
Capital Strategy, Financial Years 2022/23 to 2026/27

Committee considering report:	Council
Date of Committee:	3 March 2022
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member sent/agreed report:	12 January 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	C4126

1 Purpose of the Report

- 1.1 To outline the Capital Strategy covering financial years 2022/23 – 2026/27 and the supporting funding framework, providing a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Decisions made on capital and treasury management have financial consequences for the Council for many years into the future. Decisions are therefore subject to both a national regulatory framework and to local policy framework.

2 Recommendations

- 2.1 That Council is requested to adopt the following recommendations:
 - (a) That the Capital Strategy and supporting Capital Programme for the period 2022/23 – 2026/27 is approved (appendix A).
 - (b) That the supporting Minimum Revenue Provision Policy (appendix B) for the period 2022/23 – 2026/27 is approved.
 - (c) That the Flexible Use of Capital Receipts Policy (appendix C) for the period 2022/23 – 2026/27 is approved.
 - (d) That the proposed CIL (Community Infrastructure Levy) Bids for inclusion in the Capital programme 2022/23 – 2026/27 (appendix D) is approved.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	<p>£112.8 million of Council debt funding has been applied to the Capital Strategy and supporting programme of work. This level of investment requires an annual increase in the revenue budget in order to satisfy capital financing requirements. The required annual increases are reflected in the Council's Medium Term Financial Strategy (MTFS).</p> <p>Included within the strategy is £2.2 million of funding allocated for projects at the feasibility stage, inclusive of £868k of funding for the London Road Industrial Estate development (LRIE). Projects at the feasibility stage are currently viewed as capital project forming part of the capital programme and overarching capital strategy. However, if a project does not result in the creation of a capital asset, in accordance with capital regulations set out within the CIPFA Code of Practice the full sum of capital invested will be written back to revenue and be funded through the Council's General Fund. On this basis £2.2 million of proposed expenditure over the life of the proposed Capital Strategy is a potential risk against the General Fund reserve.</p>
Human Resource:	<p>An average of £3.5 million of the Council's establishment is funded directly by the Capital Programme per annum. Salaries are funded from capital where it can be demonstrated that staff directly support and help to deliver the capital programme.</p>
Legal:	<p>The Capital Strategy contains Prudential Indicators that are mandatory under the CIPFA Prudential Code for Capital Finance in Local Authorities. When the final programme has been approved by Council, the budget managers will have the authority to let contracts for the schemes included in the approved programme in accordance with the Council's Contract Rules of Procedure.</p>
Risk Management:	<p>£112.8 million of the programme over the next five financial years is proposed to be funded from external borrowing. Assumptions as to the anticipated cost of external borrowing are aligned to current guidance as set out by the Bank of England and potential interest rate increases. Significant / unanticipated rises in borrowing costs over and above those assumed within the budget setting will impact on the affordability of the overall programme. The proposed programme also relies on £102 million of external funding. External funding relating to later years of the programme has</p>

	<p>yet to be confirmed, programme priorities and the availability of funding will therefore need to be kept under review.</p> <p>The long term impacts of the Covid-19 pandemic and resource availability post Brexit are creating issues within existing supply chains. The capital programme is impacted through these economic developments with inflation impacts on existing contracts and contracts subject to negotiation/finalisation. Currently, specifically in respect of long term maintenance contracts, the level of service being supplied for existing contracts is being reduced by third party suppliers. Over the course of the programme there is a high likelihood that inflation and scarcity of resource will create additional financial pressures.</p>			
Property:	The proposed Capital Programme will provide funding for maintenance and improvements to a number of existing Council buildings.			
Policy:	The Capital Strategy is closely aligned to the delivery of the Council Strategy through enabling key projects to be financed and delivered.			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				Any impacts have been assessed and publicly consulted upon where necessary
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				Any impacts have been assessed and publicly consulted upon where necessary. For example, Disabled Facilities Grants are included as part of this programme.

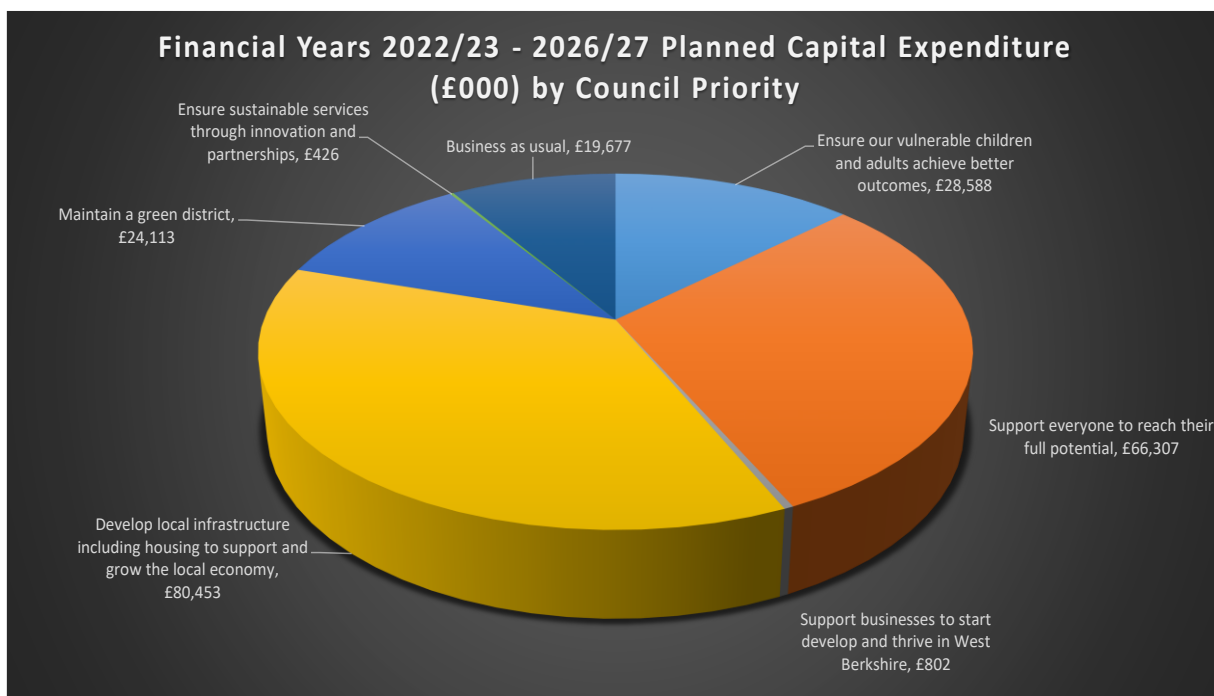
Environmental Impact:	X			There are a number of schemes included to enhance the environmental impact of the Council, for example carbon management, walking and cycling infrastructure and solar energy generation.
Health Impact:	X			Proposals included to encourage more walking and cycling as well as use of the district's environment.
ICT Impact:	X			Opportunities included in the programme for IT projects to enhance efficiency.
Digital Services Impact:	X			Opportunities included in the programme for improved digital access to services.
Council Strategy Priorities:	X			The planned programme is aligned to supporting the Council Strategy. Further details are included in section 5.14 of this report.
Core Business:	X			The planned programme provides funding for projects focused on improving business as usual functions. Section 5.14 details the level of funding supporting core business as usual functions.
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director, S151 Officer Ross Mackinnon, Portfolio Holder for Finance Capital Strategy Group			

4 Executive Summary

- 4.1 This capital strategy report gives a high-level overview of how capital expenditure and capital financing activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. Decisions made regarding capital and capital financing will have financial consequences for the Council for many years into the future. They are therefore subject

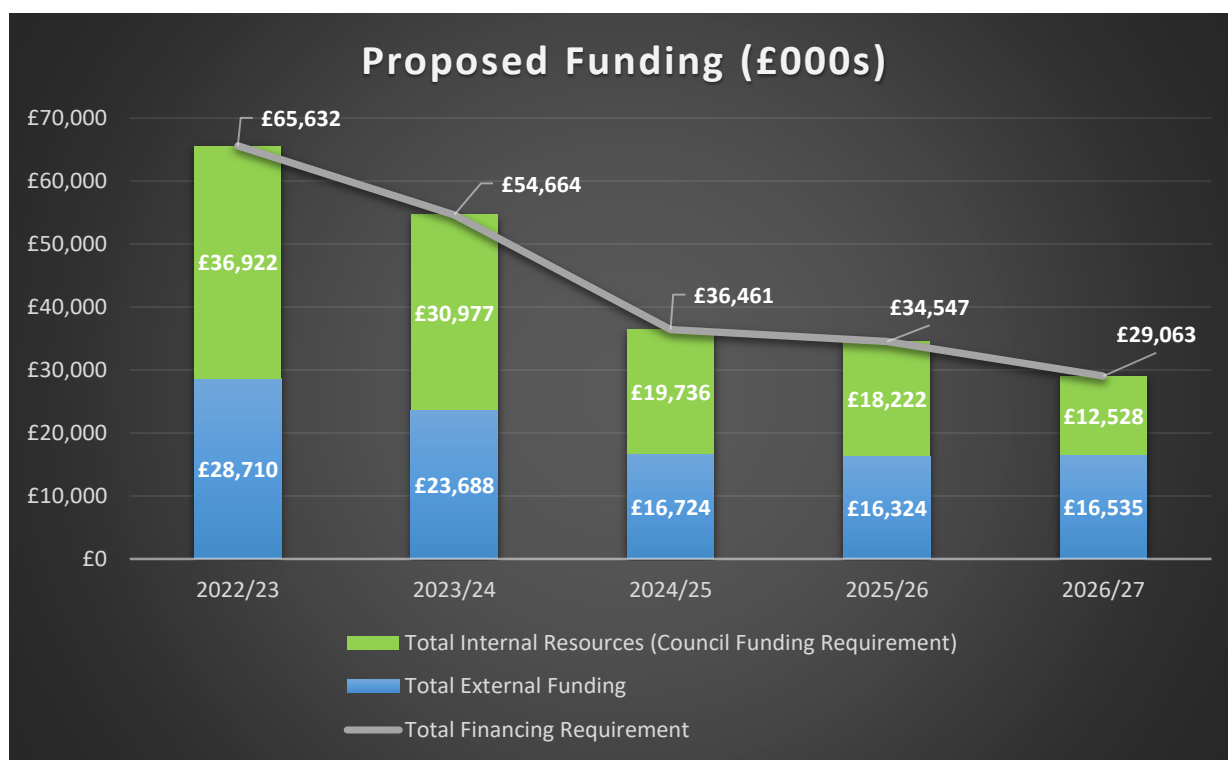
to both a national regulatory framework and to local policy framework, summarised in this report.

- 4.2 Despite ongoing pressure on the revenue budget, the Council continues to make significant investment in the future of West Berkshire through its Capital Programme. The Capital Strategy and supporting Capital Programme are aligned to the Council Strategy. Appendix A provides a detailed breakdown of the Capital Programme



- 4.3 Through the application of the strategy and supporting programme, the Council has sought to build on its strengths, focusing on social care, education and enhancements to local infrastructure (including access to superfast broadband, better road and flood prevention and alleviation). The Council has also focused on enhancing the district's leisure provision offering, with significant capital investment in leisure centre facilities and playing pitch provision across the district. In response to the Climate Emergency, the Council has allocated significant funding into projects over the life of the Capital Strategy with a view to enhancing sustainability and assisting the Council's long term objective to move to net zero by 2030.

- 4.4 The proposed expenditure on the Capital Programme over the five year period amounts to £220.4 million. Proposed expenditure is financed, either from external sources (government grants and other contributions), the Council's own resources (revenue budget, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the programme is broken down as follows:



- 4.5 The proposed programme relies on £102 million of external funding (i.e. grants, S106 and Community Infrastructure Levy). The level of Section 106 and Community Infrastructure Levy (CIL) included in the financing of the programme are forecasts. Regular monitoring of actual levels received and those forecast to be received will be undertaken and reported to Capital Strategy Group (CSG), and the capital programme adjusted accordingly if necessary.
- 4.6 £112.8 million of debt financing, i.e. external borrowing is required to support delivery of the Capital Programme. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, repayments of loans and Minimum Revenue Provision payments are charged to revenue, this is referred to as capital financing. In order to effectively deliver the planned programme and align to the Council Strategy, the revenue capital financing budget has been increased in order to accommodate increases in capitalised salary costs, inflation on contracts and new projects.
- 4.7 Assumptions as to the anticipated cost of external borrowing are set out in the Council’s Investment and Borrowing Strategy, any significant / unanticipated rises in borrowing costs over and above those assumed within the budget setting will impact on the affordability of the overall programme. A particular risk to the capital programme is the long term impacts of both the Covid 19 pandemic and resource availability post Brexit creating issues within existing supply chains. The capital programme is impacted through these economic developments with inflationary impacts on existing contracts and future contracts subject to renegotiation and price increases. Currently, specifically in respect of long term maintenance contracts relating to infrastructure projects, the level of service being supplied for agreed existing contract is being reduced by third party suppliers in order to maintain current pricing levels. Over the course of the programme there is a risk that inflation and scarcity of resource will create additional financial pressures on the proposed programme.

- 4.8 Due to the very long-term nature of capital expenditure and financing and the revenue budget implications of expenditure incurred, the Executive Director of Resources (s151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable. The Council's Minimum Revenue Provision policy (MRP) is included in Appendix B.

5 Supporting Information

Introduction

- 5.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. The Prudential Code, requires the Council to look at capital and investment plans in light of overall organisation strategy and resources to ensure that decisions are made with sufficient regard to the long term financing implications and risks to the Council. To demonstrate compliance, the code sets out a number of indicators which are reviewed within this report and in the Council's Investment and Borrowing Strategy 2022/23.
- 5.2 Prudential Indicator: Estimates of Capital Expenditure. Over the period of the Capital Strategy (2022/23 – 2026/27), the Council is planning capital expenditure of £220.4 million as summarised in the table below.

Planned Capital Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27	Totals
	Budget	Budget	Budget	Budget	Budget	Budget
	£000s	£000s	£000s	£000s	£000s	£000s
People Directorate	£26,341	£23,655	£18,526	£16,921	£11,108	£96,551
Place Directorate	£28,222	£17,989	£11,797	£12,122	£12,187	£82,318
Resources Directorate	£5,938	£4,163	£3,538	£3,004	£3,088	£19,730
Total Expenditure on Operational Assets	£60,501	£45,807	£33,861	£32,047	£26,383	£198,599
Projects at Feasibility Stage	£1,616	£567	£100	£0	£0	£2,283
Invest to Save Schemes	£2,725	£8,000	£2,500	£2,500	£2,500	£18,225
Capital Investments - New Assets	£0	£0	£0	£0	£0	£0
Capital Investments (Commercial Property) - Existing Assets	£790	£290	£0	£0	£180	£1,260
Total Planned Capital Expenditure	£65,632	£54,664	£36,461	£34,547	£29,063	£220,366

Note: Projects at Feasibility Stage - these are projects agreed in principle but further investigative works are required. Should the project not result in creation of a capital assets, project costs will be charged back to revenue.

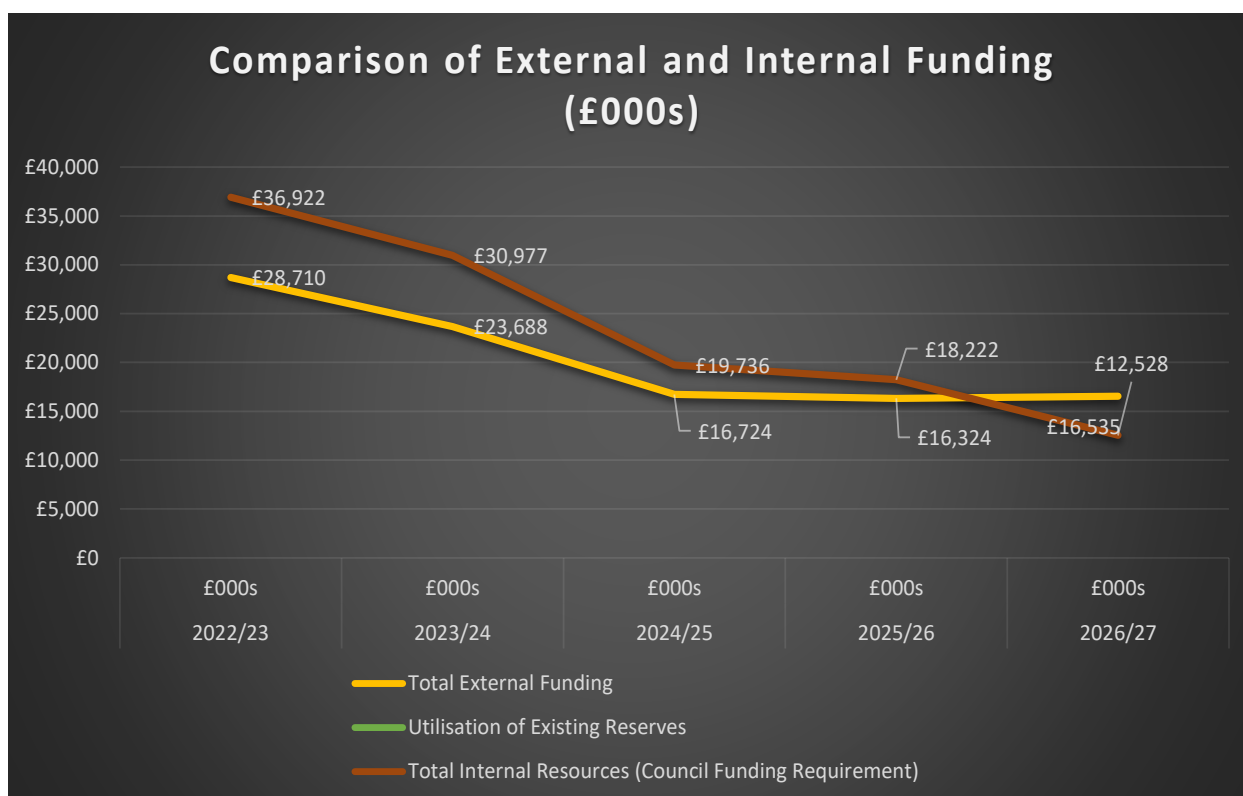
Background

- 5.3 All capital expenditure must be financed and hence the size of the Capital Programme is determined by the amount of funding the Council can afford either from external sources (government grants and other contributions), the Council's own resources (revenue budget, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the Capital Programme expenditure is as follows:

Capital Strategy, Financial Years 2022/23 to 2026/27

Capital Financing	2022/23	2023/24	2024/25	2025/26	2026/27	Proposed Funding 22/23 - 26/27
	£000s	£000s	£000s	£000s	£000s	£000s
External Grants	£17,475	£14,040	£8,372	£8,372	£8,372	£56,631
Section 106 (s106)	£1,859	£2,941	£2,992	£5,889	£5,957	£19,638
Community Infrastructure Levy (CIL)	£9,376	£6,706	£5,360	£2,064	£2,206	£25,712
Total External Funding	£28,710	£23,688	£16,724	£16,324	£16,535	£101,981
Application of Capital Receipts	£4,635	£866	£0	£0	£0	£5,501
Council Borrowing	£32,287	£30,111	£19,736	£18,222	£12,528	£112,884
Total Internal Resources (Council Funding Requirement)	£36,922	£30,977	£19,736	£18,222	£12,528	£118,385
Total Financing	£65,632	£54,664	£36,461	£34,547	£29,063	£220,366

- 5.4 The level of external grant funding, Section 106 and Community Infrastructure Levy included in the financing of the programme are forecasts. The Council assumes that on average £4 million per annum is received in Community Infrastructure Levy and this is applied where applicable to projects that support the Local Infrastructure Development Plan (IDP). Section 106 in contrast is a dwindling funding stream with allocations predominately relating to past payments and ongoing projects where funding has been received and is held by the Council. Regular monitoring of actual levels received and those forecast to be received will be undertaken and reported to Capital Strategy Group (CSG), and the capital programme adjusted accordingly if necessary.
- 5.5 £118.4 million of Council resources are forecast to be applied to the programme of works over the life of the Capital Strategy. £5.5 million relate to existing capital receipts held within the Council's reserves. £1 million is to be funded through additional borrowing, i.e. debt funding.



- 5.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP) / loans fund repayments. Planned MRP / repayments over the Capital Strategy are as follows:

Provision for Replacement of Debt (MRP)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Forecast	Budget	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000	£'000	£'000
Operational Assets	£6,359	£7,133	£8,225	£9,431	£10,289	£10,375
Waste Private Finance Initiative (PFI)	£278	£295	£313	£333	£353	£374
Commercial Property	£649	£666	£683	£701	£720	£739
Total Provision	£7,286	£8,094	£9,221	£10,465	£11,362	£11,488

- 5.7 The Council applies MRP on an annuity basis, further details supporting the MRP calculation are detailed within the Council's Minimum Revenue Provision Policy in appendix B.
- 5.8 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £24.2 million during 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Capital Financing Requirement (CFR)	31.3.2021	31.3.2022	31.3.2023	31.3.2024	31.3.2025	31.3.2026	31.3.2027
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expenditure on Operational Assets	£37,197	£41,317	£62,117	£46,374	£33,961	£32,047	£26,383
Expenditure on Invest to Save Schemes	£0	£615	£2,725	£8,000	£2,500	£2,500	£2,500
Less Minimum Revenue Provision (exc PFI and Commercial Property)	(£6,188)	(£6,359)	(£7,133)	(£8,225)	(£9,431)	(£10,289)	(£10,375)
Less Minimum Revenue Provision on Waste PFI	(£722)	(£278)	(£295)	(£313)	(£333)	(£353)	(£374)
Less Government Grants and Other Contributions	(£29,693)	(£22,725)	(£28,710)	(£23,688)	(£16,724)	(£16,324)	(£16,535)
Less Applied Capital Receipts	(£1,073)	(£863)	(£4,635)	(£866)	£0	£0	£0
Total General Fund Items	(£479)	£11,706	£24,068	£21,283	£9,973	£7,580	£1,599
Expenditure on Capital Investments	£22	£331	£790	£290	£0	£0	£180
Less Minimum Revenue Provision (Commercial Property)	(£450)	(£649)	(£666)	(£683)	(£701)	(£720)	(£739)
Less Applied Capital Receipts	£0	£0	£0	£0	£0	£0	£0
Total Capital Investments	(£428)	(£318)	£124	(£393)	(£701)	(£720)	(£559)
Total Capital Financing Requirement	(£907)	£11,389	£24,193	£20,889	£9,272	£6,860	£1,040
Opening CFR	£274,057	£273,150	£284,538	£308,731	£329,620	£338,892	£345,752
Closing CFR	£273,150	£284,538	£308,731	£329,620	£338,892	£345,752	£346,792

- 5.9 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, and leases) are shown in the table below, compared with the capital financing requirement.

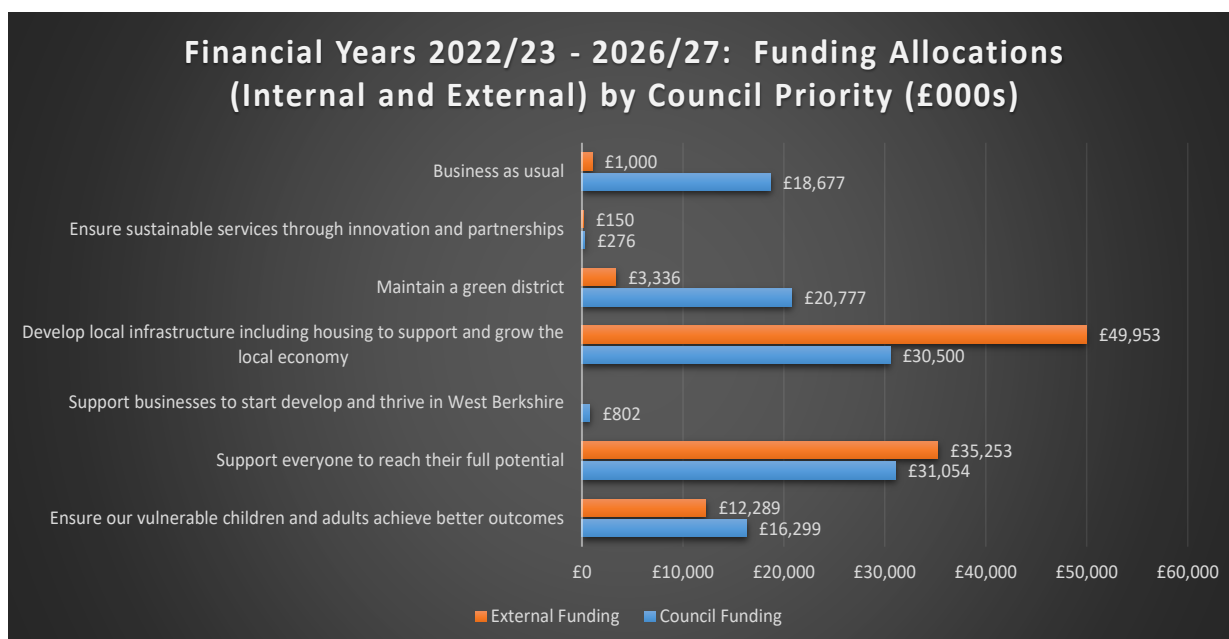
Capital Strategy, Financial Years 2022/23 to 2026/27

Gross Debt and Capital Financing Requirement	31.3.2021	31.3.2022	31.3.2023	31.3.2024	31.3.2025	31.3.2026	31.3.2027
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Operational Debt - Existing Loans (Non Commercial Property)	£135,217	£129,609	£124,652	£119,735	£115,003	£110,494	£106,273
Operational Debt - Existing Loans (Commercial Property)	£62,253	£62,253	£62,253	£62,253	£62,253	£62,253	£62,253
Waste PFI	£12,249	£11,483	£10,670	£9,807	£8,892	£7,920	£6,890
Additional Debt from Capital Programme	£0	£0	£22,645	£49,316	£61,743	£71,530	£75,206
Total Debt	£209,719	£203,345	£220,220	£241,111	£247,891	£252,197	£250,622
Capital Financing Requirement	£273,150	£284,538	£308,731	£329,620	£338,892	£345,752	£346,792

5.10 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, the Council expects to comply with this in the medium term.

Proposals

5.11 The Capital Strategy and supporting Capital Programme propose total gross expenditure of £220.4 million. In respect of the funding of the overall programme, £102 million of funding is forecast to be sourced from a combination of section 106, Community Infrastructure and external grant receipts. The majority of external funding received from developers and central government is ring-fenced infrastructure and educational provision. Despite ongoing pressure on the revenue budget, the Council continues to make significant investment in the future of West Berkshire through its Capital Programme. £118.4 million of capital expenditure is proposed to be funded via Council resources, i.e. application of capital receipts and borrowing.



5.12 The Council has sought to build on its strengths, focusing the Capital Strategy on education and enhancements to local infrastructure including:

- (a) £52.5 million of investment in Educational facilities across the district, focusing on the provision of school places and enhancements to accessibility.

- (b) £38.2 million of investment in local infrastructure, including key enhancement projects to major road networks.

5.13 Further key areas of funding include:

- (a) £12.2 million in support of the development of a Leisure Strategy for the district. Investment includes redevelopment of the Northcroft Leisure Centre (both dry side facilities and the Lido), Kennet Leisure Centre and various modernisation projects across the district's current leisure provision offering.
- (b) £22.2 million in support of the Council's Environment Strategy in response to the climate emergency, acknowledging the Council's role in facilitating a move to more environmentally sustainable lifestyles and business models across the district. Investment includes developing renewable energy provision and installation of on street electric vehicle charging points across the district.

5.14 Included within the strategy is £2.2 million of projects currently at the feasibility stage, inclusive of £868k of funding for the London Road Industrial Estate (LRIE) development, £868K of leisure enhancement projects and £500k allocated for care development of care home provision. These projects form part of the capital programme and overarching five year Capital Strategy. In respect of expenditure incurred where a project does not result in the creation of a capital asset, in accordance with capital regulations set out within the CIPFA Code of Practice, the full sum of project expenditure will be written back to revenue and be funded through the Council's General Fund provision. Therefore, feasibility and preliminary design works undertaken through application of capital funding are a risk held against future General Fund provision.

5.15 To ensure that capital assets continue to be of long-term use, the Council has an Asset Management Strategy in place. The Strategy seeks to convey both the context of the West Berkshire Council estate and the drivers and deliverables to ensure that Council assets are utilised to their optimum capability, both in delivering quality services and in economic terms, focusing on:

- (a) Operational efficiency and effectiveness across the estate with financial efficiency, opportunity to generate income in accordance with related investment strategies, and alignment of the estate with other new or emerging council strategies such as the Housing Strategy 2020 – 2036 and Environment Strategy 2020 – 2030.
- (b) Ensuring an efficient estate, continuing to commit to maintaining the condition of assets through the capital programme, developing new income streams through the estate and new opportunities through the 'One Public Estate' programme, the wider Place Making activities, and the devolution of assets to parish and town councils and potential for joint working with partners.

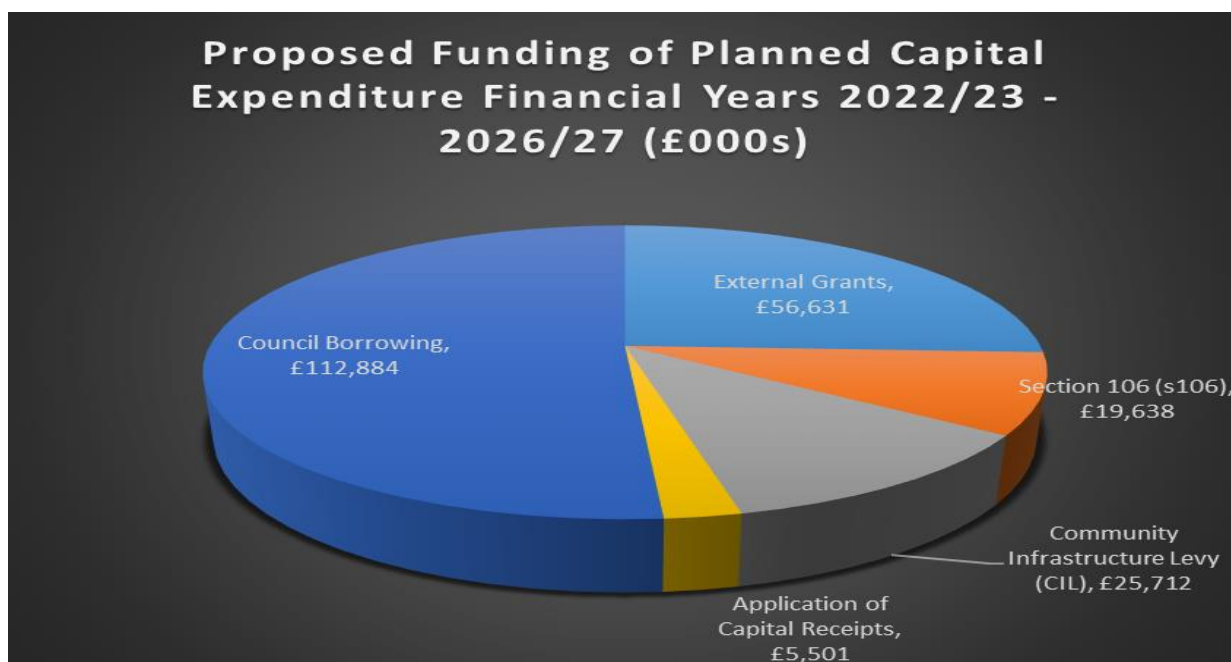
5.16 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets, repay debt or finance transformation projects. The Council is planning to allocate £5.5 million of existing capital receipts held in reserves in support of the Capital Strategy. The Council is anticipating two new capital receipts over the duration of the proposed Capital Strategy of £669k. The capital receipts are planned to be used to support revenue transformation under the Flexible Use of Capital Receipts Policy in appendix C.

6 Other options considered

6.1 Not applicable

7 Conclusion

7.1 The Capital Strategy proposes £220.4 million of planned capital investment in district wide improvement programme and allocation of resources to make enhancements to the Council's existing business systems in order to deliver long term improvements to services. Funding of planned investment is funded through a combination of internal Council resources (debt financing and capital receipts) and external funding (grants, s106 and Community Infrastructure Levy), 53% of the planned programme is funded through application of Council resources.



7.2 £112.8 million of the programme over the next five financial years is proposed to be funded from external borrowing. Assumptions as to the anticipated cost of external borrowing are aligned to current guidance as set out by the Bank of England and potential interest rate increases. Significant / unanticipated rises in borrowing costs over and above those assumed within the budget setting will impact on the affordability of the overall programme. The proposed programme also relies on £102 million of external funding. External funding relating to later years of the programme has yet to be confirmed, programme priorities and the availability of funding will therefore need to be kept under review.

7.3 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Over the duration of the Capital Strategy the Council has set aside a revenue uplift in the capital financing budget of circa £600k annually. The Council is required to ensure that capital financing is reasonable and affordable in the long term.

Capital Strategy, Financial Years 2022/23 to 2026/27

Financing Costs as a Percentage of the Revenue Budget	2022/23	2023/24	2024/25	2025/26
	Budget	Budget	Budget	Budget
Financing Costs - £m	£15.2	£16.4	£17.9	£18.9
Revenue Budget - £m	£150.5	£152.8	£156.2	£159.5
Financing Costs as %	10.09%	10.73%	11.47%	11.83%

Note: The Medium Term Financial Strategy covers a four year period to 2025/26 only

7.4 In respect of the economic outlook and potential impacts on the capital programme, the long term impacts of the Covid-19 pandemic and resource availability post Brexit are creating issues within existing supply chains. The capital programme is impacted through these economic developments with inflationary impacts on existing contracts and contracts subject to negotiation/finalisation. Currently, specifically in respect of long term maintenance contracts relating to infrastructure projects, the level of service being supplied for agreed existing contract is being reduced by third party suppliers in order to maintain current pricing levels. Over the course of the programme there is a high likelihood that inflation and scarcity of resource will create additional financial pressures on the proposed programme. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Director of Resources (s151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

8 Appendices

- 8.1 Appendix A – 2022/23 – 2026/27 detailed Capital Programme
- 8.2 Appendix B – Minimum Revenue Provision Policy
- 8.3 Appendix C – Flexible Use of Capital Receipts Policy
- 8.4 Appendix D - Community Infrastructure Levy Bids for inclusion in the Capital programme 2022/23 – 2026/27

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

Officer details:

Name: Shannon Coleman-Slaughter
Job Title: Chief Financial Accountant
Tel No: 01635 503225
E-mail: Shannon.colemanslaughter@westberks.gov.uk

Document Control

DocumentRef:		Date Created:	
Version:		Date Modified:	
Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1			
2			