

INFRASTRUCTURE OVERVIEW & SCRUTINY PANEL

TUESDAY, 19TH JANUARY, 2021

At 6.15 pm

in the

VIRTUAL MEETING - ONLINE ACCESS, [RBWM YOUTUBE](#)

SUPPLEMENTARY AGENDA

PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
7.	<u>CAPITAL PROGRAMME PROCESSES</u> To receive the above report.	1 - 16

This page is intentionally left blank

Report Title:	Capital Programme Process
Contains Confidential or Exempt Information?	No - Part I
Meeting and Date:	Infrastructure O&S
Responsible Officer(s):	Chris Joyce, Head of Infrastructure, Sustainability and Economic Growth
Wards affected:	All

www.rbwm.gov.uk



REPORT SUMMARY

1. The capital programme sets out the councils plans to invest in new and existing assets. There is an annual process for submitting and reviewing capital bids and allocating funding to those projects.
2. The council recently set up a Capital Programme Board to provide advice on the capital programme, to ensure that capital investment is planned and delivered in an efficient and effective way. Further work is currently ongoing to improve the capital planning processes, including development of a gateway process and development of a pipeline of projects seeking to take advantage of future Government funding opportunities.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Infrastructure Overview and Scrutiny Panel:

- i) ***Notes the report including the current process and future changes to update and improve them.***

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 This report is for information to assist the O&S panel in understanding the current capital programme process including prioritisation and funding as well as potential future changes to the process.

3. Background

3.1 The Capital Programme sets out the councils plans to invest in existing or new assets. This can include major projects to provide a new school, leisure centre or highway investment such as junction improvements. It can also include investments that will save money or generate revenue to pay for itself over a period of time. It also includes asset management and replacement (e.g. replacing an IT asset when it becomes obsolete).

- 3.2 Funding for capital projects can come from a number of sources, these include:
- **Capital Grants** – either general grants or specific grants towards specific projects e.g. highways and schools.
 - **Developer Contributions** – towards the costs of local infrastructure stemming from new development. This includes S106 & Community Infrastructure Levy (CIL).
 - **Partner Contributions** – Council partners may make a contribution towards the cost of capital projects.
 - **Capital Receipts** – from the disposal of council assets.
 - **Prudential Borrowing** – this enables councils to borrow to fund capital investment provided that it is affordable. This is largely undertaken through the Public Works Loan Board (PWLB). The debt financing costs are also met by the revenue budget.

3.3 There is an annual process for developing the capital programme which runs from July to February. This starts with a call for bids and is completed with the sign off of the budget by Council in February.. Each bid for funding is required to set out a description of the project and how it meets corporate policy or objectives. The bid also includes the measurable outcomes, consequences of not proceeding with the project and a brief description of the options considered.

3.4 Those projects which are entirely funded from external funds are classified as 'fully funded' bids. The remaining bids are collated by directorate, ranked and prioritised within the available funding envelope. As part of the process, CIL and S106 funding is allocated to projects with a view to minimising the need to borrow money to fund the programme.

3.5 A rolling three-year capital programme is approved by cabinet and council on an annual basis as part of the budget setting process. Annual routine maintenance and projects of less than £20k (the de-minimus level set by the council) are considered as revenue spending. Further details on this are in the draft Capital Strategy, which is included as an appendix to this paper.

3.6 To support the capital planning process, the council set up a Capital Programme Board. The board is an officer working group set up to provide advice and support in developing the capital strategy and programme. The terms of reference of the group are included as an appendix. The board has reviewed and developed the capital programme for 2021/22 which will be considered by Cabinet and Council in February 2021.

4. Next steps

4.1 As part of the process of reviewing and improving the capital programme process, a series of recommendations were agreed by the Corporate Leadership Team. These will be developed and considered by the Capital Programme Board with a view to implementing them into the planning process for 2022/23 onwards. Any processes will be proportionate to the size and scale of the project. The current proposals in development include:

- Restructuring the capital programme to align with corporate objectives and priorities rather than directorates and functions;
- A gateway process for projects so that they are reviewed at project initiation, preferred option and decision on delivery.
- Introducing a post project review process to ensure lessons are learnt from our major projects and benefits realisation is clear.
- Development of a pipeline of projects to enable the borough to take advantage of Government funding opportunities with 'shovel ready' projects.

5. Appendices

5.1 This report is supported by two appendices:

- Draft Capital Strategy 2021/22-2025/26
- Capital Programme Board TOR

This page is intentionally left blank

Royal Borough of Windsor and Maidenhead Draft Capital Strategy 2021/22 – 2025/26

1. Introduction

- 1.1 The Royal Borough of Windsor and Maidenhead (RBWM) has ambitious plans to invest in the regeneration of the Borough and deliver high quality facilities to its residents.
- 1.2 The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.3 It shows how revenue, capital and balance sheet planning are integrated. The Strategy is informed by the Council's priorities and links to other key strategy documents, notably the interim corporate strategy, the Medium Term Financial Plan and the Treasury Management Strategy.
- 1.4 The document also provides an overview of the delivery mechanisms and decision processes that RBWM will use to determine and deliver its future capital priorities.

2. What is Capital Investment?

- 2.1 Capital investment can be put into a number of different categories as follows:-
- (i) **Major Projects** – After option appraisal this can include the provision of a new school, library or leisure centre, or major highways investment.
 - (ii) **Invest to Save Schemes** – where the Council invests in a project on the understanding that it will pay for itself over a reasonable period of time.
 - (iii) **Equipment Replacement** – where the Council is required to replace certain equipment e.g. IT assets when they become obsolete.
- 2.2 In some cases projects may be fully funded by Government Grants or partner contributions.
- 2.3 The main sources of capital funding are:-
- (a) **Capital Grants** – either general grants or specific grants towards specific projects e.g. highways and schools.
 - (b) **Developer Contributions** – towards the costs of local infrastructure stemming from new development. This includes S106 & Community Infrastructure Levy (CIL).
 - (c) **Partner Contributions** – Council partners may make a contribution towards the cost of capital projects.

- (d) **Revenue Contributions** – where the revenue budget meets the cost of ongoing capital spending e.g. maintenance of buildings etc.
- (e) **Capital Receipts** – from the disposal of council assets.
- (f) **Prudential Borrowing** – this enables councils to borrow to fund capital investment provided that it is affordable. This is largely undertaken through the Public Works Loan Board (PWLB). The debt financing costs are also met by the revenue budget.

2.4 There is a fine dividing line, when deciding whether spending should be charged as day to day revenue spending or included within the capital programme.

- (i) **Spending less than £20,000** is considered to be revenue spending. This is the de minimis level that the Council sets.
- (ii) **Annual maintenance** is considered to be revenue spending

2.5 Ideally, RBWM aims to cover recurring spending from its revenue budget and fund short life assets from external income sources. Borrowing is used to fund spending on longer life assets e.g. buildings and infrastructure.

3. National Financial Context

3.1 Over recent years all unitary authorities have faced significant cuts as a result of austerity. This has had a significant impact on major investment decisions. The impact of COVID-19 has further impacted councils at unprecedented levels.

- (i) Government capital grants for funding capital projects have been cut significantly.
- (ii) Material pressures on revenue budgets mean that councils are finding it harder to meet significant borrowing costs stemming from capital investment.

3.2 Council budgets have come under significant pressure resulting in some councils capitalising certain spending. This has allowed them to borrow to spread the cost of this spending over a number of years and ease the immediate pressure on the revenue budget e.g. capitalising debt interest.

3.3 Some councils have taken a more commercial approach to their assets. For example they may have built or expanded car parking to generate additional ongoing income to support the council budget or purchased property for a purely financial return.

3.4 Unprecedented low interest rates have enabled councils to borrow cheaply to fund new capital investment. However, it is expected that changes will be made to the lending terms of the PWLB in coming months in relation to such commercial investment following the current central government consultation.

3.5 Many councils have also benefited from capital receipts from asset sales to offset the cost of new capital investment and this is an option open to RBWM.

4. Financial Context RBWM

4.1 RBWM has the advantage of substantial and valuable land holdings. It has been pro-active and innovative in using these land holdings to generate capital receipts for new investment.

4.2 In some cases the Council has used the capital receipt generated from the closure of a facility to largely fund its replacement. Unfortunately the disposal can only take place once the new facility is built, which means that

- (i) The Council needs to borrow to fund the new facility initially
- (ii) The Council carries the risk of holding and disposing of the previous asset.

4.3 In other cases RBWM has been able to use s106 & CIL contributions to offset the cost of certain capital investment, where this is consistent with the terms of the development agreement.

4.4 RBWM has also invested in its assets to generate income to support its revenue budget. This has included:-

- (i) Converting and investing in council land to generate additional income from car parking provision.
- (ii) Investing in commercial property to maintain a revenue income stream.

4.5 This has resulted in significant capital investment in recent years. Council borrowing is projected at £160m for 2021/22.

4.6 When building the capital programme for 2021/22 the cost of borrowing has been kept as low as possible by investing in essential schemes only. This is in addition to the schemes approved in previous years by Council. For 2021/22 debt financing costs, including MRP, are estimated at £5.8m. This will reduce in future years as disposals of council assets are used to repay short term debt. At the same time the investment will also have generated considerable income that will help the Council repay this debt.

4.7 Overall, RBWM has sought to keep Council tax levels to a minimum. This has meant that it has tightly controlled spending within its revenue budget, which in turn has had consequences for its capital budget, such as needing to:

- (i) fund significant spending on maintaining assets from borrowing rather than funding this from within its revenue budget
- (ii) use capital to fund a number of short term asset replacements.
- (iii) prioritise spending that generates future income to contribute to its revenue budget.

- 4.8 In the short term this has helped to spread the cost of this investment over a number of years and reduce the impact on the revenue budget.
- 4.9 However, in the longer term as borrowing increases, this places more and more pressure on the revenue budget, through increasing the level of debt financing costs.
- 4.10 Currently some £2m of ongoing regular capital investment, normally financed through the revenue budget, is within the Capital Programme. Over time the Council needs to return to meeting a larger share of this spending from a revenue contribution. This will enable it to allocate a larger share of its capital programme to long term projects and investing in the borough.
- 4.11 Given the current pressures on the revenue budget, it will take some time to redress this balance.

5. RBWM Capital Strategy

Developing Capital Plans

- 5.1 Decisions around future capital investment should not be taken lightly as it often involves significant sums of money, which has a significant future impact on council finances.
- 5.2 The Council faces some tough choices against competing priorities and therefore always needs to balance the immediate benefit of investing in a new capital asset against the future financial sustainability of council finances. One of these tough choices will be whether to borrow to develop council assets to create long term revenue streams or whether to dispose of assets to help to reduce borrowing costs.
- 5.3 To strike this tough balance the Council will:-
- (a) **Have clear capital investment priorities for all of its key services** – this will allow it to balance the needs of individual services against one another.
 - (b) **Develop clear business cases for major projects** – so that there is a clear understanding about the benefits that the project will deliver and whether these are worth the level of investment required.
 - (c) **Set clear objectives** – for example it needs to be clear about the payback period it expects from commercial invest to save schemes.
- 5.4 This prioritisation will be assisted by having:
- (a) **Surveys of all council assets** that set out maintenance requirements over time
 - (b) **Clear replacement strategies** – that show when assets need to be replaced and updated e.g. IT equipment and systems.

- 5.5 Given the long-term nature of capital investment, the Council should be able to plan ahead effectively and avoid the need for capital schemes to emerge at the last minute.
- 5.6 Above all, there is a need for an effective process to assess competing capital priorities and develop more long-term capital plans.

6. RBWM Council Priorities

- 6.1 The Council's priorities must be at the heart of any capital strategy.
- 6.2 Finance is both the enabler that allows the Council to deliver these key priorities and the constraints that the Council needs to work within as it makes tough decisions between those priorities.
- 6.3 RBWM has an agreed interim strategy in light of the impact of the pandemic on the authority. The interim strategy was agreed by Cabinet on 30th July 2020. A refresh of the overall corporate strategy will be undertaken.
- 6.4 The current agreed interim key priorities for Windsor and Maidenhead are:-

Covid-19

- Immediate response
- Long term recovery
- New service requirements

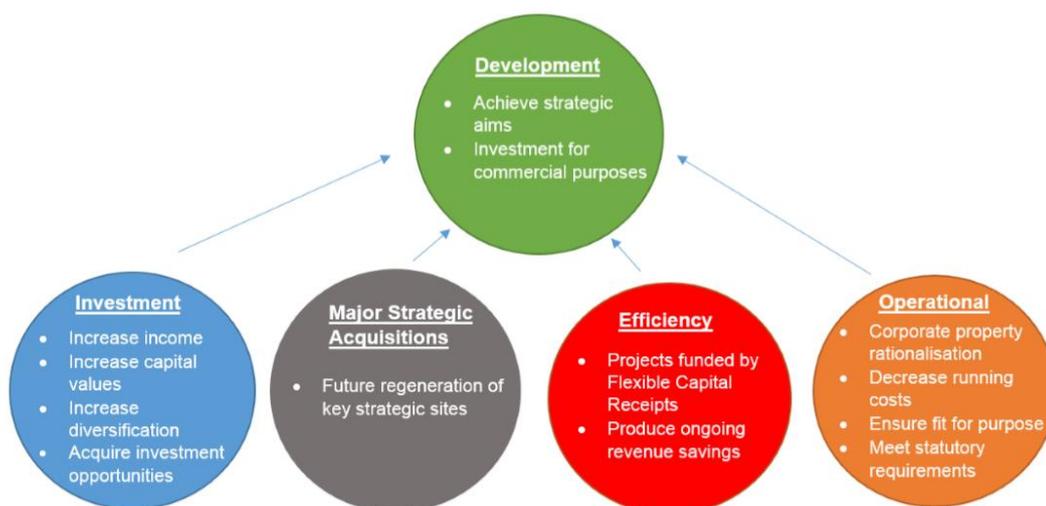
Interim Focus Objectives

- Service stand up (business continuity)
- Revised service operating plans
- Transformation plan
- Climate strategy
- Governance
- People plan – values, leadership, Black Lives Matter

MTFS

- Impact of Covid-19 directly
- Economic downturn
- Government policy

- 6.5 A number of these priorities involve long term capital investment in the Royal Borough.
- 6.6 The Council's capital programme is prioritised into five key areas: Development, Investment, Major Strategic Acquisitions, Efficiency and Operational.



7. Service priorities for investment

7.1 The Council’s service priorities for investment over the lifetime of this strategy are set out by directorate for ease of reference, see table 1.

Table 1: RBWM service priorities for investment

Directorate	Service priorities	Link to statutory or other plan	Link to Council priority
Adults, Health and Commissioning	<ul style="list-style-type: none"> • New accommodation provision for vulnerable people • Maintenance and improvement of existing accommodation provision. 	Adult Social Care Transformation Programme	Healthy, skilled and independent residents
	<ul style="list-style-type: none"> • Investment in highways infrastructure, including bridges and footpaths • Investment in alternative transport linked to climate change • Investment in road safety 	Local Transport Plan Asset Management Plan Cycling Strategy	Safe and vibrant communities Attractive, well connected borough

	<ul style="list-style-type: none"> One off pump priming investment in digital and communications infrastructure. 	Council Transformation Strategy	Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Office accommodation provision for commissioned services 		Well managed resources, delivering value for money
Children's Services	<ul style="list-style-type: none"> Education: capacity to keep up with growth in population in partnership with Academy schools 	Infrastructure Plan	Healthy, skilled and independent residents, Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Education: capacity for children with additional needs in mainstream schools 	Inclusion Strategy	Healthy, skilled and independent residents, Well managed resources
	<ul style="list-style-type: none"> Social Care: 18-25 supported accommodation for care leavers and those with additional needs 	Inclusion Strategy, Sufficiency Strategy, Council Transformation Strategy	Healthy, skilled and independent residents, Well managed resources
	<ul style="list-style-type: none"> Social Care: 5-10 residential children's home places to challenge the marketplace 	Sufficiency Strategy, Council Transformation Strategy	Healthy, skilled and independent residents, Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Office accommodation for services 		Well managed resources, delivering value for money
	<ul style="list-style-type: none"> Modern technology platform for mobile and partnership working 	Council transformation Strategy	Well managed resources, delivering value for money

- 7.2 The Council also needs to be flexible enough to respond to opportunities to lever in additional external funding or grant that could partially fund an additional project alongside some capital investment from the Council.

8. Delivering Capital Projects

- 8.1 All capital projects over £100,000 are subject to a gateway process that requires them to set out:

- (a) A procurement Strategy for the project
- (b) A project timetable and delivery plan
- (c) An updated financial assessment including the revenue implications
- (d) A clear assessment of project benefits and how these will be delivered and assessed.

- 8.2 The Council has established a Capital Programme Board (CPB) which oversees the delivery of the capital programme. CPB is an officer working group. It is an advisory / monitoring body and takes any decision making power from the delegated authority of officers attending as set out in the scheme of delegation and the financial procedure rules within the Council's Constitution. It makes decisions where priorities and budgets are already agreed within the Council's Policy and Budget Framework. Any proposal that is outside the approved Policy and Budget framework will be referred to Cabinet and/or Council in accordance with the Constitution. The following summarises the terms of reference of the board:

Membership

- Executive Director of Place
- Head of Finance
- Head of HR, Corporate Projects and IT
- Head of Infrastructure and Sustainability
- Head of Commissioning – Infrastructure
- Capital Accountant.

Support to the Board

- Project Manager – Corporate Projects
- Executive Assistant to Executive Director of Place

Frequency

- CPB normally meets every 2 months but more frequently as required e.g. in the lead up to budget setting.

Overall Responsibilities

- Advise on the Council's Capital Strategy in line with the Council's priorities.
- Ensure the effective development and delivery of the Capital Programme in line with the Council's Capital Strategy and Council priorities.
- Identify and monitor the resources available to fund the Capital Programme in the most efficient way.

- Oversee the gateway process for the Capital Programme.
- Monitor the progress of the Capital programme and key variances between plans and performance.
- Encourage and enable the development of learning, skills and capacity in the management of capital projects across the organisation.

Priority Outcomes

- An effective Capital Strategy and Capital Programme that optimises the resources available to deliver the Council's priorities.
- Continuous improvement in the development and delivery of the capital programme and that strategic capital investment is planned and delivered in the most efficient and effective way.
- Review completed of the previously approved Capital Programme in light of the 'new normal' environment the Council will operate in.
- Better management of capital projects, in line with best practice, ensuring benefits are realised.
- Effective bidding for external capital funding.
- Enhanced cross-service strategic working and partnerships with other organisations on the development and management of capital projects.
- That the Capital Strategy and Programme is funded in the most efficient way and fully integrated into the Medium Term Financial Strategy of the Council.
- That lessons are learnt from capital projects undertaken by the Council.

8.3 The Working Group is able to approve the delivery of all projects up to £250,000, while projects above this level will be approved by Cabinet.

8.4 Cabinet receives a report on the delivery of capital schemes which is included within the regular Financial Update.

9. Financial Risks

9.1 Planning for the future can never be an exact science. There are many factors that the Council cannot control completely, COVID-19 being a prime example, which can have a significant impact on the viability of future capital plans.

- Revenue Budget** – ultimately the cost of borrowing to fund capital investment has to be met by the revenue budget. This means that the sustainability of the revenue budget as set out within the Budget Strategy is a key risk factor that impacts on the affordability of capital spending.
- Government Grants**– although Government Grants have reduced over time this still makes a significant contribution towards the cost and viability of major schools and highways schemes. This may improve

further should the government award additional capital grant for infrastructure in future years.

- (c) **Interest Rates** – although currently at a very low level, any rise in interest rates will impact on the affordability and viability of key future capital projects.
- (d) **Project Creep** - projects delivered over a period of time are inherently risky. Tight cost control is needed to ensure that the project keeps within the spending envelope.
- (e) **Contractual Risk** – the cost of major projects can be heavily dependent on the level of competition that influences bids to deliver the scheme.

9.2 Capital Projects are inherently risky. There are significant risks that the costs of capital schemes can exceed the original capital programme allocation. There is also a delivery risk that projects can be late.

9.3 Funding capital investment represents a significant pressure on the revenue budget. It is essential that the Council understands fully the revenue impact of capital investment and the extent to which the project:

- (i) meets the council's objectives
- (ii) is self-funding
- (iii) delivers a realistic pay back in the case of invest to save schemes

10. Summary and Conclusion

10.1 Capital investment decisions involve substantial sums of money and represent a long term plan, which can extend well beyond the term of the existing Council.

10.2 Decisions on future capital investment therefore need to balance a range of different long term priorities, often within tight financial constraints.

10.3 The strategy sets out some clear criteria for determining capital spending and deciding on the competing priorities.

10.4 The strategy also sets out a key delivery mechanism designed to deliver effective implementation of capital plans.

Capital Programme Board (CPB) – Terms of Reference

Overall Responsibilities

- Advise on the Council's Capital Strategy in line with Council's priorities.
- Ensure the effective development and delivery of the Capital Programme in line with the Council's Capital Strategy and Council priorities.
- Identify and monitor the resources available to fund the Capital Programme in the most efficient way.
- Oversee the gateway process for the Capital Programme.
- Monitor the progress of the Capital programme and key variances between plans and performance.
- Encourage and enable the development of learning, skills and capacity in the management of capital projects across the organisation.

Priority Outcomes

- An effective Capital Strategy and Capital Programme that optimises the resources available to deliver the Council's priorities.
- Continuous improvement in the development and delivery of the capital programme and that strategic capital investment is planned and delivered in the most efficient and effective way.
- Review completed of the previously approved Capital Programme in light of the 'new normal' environment the Council will operate in.
- Better management of capital projects, in line with best practice, ensuring benefits are realised.
- Effective bidding for external capital funding.
- Enhanced cross-service strategic working and partnerships with other organisations on the development and management of capital projects.
- That the Capital Strategy and Programme is funded in the most efficient way and fully integrated into the Medium Term Financial Strategy of the Council.
- That lessons are learnt from capital projects undertaken by the Council.

Decision Making

CPB is an officer working group. It is an advisory/ monitoring body and takes any decision making power from the delegated authority of officers attending as set out in the scheme of delegation and the financial procedure rules within the Council's Constitution. It makes decisions where priorities and budgets are already agreed within the Council's Policy and Budget Framework. Any proposal that is outside the approved Policy and Budget framework will be referred to Cabinet and/or Council in accordance with the Constitution.

Membership

- Executive Director of Place
- Head of Finance
- Head of HR and Corporate Projects
- Head of Infrastructure and Sustainability
- Head of Commissioning – Infrastructure
- Capital Accountant.

Support to the Board

- Project Manager – Corporate Projects
- Executive Assistant to Executive Director of Place

Frequency

- CPB will normally meet every 2 months but more frequently as required e.g. in the lead up to budget setting.