Appendix H

Capital Strategy Report 2024/25

Royal Borough of Windsor and Maidenhead

Summary

In spite of the current financial constraints, the Royal Borough of Windsor and Maidenhead (RBWM) remains committed to a vibrant programme of capital projects designed to improve, maintain and sustain the Borough. There is a focus on the housing needs of our residents, an obligation to ensure their safety and prosperity by maintaining and improving local infrastructure and also a strong emphasis on optimising the use of the buildings, land and other assets that we own for the benefit of the Borough and the council's finances.

Cllr Werner (centre) and Cllr Bermange (front right) meet with architects, technical consultants and construction contractors at the ground breaking on the Mill Road affordable housing site.

Over the last decade, the authority has spent £345m on capital projects, and this has contributed to the high levels of debt currently held, which in turn creates pressure on our revenue budget with increasing amounts of interest payable. As a consequence of this, when setting the budget for the 2024/25 financial year, capital spend was restricted where possible to necessary infrastructure funded by external grants such as CIL and S106 monies and internal system spend required to either achieve efficiencies in our IT systems or to ensure they are robust and that data is secure. By focusing on grant funded projects, we reduce as much as possible the need for further borrowing.

This means that the new projects approved for the coming year are expected to cost £19.7m with £16.8m of that being funded by external funding. This is £26m less than the 23/24 financial year which we started with £46m of projects, £23.3m of which were expected to be funded by external grants and £22.7m by borrowing. Many of these are still in progress and will carry over into the next couple of years. The reduced level of bids for the coming year gives us a programme that is more deliverable, focused on priority needs and minimises the need for further borrowing.

Some capital expenditure is of course unavoidable in the delivery of statutory services so the authority will never reduce the capital programme to zero, nor would it want to. We do however want to minimise where possible the requirement to borrow in order to fund it, and where we do have to borrow, if the expenditure is optional, we would want it to generate sufficient income to safely cover not only the interest cost of the debt incurred but also to pay down the capital borrowed over the life of the asset. This means that at the very least, optional capital expenditure should be cost neutral to the authority and, where possible, deliver ongoing revenue income to support services.

Introduction

This Capital Strategy provides 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.

While the annual revenue budget can often feel like the main focus for the Council each year, the Capital Strategy affects not only the in year activity but the longer term elements in the Medium Term Financial Strategy (MTFS).

What is Capital Expenditure?

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 Council has some limited discretion on what counts as capital expenditure with non-qualifying expenditure being charged to revenue in year.

For details of the Council's policy on capitalisation, please see the Council's accounting policies which are contained within the annual Statement of Accounts.

In 2024/25, the Council is planning capital expenditure of £30.5m. The difference between this and the bids of £19.7m is expenditure on current projects "slipping" forward to future years.

Estimates of capital expenditure in £m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Capital Expenditure	**21.69**	**41.13**	**30.52**	**46.85**	**20.01**	**16.81**	**9.80**

Governance

Assistant Directors, with the approval of their Executive Director, will typically update Finance with their proposed project costs as part of the budget process. These proposals are scrutinised and challenged in a number of sessions by Finance, the Exec team and Cabinet members, to ensure they are necessary and robust, before they are included in the final budget proposals. The financing costs of these proposals (which could be nil if the project is fully funded by external contributions) are included in the (MTFS) and detailed budgets for the coming financial year.

For full details of the Council's proposed capital expenditure see Annex I which holds the detail of the proposed capital programme.

Where future expenditure, either possible or indicative, has been included for the purpose of calculating our potential borrowing requirement and projecting a cost of capital through the MTFS, individual projects will still require business cases to be presented to the S151 officer, the Executive team, and members as appropriate for approval before expenditure can be committed.

All capital expenditure must be financed, either from external sources (government grants, developer contributions etc), the Council's own resources, (revenue, reserves and capital receipts) or debt (borrowing). The planned financing of the above expenditure is as follows:

Sources of capital funding £m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Government Grants	8.07	15.58	10.18	12.11	0.00	0.00	0.00
Other Contributions	0.00	0.28	0.44	0.00	0.00	0.00	0.00
CIL	1.96	12.12	3.84	4.50	4.50	4.50	4.50
S106	0.57	3.84	3.76	1.00	1.00	1.00	1.00
Capital receipts	0.46	4.09	10.20	6.00	14.51	3.41	0.00
Revenue	0.00	0.00	0.26	0.00	0.00	0.00	0.00
Borrowing	10.64	5.22	1.84	23.24	0.00	7.90	4.30
	21.69	**41.13**	**30.52**	**46.85**	**20.01**	**16.81**	**9.80**

The current strategy is to reduce significantly the reliance on borrowing and the reduction can be seen between last year and the current year / next year. Where we have existing obligations for future schemes that require this method of funding, every attempt is being made to either reduce it or to ensure that at the very least it will return sufficient income to cover the cost of the debt and more.

External funding could come in the form of:

- Government grants – these have been used successfully for energy efficiency upgrades to schools in the borough, lowering their carbon emissions and helping us meet our carbon reduction targets. Schools have also benefitted from new classrooms and all-weather sports pitches.

- Section 106 contributions from developers – these have provided funding for multiple one and two bedroom flats bringing a brownfield site into beneficial use within the community and property conversions to deliver facilities for the Rough Sleeping Pathway.

- The disabled facilities grant (DFG) – this funds adaptations to the homes of eligible residents.

- Community Infrastructure Levy (CIL) – these are funding the "Missing Links" cycle route, making improvements to an existing subway and a contribution to a new pedestrian crossing providing safe and inclusive access to the town centre.

(Cllrs Davies, Hill and Reynolds pictured)

Minimum Revenue Provision

Before the start of the financial year, a statement of MRP policy for the forthcoming year must be approved by Full Council.

The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG's) and the Department of Levelling Up, Housing and Communities (DLUHC's) Guidance on Minimum Revenue Provision, most recently issued in 2018.

Borrowing, both internal and external, must be paid back and so every year, the Council calculates how much has to be charged to the Revenue Budget to pay off the borrowing over the life of the asset. This is called, the Minimum Revenue Provision – MRP

It is, in effect, a replacement for the depreciation that you would expect to see within a company's accounts in the private sector. In local government accounting, depreciation is charged and then reversed out so it does not affect the level of Council Tax required to fund the Council's costs, however, MRP is charged to the General Fund and therefore does affect the required level of funding.

For the purpose of the calculation, we determine the useful life of each asset as no less than 5 and no more than 50 years. The broad aim of the policy is to ensure that MRP is charged over a timeframe that is reasonably consistent with the period over which the capital expenditure, which gave rise to the debt, provides benefits. Where a local authority's overall Capital Financing Requirement (CFR, see below) is £nil or a negative amount, there is no requirement to charge MRP. RBWM's CFR at 31st March 2024 is forecast to be £243.1m

If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure. In exceptional cases, where a Qualified Valuer has estimated the useful life of the asset to be more than 50 years, that useful life will be used.

So if the Council borrowed £10m to buy an asset with a useful life of 40 years, and were using the Equal Instalment Method (see below), we would need to provide (£10m /40) = £250,000 per year for 40 years in our revenue budget. If the asset were only expected to last 10 years, the cost would be £1m per year.

There are 4 options available for calculation of MRP. RBWM currently use the asset life method (annuity method) but from 23/24 onward we propose to use the Depreciation (The Equal Instalment Method). The Equal Instalment Method has been used in the example above while the Annuity Method has lower repayments in the early years which increase every year over the repayment period. The Equal instalment method is considered to better reflect the consumption of the asset, whilst the annuity method gives a revenue benefit in the early years, but comes with an increasing cost, and the need for greater savings, in future years.

MRP is only concerned with the repayment of the principal amount borrowed so, if viewed like a repayment mortgage, the repayment of the principal under the Annuity Method is much lower in the early years. This would work well alongside loans whose principal values are being repaid on a complementary basis. The provision of MRP and the repayment of loan principal offsetting each other over the life of the asset. This method has previously been employed by RBWM but since our outstanding debt is not being repaid, this approach of low provision in the short term which rises as the asset ages puts more strain on the Council's budget in the future and therefore it is considered that the equal instalment method is more prudent.

<u>This is a change in estimation technique.</u>

MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational.

Where capital loans and finance leases made to third parties are repaid in annual or more frequent instalments of principal, these "capital receipts" arising from principal repayments reduce the capital financing requirement and consequently the need for MRP.

Taking all available advice into account, the final decision on the determination of asset life rests with the Chief Financial Officer.

The general fund charge for MRP in 2024/25 using the basis outlined above is estimated at £4.1m

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
MRP	**3.02**	**3.57**	**4.12**	**4.40**	**4.59**	**4.59**	**4.98**

Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is expressed as its Capital Financing Requirement (CFR). This is a combination of internal and external borrowing and increases with new debt-financed capital expenditure and is reduced by MRP and capital receipts used to replace debt. The CFR is expected to decrease by £2.9m during

2024/25. Based on the figures shown above for expenditure and capital financing, the Council's estimated CFR is as follows:

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
CFR	**234.42**	**236.07**	**233.79**	**252.63**	**248.04**	**251.35**	**250.66**

The table above shows that while we have inherited a high level of CFR, we are attempting within our capital plans to hold it down as much as possible to avoid incurring higher debt servicing and MRP costs in future years. The material levels of capital receipts expected from large scale projects such as the Maidenhead Gold Club development will help us to reduce our CFR but, based on historical agreements, a large proportion of the income from these will be realised at intervals over the next decade and stretch beyond the life of our current MTFS.

Cllrs Simon Werner and Karen Davies in the community orchard

We are currently reviewing investments which provide a low return to identify which assets, under our current commitment to optimise the use of our assets, it would be financially beneficial to dispose of. The current estimate of capital receipts, including the sale of assets in the Nicholson's Quarter in Maidenhead and Maidenhead Golf Course over the life of the MTFS is as follows:

	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Capital Receipts	**2.46**	**15.53**	**4.41**	**23.75**	**8.80**	**0.99**
CIL projection	**4.50**	**4.50**	**4.50**	**4.50**	**4.50**	**4.50**
S106 projection	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Capital Grants	**4.13**	**8.63**	**12.39**	**0.30**	**0.00**	**0.00**
Total	**12.08**	**29.67**	**22.30**	**29.55**	**14.30**	**6.49**

Capital Receipts

Capital receipts are also generated by loans to third parties such as our external Children's Services provider, Achieving for Children and by the sale of land or property.

Cllr Amy Tisi (2nd from right) meets with colleagues from Achieving for Children (AFC)

Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash can be invested till required, while a shortfall in cash (within the limits related to the CFR) may be met by borrowing. Treasury management is discussed in more detail in the Treasury Management Strategy also appended but this paper looks at the impact of our capital plans on projected borrowing requirements.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

As part of the review of prudential indicators, the Council is asked to approve the following:

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
CFR	**234.42**	**236.07**	**233.79**	**252.63**	**248.04**	**251.35**	**250.66**
Operational Boundary	**277.00**	**246.07**	**243.79**	**262.63**	**258.04**	**261.35**	**260.66**
Authorised Limit	**303.00**	**256.07**	**253.79**	**272.63**	**268.04**	**271.35**	**270.66**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP 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 and then expressed as a percentage of that.

Estimates of financing costs to net revenue stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Interest payable	4.28	7.01	9.02	9.18	8.91	7.58	7.50
MRP	3.02	3.57	4.12	4.40	4.59	4.59	4.98
Financing costs	7.30	10.58	13.14	13.58	13.50	12.17	12.48
Net revenue stream	97.84	108.08	117.45	121.55	125.09	128.75	132.55
Proportion of NRS	**7.46%**	**9.79%**	**11.19%**	**11.17%**	**10.79%**	**9.45%**	**9.41%**

The increase in the proportion of our budget being spent on debt reflects the sharp and unexpected increase in interest rates over the last year so as our debt is refinanced, our debt servicing costs have risen. The authority also started 2023/24 with a large and expensive capital programme, half of which is expected to slip into 2024/25. The capital programme going forward reflects our commitment to maintaining and improving our assets but in an affordable manner with a focus on bringing our financing costs down. In the medium term, outside of reducing capital spend, the main driver of this reduction will be capital receipts generated through planned asset sales.

Although the Public Works Lending Board (PWLB), which is an important source of borrowing for Local Authorities, does not permit borrowing for the sole purpose of investing in assets for yield, it does allow for the retention of any assets bought prior to that guidance being issued. RBWM owns a number of commercial properties which deliver much needed revenue income to the Council.

The Council's commercial assets include land, commercial property and car parks. The income from assets in 23/24 was budgeted at £4.5m. These assets have to be maintained to ensure compliance with Minimum Energy Efficiency Standards (MEES), Health and Safety compliance, performance improvement and marketability. All of this requires a robust, commercially focused strategy to ensure not only compliance but that the programme of work can be self-sustaining. The review of this strategy and the establishment of a holistic corporate landlord model forms a part of the Place Directorate's transformation programme.

While the corporate portfolio is appropriately diverse and includes recognisable buildings such as the Town Hall, Guild Hall, Maidenhead Library and the Tinker's Lane Depot, the future strategy must continue to achieve efficiencies in operational, occupational and utility costs, as demonstrated by the decarbonisation of Maidenhead Library.

Great Uncle Bulgaria and Orinoco help Maidenhead Library celebrate its 50th anniversary

RBWM receives income from office, retail and industrial premises but the properties vary in age and state of repair. Following a planned maintenance programme in 2023, a service charge is now in place for the retail portfolio. This is normal practice in commercial asset management and will build a fund over time to improve and enhance the properties. A review of remaining properties is underway to assess the viability of expanding this approach. Typically, an amount equivalent to 10% of gross income would be required to cover ongoing maintenance and building improvements.

It should be noted that while some buildings achieve a healthy rate of return which make valuable contribution to the revenue budget and help to fund other services, some buildings, either because of their age and state of repair, or because of legacy agreements with tenants, provide little or no income but still cost RBWM money to maintain. These are under review and with the Council agreeing that assets income must be maximised to improve the financial position of the authority, these must be considered for disposal as part of the Council's agreed response to the financial challenges it faces.

Net income from commercial and service investments to net revenue stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Service	**0.25%**	**0.46%**	**0.38%**	**0.34%**	**0.29%**	**0.21%**	**0.19%**
Commercial	**3.38%**	**3.02%**	**2.86%**	**2.82%**	**2.79%**	**2.77%**	**2.74%**

Current and future projects

One of the key assets that the Council has in terms of budget supporting income generation is its car parks which are not only revenue generating but are also valuable sites for alternative uses and support the economic vitality and viability of our town centres. A continued programme of condition surveys ensure they remain fit for purpose for all users. More recent usage figures at Vicus Way MSCP, which was a previous capital scheme for the Council, have shown continued growth.

There are a number of capital programmes in progress and not many more prominent than the public realm improvements in Castle Hill and St Alban's Street, Windsor. The scheme will see Castle Hill partially pedestrianised with a wider pavement on the southern (shops) side of the road, as well as a significant reduction in vehicle movements where this is limited to Castle access only during its visiting hours. This will improve the visitor experience to this area of town, helping to drive economic growth and spend, as well as provide additional safety benefits.

Improvement works at Castle Hill, Windsor

The Council has also been able to access over £1.5m of funding through the Public Sector Decarbonisation Scheme (PSDS) which has helped deliver works across four schools to replace oil boilers with air source heat pumps, energy efficiency measures and solar panels for on-sire renewable electricity generation. This alongside the wider decarbonisation programme has helped to keep the Council on track to reduce its carbon emissions by 50% by 2025, in line with our Environment and Climate Strategy. Further bids to the PSDS will help to remove the last remaining oil boilers in the schools' estate as well as a set of measures to reduce carbon emissions at Windsor Leisure Centre, through new air source hear pumps replacing the old gas boilers, new pool air handling units and solar panels.

To support our plans for decarbonisation, the council has a programme to deliver new electric vehicle charging points across the Borough. The council adopted its Electric Vehicle Charging Implementation Plan in 2023, with plans to deliver "connected corners" to support residents who want to charge an electric vehicle but don't have access to private parking. The plans, supported by grant funding from Government, will enable over 400 new charging points to be installed across the borough, helping to support the uptake of electric vehicles.

Cllr Geoff Hill (left) sees firsthand the effectiveness of infrared repairs on our highways

The Royal Borough also has a statutory duty to undertake inspections and maintain our highway structures. A rolling programme of funding is required to carry out inspections and minor strengthening works to mitigate and reduce any safety risks and to prolong the life of assets such as bridges. Failure to carry out works that have been identified as necessary may lead to RBWM being exposed to claims or more substantial work in the longer term.

Details of the highway resurfacing programme and the footway maintenance and construction programme have been appended at J. The highway detail is a list of resurfacing schemes which have been highlighted as high risk to the borough through the scrim and scan survey carried out in 2023. These schemes need to be carried out to maintain the life of the council's assets, prolong the life of the network for all users, and reduce potential claims to the council. **The recommendation is to approve the named schemes.**

The footway maintenance and construction programme is a list of footway schemes which have been highlighted through highway safety inspections which are carried out through the year, which require maintenance. Carrying out this maintenance maintains the life of the council's footways for all user groups, prolongs the life of the asset as well as reducing potential claims to the council. **The recommendation is to approve the named schemes.**

Within the council's offices, work is regularly underway to improve systems in order to create efficiencies and make for better customer experiences. Security is also a constant consideration with the protection of our data and the strength of our networks a paramount concern and work has been planned in all of these areas in 2024/25.

RBWM also intends to make use in the coming year of the flexible use of capital receipts. This allows us to use some of our previous capital receipts to fund the necessary resource for our transformation programmes in 2024/25. While capital receipts are not normally allowed to be used for anything other than reducing CFR or the purchase of new assets, there is a direction in place that would allow us to use them, within very specific criteria, during 2024/25 for initiatives that will allow us to deliver services for reduced cost, leaving the Council in a better financial position going forward. This is explored in detail in Appendix G.

Conclusion

While the current financial situation of the borough is undeniably challenging, the responsibilities of the Council remain and must be addressed. Much greater attention is being paid to the prioritisation of infrastructure projects and to finding sources of funding for them that do not incur more borrowing and therefore debt servicing costs to the Council.

Commitments have already been made to dispose of assets such as Maidenhead Golf Course and where we take decisions to sell assets such as these, we must make sure that we receive as much income as possible as disposals such as these are the only real way we have to reduce our debt and reduce that burden on our revenue budget. In a Council where funding is low and services are typically extremely tightly resourced, servicing such a high level of debt puts further strain on our ability to deliver these services well and uses a disproportionate amount of our available revenue budget. While these concerns are explored further within the treasury strategy paper at Annex K, our capital strategy impacts on this by how much additional borrowing it requires, how much it can bring in in capital receipts from disposal of assets that aren't contributing to our revenue budget and how much of its requirements can be funded from external grants and contributions which reduce the impact of the required investment and maintenance of our infrastructure on our revenue budget.