

Draft Capital Strategy 2023/24 to 2026/27

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Royal Borough
of Windsor &
Maidenhead

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1. Introduction

1.1 Overview

CIPFA's Prudential Code requires Councils to have a capital strategy. The Code states that "In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 Objectives

The purpose of the strategy as per the Code is that it is "intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services, along with an overview of how associated risk is managed and what the implications might be for future financial sustainability."

The Council must demonstrate that it takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability giving due consideration to both risk and reward and the impact on outcomes.

The strategy aims to balance capital expenditure needs and expectations (e.g., replacement of business-critical IT systems) with the scarcity of available resources to enable the identification and optimisation of all sources of capital funding and also be flexible enough in order to respond to emergencies and changes in priorities.

The Capital Strategy is a collective document involving various departments within the organisation. It is not purely a finance function; all the relevant officers should review this document periodically and update it accordingly.

1.3 Capital Strategy Framework

The strategy maintains a strong and current link to the Council's priorities and to other key strategy documents such as








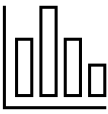



- Treasury Management Strategy (Including strategies on Investments and Borrowings)
- RBWM Property Company Business Plan
- Asset Management Strategy





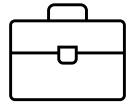



2. The Royal Borough

2.1 The Royal Borough of Windsor and Maidenhead covers an area of 76.6 square miles. Located in the heart of the Thames Valley, the borough is rich in areas of natural beauty and green space. The River Thames flows through the borough for 25 miles, forming a significant landscape feature and wildlife corridor. Distinct towns and villages, each with their own identity and character but all related by an attractive countryside, create a high-quality environment in which to live, work and visit. Our unique and long association with the Crown has also gifted the borough with a rich portfolio of heritage assets, attractions, and world-class events.

2.2 Situated less than 30 miles from the west of Central London, and close to Heathrow Airport, the borough is on the M4 corridor and is served by a combination of main line and branch line rail services. Our location is a key factor in attracting businesses to invest in the borough, and we are part of a dynamic regional economy. The borough is home to an impressive range of local, national, and international businesses and our residents are able to take advantage of employment opportunities across the Thames Valley region and in the capital.

2.3 Some key facts

Icon image	People: Description
	In 2020 an estimated 151,273 people live in the borough. (<i>ONS MYE 2020</i>). By 2043 this is estimated to be 155,348 (ONS projections 2018-based edition)
	In 2020 an estimated: 20.1% of the local population are aged 0-15 . (2043 estimate: 17.4%) 61% are aged 16-64 . (2043 estimate: 56.1%) 18.9% are aged 65+ . (2043 estimate: 26.5%). (<i>ONS</i>)
	In 2020 the estimated median age of the local population is 42.6 , an increase on 2001 estimates (38.69) (<i>ONS</i>).
	The 2011 Census indicates 86.1% of the local population is White and 13.9% is BAME . The Royal Borough has a higher Asian/Asian British population (9.6%) than the South East (5.2%) and England (7.8%). The forthcoming 2021 Census data is expected to show rise in the BAME population.
	In 2020 an estimated: 5,131 people aged 18-64 have impaired mobility (predicted to rise to 5,323 by 2030). 2,129 people aged 18-64 have a learning disability (predicted to decrease to 2,093 by 2030). (<i>PANSI</i>)
	In 2020 there is an estimated 770 people per sq.km , a 13.2% increase since 2001 (680 people per sq.km) (<i>ONS</i>)
	Life expectancy at birth is 81.8 (males) \uparrow <i>SE average (80.6) and England average (79.4)</i> Life expectancy at birth is 84.7 (females) \uparrow <i>SE average (84.1) and England average (83.1) (2018-20, ONS)</i>
	The Royal Borough has a Score of 8.4 on the Index of Multiple Deprivation (IMD 2019) \downarrow <i>SE (15.5) and England (21.7) (MHCLG)</i> . However, the borough has some areas ranked as most deprived (scores 1-4)
	The Royal Borough has 70 parks , open spaces and play areas, covering a total area of around 295 hectares 25 miles of River Thames
	Over 950 Listed Buildings , 17 Scheduled Monuments (including Windsor Castle) 12 registered historic parks and gardens , and world-class attractions and events
	27 Conservation Areas 11 sites designated by Natural England as very best wildlife and geological sites in the country

Icon image	People: Description
	66 state schools
	6 leisure centres (externally managed)
	11 libraries
	10,785 active businesses (IDBR, 2020) Highest proportion (24.6%) of local businesses are in the professional, scientific, and technical industry (2021, ONSIDBR)
	82% economic activity rate ↑ SE (80.8%) and ↑ England (78.7%) 77.5% of economically active employed ↓ SE (77.6%) and ↑ England (75.1%) 3.6% of economically active unemployed ↓ SE (3.8%) and England (4.5%) (Dec-21, APS, ONS)
	58.6% of working population educated to NVQ4 level and above ↑ SE (45.1%) and England (43.1%) (Dec-21, APS, ONS)
	£32,240 median annual salary for all workers (excluding self-employed) ↑ SE (£28,200) and England (£26,192) (ONS, ASHE 2021)
	£515,000 median price of a property ↑ SE (£365,000) and England (£285,000) (ONS, Dec-21)

2.4 The Royal Borough delivers essential services to the community: the residents, businesses and partners of Windsor and Maidenhead every day. Services range from those that the Royal Borough is required to carry out by law (statutory duties) such as street cleaning, waste collection, planning and building control, education and social care, through to discretionary services, such as sport and leisure, tailored to local priorities and needs.

2.5 Adults and Children's services are managed on behalf of the Borough by Optalis Ltd and Achieving for Children (AFC) respectively. The Council shares ownership of these organisations with other partner authorities and group accounts are prepared annually including the Council's share of these joint ventures.

2.6 Everything we do has to be provided within the challenge of reduced central grant to local government and increasing demand on service areas as the population grows and ages.

2.7 Our commitment to delivering high quality services is rooted in our commitment to providing value for money. Outside of London the Royal Borough has the lowest level of Council Tax in England.

2.8 Council Tax is 39% below the national average (including adult social care and parish precepts (Band D) as well as significantly below neighbouring Berkshire councils. This presents challenges to service provision.

- 2.9 As a council we measure how well we are performing through a range of indicators as well as our residents' survey. Everything we do has to be provided within the challenge of reduced central grant to local government and increasing demand on service areas as the population grows and ages.
- 2.10 The Royal Borough is committed to providing high quality services that offer value for money. Our corporate priorities guide our spending, alongside our statutory roles looking after the most vulnerable people in society and protecting the environment. Our capital strategy must balance the growing demands for services such as adult social care and children's services with our commitment to protect the environment and promote a buoyant and diverse economy.
- 2.11 An increasing proportion of our expenditure is being spent on services that support individual and vulnerable people. In all the services we either commission or deliver we will strive to achieve the best outcomes for our residents achieving the best value for money.
- 2.12 Our low council tax means our expenditure spent on all services, but in particular non-statutory services provided to our community, is under particular pressure. The Royal Borough has committed to a significant savings programme and is continually working to ensure that the services it delivers are subjected to rigorous value for money testing. We will continue to seek out opportunities to deliver efficiencies, savings and ways to increase our income.
- 2.13 The Royal Borough has an on-going transformation plan, which will aid delivery of the increased efficiencies and savings requirement.

3. Corporate Plan

- 3.1 The Corporate Plan articulates the Royal Borough's priorities for the period 2021-2026 and sets the strategic direction in order to ensure efforts and resources are directed to the right areas. This is particularly important given the scale of financial challenge and resource constraint, and in the face of challenges facing the borough as highlighted in the previous section. The overarching aim of the Corporate Plan is to create a sustainable Borough of innovation and opportunity.
- 3.2 A key driver of the Capital Strategy is our Corporate Plan 2021-26, which was adopted by Full Council in November 2021 with a headline vision of "Creating a sustainable borough of opportunity and innovation". The Plan sets three overarching objectives: thriving communities, inspiring places and a council trusted to deliver its promises. These include 50 related goals for achievement in the period 2021-2026.
- 3.3 The Council has included in its priorities for the next five years, a ladder of housing opportunity, to support better life chances for all.
- Over 3,000 new homes by 2026, of which at least 1,000 will be affordable housing (of mixed tenures and affordable housing types).
 - 2,000 households helped into new and existing affordable homes, prioritising social and affordable rent.
 - More people with learning disabilities to live in their own homes or with their families, increasing the proportion by 10 percent points by 2025.
 - A decrease in the number of households living in temporary accommodation to less than 100 by April 2025 with 80% or more living in the borough.
 - Ensure that no one sleeps rough in the borough through necessity.
- 3.4 Inspiring Places is one of the fundamental goals of the Corporate Plan and includes: -
- Supporting the borough's future prosperity and sustainability
 - An increase in the number of new and surviving businesses within the borough, including the expansion of Creative industries.

- An increase in footfall in Windsor between 2021-2026, and in Maidenhead, following its regeneration.
- An increase in the proportion of women and girls who feel safe in the Borough, including through a safe, thriving night-time economy.
- Undertake a master planning exercise for central Windsor by 2023 and submit a business case for Government funding for identified improvements along Ascot High Street.
- Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper
- Deliver new transport infrastructure to support growth, including completing Phase 1 of Maidenhead Housing Enabling works and the remaining junction improvements.
- Investment along the A308 corridor to deliver on the recommendations of the corridor study.
- An increase in full fibre to 95% of properties by 2025; eliminate 4G “not-spots” in rural areas; and establish a test-bed and small cell roll out for 5G.
- Deliver new and enhanced community and youth facilities, including at Blackamoor Lane, Larchfield and Windsor.
- Increase walking and cycling by 50% by 2025, including investing in new cycle infrastructure through the North-South Green Spine in Maidenhead, and improved cycle ways in Ascot, Sunningdale, Sunninghill and Windsor.
- Deliver the Windsor Public Realm project, transforming Castle Hill into a pedestrian first zone, and growing the local economy and increasing numbers of local jobs.
- Increase the passenger satisfaction and the number of bus journeys per head of population to close the gap with neighbouring Berkshire authorities as well as establishing trials to deliver better rural bus service connectivity.
- Enable delivery of the key social, physical and green infrastructure to support new development at the Desborough / South West Maidenhead site (AL13 in the BLP), including strategic highway improvements, public transport, cycling and walking infrastructure, new primary and secondary schools, community facilities and open space.
- Review the collection of Community Infrastructure Levy and Section 106 funding, in order to increase developer investment in sustainable, community infrastructure.

3.5 Taking action to tackle climate change and its consequences and improving our natural environment will be achieved by:

- A decrease in the borough and council’s own emissions by 50% by 2025 – and net zero by 2050, at the latest.
- The Council commits to spend £1 million on reducing emissions through energy efficiency improvements over the period and will seek external funding to accelerate the plans.
- Achieve the National Air Quality Objective (AQO) across all Air Quality Management Areas (AQMAs) by 2025.
- Increase the percentage of residents who enjoy the borough’s green spaces on a regular basis and feel that they are able to access quality green spaces easily.
- Drive energy efficiency improvements through our social housing providers, increasing the proportion of homes at EPC rating C to 100% by 2030.
- Adopt a new, best practice Supplementary Planning Document (SPD) to drive forward our climate and environmental goals in all new developments.
- Enable an increase in renewable energy generation in the Borough, by 10 fold by 2026 (from a baseline of 13,067 MWh in 2018).
- Enable the delivery of electric vehicle charging infrastructure to meet growing demand through a new EV implementation plan.
- Increase biodiversity across the borough, supporting the Berks, Bucks and Oxfordshire Wildlife Trust vision for 30% of land for nature by 2030. We will ensure a minimum of 10% biodiversity net gain through the planning system and new Suitable Alternative Natural Greenspaces (SANGs) to mitigate the impact of new developments on the Thames Basin Heath Special Protected Area (SPA).
- Increase recycling to 50% of waste by 2025, and to 65% by 2035, with an overall reduction in waste generated.

- Invest £10m on flooding prevention within Datchet, Horton and Wraysbury, and Old Windsor wards, working in partnership with the Environment Agency. Alongside further investment, borough-wide, in protection against surface water flooding as part of delivering our climate adaptation plan.

4. Strategic Direction of the Royal Borough

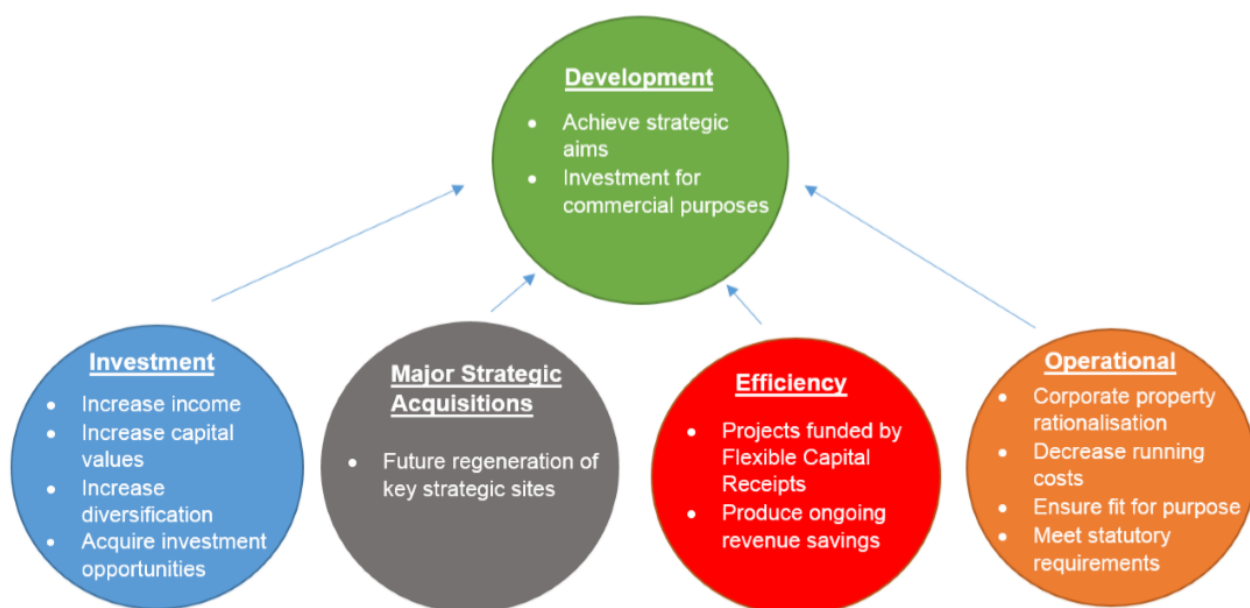
- 4.1 Through our Corporate Plan, we have identified a number of priorities for the Borough, these will be built into the capital programme as the years proceed and funding streams become available.
- 4.2 The Royal Borough's Capital Strategy forms the basis for long-term planning of capital investment. It builds upon processes implemented for the delivery of the Royal Borough's varied and aspiring capital programme. Thorough asset and resource planning has further facilitated the making of informed decisions.
- 4.3 Local authorities continue to face financial pressures with the impact of high inflation and interest rates continuing to exacerbate the economic situation post-covid. The Royal Borough is also required to take a balanced approach when assessing affordability and service needs.
- 4.4 Looking ahead, together with our partners, we will continue to improve our Borough's infrastructure with ambitious regeneration planned in the forthcoming years.
- 4.5 We will ensure that the Royal Borough employs sufficiently qualified and experienced staff to be able to deliver our Capital Strategy, including asset managers, development managers, legal and accountancy support staff.
- 4.6 In conjunction with the Medium-Term Financial Plan, Treasury Management Policy and the Borough's Strategic plans, the Capital Strategy paves the way for making infrastructure improvements across the Borough.

5. The Royal Borough's Priorities

- 5.1 The Royal Borough's priorities are paramount to the capital strategy. The Corporate Plan was approved by Council in November 2021. The Plan recognises that we must make choices about where we focus resources, and it is a key component of good governance. Setting strategic direction in order to ensure efforts and resources are directed to the right areas is particularly important given the scale of financial challenge and resource constraint, and in the face of challenges facing the borough, including:
- climate change
 - the recovery from the Covid-19 pandemic and wider changes in the shape of the economy
 - a growing and ageing population
 - persistent pockets of deprivation and inequalities
 - and the high costs of housing in the borough.

The Plan also sets out our approach to achieving change. The Capital Strategy will help support informed decision making in the delivery of Corporate Plan.

- 5.2 Finance is both the enabler that allows the Royal Borough to deliver these key priorities and the constraint that the Royal Borough needs to work within as it makes tough decisions between those priorities.
- 5.3 The Royal Borough's capital programme is prioritised into five key areas: Development, Investment, Major Strategic Acquisitions, Efficiency and Operational.



6. Service Priorities for Investments

6.1 The Royal Borough's service priorities for investment over the lifetime of this strategy are set out by directorate for ease of reference, in the table below: -

Directorate	Service priorities	Related statutory or other plan	Related to the Council priority/Corporate Plan
Resources	Maintenance and improvement of existing accommodation provision for the Council and its tenants to ensure statutory requirements met and rental income is maintained and enhanced.	Asset Management Plan	
	Improvement in energy efficiency to reduce environmental impact.	Environment and Climate strategy	Values and Taking Action on Climate
	Continued investment in use of mobile technologies to enabling the workforce to deliver in efficient and effective ways	IT strategy (currently being updated)	Make most effective use of resources
	Investment in telephony solutions that realise benefits of mobile devices.	IT strategy (currently being updated)	Make most effective use of resources
	Investment in network redesign and replacement.	IT strategy (currently being updated)	Make most effective use of resources
	Investment in technologies that support service transformation.	IT strategy (currently being updated)	Make most effective use of resources
	Investment for improvements in library buildings and facilities to support a sustainable and resilient Library Service	Library transformation strategy	Inspiring Places

Directorate	Service priorities	Related statutory or other plan	Related to the Council priority/Corporate Plan
Place	Investment in essential highways infrastructure, including bridges and footpaths	Local Transport Plan	Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper
	Investment in “Active Travel” and alternative transport linked to climate change	Local Transport Plan Local cycling and walking infrastructure plan	Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper and Taking Action on Climate
	Investment in road safety, where clear evidence identifies intervention required	Local Transport Plan	
	Electric Vehicle Charging infrastructure to support transition to electric vehicles and tackle transport emissions	Environment and Climate Strategy and Local Transport Plan.	Taking Action on Climate
	One off pump priming investment in digital and communications infrastructure.	Berkshire Recovery and Renew	Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper
	Maintain & improve accessibility to our community assets that have a measurable and direct positive impact on residents Health & Wellbeing		
	Town Centre enhancements as part of local master planning exercises that supports vision charters across Maidenhead & Windsor, with a business case developed for identified improvements along Ascot High Street, which leverage external investment		Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper
Adults, Health & Housing	New accommodation provision for vulnerable people.	Adult Social Care Transformation Programme	
Children’s Services	Education: Mainstream and SEND capacity to keep up with growth in population in partnership with all state schools.	Inclusion Strategy	Healthy, skilled and independent residents

Directorate	Service priorities	Related statutory or other plan	Related to the Council priority/Corporate Plan
	<p>£3.7m investment in new/improved SEND/AP provision from the High Needs Provision Capital Allocation.</p> <p>New special school on the land west of Windsor.</p> <p>£2.2m investment in the five oil boiler replacement schemes, part funded by the Public Sector Decarbonisation Scheme.</p>		
	Education: maintenance of community and voluntary controlled school buildings, including investment in carbon reductions.		Well managed resources, delivering value for money
	Social Care: 18-25 supported accommodation for care leavers and those with additional needs.	Council Transformation Strategy	
	Social Care: 5-10 residential children's home places to challenge the marketplace.	Sufficiency Strategy	
	Office accommodation for services.		
	Modern technology platform for mobile and partnership working.		Well managed resources, delivering value for money

6.2 The Royal Borough 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 Royal Borough.

7. Capital Strategy

7.1 Scope

Capital expenditure is strictly defined by statute and accounting principles and is principally expenditure incurred in buying, constructing or improving assets such as land, buildings, vehicles, plant, machinery and intangibles (e.g. computer software). It also includes grant and advances to be used for capital purposes, such as Disabled Facility Grants.

The Royal Borough's policy on capitalisation in accordance with the Royal Borough's approved accounting policies and procedures, is that expenditure on land, buildings, vehicles, plant, machinery, and intangibles over £20,000 will be capitalised, expenditure under these limits is deemed to be a revenue cost.

Ideally, the Royal Borough 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.

The Capital Strategy sets out the Council's approach to:

- Working with partners
- Asset management planning
- RBWM Property Company Business Plan

- Risk appetite
- Governance and decision making
- Capital financing & affordability
- Invest to Save
- Managing borrowing
- Leasing
- Monitoring & project evaluation
- Capital investment in 2022/23 to 2026/27

7.2 Working with Partners

The Royal Borough is committed to work with its partners to carry out its objectives. Given the financial challenges faced by the Royal Borough, it is particularly important that it works closely with regional and other local authority partners to deliver investment across the Borough which otherwise would not be deliverable or affordable. This is through central government grants and town council/Parish contributions or through delivering schemes in partnership with neighbouring authorities. The Partners have the freedom to propose and identify the schemes but those will need the approval from the members on the basis of council priorities and affordability.

7.3 Community Engagement

The Royal Borough engages with residents and the local community when making decisions that impact capital investment. Examples include Highway consultations, the Residents' survey 2022 and the Active Travel consultations.

The future SEND and AP Capital Strategy consultation will guide capital investment in new and improved provision for children and young people with EHCPs and/or in Alternative Provision.

7.4 Asset Management Planning

The Royal Borough has the responsibility for a range of assets. The asset management strategy establishes the priorities for asset management planning. It is essential to understand the need, utilisation, condition, income generating potential and the investment and operating cost requirements of assets, whether owned or leased. The Council has a Capital Review Board in place to make appropriate decisions and ensure that proper practices are followed.

The core asset management programme which deals with General Fund assets is now supplemented with additional budget as a result of a review of the condition of the Royal Borough's General Fund assets. This revealed that after years of under investment that significant funding would be required to ensure that assets are maintained at an acceptable standard to allow the Royal Borough to continue to deliver its services.

7.5 RBWM Property Company Business Plan

This function is carried out by the RBWM Property Company. Further details are set out in the table:

To help develop and regenerate the Council's assets to create a Borough of Opportunity and Innovation by:
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Identifying and helping to deliver low carbon solutions on all new projects wherever possible

Facilitating the delivery of new homes, indirectly with the Council and Joint Venture partners and directly investing as the Prop Co in residential development.
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Ensuring greater access to quality affordable housing for those in housing need.
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Support the regeneration of the Borough's Town Centres and 'Place Making', working alongside Council colleagues and Stakeholders at an early stage of development to ensure optimal outcomes.

To grow Prop Co as an asset of value for the Council with a portfolio of residential, retail, and commercial properties.
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To provide the Council with cost savings, a dividend on its investment and/or other value towards the cost-of-service provision, both financial and social.

7.6 IT

Utilising IT solutions for local authority service delivery and digital enablement is crucial for the Royal Borough.

Following the rollout of Windows 10 laptop devices IT Services have been able to promote remote working for staff and leverage the investment of the Microsoft Office 365 Suite. As Office 365 is cloud-based, the full-featured experience can be accessed from anywhere, on any device, as long as staff are online, allowing them to create, collaborate and communicate more efficiently and effectively. Microsoft Teams is now a fundamental part of the organisation allowing staff to instant 'chat' message, collaborate on files and create/attend audio and video meetings with internal colleagues and external partners. This has reduced costs associated with corporate telephony and legacy conference calling facilities.

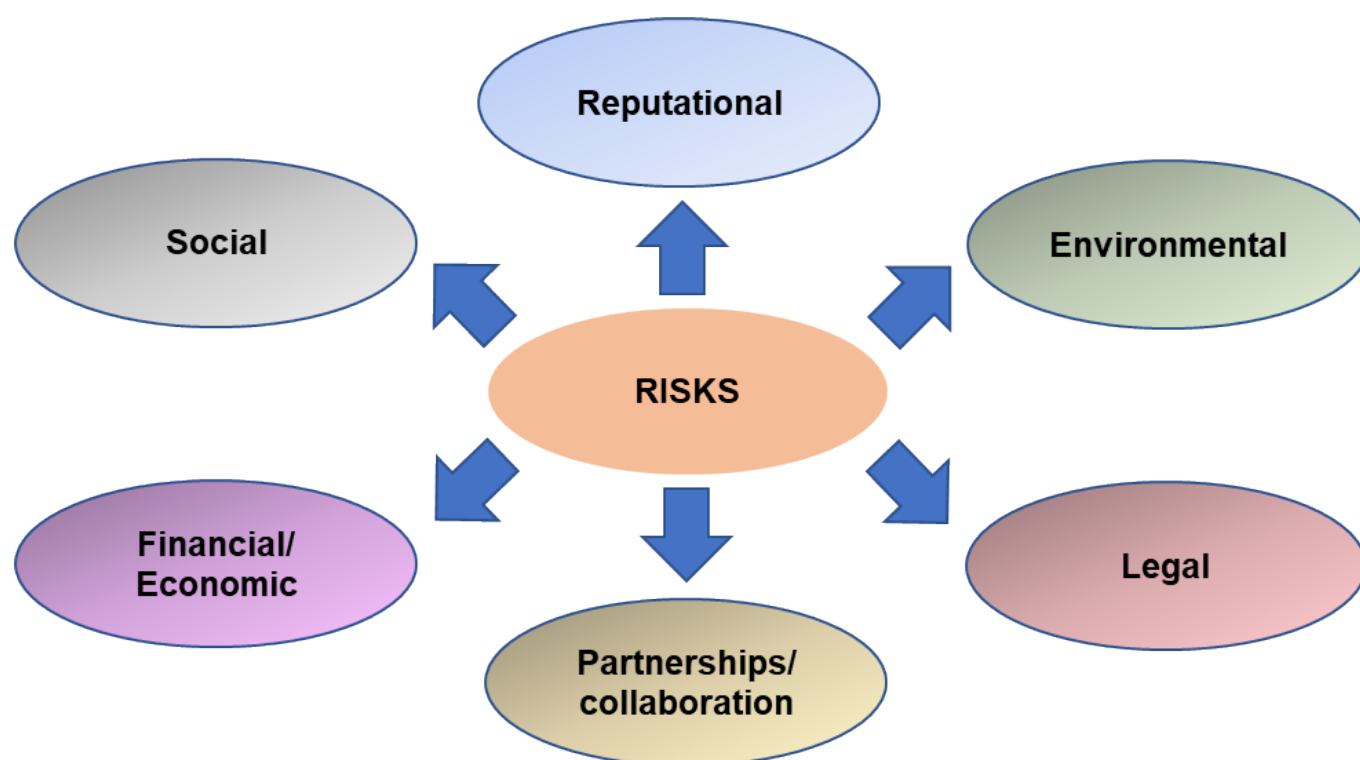
Additional Microsoft Teams phone system licenses were also introduced in 2021 to give staff the ability to utilise Microsoft Teams as a fully functional softphone via their devices. This allows calls to be made and received via existing council direct dial extension and service numbers and ceased the costly and traditional ISDN lines and PBX solution.

Future IT projects includes work on the network redesign and broadband which will further improve business continuity as well as investigations of enhancements to the Teams Cloud Telephony solution to migrate additional services over to this solution. These works will form part of the Corporate IT and Digital Strategy that is being developed. Major systems replacements of the Adult Social Care and Children's IT systems are also planned.

The IT strategy is currently under development. Investment in IT to allow business continuity forms part of the capital plans and further investment is planned during 2023/24.

7.7 Risk Appetite

Any new proposed capital scheme should be supported by a sound business case/options appraisal and should include a full evaluation of risk:



This should have regard to the whole life costing methodology, “the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset.” In practical terms this means that any appraisal will need to consider not just the initial outlay, but all costs/income associated with the project that are likely to occur in future years, including possible replacement. This is vital to ensure that the Royal Borough is not committing itself to future liabilities that are unsustainable.

7.8 Governance & Decision Making

It is important that those charged with governance understand the long-term context in which investment decisions are made and the financial risks to which the Royal Borough is exposed. The strategy should therefore contain sufficient detail to allow members to understand how stewardship, value for money, prudence, sustainability and affordability will be achieved.

In common with other local authorities, The Royal Borough is facing a challenging financial climate and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way and therefore expenditure needs to be prioritised:

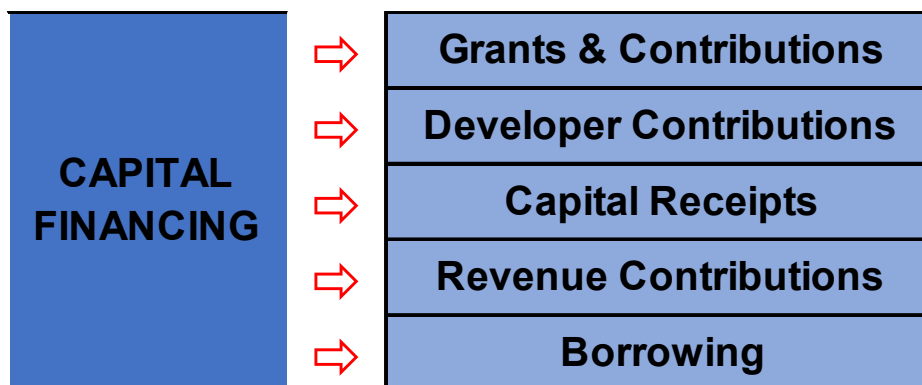
Priority	Type of Projects to deliver strategic outcomes as per the Royal Borough’s vision
Highest Priority to Lowest Priority	Unavoidable capital expenditure due to an emergency such as one affecting service continuity or business critical infrastructure
	Projects necessary to deliver statutory, mandatory and legal/contractual obligations
	Projects that give rise to revenue savings or income generation. These can be developed as invest to save projects
	Projects attracting additional external funding
	Projects which improve the Royal Borough assets and reduce the need for revenue maintenance

7.9 Capital Financing & Affordability

The Royal Borough will need to assess the overall affordability of any new scheme, having regard to the availability of resources, existing financial commitments and the projected level of balances forecast in the medium-term financial strategy.

The prudential code requires ‘the local authority shall ensure that all of its capital and investment plans and borrowing are prudent and sustainable.’

Capital expenditure can be funded in a variety of ways:



Grants and developer contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant or contribution. There is little, if any, latitude in the way grant funding can be applied. Capital receipts are derived from the sale of the Royal Borough’s non-assets. The Royal Borough’s asset management planning identifies all the opportunities available for capital receipts, However, asset disposals are infrequent.

Revenue contributions are a flexible source of funding, but they put an immediate strain on the General Fund balance and can therefore only be used to a limited extent.

Borrowing spreads the cost over a number of years but loan servicing costs and the overall level of debt exposure both need to be considered and clearly flagged in a business case including the impact of minimum revenue provision requirements.

7.10 Invest to save

Invest to save is investment now to transform and reshape services to reduce running costs/generate efficiency savings or earn income to pay back the initial outlay. Priority should be given to these projects providing that they are supported by a sound business case and financial appraisal.

7.11 Managing Borrowing

The Royal Borough will have £206m of total current borrowing both long term and short term as at 31 March 2023. This is funded from Public Works Loan Board (PWLB), other local authorities and financial institutions for a number of schemes/projects previously approved by members. It should be noted that due to the cost of borrowing in the current economic climate and outstanding debt liabilities, the Royal Borough should only consider it as a last resort after all other sources of financing have been exhausted. At the time of writing, the cost of local authority borrowing from the Public Works Loan Board (PWLB) has increased significantly. This follows the recent financial uncertainty.

Due to being linked to gilt yields, interest rates have significantly increased. The PWLB sets its rates at a margin that is above the government's cost of borrowing, causing the interest rates to move in line with gilts. Investors have demanded a much higher return for investing in government bonds, which have caused some to halve in value. As a result, PWLB interest rates have increased. This unprecedented situation will be closely monitored by officers and cost of borrowing projections updated before the final 2023/24 budget is approved by members at February 2023 Council.

The rapid changes in the economic and political situation currently in the UK has caused a high level of uncertainty with regards to interest rates. The recent substantial increase in interest rates and anticipated further increases has significantly increased the cost of borrowing available to the Authority. This significantly impacts capital spending plans for the foreseeable future.

7.12 Leasing

Leasing obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning such asset itself.

By 1 April 2024, the Royal Borough is required to implement IFRS 16 (International Financial Reporting Standard), although it has an option to implement earlier. This accounting standard sets out the guidelines for recognising and disclosure requirements for accounting for leases and will replace previously in place requirements under IAS 17 (International Accounting Standard). This means from this date the way the Royal Borough accounts for assets it leases from third parties will change as assets will be shown on the Royal Borough's Balance Sheet as Right to Use Asset with a corresponding liability.

The definition of a lease has been adapted for the public sector as being 'a contract, or part of a contract, that conveys the right to use an asset for a period of time.'

The Royal Borough currently leases some assets including land, buildings, vehicles and photocopiers.

Under these changes these right of use assets will be disclosed on the balance sheet except for leases with a term of 12 months or less or if the asset is of low value. The accounting standard does not include intangible assets (e.g. computer software licences) or where a contract contains use of an asset but the supplier has the ability to substitute alternative assets throughout the period (e.g. hygiene bins).

When the asset is recognised in the balance sheet a corresponding liability is then created, representing the obligation to make lease payments. When the Royal Borough makes a lease payment rather than it showing as an expense against the relevant cost centre, it is split between paying off this liability and interest payments. The asset is depreciated in the same way as similar assets of that class, usually over the life of the lease unless the asset useful life is lower.

In preparation, a data gathering exercise has already been undertaken to record all the leases the Royal Borough has, including those at peppercorn/nil consideration (where the Royal Borough pays little or no rental payments at any point during the duration of the lease). The Royal Borough is required to evidence to its external auditors that it is prepared for these changes. The accounting policies will be amended to

reflect the move to IFRS 16 and the threshold for low value will be determined in the year of its implementation.

Finance should be consulted on all new leases and contracts which includes the use of an asset (whether this is directly by the Royal Borough or by the contractor) to deliver obligations under a contract so that it can be assessed to see if the contract contains an embedded lease.

7.13 Treasury Management

The Royal Borough undertakes borrowing for two main purposes:

- Meeting its daily cashflow commitments, and
- Financing its capital programme

Treasury Management is the management of the Royal Borough's borrowing, investments and cashflows and is essential in particular when accessing the affordability of a capital project, the Treasury Management Strategy includes:

- The borrowing strategy
- The authorised limit for external debt

Where capital expenditure has been incurred without a specific funding stream to meet the expenditure, there will be an increase in the Royal Borough's Capital Financing Requirement (CfR) which is a determinant of the Royal Borough's underlying need to borrow. The Royal Borough is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget, this known as minimum revenue provision (MRP). CFR is calculated below:

Opening CFR
+
Capital expenditure for the year
-
Grants, contributions, reserves, capital receipts funding new capital expenditure
-
Minimum Revenue Provision and other debt repayment
=
Closing CFR

At 31 March 2022, the Royal Borough's CFR was £225.3m, subject to audit, compared to its total borrowing of £206.6m reflecting under borrowing of £18.7m.

7.14 Monitoring & Project evaluation

It is the responsibility of the relevant budget holder and their team to manage costs and to provide explanations for any variations or slippages from the approved budget as soon as they become known. Budget monitoring statements are presented to senior management and to Cabinet regularly through the bi-monthly Financial Update report.

Major capital projects are reviewed at the Capital Review Board meetings throughout the project. The board has representation from across the services teams including Finance. These meetings discuss progress, including cost projections.

A post project evaluation is required to be undertaken to measure delivery against required project outcomes, not just time and cost. It is again the responsibility of the budget holder to undertake this review. This will help the Royal Borough for the future as lessons learned can be transferred to new projects and help with such things as benchmarking.

8. National Financial Context

- 8.1 Over recent years all local authorities have faced significant reductions in government funding because of austerity measures put in place. This has had a significant impact on major investment decisions. The financial sustainability of local government has faced successive challenges, including increased demand for services, notably social care and the Covid-19 pandemic. Current economic developments that have caused inflationary pressures and a significant increase in interest rates will further impact the Borough significantly.
- 8.2 Government capital grants for funding capital projects have been materially reduced over the years. This leaves councils in an unenviable position to finance essential capital schemes using debt where other funding options have been exhausted.
- 8.3 Material pressures on revenue budgets mean that councils are finding it much harder to meet significant borrowing costs stemming from capital investment.
- 8.4 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 in respect of specific capital developments.
- 8.5 Some councils have taken a more commercial approach to their assets. For example, building or expanding car parking to generate additional ongoing income to support the council budget or purchased property for a purely financial return.
- 8.6 In past years, unprecedented low interest rates have enabled councils to borrow cheaply to fund new capital investment. However, the situation has recently reversed causing significant pressures to council finances nationwide. To address the issue of councils borrowing purely for commercial investment, PWLB lending terms have been modified to limit a council's liability to borrow purely for investment purposes.
- 8.7 Many councils have also benefited from capital receipts from asset sales to offset the cost of new capital investment. As with most other councils, the Royal Borough has an asset disposal plan in place.

9. The Royal Borough Financial Context

- 9.1 The Royal Borough has the advantage of substantial and valuable land and buildings holdings. In compliance with its asset management plan, the Borough continues to be pro-active and innovative in using these holdings to generate capital receipts for new investment.
- 9.2 As a general principle, land no longer required for its existing use is declared surplus so that options for its future use or sale can be considered by the Property Services team and members of the Capital Review Board prior to proceeding for a formal decision.
- 9.3 Capital receipts are used to finance capital expenditure. In future, capital receipts will also be utilised for debt redemption in accordance with the Royal Borough's Minimum Revenue Provision (MRP) Policy.
- 9.4 Where appropriate, the Royal Borough has used the capital receipts generated from the closure of a facility to largely fund its replacement. Disposals can only take place once the new facility is built, which means that

- The Royal Borough needs to borrow to fund the new facility initially
- The Royal Borough carries the risk of holding and disposing of the previous asset.

9.5 In other cases, the Royal Borough has been able to use s106 & Community Infrastructure Levy contributions to offset the cost of certain capital investment, where this is consistent with the terms of the development agreement.

9.6 The Royal Borough has also invested in its assets to generate income to support its Revenue Budget. This has included:

- Converting and investing in the Royal Borough land to generate additional income from car parking provision.
- Modest investment in commercial property to maintain a revenue income stream.

9.7 In addition, the Royal Borough has invested in building and enhancing assets for residents, including the secondary schools expansions programme, libraries and leisure centres. This has resulted in significant capital investment in recent years. The Royal Borough's borrowing is projected to be £241m by 31 March 2024.

9.8 When building the Capital Programme for 2023/24 the cost of borrowing will be kept as low as possible by investing in essential schemes only. For 2023/24 debt financing costs, including MRP, are estimated at £11.4m. Short-term borrowing rates are expected to increase to 5% in 2023/24 which places considerable financial pressure on the Council's revenue budget. To minimise this financial burden, the treasury management team will consider the best borrowing options between short and long-term borrowing. An asset disposal plan to reduce debt is in place, however, most capital receipts are projected to be received after this turbulent period which places additional pressure on Council finances.

9.9 Officers are currently undertaking an urgent review of approved capital schemes with a view to reducing capital expenditure where possible. This is necessary given the recent steep increase in interest rates.

9.10 Overall, the Royal Borough 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:

- Fund significant spending on refurbishing assets from borrowing rather than funding this from within its Revenue Budget
- Use capital to fund a number of short-life asset replacements e.g. Software.
- Prioritise spending that generates future income to contribute to its Revenue Budget.

9.11 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.

However, in the longer term as borrowing and interest rates increase, more and more pressure is placed on the Revenue Budget, through increasing the level of debt financing costs. Interest rates were at 0.75% at the beginning of 2022/23, and are now projected to rise to 5% by the beginning of 2023/24.

10. Developing Capital Plans

10.1 Decisions around future capital investment should not be taken lightly as this often involves significant sums of public spending, which has a significant future impact on the Royal Borough's finances.

10.2 The Royal Borough 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 the Royal Borough assets to create long term revenue streams or whether to dispose of assets to help to reduce borrowing costs.

10.3 To strike this tough balance the Royal Borough will:

- 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.
- 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.
- Set clear objectives – for example it needs to be clear about the payback period it expects from commercial invest to save schemes.
- Develop a pipeline of projects that fit in with the longer-term plan for capital investment.

10.4 This prioritisation will be assisted by having:

- Surveys of all the Royal Borough assets that set out maintenance requirements over time
- Clear replacement strategies – that show when assets need to be replaced and updated e.g., IT equipment and systems.

10.5 Given the long-term nature of capital investment, the Royal Borough should be able to plan effectively and avoid the need for capital schemes to emerge at the last minute.

10.6 Above all, there is a need for an effective process to assess competing capital priorities and develop more long-term capital plans.

11. Delivering Capital projects

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

- A procurement Strategy for the project
- A project timetable and delivery plan
- An updated financial assessment including the revenue implications, both immediate and ongoing
- A clear assessment of project benefits and how these will be delivered and assessed.

11.2 The Royal Borough has established a Capital Review Board (CRB) which oversees the delivery of the capital programme. CRB 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 Royal Borough'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 the Royal Borough in accordance with the Constitution. The following summarises the terms of reference of the board:

Membership

- Executive Director of Place
- Managing Director, RBWM Property Company Limited
- Head of Finance (Chair)
- Head of HR, Corporate Projects and IT
- Head of Infrastructure, Sustainability and Economic Growth
- Head of Neighbourhood Services
- Head of Capital Projects and Asset Management, RBWM Property Company Limited
- School Places and Capital Team Leader

- Corporate Accountant (Capital)

Support to the Board

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

Frequency

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

Overall Responsibilities

- Advise on the Royal Borough's Capital Strategy in line with the Council's priorities.
- Ensure the effective development and delivery of the Capital Programme in line with the Royal Borough'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.

11.3 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.

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

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

12. Financial Risks

Planning for the future can never be an exact science. There are many factors that the Royal Borough cannot control, the war in Ukraine and recent economic developments being prime examples. External factors have been shown to have a significant impact on costs and the viability of future capital plans.

Interest rates were at 0.75% at the beginning of 2022/23 and are now projected to rise to 5% by the beginning of 2023/24. In light of these expected increases the Authority will review and, where appropriate, reduce its capital programme. With interest rates at 5% a £10m reduction in capital expenditure would result in a reduction in annual borrowing costs of £500,000.

- 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.
- Interest Rates – Rising interest rates will impact on the affordability and viability of key future capital projects.
- 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.
- Contractual Risk – the cost of major projects can be heavily dependent on the level of competition that influences bids to deliver the scheme.

12.1.1 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. Effective project planning and due diligence, project management and budget control are essential in mitigating delivery risks along with the selection of skilled delivery partners.

12.2 Funding capital investment represents a significant pressure on the Revenue Budget. It is essential that the Royal Borough understands fully the revenue impact of capital investment and the extent to which the project:

- Meets the Royal Borough's objectives
- Is self-funding
- Delivers a realistic pay back in the case of invest to save schemes

13. Summary and Conclusion

13.1 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.

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

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

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

13.5 Increasing interest rates will result in a pause or discontinuation of some capital projects. This is under continuous review and the final outcome will be included in the February 2023 budget report.

13.6 Due to the fast-changing economic situation the Capital Strategy for 2023/24 will continue to be reviewed and amended as necessary prior to approval by Full Council in February 2023.

Appendix 1 - Summary of Capital Programmes

This will be published in the draft budget papers to November cabinet.

Appendix 2 – Capital Expenditure & Financing 2023/24 to 2026/27

This will be published in the draft budget papers to November cabinet.