

REPORT TITLE: CAPITAL INVESTMENT STRATEGY 2020-2030

12 FEBRUARY 2020

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

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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 outcomes as set out in the Council Plan.

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

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

RECOMMENDATIONS:

That Cabinet recommends to Council:

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

3. The Prudential indicators detailed in the report and its appendices be approved.
4. To note that the Council may need to increase its external borrowing in 2020/21 subject to delivery of the proposed capital programme.

That Cabinet:

5. Approves IMT equipment and software expenditure (£125,000 in 2020/21) under Financial Procedure Rule 7.4 as detailed in paragraph 11.8.6.
6. Notes the requirement to ensure Members have the right knowledge and skills to undertake their governance role.

IMPLICATIONS:

1. COUNCIL PLAN OUTCOME

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

2. FINANCIAL IMPLICATIONS AND COMMENTS OF THE S151 OFFICER

- 2.1. The forecast capital programme over the next 10 years to 2029/30 totals £323 million of which £92 million is General Fund and £231 million is Housing Revenue Account.
- 2.2. The proposed financing is made up of £136 million from revenue including earmarked reserves, £94 million of prudential borrowing, £61 million of capital receipts and £32m 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 may need to increase its external borrowing in 2020/21 but this is dependent on the timing of 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 (CAB3218).
- 2.5. Included in the Prudential Code is the requirement that "the chief finance officer should report explicitly on the affordability and risks associated with the capital strategy and, where appropriate, have access to specialised advice to enable them to reach their conclusions". The statement below is the Winchester City Council Chief Finance Officer's response
- 2.6. Affordability and risk are key considerations within this capital strategy. The strategy aims to support the financial viability of the organisation. Return on investment/ payback is also a key consideration. The strategy provides an overall positive return to the General Fund as well as supporting the delivery of the key priorities in the Council Plan. The risk section is articulated below and importantly, business cases for new schemes are required to ensure that risks are adequately covered. One of the most significant risks is capacity to deliver the individual projects contained within the strategy and adequately identifying resources required at the commencement of projects is a crucial element of the business case process. The HRA capital programme is a key element of the Housing Revenue Account (HRA) Business Plan which is refreshed annually; individual schemes are assessed for affordability within the overall context of this plan, and it is expected that these schemes will grow in size with the removal of the housing debt cap and the Council Plan commitment to "Homes for All".

- 2.7. From 2020/21 the strategy includes remaining funding for the Strategic Asset Purchase (SAP) scheme of £23.2m including £3.5m for the transfer of garages from the General Fund to the HRA, £1m for the provision of parking at the Dean in Alresford, and £0.7m for the refurbishment of properties already purchased (158-165 High Street). The remaining £18m is currently uncommitted. There is a strong governance programme around the process for these purchases, ensuring investment return as well as a positive contribution to the Council Plan. This programme is being reviewed at present to consider any further improvements. The total funding set aside is reasonable within the overall context of the Council's capital strategy and the scale of the Council's balance sheet.
- 2.8. It should be noted that the recent 1% increase in the Public Works Loans Board borrowing rate will impact on the affordability of schemes subject to borrowing and on investment opportunities considered as part of the SAP scheme. There have been no purchases within the 2019/20 financial year and the rate increase will directly impact on proposals to be considered in 2020/21. However, the scheme remains an important element of the Strategy. Future viability will be considered as part of the review referred to above.
- 2.9. Over the next ten years, the strategy is expected to see over £323m of capital spend. Within this financial context and the Council's balance sheet and historic investment properties (£53.8m as at 31 March 2019) the Council has a long history of managing and acquiring assets to support its objectives. The level of the SAP scheme remains proportionate within the Council's overall activities. The Council also utilises our treasury management advisors, Arlingclose, to consider the implications of the prudential code and the impact on the treasury management strategy.
- 2.10. The strategy articulates a wide range of new and existing activities. This blends some major regeneration ambitions, new infrastructure, and significant investment in housing as well as smaller schemes that are more local.

3. LEGAL AND PROCUREMENT IMPLICATIONS

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

4. WORKFORCE IMPLICATIONS

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

5. PROPERTY AND ASSET IMPLICATIONS

- 5.1. Many of the projects and schemes within the Capital Programme are related to the Council's properties and assets and therefore aligning the programme with the Asset Management Plan is an important consideration. The Capital Strategy Board 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 Capital Programme is a mechanism to deliver the Council's Strategy and associated schemes and projects. The formulation of the Council Strategy and other supporting strategies and plans and associated consultation is therefore a key determinate in the formulation of the Capital Strategy and Programme.
- 6.2. Appropriate engagement and consultation is undertaken for all individual projects and schemes.

7. ENVIRONMENTAL CONSIDERATIONS

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

8. EQUALITY IMPACT ASSESSEMENT

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

9. DATA PROTECTION IMPACT ASSESSMENT

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

10. RISK MANAGEMENT

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

| Risk | Mitigation | Opportunities |
|--|--|---|
| <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 objectives | 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 with for key projects to ascertain community views | Engagement with the Community ensures the Council's capital programme meets the needs of the district's citizens |
| <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 monthly review by the Capital Strategy Board and quarterly at by O&S/Cabinet | |
| <i>Project capacity</i> Failure to deliver major capital schemes due to insufficient staff resources | Ensure robust business cases are taken forward and sufficient resources are available to deliver the Projects. | Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and other schemes to be chosen should any schemes not progress |
| <i>Financial / VfM</i> | Detailed elsewhere within the report | None |
| <i>Legal</i> | Considered as part of the approval process for individual capital schemes | None |
| <i>Innovation</i> | Considered as part of the approval process for | Strategy includes new schemes to innovate |

| | | |
|-------------------|---|------|
| | individual capital schemes | |
| <i>Reputation</i> | Considered as part of the approval process for individual capital schemes | None |
| <i>Other</i> | | |

11. SUPPORTING INFORMATION:

11.1. Purpose

11.1.1. The primary purpose of this strategy is to identify and progress schemes to help deliver the Council Strategy and to help make the Council self sufficient in order to be able to deliver the level of required services. It outlines how the Council ensures that individual schemes and the programme as a whole are both deliverable and financially viable.

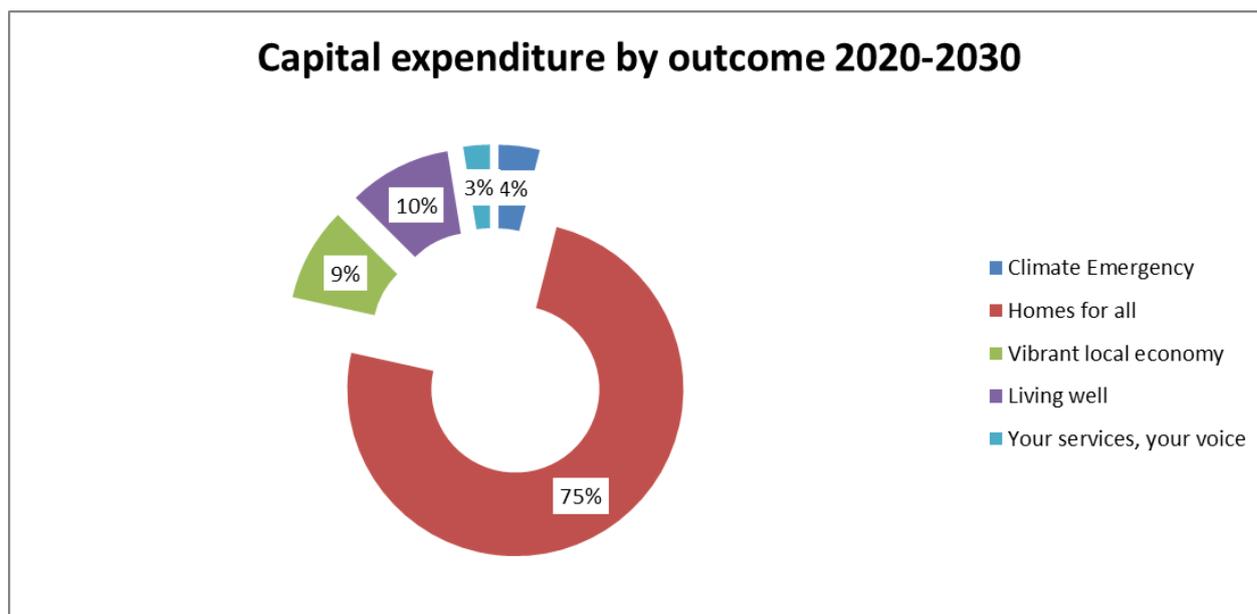
11.1.2. The Strategy sets out the Council's capital spending programme and the principles which underpin this to deliver the Council Strategy:



11.1.3. The City Council's capital programme incorporates both the General Fund (GF) and the Housing Revenue Account (HRA) capital requirements to support service provision and links with the Council Strategy, Housing Business Plan, Asset Management Plan, IMT strategy and Medium Term

Financial Strategy. This 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 (further detail is provided in the paper elsewhere on the agenda – CAB3210). 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 Strategy details how the Council will deliver its five strategic outcomes: 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 aims will be delivered through capital spend and associated projects including for example: additional investment in the Council's Housing stock to improve energy efficiency and help tenants reduce their carbon emissions, the provision of new housing and maintenance of existing housing stock; major regeneration schemes; provision of new leisure facilities; and flood prevention schemes.
- 11.1.6. The following chart illustrates the percentage of total capital expenditure forecast for each of the Council's outcomes:



11.2. The Capital Programme

- 11.2.1. Over the period 2020 to 2030, the Council's total estimated capital expenditure is £323m of which £92m is General Fund and £231m 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 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | TOTAL |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| 2020 - 2030 | Est. £m |
| General Fund | 56.6 | 17.3 | 4.5 | 3.7 | 1.9 | 1.5 | 1.6 | 1.4 | 1.5 | 1.6 | 91.6 |
| HRA | 36.0 | 24.4 | 28.5 | 28.4 | 20.4 | 17.5 | 18.0 | 18.6 | 18.8 | 20.6 | 231.2 |
| Total Expenditure | 92.6 | 41.7 | 33.0 | 32.1 | 22.3 | 19.0 | 19.6 | 20.0 | 20.3 | 22.2 | 322.8 |

11.2.2. The programme includes the following **key projects** (quoted budget figures are for the period 2020-2030 and do not include prior years):

Outcome: Tackling the Climate Emergency & creating a greener district (£12.7m)

Tackling the Climate Emergency is a theme that is integral to *all* that the Council does. The following projects are those for which it is the main purpose.

- More than £10m additional investment over the next 10 years has been allocated to invest in the **Council's housing stock to improve energy efficiency and reduce emissions**.
- A budget of £250,000 per annum over the next 3 years has been allocated to **energy management projects**. Expenditure will be subject to a business case as individual projects are identified. As well as reducing the Council's carbon emissions it is anticipated that projects will provide additional income and/or savings to the Council.
- Winchester's defences against flooding will be strengthened by the completion of the **Durngate flood relief scheme** which was granted full planning permission in November 2019.
- A budget of £150,000 has been allocated in 2020/21 for the installation of up to 36 **Electric Vehicle (EV) charging points** in car parks across the district.

Outcome: Homes for all (£241m)

- Over the next 10 years, £139m has been allocated to the Council's New Build programme to enable the delivery of **one thousand Council homes** including 77 at The Valley, 75 at Winnall Flats, and 35 in Hookpit Kings Worthy.
- A total of £69m has been allocated to major repairs and maintenance of our existing housing stock.

- £10m for the establishment of a **Housing Company** to support the delivery of sub-market rented housing and alternative tenures.
- An estimated £10m of Disabled Facilities Grant to provide necessary adaptations to private homes in addition to £7.7m for adaptations to the Council's own stock.
- The budget includes no further provision for the **Partnered Home Purchase (PHP) scheme** after the current financial year. The scheme will be discontinued in order to release £1.45m of capital receipts to invest in other Council priorities. Whilst the scheme has attracted significant interest and assisted 11 households to access housing in the district, the overall risks to the Council are considered too high to support its continuation. It was introduced as an investment scheme although does not support the cost of borrowing. The Council has had to meet increased stamp duty costs (technically as a "second home owner") and there remains a risk of capital loss should the market value fall and the tenants increase their share. The scheme did make a positive contribution to the Housing Strategy aims by assisting access to housing. However, this will continue to be delivered through the Council's own shared ownership offer and alternative tenures offered through the housing company.

Outcome: Vibrant local economy (£29.2m)

- The **Strategic Asset Purchase Scheme (SAPS)** seeks to identify assets for the Council to acquire which will assist it in meeting its strategic objectives whilst also generating ongoing revenue streams. Following a number of successful acquisitions a budget of £18m remains in order to continue the acquisition of property to support the Council's ambitions, and in line with the principles of the 'double win' that have been established to date.
- A provisional budget of £3m has been included to refurbish **Coitbury House**, a currently unused building in the central Winchester area, to provide much-needed office accommodation, provide a source of income to the Council, and revitalise the area. The progress of this project is subject to decisions to be made as part of the overall Central Winchester Regeneration scheme.
- The **former Depot at Bishops Waltham** is suitable for redevelopment. Interest has been expressed by a number of local businesses in leasing new business accommodation. The project involves the demolition of the existing buildings and the construction of three new terraced industrial units, including hard and soft landscaping, and will provide much needed entry level accommodation for small businesses.
- The demolition and provision of a car park at **Coventry House (Vaultex)** following its acquisition. The demolition of the existing building has been

completed and there is an existing budget to provide a surface car park in the programme; however, in line with the emerging Movement Strategy, the business case for a multi storey facility including securing external funding is being explored.

- In addition to Coventry House, a total of £4m has been identified for various car park improvements throughout the district including significant refurbishment works at **Chesil car park**, a **new coach park** at St Catherine's Park & Ride to replace the existing facility at Worthy Lane, and provision of a new **car park at the Dean in Alresford**.
- Following the properties becoming vacant, refurbishment works will be carried out to **68 St George St** and **59 Colebrook St** in preparation for re-letting.

Outcome: Living Well (£32m)

- The construction of a state of the art **Sports & Leisure Centre** in the Bar End area is well underway with a planned opening date in early 2021. Up to £1.2m has also been provisionally allocated for the decommissioning of the existing leisure centre as well as the provision of alternative facilities for the users of North Walls park.
- A budget of £1.2m has been allocated to replace the **King George V Pavilion** and £0.75m to replace **North Walls pavilion**. The Council is working closely with key stakeholders and is exploring funding sources such as external grants.
- £4.2m for the **provision of a surgery** in the city centre to replace the existing St Clement's surgery.
- Over the next 5 years, £830,000 has been allocated for the **replacement or refurbishment of several play areas and a skate park**.
- **Community Infrastructure Levy (CIL) – Community projects**. A £1m allocation was approved in September 2018 allowing community groups to apply for a share of between £10,000 and £200,000 for their essential infrastructure projects. £635,000 has now been allocated.

Outcome: Your services Your voice (£7.8m)

- A budget of £400,000 has been allocated for the purchase of **garden waste bins** should the Council proceed with a charged garden waste service.
- The **transfer of HRA Garages to the General Fund** will provide the HRA with capital resources to enable it to finance its new build schemes and will provide the General Fund with additional ongoing income to protect existing services.

- The **replacement of printers** will provide savings on existing lease costs and, by using more efficient models, will provide ongoing savings as well as reduce energy consumption.
- A budget of £130,000 has been allocated to convert **eighteen71 café** to a self contained unit for lease to a food and beverage tenant. This will generate significant savings on existing costs and provide a new rental income for the Council.
- The Council continues to invest in keeping its **IMT** up to date including the provision of appropriate equipment to reduce cost and the consumption of paper and investing in remote working solutions to reduce the need for staff to travel and therefore the Council's carbon footprint.

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

- Following the adoption of a **Carbon Neutrality Action Plan** in December 2019, several new projects will emerge in order to support the Council's ambitious aim to be carbon neutral by 2024 and for the district to be carbon neutral by 2030.
- **Central Winchester Regeneration (CWR)** – the Council continues to consider options to regenerate the city centre to create a new heart and additional life and vitality in the area, support business and the city centre economy, and make it a more attractive place for residents and visitors alike.
- **River Park Leisure Centre area** – the Council is keen to explore alternative uses for the land where the existing leisure centre is located once the new Winchester Sports and Leisure Park is open.
- **Goods Shed, Bar End** – various options are being explored including the provision of small business units and the potential for a mixed housing and office development.
- **Movement Strategy** – explore the options available, and financing of these, to support the Movement Strategy for Winchester

11.3. Financing the Capital Programme

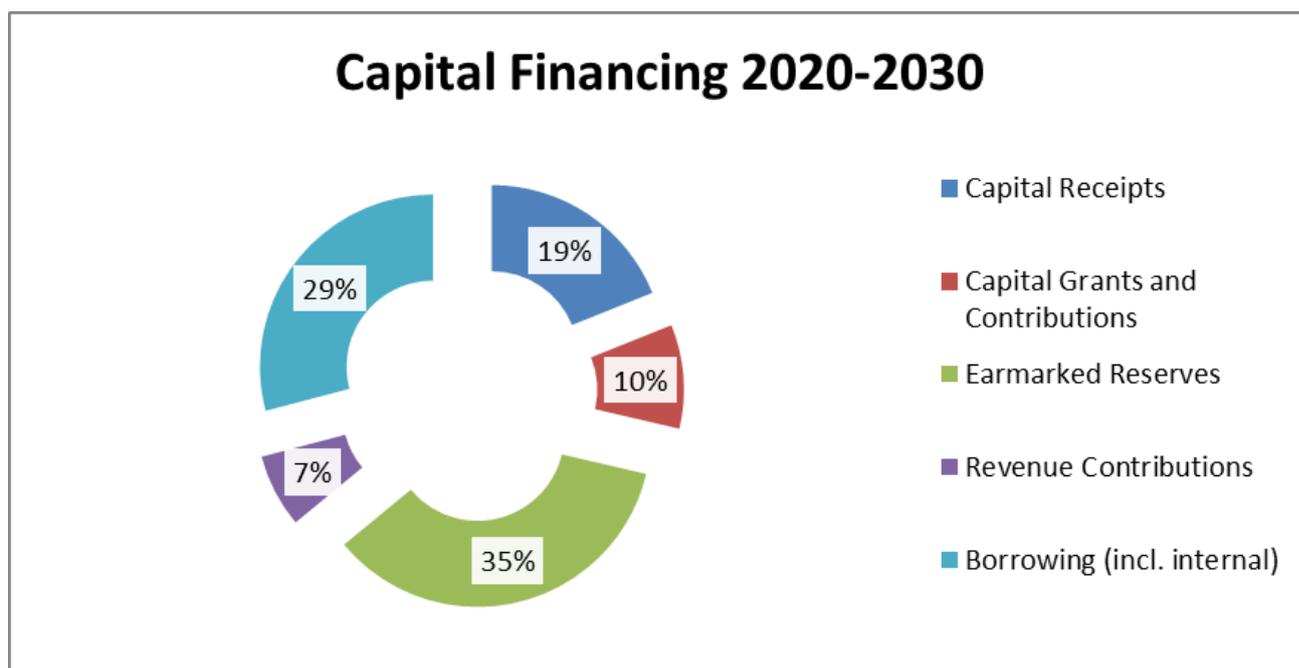
11.3.1. The Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.

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 internal (also known as the "Capital Financing Requirement").

11.3.3. Full details of the proposed financing for the 2020-2030 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. While the Council has sufficient cash and investment balances in the near term it is able to internally borrow but, if the proposed capital programme is delivered on time and in full, it is likely it will need to borrow externally in 2020/21 in addition to the £156.7m the Council has already borrowed as a result of the HRA self-financing settlement. The impact of this borrowing is estimated as part of the revenue consequences of the capital programme (see Appendix C) and is incorporated into the Medium Term Financial Strategy (CAB 3210), the General Fund budget (CAB 3211) and the Housing Revenue Account budget (CAB 3214).

- 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 contributions from revenue or from the sale of assets (capital receipts). Planned MRP is as follows:

Replacement of debt finance in £ millions

| | 2018/19 actual | 2019/20 forecast | 2020/21 budget | 2021/22 budget | 2022/23 budget |
|--------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| Minimum Revenue Provision (GF) | 0.5 | 0.5 | 0.4 | 1.0 | 1.2 |
| Reserves (HRA) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.5 | 0.5 | 0.4 | 1.0 | 1.2 |

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 £63.2m during 2020/21 subject to full delivery of the Capital Programme.

Estimates of Capital Financing Requirement (CFR) in £ millions

| | 31.3.2019 actual | 31.3.2020 forecast | 31.3.2021 budget | 31.3.2022 budget | 31.3.2023 budget |
|-------------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|
| General Fund | 27.1 | 43.2 | 90.9 | 101.2 | 102.5 |
| Housing Revenue Account | 162.9 | 168.9 | 184.4 | 192.4 | 199.4 |
| TOTAL CFR | 190.0 | 212.1 | 275.3 | 293.6 | 301.9 |

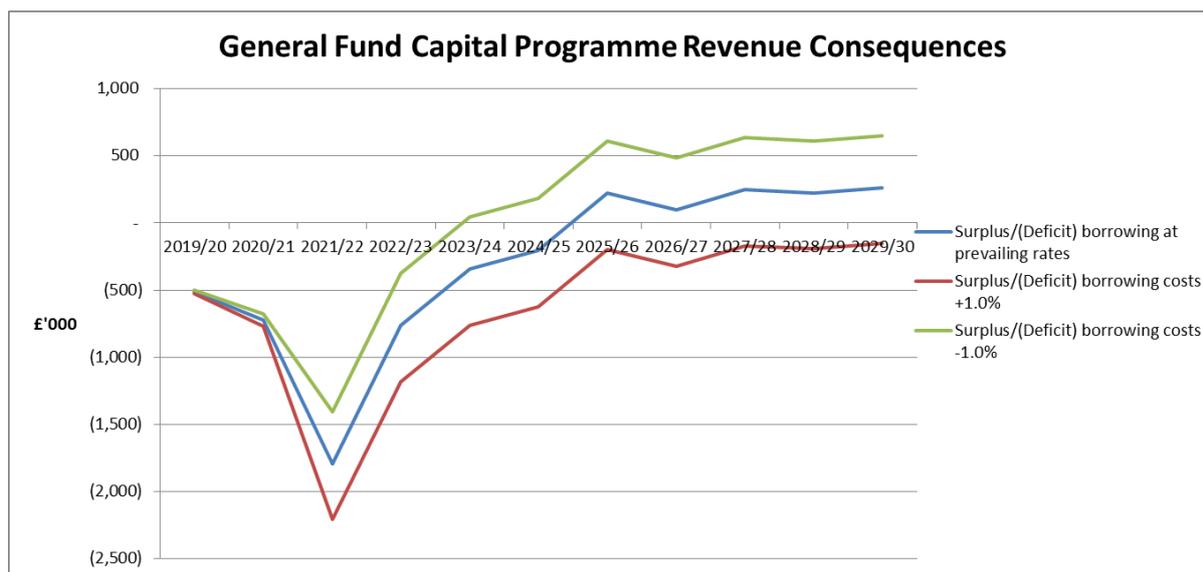
- 11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB 3218).

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. There is an overall negative impact on

the General Fund prior to this year which reflects significant expenditure on preliminaries and costs associated with major projects early in their lifecycle.

- 11.4.2. A significant proportion of the Council's programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates. The Council can mitigate against this by borrowing ahead of need where it is advantageous to do so and by taking longer-term fixed rate loans. The graph below illustrates the impact on the General Fund at prevailing long-term rates available to the Council as well as the impact of a change in those rates by 1.0%:



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

Prudential Indicator: Proportion of financing costs to net revenue stream

| | 2018/19 actual | 2019/20 forecast | 2020/21 budget | 2021/22 budget | 2022/23 budget |
|-------------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| GF financing costs (£m) | (0.1) | (0.1) | 0.6 | 2.7 | 3.0 |
| GF proportion of net revenue stream | -0.8%* | -0.8%* | 3.5% | 18.5% | 21.3% |
| HRA financing costs (£m) | 5.2 | 5.2 | 6.0 | 6.4 | 6.7 |

| | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|
| HRA proportion of net revenue stream | 17.9% | 17.9% | 20.3% | 20.8% | 21.2% |
|--------------------------------------|-------|-------|-------|-------|-------|

*in 2018/19 investment income exceeded interest payable and MRP and is forecast to in 2019/20

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 10 year 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. In order to effectively manage its estate the council commenced an asset challenge programme in 2018/19. This process is reviewing all of the council's assets on a rolling basis to establish why the council holds assets, what options the council has to, for example, increase income, dispose, hold or develop, and when these can be realised.

11.6. The approval process and Project and Programme management

11.6.1. For effective delivery of the Capital Programme it is important that the programme is realistic in terms of projects which can be delivered on time, within budget, and whilst achieving the desired outcomes. The Council has a number of programme and project management procedures in place to help to ensure successful delivery of the capital programme, from the initiation and approval of projects to effective performance monitoring and post-implementation review.

11.6.2. The resource requirements for each corporate project are assessed as part of the development of the outline business case and associated project plan and initially identified in the Business Justification Case which is considered by the Capital Strategy Board. This is then looked at in relation to the whole programme of projects to determine the cumulative impact of delivery on staff resources. This can have impacts on key service areas such as the Council's Project Office in terms of providing project managers, and other key areas such as Legal, Finance and Estates teams depending upon the nature of the projects. Where required, external support is

commissioned to provide resources which cannot be met from within the Council's own resources.

- 11.6.3. The Council's Programme Management Group, the role of which is to monitor the programme and projects delivery together with identifying and addressing resource issues, meets on a monthly basis to consider such issues and to report concerns and to refer key decisions to the Senior Leadership Team.
- 11.6.4. Cabinet receives quarterly updates on financial performance as well as key projects many of which are in the capital programme.
- 11.7. Asset Management Plan (AMP)
- 11.7.1. The AMP seeks to address both the spending priorities for the maintenance of operational property and the development of the non operational estate to assist economic development and provide both capital receipts and revenue income streams. The most recent AMP covering the period to 2021 was approved in December 2016 (CAB2870 refers).
- 11.7.2. The Council owns a well located portfolio of property which has the potential to provide an increasing level of income for the Council, whilst other sources of income may be restricted in growth. The value of the Council's portfolio can be unlocked by undertaking prudent development or refurbishment schemes on existing property to be let to well secured tenants as well as identifying potential asset sales as detailed in 11.5 above.
- 11.7.3. The Capital Programme (Appendix A) includes specific projects in line with the AMP. In addition, a £200,000 annual budget, funded by the Property Reserve, has been allocated to support reactive maintenance and smaller scale refurbishments as they arise.
- 11.8. IMT Asset Management Plan
- 11.8.1. The purpose of the IMT Service is to deliver cost effective robust data processing and voice services to support the productivity and ambitions of the Council. The IMT Service uses good practice methodologies (ITIL3) to ensure the quality control of supportable, sustainable and secure services.
- 11.8.2. The Council has formulated a digital transformation strategy which has been a key focus since 2018 and aims to enhance how the Council engages and transacts with its customers whilst seeking efficiencies, savings and improvements. The Council is also keen to build on Smart City initiatives particularly in relation to Transport/ Parking and Tourism applications which will help to meet wider objectives.
- 11.8.3. The Council formed an IT delivery partnership with Test Valley Borough Council (TVBC) over nine years ago that shares an infrastructure platform that continues to produce both capital avoidance and revenue financial

savings. The assets which constitute the shared platform are jointly procured and owned. Other capital assets which are required solely for the use of either party will continue to be funded independently. This will be reflected in setting out investment requirements.

- 11.8.4. It is paramount that a funding provision be made available to ensure that the IT infrastructure remains fit for purpose and capable of delivering sustainable and supportable services. Equipment must be maintained in a condition which supports the needs of the business.
- 11.8.5. The Capital Asset Management Plan (AMP) 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 Capital Asset Management Plan (AMP) 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 which offer further advances will be considered which may give greater benefits for the same investment.
- 11.8.6. The following table sets out the proposed IMT capital expenditure for 2019/20 to be financed from the IMT reserve:

| IMT Capital 2020/21 | £'000 |
|----------------------------|--------------|
| Server Equipment | 60 |
| Corporate Network & Wi-Fi | 25 |
| Remote working investments | 30 |
| Software | 10 |
| Total | 125 |

11.9. Housing Revenue Account (HRA)

11.9.1. The Housing Portfolio Plan takes full account of priorities detailed in the Council’s Housing Strategy, its 30 year HRA Business Plan and the Housing Asset Management Strategy.

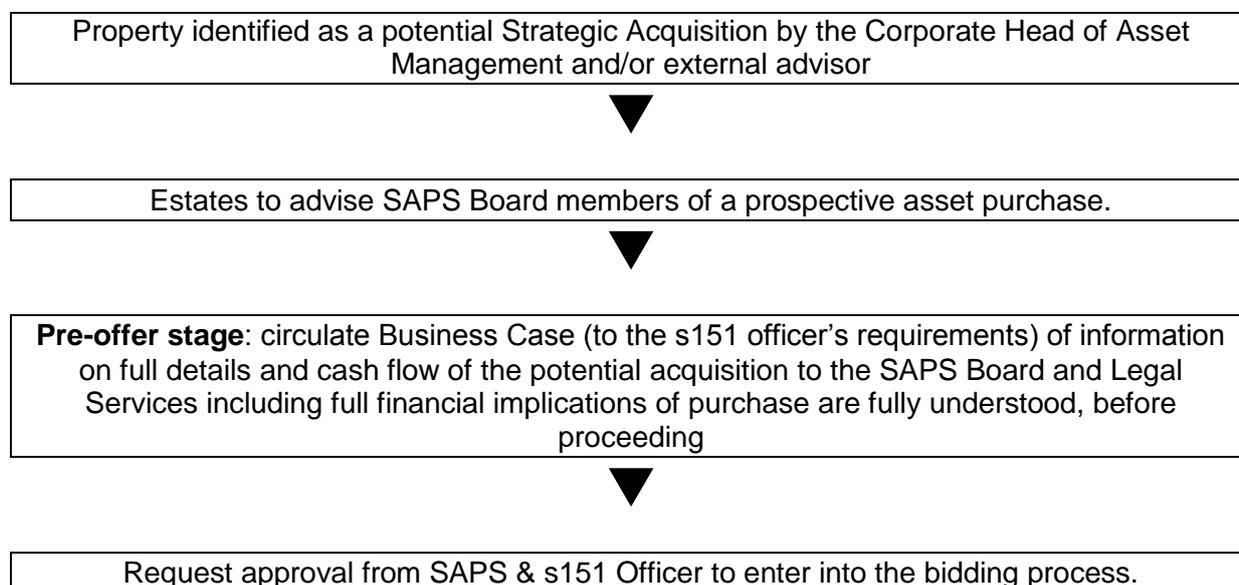
11.9.2. Appendix A provides summary detail on the HRA capital programme for 2020/21 and forecasts to 2029/30. Further detailed information can be found in the Housing budget paper (CAB3214).

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 CAB3218. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.
- 11.10.3. As noted elsewhere in this report, the Council's Asset Management Plan seeks to develop the estate to assist economic development and provide both capital receipts and revenue income streams.
- 11.10.4. Individual projects are supported by appropriate business cases and the programme as a whole is monitored to ensure that sufficient resources are available both financial and in respect of staff. Where appropriate, the Council will procure additional external resource when either there is insufficient officer availability or when specialist advice and support is required.
- 11.10.5. In addition to this, Council approved a Strategic Asset Purchase Scheme (SAPS) in January 2017 (CAB 2872 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 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:





To update SAPS Board as necessary and thereafter agree Heads of Terms where bid is successful and commission independent surveys, purchase report and valuation



Subject to any final observations from SAPS Board request their authority to accept the offer subject to contract.



Once the bid is confirmed by SAPS Board, Asset Management to instruct solicitors and when contracts are agreed, seek final approval from SAPS to exchange.

11.11. Risk Appetite

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

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

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 courses 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 June 2019 training for the Audit & Governance Committee included: the role of the committee and its members; governance, risk, and control; treasury management; the role

of internal and external audit; and challenges to governance. In November 2019 several Members attended a briefing session provided by the Council's treasury advisors Arlingclose and an event on risk is planned in March of this year facilitated by the Council's insurance broker, Gallagher Bassett.

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

12. OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1. None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

The Capital Strategy and Programme are approved annually.

Other Background Documents:-

None

APPENDICES:

Appendix A – Capital Programme 2020-2030

Appendix B – Capital Programme Financing 2020-2030

Appendix C – Revenue Consequences of General Fund Capital Programme 2020 to 2030

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2020/21

Appendix F – Investment activities