

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2024-2034

8 FEBRUARY 2024

REPORT OF CABINET MEMBER: Cllr Cutler – Deputy Leader and Cabinet Member  
for Finance and Performance

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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 the district's residents.

It includes several prudential indicators that are required to be published 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 the following capital expenditure in 2024/25:
  - IMT equipment and software (£30,000) as detailed in paragraph 11.8.7;
  - £191,000 (subject to successful UKSPF funding bid) on Friarsgate Medical Centre interim open space (11.2.4);
  - Up to £200,000 for essential repairs works to the Weirs (11.2.4)
  - £40,000 in respect of fees for the replacement of North Walls pavilion (11.2.4); and
  - £485,000 for refurbishment works to the Guildhall to improve fire safety (11.2.4).
3. 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

- 2.1 The forecast capital programme over the next 10 years to 2033/34 totals £444.7 million of which £39 million is General Fund and £405.7 million is Housing Revenue Account.
- 2.2 The proposed financing is made up of £155.2 million from revenue including earmarked reserves, £136.6 million of prudential borrowing, £106.0 million of capital receipts, and £46.9 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 (CAB3446).
- 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 considered. 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 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 were paused from the programme in the previous capital strategy while consideration is given to value engineering, alternative proposals or meanwhile uses until the economic environment improves. The Strategic Asset Purchase Scheme (SAPS) budget was reduced to £4m following changes to the Public Works Loan Board (PWLB) 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 £444.7m of capital spend of which £405.7 is HRA and £39m is General Fund. Whilst this is an ambitious programme of works, the council has a long history of successfully managing its capital 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 Strategy 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 Following the publication of the Medium Term Financial Strategy in November, a budget consultation exercise was undertaken. Residents were asked to give their opinion and feedback on the Cabinet's proposals to balance the budget. The online survey included questions about the greener faster investments being proposed to increase recycling and reduce carbon emissions in the district; as well as whether the council should subsidise chargeable services. 211 responses were received over the five-week engagement exercise and the feedback has shaped the budget proposals and capital investment strategy presented in this report. In particular, there was overall positive support from two thirds of those who responded for the measures to improve our recycling service and make it easier for residents to recycle more. This will include investing in vehicles to introduce the food waste collection service.
- 6.2 Back in 2022, the council held a Residents' Survey 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.
- The feedback from that Residents' Survey has helped shaped the long-term transformation programme ('TC25') set out in the budget report CAB3444.
- 6.3 As capital investment schemes come forward for appraisal, appropriate engagement and consultation is undertaken as part of the business case development for all individual projects and schemes.
- 6.4 The Scrutiny Committee is due to consider this report at its meeting on 6 February 2024, after this report has been dispatched. Any matters that the Scrutiny Committee wishes to raise or asks the Cabinet to note before making their decision will be reported and considered fully 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 are 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 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 council's overall borrowing need, reducing the ongoing revenue cost.
<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 Strategy (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	In some cases, projects may generate savings or

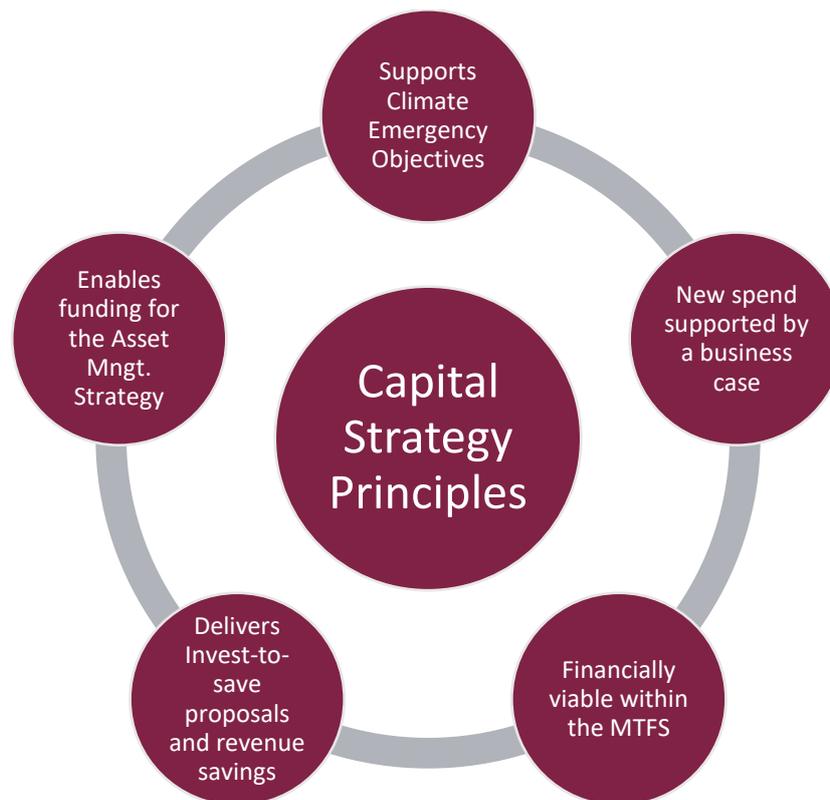
		new income in addition to achieving the council's objectives
<i>Legal</i>	Considered as part of the approval process for individual capital schemes	None
<i>Innovation</i>	Considered as part of the approval process for individual capital schemes	Strategy includes new schemes to innovate
<i>Reputation</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 required level of services. It outlines how the council ensures that individual schemes and the programme as a whole are deliverable and financially affordable.

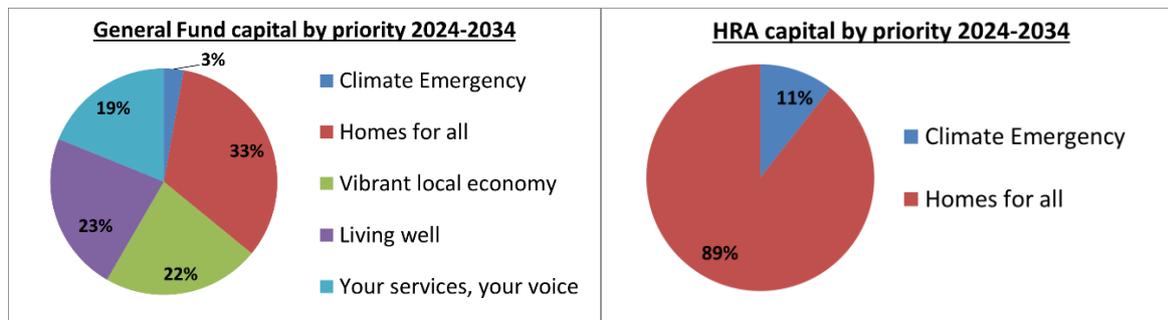
11.1.2. However, financial pressures across the sector mean that the principles which underpin the strategy are carefully considered when prioritising schemes in the Capital Strategy. The Strategy sets out the council's capital spending programme and the principles which underpin this to deliver the 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 forecasting a significant reduction in its anticipated financial resources over the medium term. This is being addressed through the Transformation Challenge 2025 programme ('TC25'), where one of the key themes is maximising the use of our assets. It is vital therefore that the council maximises the use of its capital investment in the district over the next decade. As available resources reduce, the council needs to utilise its capital programme to drive the most effective and efficient use of those resources for the benefit of 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 and energy costs; the provision of new housing and maintenance of existing housing stock; major regeneration

schemes; the refurbishment of the 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 substantially complete this year include:

- 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.
- Kings Walk improvements to the ground floor & public realm - external greening, lighting, and internal alterations to create a refreshed image and to enhance connectivity and visibility between Kings Walk and the High Street.
- The establishment of a Housing Company, based on a leasing model, which will support the delivery of alternative tenures.
- The demolition of Friarsgate Medical Centre in advance of the creation of an interim public space in the Central Winchester Regeneration area.
- Stabilisation works to St Giles Hill to protect business units at Matley's Yard.

11.2.2. In addition to the required investment in major works to the existing stock including an ambitious retrofit programme to increase energy efficiency and help tenants reduce energy costs and to maintain the current decent homes standard, significant additional funding towards a challenging new build programme is included to facilitate the delivery of the council's objective of 1000 new homes for local people. Major projects included are:

- Winnall Flats with 76 units (35 shared ownership, and 41 market rent) – complete
- 54 units at North Whiteley (27 shared ownership, and 27 affordable) – complete
- Southbrook Cottages (6 units of affordable) delivered to Passive House standard – practically complete March 2024
- Barton Farm with 60 units 45 affordable rent and 15 shared ownership)
- Cornerhouse – 6 units affordable housing in a converted pub

11.2.3. Over the period 2024 to 2034, the council's total estimated capital expenditure is £444.7m of which £39.0m is General Fund and £405.7m 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:

*Table 1: Summary of capital expenditure*

Capital Expenditure 2024- 2034	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	TOTAL Est. £m
	£m										
General Fund	16.1	5.9	2.4	3.7	2.1	1.6	1.9	1.9	1.7	1.8	39.0
HRA	34.2	42.1	44.3	56.5	56.4	46.3	43.2	28.0	31.2	23.5	405.7
<b>Total Expenditure</b>	<b>50.3</b>	<b>48.0</b>	<b>46.6</b>	<b>60.2</b>	<b>58.5</b>	<b>47.9</b>	<b>45.1</b>	<b>29.9</b>	<b>32.9</b>	<b>25.3</b>	<b>444.7</b>

11.2.4. The programme includes the following key projects (quoted budget figures are for the period 2024-2034 and do not include prior years):

**Priority: Tackling the Climate Emergency & creating a greener district (£44.0m)**

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

- £42.9 m has been allocated over the next 7 years to invest in the **council's housing stock to improve energy efficiency and reduce emissions**.
- £1m budget has been allocated for **energy management projects** over 4 years from 2024/25 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 Barfield. 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 (£375.7m)**

- Over the next 10 years, £261m has been budgeted for the council's **New Build programme** to enable the delivery of its ambitious programme.
- An estimated £91.1m will be spent on **major repairs and maintenance** of our existing housing stock including £1.6m to improve fire safety; £11m on roof replacements; £15m on heating and hot water systems; £17m on communal areas works; and £11m on new kitchens.
- Capital expenditure of £0.6m has been approved for the refurbishment of 59 Colebrook Street for shared accommodation. £456,000 of the budget is funded from external grants and initially the property will be used to house those from the Ukrainian Resettlement scheme.
- 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 £8.9m for adaptations to the council's own stock.

**Priority: Vibrant local economy (£8.8m)**

- Following the demolition of **Friarsgate medical centre** in 2023/24, an interim open space, focused on archaeological works, will be installed prior to further development. An additional budget of £191,000 has been allocated in 2024/25 subject to a successful application for funding from the UK Shared Prosperity Fund. This additional funding will allow an enhanced quality public realm on the site including soft landscaping, planters, seed parks, a natural trim trial play area, and the provision of a multi-use space for events and exhibitions.
- £200,000 has been allocated for **the demolition of the former Bar End depot**. This will allow the interim use of the site as surface storage facility at a rent of circa £150,000 to £200,000 per annum, as well as reduce the council's business rates liability. In addition, it will prevent anti-social behaviour in disused buildings on the site.
- 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. 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. A budget of £4m has been allocated in 2024/25.
- Following the successful completion of **essential repairs to the Weirs**, a budget of up to £200,000 has been included in the programme to complete the final phase. This will be funded by an additional contribution of £100,000 from Hampshire County Council and by prudential borrowing at an estimated cost of between £2,000 and £7,000 per annum over the expected life of the works, depending on the final cost.
- In addition, a total of £4.2m 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 (£8.9m)**

- Following a successful application, the council was 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 supports projects led by both the council and external groups. In addition, the council was 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.
- Subject to a successful grant funding application, expenditure of £1.47m was approved in December 2023 for the installation of a **3G artificial turf pitch at the Winchester City Football Club** alongside some stadium improvement. Just under 90% of the project costs will be funded by the grant and will deliver on aims and commitments such as reduced health inequalities, a wide range of physical and cultural activities for all ages and abilities and supporting communities to extend the range of sports and cultural facilities across the district. In addition to providing opportunities to host inter-school tournaments and skills workshops for under 16s, older adults, and disability football, the new facilities will offer new opportunities for female coaches and players through the involvement of Winchester City Flyers FC.
- A budget of £2.1m (including £40,000 for fees in 2023/24) has been set aside to replace the **North Walls pavilion**. The current pavilion is beyond its useful life and in need of replacement. The proposal is to demolish the existing Pavilion and replace with a modern facility. This includes disabled access to the facilities to enhance the offer of disability cricket in the district. Approval is sought to incur expenditure on £40,000 of fees in the current financial year and a paper will be brought to Cabinet in 2024/25 to approve the main build costs. It should be noted that if the project does not ultimately proceed, any expenditure to date will be written back to revenue.
- Included in the programme is £0.57m of **improvements to the district’s public conveniences**. It is anticipated that improvements toilets in the council’s car parks will commence in 2023/24 (£0.21m) and works to toilets throughout the district will complete in 2024/25 (£0.21m). Works to Middlebrook St toilets and the installation of a changing places facility are still subject to appraisal.
- Over the next 3 years, £0.47m has been included for the **replacement or refurbishment of several play areas** that are the responsibility of Winchester Town Forum.

- **Community Infrastructure Levy (CIL) – Community projects.** In addition to previous years, £1.1m of CIL funded capital grants have been awarded to community groups for projects expected to take place in the next 2 years 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. Projects include cycle routes, community facilities, solar panels, and LED floodlights at Rugby Club. In addition, a contribution of £300,000 has been approved to support a contra-flow cycle scheme in Winchester led by Hampshire County Council.
- £123,000 is included in the 10-year programme for replacement equipment including cycling bikes, gym equipment, and group exercise equipment at **Meadowside Leisure Centre**.
- Proposals for the future use of the old **River Park Leisure Centre site** have not been determined but a provisional budget for its demolition was added to the capital programme in February 2020; £2m is profiled in 2024/25. 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 (£7.4m)**

- A large element of the budgets is for long term capital maintenance works to the council's operational assets. This includes the replacement of the City Offices heating system and lifts within City Offices and the West Wing, as well as an annual budget for reactive capital maintenance works.
- A budget of £485,000 has been reallocated from the Asset Management Plan reactive maintenance budget, funded by the Property Reserve, in order to undertake **refurbishment works to the Guildhall**. The works will improve the fire safety of the building whilst also improving thermal comfort. The building will remain opening during the works.
- £2m has been set aside in 2025/26 for the purchase of vehicles and bins for the **collection of food waste**. The exact cost is to be determined but it is anticipated that a significant part of the funding will be provided by central government New Burdens grant.
- 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. Ongoing work is being undertaken on **Greener Faster energy schemes**, including the potential for the council to invest in a solar farm in the district and the possibility of installing solar canopies in car parks. In some cases, such as with the installation of solar panels, the projects may 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.
- A number of potential schemes will be required in respect of the **Winchester Movement Strategy**. Where possible, external funding sources will be explored such as Community Infrastructure Levy (CIL) contributions and external grant funding.
- **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.
- A budget 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.
- The cost of borrowing has increased considerably in the last couple of years (the 40-year annuity rate at the end of 2021 was circa 2% and at the end of 2023 was around 5%). This, coupled with significant construction inflation over the past 2 years, means several schemes previously included in capital strategy were removed in February 2023 as they were no longer viable. Ongoing consideration is being given to value engineering, alternative proposals or meanwhile uses while projects are paused until the economic environment improves.
- 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 the council is establishing 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.

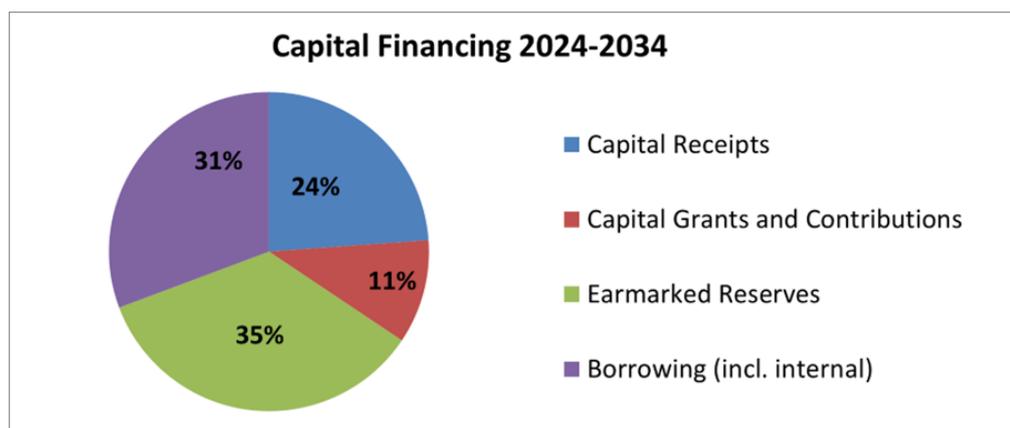
### 11.3. Financing the Capital Programme

11.3.1. The council can invest in a capital programme so long as its capital spending plans are "affordable, prudent, and sustainable" as well as "proportionate".

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 2024-2034 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 £161.7m 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 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:

*Table 2: Replacement of debt finance in £ millions*

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum Revenue Provision (GF)	1.7	1.6	1.8	1.8	1.6
Reserves (HRA)	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>1.7</b>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>

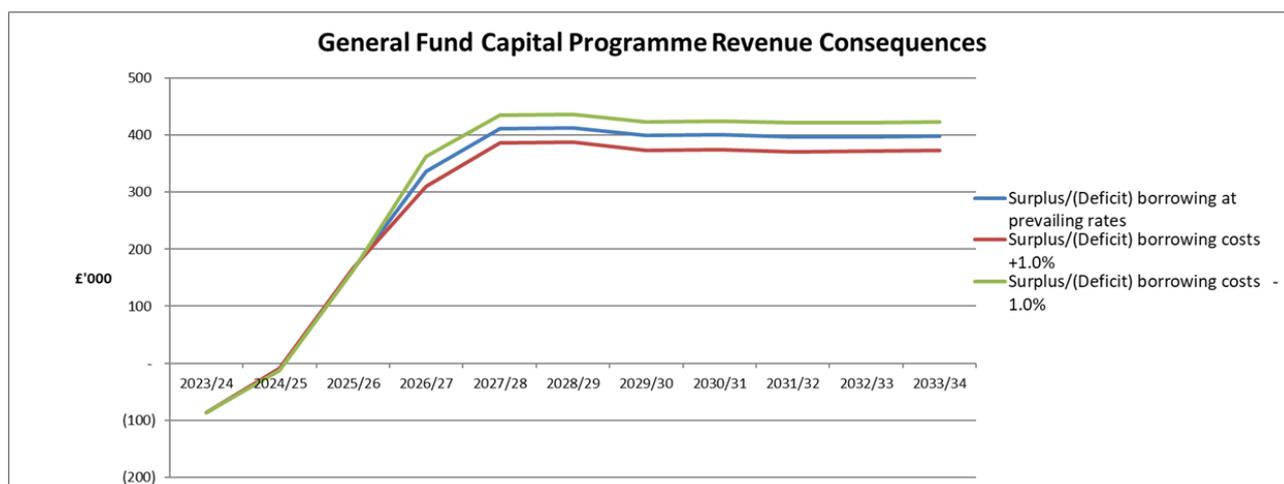
The council's full MRP statement is available at Appendix E.

- 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 £3.0m during 2024/25 subject to full delivery of the Capital Programme.

*Table 3: Estimates of Capital Financing Requirement (CFR) in £ millions*

	<b>31.3.2023 actual</b>	<b>31.3.2024 forecast</b>	<b>31.3.2025 budget</b>	<b>31.3.2026 budget</b>	<b>31.3.2027 budget</b>
General Fund	71.7	70.1	73.2	64.1	62.8
Housing Revenue Account	199.8	223.2	223.2	223.9	234.1
<b>TOTAL CFR</b>	<b>271.5</b>	<b>293.3</b>	<b>296.4</b>	<b>288.0</b>	<b>296.9</b>

- 11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB3446).
- 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 and includes the effect of using potential capital receipts to reduce prior year unfinanced capital expenditure. 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.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
GF financing costs (£m)	1.6	1.6	1.8	1.8	1.6
GF proportion of net revenue stream	8.2%	7.9%	9.0%	8.8%	10.1%
HRA financing costs (£m)	5.4	7.1	8.2	8.0	8.4
HRA proportion of net revenue stream	17.4%	21.4%	22.4%	21.3%	21.2%

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 DLUHC 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 though it will now exclude redundancy costs; while the council has no specific plans to do so, 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 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 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 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 carefully monitored, 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 last two years there has been a significant increase in construction inflation as well as an increase in the cost of borrowing available to the council. This resulted in a number of redevelopment schemes being reviewed and removed from the active programme in February 2023 as they are currently either commercially or financially unviable.

- 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, an annual budget, funded by the Property Reserve, has been allocated to support reactive capital maintenance and smaller scale refurbishments as they arise.
- 11.8. IMT Asset Management Plan
- 11.8.1. The council formed an IT delivery partnership with Test Valley Borough Council in 2009 that shares an infrastructure platform that continues to produce both capital avoidance and revenue financial savings. Assets in 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.
- 11.8.2. The purpose of the IMT Service is to deliver highly reliable, secure and easy to use technology solutions, maintaining operational excellence. The IMT Service uses good practice methodologies (ITIL3) to ensure the quality control of supportable, sustainable, and secure services to deliver high quality IT Services.
- 11.8.3. 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 plan 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.
- 11.8.4. 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).
- 11.8.5. An IT Strategy is under development which will be driven by the council's strategic plan and the needs of the service areas. As the Council commences its TC25 Programme we must continue to align our IT delivery to ensure that we provide technical solutions that enable a shift from traditional IT support and focus more on transformation services to complement our digital and workforce strategy.

- 11.8.6. The following table sets out the proposed IMT capital expenditure for 2024/25 to be financed from the IMT reserve:

<b>IMT Capital</b>	<b>2023/24</b>	<b>2024/25</b>
	<i>Forecast</i>	
	<b>£'000</b>	<b>£'000</b>
Equipment	45	15
Corporate network	202	15
ArcServe backup	48	
Telephony replacement	10	
Uninterruptable power supply (UPS)	20	
Meeting rooms equipment	76	
<b>Total</b>	<b>401</b>	<b>30</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 2024/25 and forecasts to 2033/34. Further detailed information can be found in the Housing budget paper (CAB3445).

#### 11.10. Commercial and non-Treasury Investment Activities

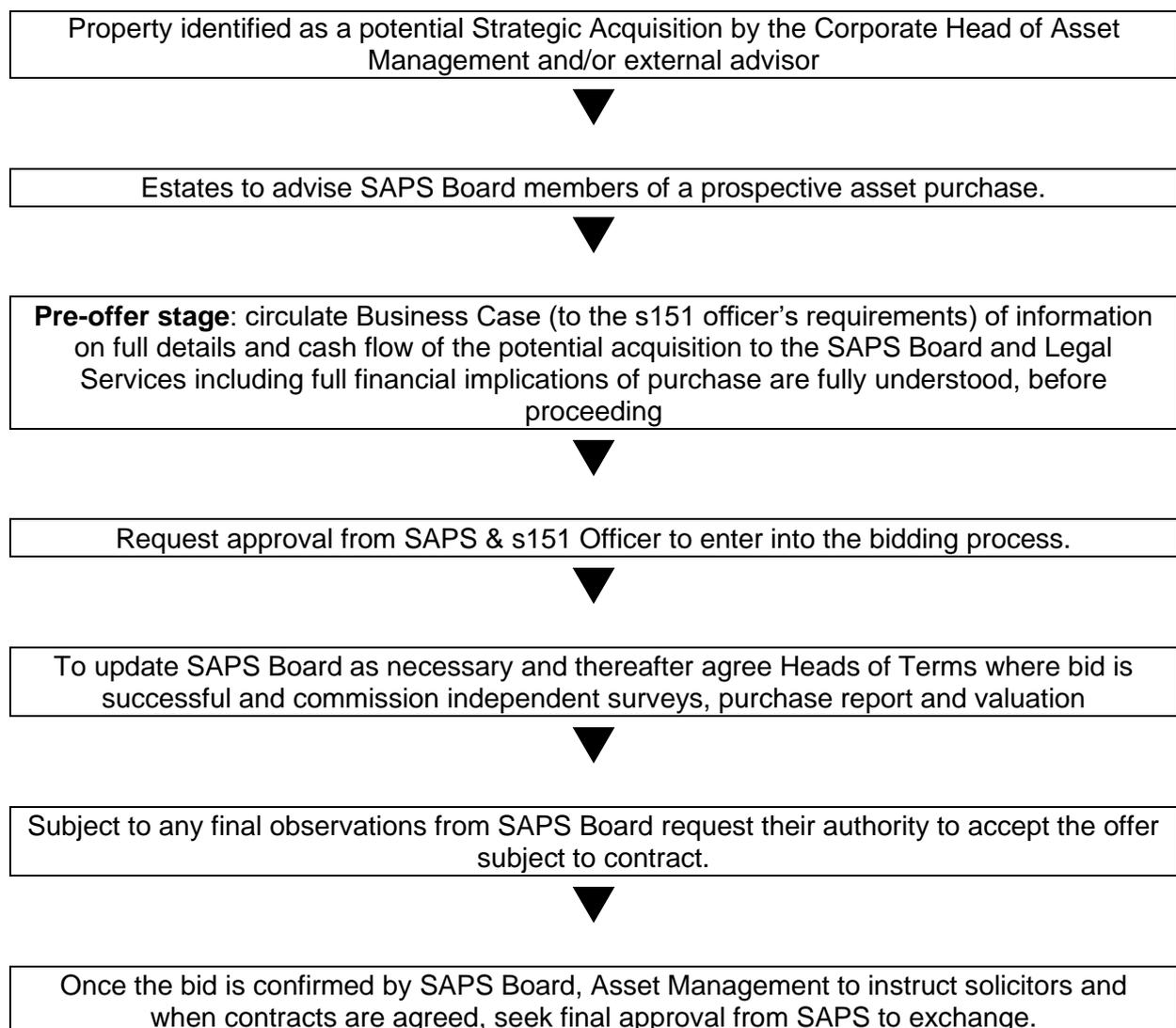
- 11.10.1. The council invests for three broad purposes:

- 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 CAB3446. 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 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 2023 (CAB3381). The Policy is subject to review annually 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	
Avoid	No appetite. Not prepared to take risk.
Averse	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.
Cautious	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.
Moderate	Tending always towards exposure to only modest levels of risk in order to achieve acceptable outcomes.
Open	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.
Hungry	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	
Tackling the climate emergency	Open	Reflecting the urgency of the climate crisis we will consider options with elevated levels of risk if they deliver required outcomes faster.
Homes for all	Open	We will choose innovative solutions which may bring elevated levels of risk in order to provide homes that are: <ul style="list-style-type: none"> <li>• Affordable</li> <li>• sustainable</li> <li>• with low energy usage and low bills</li> </ul> built in the right areas for our changing communities.
Living well	Moderate	We will continue to facilitate and deliver solutions, often working with partners, that produce positive outcomes for all our residents. We will usually take moderate to low-risk options.
Vibrant local economy	Moderate	We will tend towards exposure to modest levels of risk in order to deliver positive outcomes for our local economy in these challenging times.
Your services, your voice	Moderate	We will, in order to ensure resilience, enhance our services and make the best use of our resources and explore alternative delivery models. We will tend towards moderate risk exposure to deliver good levels of service.

## 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. Several members attended briefing sessions in October and November 2023: a “Councillors’ Guide to Understanding your Council’s Financial Reporting Requirements” provided by CIPFA and a session on Treasury Management delivered 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 2024-2034

Appendix B – Capital Programme Financing 2024-2034

Appendix C – Revenue Consequences of General Fund Capital Programme 2024 to 2034

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2024/25

Appendix F – Investment activities

Appendix G – Flexible Use of Capital Receipts Strategy