best use of our resources, and generation of alternative funding in order to protect services.

## 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. In November 2022 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. The council could elect to have no capital programme at all or to plan for an alternative programme. Both these options have been rejected as the council would no longer be able to meet its objectives.

### BACKGROUND DOCUMENTS:-

#### Previous Committee Reports:-

The Capital Strategy and Programme are approved annually.

#### Other Background Documents:-

None

APPENDICES:

Appendix A – Capital Programme 2023-2033

Appendix B – Capital Programme Financing 2023-2033

Appendix C – Revenue Consequences of General Fund Capital Programme 2023 to 2033

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2023/24

Appendix F – Investment activities

Appendix G – Flexible Use of Capital Receipts Strategy