Appendix 1

Capital & Investment Strategy 2022/23

Contents

1. Purpose of the Capital & Investment Strategy

1.1 The main purpose of the Capital & Investment Strategy is to define how Buckinghamshire Council will maximise the impact of its limited capital resources to deliver its key aims and priorities. It considers future capital investment needs, especially in relation to regeneration and the growth agenda, and ensures the optimum impact of those investments. It also helps the Council to be clear on its priorities for bidding for external funding.

1.2 In managing its Capital and Investment Strategy, the Council will have regard to its statutory obligations within the context of a changing operational environment, the longer-term impact of its decisions, the delivery of value for money and the risks associated with any particular course of action.

1.3 The strategy is designed to fully comply with the Prudential Code of Practice for local authority capital investment by the Chartered Institute of Public Finance and Accountancy (CIPFA) in parallel with guidance to local authorities from the Ministry of Housing, Communities and Local Government (MHCLG). The main purpose of the Code is to ensure that capital investment proposals are affordable, prudent and sustainable.

1.4 By the very nature of capital investment, it is necessary that this strategy takes a longer-term view. However, the strategy also focusses on the medium term to fit in with the Medium-Term Financial Plan (MTFP) Capital Programme, the latest version of which covers the period 2022/23 – 2025/26. The Council wants to develop a longer-term strategic capital programme to better illustrate the strategic capital objectives of the Council and although work has started on this during 2021-22, it will look to complete this as part of the development of the MTFP for 2023/24 onwards. The Council will want time to review this strategy and ensure that it helps the Council to deliver its Corporate Plan.

1.5 There are several substantial strategies and programmes in regard to regeneration, which is going to be particularly important to the shaping of the Buckinghamshire response to a post-Covid environment. There are 2 partnership boards that have been established to provide oversight on the delivery of 2 major regeneration strategies: The Aylesbury Garden Town Board, which oversees the implementation of the Aylesbury Garden Town masterplan; and the High Wycombe Regeneration Board which oversees the delivery of the Wycombe Regeneration Strategy covering regeneration in the High Wycombe area.

1.6 This Capital and Investment Strategy is underpinned by a number of other key strategies and plans. As a new Council many of these are still being developed, but once agreed they will be key to informing the investment priorities for the Council. The relevant key Council policies developed or in the process of being developed are:

- Strategic Asset Management Plan
- Accommodation Strategy
- Agricultural Estates Management Policy

- Housing Strategy
- Highways Asset Management Plan
- Leisure Strategy
- Schools Capacity Survey

1.7 The recent Chartered Institute of Public Finance and Accountancy (CIPFA) consultation has resulted in an updated Prudential Code for Capital Finance in Local Authorities (2021 Edition), which strengthens the basic principle that local authorities must not borrow to invest primarily for commercial return. Following the Prudential Code and guidance from MHCLG in February 2018 this Strategy includes the Investment Strategy and needs to be read in conjunction with the Treasury Management Strategy. This strategy is also cognisant of the latest guidance issued by CIPFA on Prudential Property Investment.

2. The Context of the Capital Strategy

2.1 The Council's Aims and Priorities

2.1.1 The Council's aims and priorities are set out in the Corporate Plan, the latest version of which covers the period 2020-23, although the underpinning service delivery plans are refreshed annually.

The key priorities set out in the Corporate Plan are:

- Strengthening our communities
- Protecting the vulnerable
- Improving our environment
- Increasing prosperity

2.1.2 Of course, all that the Council does is set within a legislative context, so meeting its statutory obligations is a key component determining the actions it takes. In the context of the capital strategy, examples of the statutory requirements are the need to provide sufficient school places, to maintain the highway infrastructure to certain standards and to provide suitable disposal facilities for waste.

2.2 Growth and Demographic Change in Buckinghamshire

2.2.1 The population of Buckinghamshire is significantly increasing, and the Council needs to take account of these changes in planning its future service provision. The Council in partnership with other agencies, the Local Enterprise Partnership in particular, has responsibility for facilitating the infrastructure to promote economic growth. Current local plans indicate housing growth in Buckinghamshire of around 46,500 by 2033 leading to a population increase from c. 547,060[1] to 638,000. This level of growth not only has implications for new infrastructure, but also for the wear and tear on existing infrastructure.

2.2.2 Beyond the current confirmed plans for housing growth there are many pressures in the system to go further as indicated by the Government figures mentioned in the previous paragraph. The Government has been keen to push forward housing growth through the concept of Garden Towns and the Council has agreed with Homes England Housing Infrastructure Fund (HIF) forward funding of just over £172m to create the infrastructure to support the development of the Aylesbury Garden Town. The Council also has HIF funding of £12m for the Princes Risborough expansion area and £7.5m for Abbey Barn Lane.

2.2.3 Notwithstanding the overall growth in the population the nature of the population is also changing. Buckinghamshire already has one of the highest rates of increase in people aged over 85 of all county areas in the country. The diversity of the ethnic and socio-economic make-up of Buckinghamshire is also increasing. These changes are likely to increase the demand on a range of public services, particularly care services. This too will need to be factored into the longer-term planning of service provision. Although there is anticipated to be an overall increase in children over the next decade, the birth rate has dropped in the last 2 years, although an overall increase in school places is expected over the next decade due to the anticipated housing growth, which adds to the challenge of the timing of school place provision.

2.2.4 The location of Buckinghamshire also creates a unique set of circumstances which impacts on economic development and other infrastructure demands which are likely to have capital implications. The high-speed rail line (HS2) will run through the county and have significant knock-on impacts as it is developed. The proximity of the south of the county to London and Heathrow Airport is likely to place an increased burden on transport infrastructure. The north of the county lies at the heart of plans to link Oxford and Cambridge with the East-West Railway.

2.3 Changes in Innovation and Digital Infrastructure

2.3.1 As well as changes to the profile of the population, developing the economy needs to reflect changes to the way we work and better still to reflect the way we will work in the future. The pace of change in technological advancement appears to get ever faster, so keeping up with these changes presents a range of challenges.

2.3.2 The Council has a role in putting in place, or at least facilitating, enabling infrastructure. A good example of this currently might be the increasingly developing market in electric vehicles that will require a more comprehensive network of charging points. However, as is often the case with emerging technologies there are a

[1] ONS Population Statistics Mid-Year 2020

number of different options available, so identifying which particular solution to support is a key challenge if capital investment is not to be wasted.

2.3.3 By contrast the economic development role the Council plays may need to facilitate experimentation, such as creating space for start-up businesses in emerging technologies. The very nature of this means that there is likely to be a fair degree of failure and the Council needs to determine the degree of risk it is prepared to take and the mitigations that can be put in place.

2.3.4 The Buckinghamshire Integrated Care Partnership is part of the wider Buckinghamshire, Oxfordshire and Berkshire West Integrated Care System. The partnership provides an opportunity for the Council to collaborate with the Clinical Commissioning Group (CCG) and Buckinghamshire Healthcare NHS Trust in particular to deliver improvements to the health and care system, including digital and technological developments, that benefit the residents of Buckinghamshire and deliver excellent value for money for the local health sector and the Council.

2.3.5 An earmarked reserve has been established for the implementation of new systems. The revenue contribution funding that would have been used to fund the new ERP system replacing SAP is being used to establish this reserve, but it is important to recognise that most system solutions are cloud based these days, and the implementation costs of these are revenue in nature not capital. By creating this earmarked reserve, it will allow the Council the flexibility to use the optimum systems solution regardless of whether it is a revenue or a capital solution as the reserve can be a revenue contribution to capital if a capital solution needs to be implemented.

2.4 Post-Covid Landscape

2.4.1 The Coronavirus pandemic has had a significant impact on the national and local economy and a necessary change to the working arrangements of the residents of Buckinghamshire, with people working from home wherever possible, including a significant proportion of the Council's own staff. As part of the transition to the new unitary Council, there was an expectation that the properties held by the 5 councils would be able to be rationalised. The Work Smart programme is providing the framework for future office working for the Council and ensuring the technological infrastructure is in place to support significant homeworking and office collaboration. The future needs and requirements of the Council will be set out in the Council's accommodation strategy, which will enable the Council to either sell surplus properties to produce capital receipts or to repurpose to generate a revenue rental income.

2.4.2 All public sector bodies are under financial pressure as well as there being a need to offer the public a more coherent means of accessing services, and the One Public Estate (OPE) project aims to achieve the rationalisation of publicly held assets. The Council will work closely with its strategic partners to look for opportunities to utilise our collective assets to improve public services and generate savings.

2.4.3 The financial pressures on local authorities, caused in large part by huge cuts in Government grant funding, but also significant increases in demand for services, lead to the exploration of alternative sources of income. The increase in surplus assets provides an opportunity for the Council to invest in the repurposing of assets in order to be able to generate additional income and help the Council to shape the post-Covid recovery in Buckinghamshire from a regeneration and economic recovery perspective. Any additional surplus assets may also provide opportunities to deliver other important objectives such as an increase in affordable and key worker housing in Buckinghamshire. It is important however, that sufficient capital receipts are realised to enable the capital programme to be funded and the close monitoring of delivery will be important.

2.4.4 In November 2020, the Buckinghamshire Growth Board submitted a 'Buckinghamshire Recovery and Growth Deal' devolution bid to Government. Outlined in the bid are the key priorities for Buckinghamshire Council and its partners in Buckinghamshire's recovery from the coronavirus pandemic. Although there is no guarantee that the bid will be successful, it forms a blueprint for other external funding should it become available.

3 Capital Investment Objectives

3.1 On 9th October 2019, HM Treasury increased Public Works Loan Board (PWLB) rates by 1% on the back of concerns that Local Authorities were borrowing from the PWLB in order to invest in commercial investments (retail, offices, industrial parks etc) purely for a yield on that investment.

3.2 The 1% increase was reversed on 26th November 2020 following the end of the HM Treasury consultation on PWLB, but with new restrictions on borrowing to ensure that councils are not buying investment assets (land or buildings) primarily for a yield. The Council should not have any proposals to invest primarily for yield in its Capital Programme over a 3-year period, nor can it finance such investments from other sources as an alternative to PWLB borrowing, otherwise the Council will have to pay back any PWLB borrowing taken out during the year and may be prevented from accessing PWLB in the future.

3.3 The key objectives of capital investment during this strategy period will be to:

- **Support service delivery** in line with the Council's strategic objectives. The challenge of Covid has led to an acceleration in innovation and the improvement of customer service using digital channels. This will continue to be a key feature during the Better Buckinghamshire service reviews and the focus on continuous improvement following the reviews will enable best practice and new technologies to be adopted where appropriate.

- **Support regeneration, economic development, housing delivery and the wider growth agenda**, especially given the impact of the Covid pandemic on the local economy and residents of Buckinghamshire. The scale of ambition is best illustrated in the Recovery and Growth Deal for Buckinghamshire submission "Succeeding as a Place, Succeeding as a Country: A scalable Buckinghamshire proposition to accelerate UK recovery", which was developed in conjunction with our public and private sector partners. Ensuring that there are sufficient school places to meet the demand created by substantial population growth and help to build on the excellent quality of education in Buckinghamshire is a key requirement. The regeneration of towns in Buckinghamshire and the delivery of affordable housing is also a key priority for the Council.
- **Implementation of the Climate Change and Air Quality Strategy.** The Council has a target to achieve its net zero-carbon target by 2050 at the latest. It will achieve this through various measures such as building rationalisation, building and streetlight energy efficiency, boiler replacements, using electric/low carbon vehicles (including refuse vehicles), solar car ports and tree planting.
- **Supporting local communities.** The condition of our highways and footpaths is consistently a priority for our residents and the ease of movement around Buckinghamshire is important for social connectivity and integration, outdoor leisure, such as walking and cycling, as well as the local economy. The Covid pandemic has brought into sharper focus the importance of leisure activities, especially in outdoor settings, with new users being introduced to our parks and public footpaths and as well as taking up cycling on our road network. There is an opportunity to help many of our residents to maintain their increased level of activity by making sure that accessible indoor leisure facilities are available as part of the post-Covid recovery. There will also be pent up demand for cultural activities that have been subject to heavy restrictions during the pandemic.
- **Supporting healthy and independent lives.** With an expected 40% increase in the 60+ population and a 147% increase in the 90+ population in Buckinghamshire by 2038, the Council is looking to deliver a portfolio of assets that is sufficient to meet current need and requirements for at least the next 10 years. Achieving this objective will also involve moving away from 'building based' provision and promoting independent living for longer amongst all client groups, resulting in more care in the community. The ongoing development of the strategy for the use of Disabled Facility Grants as part of the Improved Better Care Fund will be instrumental in this. At the same time the Council will promote the development of locally based provision and local choice to reduce the need for out of county placements.
- **Facilitate the generation of income**, be that from existing commercial assets held predominantly for their rental yield, service-based assets capable of generating income as a by-product or the repurposing of existing assets to deliver the Council's strategic objectives and where an income stream is deliverable as a by-product of that investment.

- **Enhance value for money** by helping to reduce or avoid costs. The Council has a comprehensive Better Buckinghamshire Reset and Recovery programme, which is looking to review all service areas to ensure the new council has a strong customer and outcome focus. This will partly involve learning from the improvement lessons from the Covid-19 response, as well as utilising technology to help deliver those service improvements and process efficiencies.

3.4 As well as the key objectives set out in 3.3 above there will also be regard for the following:

- Meeting legislative requirements, such as school place planning requirements, or health and safety, and the Social Value Act 2013.
- Maximise community benefits, working in partnership with other agencies.
- Ensure that investments are affordable and sustainable.
- Safeguard the on-going integrity of existing assets (property, highways, ICT, etc.) ensuring they remain fit for purpose, including reducing the maintenance backlog.
- Be forward looking in terms of investing in future technologies and recognising societal behaviour patterns and not the ways of the past.
- Ensure that investments are in line with the relevant approved strategies (i.e. Strategic Asset Management Plan, the Highways Asset Management Plan etc).

3.5 Where assets are held by the Council that do not fall into the above categories the Council will aim to dispose of such assets. However, it will seek to maximise the return in doing so and therefore will on occasions hold assets awaiting favourable market conditions. The retention of assets in this way will require an explicit decision to do so.

3.6 Based on the above objectives it is envisaged that capital investment will fall into four main categories:

- Assets owned by the Council to support the direct delivery of services by the Council itself.
- Assets owned by the Council to support the delivery of services by third parties where there is a strategic need/advantage in continuing to own the assets.
- Assets held for the purposes of regeneration or economic development.
- Assets held for a financial return to support the financial resilience of the Council.

3.7 In addition the Council may on occasions make capital investments in assets owned by third parties, where doing so facilitates the delivery of Council objectives, or legislative requirements.

3.8 Due to the scale of the Council's investment programme the Buckinghamshire Strategic Infrastructure Tool is being developed to provide an overview of all the strategic investment projects being undertaken to make sure all synergies and dependencies are identified. It works as a prioritisation tool so that no service areas are overcommitted from a resourcing perspective and funding gaps for infrastructure can be identified and addressed effectively.

4 Areas for Investment

4.1 Given both the Capital Investment Objectives and the Corporate Priorities described above the following list, whilst not necessarily exhaustive, describes key areas where one might expect to see investment directed.

- Investments that facilitate growth, economic development and regeneration in Buckinghamshire, such as Aylesbury Garden Town, Wycombe area regeneration, Princes Risborough growth areas, East West Rail etc
- New infrastructure such as roads and schools to support the growth in housing.
- Structural Maintenance of Highways Infrastructure.
- Structural Maintenance of Properties in which the Council has a continuing interest, including schools within the local authority family of schools.
- Meeting the statutory requirement to provide school places for all primary and secondary age children.
- Investment to increase availability of specialised accommodation to meet needs of increasing numbers of highly vulnerable adults and children.
- Assets which facilitate community involvement in services which meet corporate objectives.
- ICT Infrastructure, both to facilitate modern service delivery from the Council and within the local community, e.g. Broadband connectivity across the community, mobile phone coverage, gigabit connectivity to support the local economy.
- The re-design/re-configuration of assets or services that permit lower on-going revenue costs or halt a trend of increased revenue costs.
- New or enhanced existing assets that allow a secure revenue income stream to the Council.
- Assets that help the Council meet sustainability targets, such as reduced energy consumption/CO_2 emissions, reduced waste disposal via landfill and flood defence.
- Assets which facilitate easier access to services, including the Council's website.

- Assets which facilitate service improvements if these are identified corporate priorities and are financially sustainable on an on-going basis.
- Assets that facilitate the release of other assets, where the net effect is an increase in value to the Council.

4.2 Given that resources are limited it would not be expected that investments will be made in the following, although there might be exceptional circumstances that dictate otherwise.

- Assets which facilitate service improvements, but that are not corporate priorities.
- Assets which result in increased revenue expenditure unless meeting other key priorities.
- Assets that lead to an adverse environmental impact created by the Council unless this is unavoidable in achieving a statutory requirement, or Corporate Plan objective.
- Assets where the risk exposure exceeds the likely benefits.

4.3 Financial Investments

4.3.1 Financial Investments can fall into three categories, as defined by the Statutory Guidance issued under section 15(1)(a) of the Local Government Act 2003: Specified Investments; Loans and Non-specified Investments.

4.3.2 Specified and non-specified investments are only likely to be undertaken on either a short, or a long-term basis as part of managing the council's cash flows and are therefore covered by the Treasury Management Strategy rather than here.

4.3.3 Loans may also be used for treasury management purposes, but where they are used in support of service delivery objectives this is covered by the Loans and Guarantees Financial Instruction.

4.4 Non-Financial Investments

4.4.1 For the purposes of this strategy a non-financial investment is a non-financial asset held by the authority primarily or partially to generate a surplus. This might be through an anticipated appreciation in the capital value of the asset, or by way of delivering a regular income stream, or a combination of both. However, in the current financial climate the emphasis is likely to be on assets that generate a regular income stream.

4.4.2 Although the Council remains open minded to consider a range of opportunities the high likelihood is that non-financial investments will involve property assets, however, it will not involve the investment in property assets purely for yield. Due to the consolidated portfolio inherited by Buckinghamshire Council, the impact that the Coronavirus pandemic will have on future office capacity requirements and the need to mitigate the revenue impacts on post-coronavirus income levels, the Council will look to repurpose some of its portfolio to produce an income stream and meet its corporate objectives, especially in respect of regeneration, affordable housing and economic development.

4.4.3 In addition, on occasions the Council may choose to purchase land or property for strategic reasons rather than just for a return and therefore expected rates of return may be narrower than a pure investment. This might be to protect existing service provision but will most likely be linked to its community leadership role in accommodating and facilitating regeneration, economic development and housing growth. This will require well documented business cases and formal decisions.

5 Funding Capital Investment

5.1 There are a number of potential sources of financing for the capital programme. These can be described as follows:

5.1.1 **Grant Funding** - often specifically for capital purposes and also often from central government, but they may come from, or through, other agencies.

5.1.2 **Capital Receipts** - receipts arising from the disposal of existing assets are constrained to only be useable for the purposes of funding new assets. Such funds when generated are held in a Capital Receipts Reserve until such time as used. The use of surplus land to deliver additional council priorities such as affordable housing, key worker housing, supported living etc can have an impact on the residual capital receipt value to the Council. These impacts will be reflected in the financial implications of reports and there is close monitoring of the delivery of capital receipts to ensure they are in line with the capital programme funding assumptions.

5.1.3 **Developer Contributions** - S106 agreements and/or the Community Infrastructure Levy (CIL) effectively impose a tax on new development in order to fund infrastructure required as a consequence of the development. S106 agreements tend to relate to specific capital investment projects, but where it is more generic, the Council will use this funding to meet its capital investment priorities where these satisfy the conditions of the s106 agreement. CIL funding is more flexible in its use and the element that is retained by the Council (15% or 25% is given to the parish/town council depending upon whether they have a neighbourhood plan) will be used to fund the Council's capital investment priorities in the Capital Programme that are able to be funded by CIL.

5.1.4 **Partner Contributions** - some projects may be jointly funded between the Council and other agencies, such as schools, other councils, or the Buckinghamshire Local Enterprise Partnership (BLEP). Under current arrangements the Council is the accountable body for the BLEP and thus capital expenditure on behalf of the BLEP is included in the Council's Capital Programme and funded by resources available to the BLEP.

5.1.5 **Prudential Borrowing** - the Council is able to borrow in order to fund its capital expenditure provided that the revenue financing costs of such borrowing are affordable and sustainable. Prudential borrowing will be considered as a source of capital funding in accordance with the Government's guidelines and with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

5.1.6 **Revenue Contributions to Capital** - the Council is able to use its revenue resources to fund its capital expenditure, but obviously this then reduces the funding available for recurrent expenditure.

5.1.7 **Use of Earmarked Reserves** - essentially this is just a mechanism for deferring the application of one of the sources listed above, e.g. revenue contributions, or capital receipts. A typical example is the use of a Repairs and Renewals Fund.

5.1.8 **Leasing** - essentially this is a specialised form of borrowing linked directly to the rental of an asset.

5.2 The choice of funding for the capital programme and projects within it will depend upon the overall availability of resources and any constraints applicable to particular sources.

- Wherever possible external resources such as partner contributions, or grants will be the first preference for funding projects. It is likely that developer or partner contributions will only be available for specific projects. It is also possible that some grant funding is ring-fenced for specific purposes, although this tends not to be the case in recent times.
- Prudential borrowing will be the second choice of funding but will only be used where there is a strong business case offering an appropriate rate of return. The use of the £100m Prudential Borrowing allocation approved by Council as part of the MTFP Capital Programme, will only be released following approval of a business case by Cabinet.
- Finally, the Council's own resources (capital receipts and revenue contributions) will be used where available and affordable.

5.3 The Council will consider arranging borrowing via the Municipal Borrowing Agency (MBA) or other alternatives, providing it is prudent to do so and a rate below PWLB rates can be achieved. This borrowing route will be subject to approval by Cabinet before it is undertaken.

5.4 The Council will aim to maximise its funding for capital expenditure by bidding for grant funding, disposing of surplus assets, seeking to maximise its leverage with partners in respect of joint funding opportunities, etc. Indeed, the ability to respond to the very substantial growth agenda will be heavily dependent upon the ability to attract additional resources. This may come in the form of additional funding from Government, such as Housing Infrastructure Fund (HIF), developer contributions, or working in partnership with other bodies e.g. the BLEP, other public bodies, or the business community. A Location Asset Strategic Review (LASR) was carried out which identified opportunities to reduce the overall public property estate and thus generate capital receipts. However, this will need to be continually reviewed as there may be longer term strategic reasons to hold on to assets, improve the operational efficiency and/or repurpose to generate income as part of the consideration.

5.5 Although the Council will continue to bid for all the resources it can, the Government's austerity measures are leading to a tightening of grant funding and the levelling up agenda may place Buckinghamshire as a lower priority area than the rest of the country.

5.6 Historically the Council has provided a reasonable level of revenue contributions to fund the capital programme. However, as part of measures to keep the revenue budget in balance in the face of reduced funding and increasing service pressures the capacity to do this has been reduced to a relatively low level.

5.7 A £1m feasibility revenue budget has been identified and there are earmarked reserves available for feasibility work, but the Council may want to look at opportunities to increase the level of feasibility funding available when it has an opportunity to do so, given the increased importance of maximising the revenue earning potential of assets held. Generally, feasibility work is a one-off revenue cost, but it is important to mitigate risk and deliver an optimum investment solution.

5.8 Given the nature and lead in times in relation to regeneration and new road schemes, the Council wants to develop a longer-term strategic capital programme to cover the longer timeframes relating these significant areas of capital investment. Initial work has started on achieving this, but more work needs to be done as the key strategies identified in Section 1.6 above are developed and approved.

5.9 Any capital investment decision which involves prudential borrowing must include the cost of servicing the debt as part of a robust business case. Investment decisions will be approved by Cabinet and will be supported when the cashable cost reductions (or increased income) exceed the financing costs of any borrowing needed to fund the investment over its life, with a reasonable tolerance to cover off risk and scenario sensitivity. Any approval will be subject to appropriate due diligence and relevant surveys being undertaken. There will be an annual post-implementation review of projects that have been approved via the Prudential Borrowing facility to ensure that benefits have been delivered in line with approval and reported back to Cabinet.

5.10 Bids may be made against the prudential borrowing facility to provide loans to our companies or partners such as Consilio, Enterprise Zone, Aylesbury Vale Estates, but will ensure that the business case is robust and there is no risk to the Council.

6. Minimum Revenue Provision

6.1 Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. MRP, which is largely defined by regulation, is aimed at ensuring that the council does not have time expired/fully depreciated assets, but still has associated outstanding debt.

6.2 Where capital expenditure was incurred before 1 April 2008 MRP will be charged on a straight-line basis over 50 years (from 1 April 2016) in line with previous budget approvals. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage. Where borrowing relates to historic balances from the former County and District Councils, the calculation is based on the outstanding balances on 1 April 2020 and the remaining asset lives.

6.3 In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

6.4 The asset life annuity method calculation requires estimated useful lives of assets to be input into the calculations. These life periods will be determined under delegated powers to the Service Director Corporate Finance, with regard to the statutory guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.

6.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

6.6 Recognising the impact of MRP on the revenue budget is an important element in determining the affordability and sustainability of borrowing to fund an asset. Essentially, if there is no on-going capacity within the revenue budget to afford the

MRP then one shouldn't take out the borrowing in the first place. This is why a robust business case demonstrating a rate of return in excess of costs (including MRP) is important.

7. Capital Risks

7.1 **Cost Inflation** – as well as general inflation, there is also the added HS2 construction cost pressures in the area. This is mitigated by ensuring there is sufficient contingency provided in capital project cost estimates and undertaking value engineering to stay within agreed budgets when cost pressures emerge. Funding can only be released where an appropriate business case is provided to release capital funding to the relevant capital governance board.

7.2 **Capital Maintenance** – Our assets will deteriorate if we do not invest sufficient capital maintenance in our existing assets. Work is still being undertaken to get condition surveys for our entire property portfolio, but when completed an assessment of the maintenance needs and provision will made and maintenance expenditure closely monitored in the meantime for our property and highways assets.

7.3 **Capital Receipts** – A shortfall in the generation of capital receipts would impact on the available investment in the capital programme. Realisation of capital receipts is closely monitored and if there was any shortfall the programme would be reviewed for reductions to future years when looking at future years' capital programmes if alternative funding could not be found.

7.4 **Government Capital Grants** – Although the grant funding assumptions in the capital programme are prudent and realistic, there is always the risk that the Government's Levelling Up agenda could reduce the level of capital grant funding the council receives. Again, any shortfall in grant funding would be adjusted for when reviewing the capital programme each financial year if alternative funding could not be found.

7.5 **Capital Slippage** – If capital expenditure isn't profiled accurately then there is the risk of significant underspend against the programme. The profile of expenditure is reviewed and challenged each year to try and get it as accurate as possible. This is much more of a service delivery risk than a financial risk, but there can be financial implications from the delay in the delivery of benefits.

7.6 **Interest Rate Increases** – A prudent assumption is made for the likely interest rates for any borrowing costs in the programme or bids for prudential borrowing. The biggest impact could be on those capital schemes that the Council would like to support but which are only marginally viable, where any rise in interest rates may make a bid against the Prudential Borrowing facility unviable.

8. Capital Governance and Processes

8.1 Overview

8.1.1 This Capital Strategy sets out the framework for the governance of capital assets for the organisation. Primary responsibility for the development of the Strategy rests with the Service Director Corporate Finance, although ultimate accountability for its approval rests with Full Council in line with the Prudential Code.

8.1.2 The development or purchase of new assets, maintenance of existing assets and disposal of surplus assets are matters of operational and financial significance and therefore require robust governance arrangements. For this reason, the Corporate Management Team (CMT) will play a pivotal role in these governance arrangements, providing co-ordination and consistency across the organisation.

8.1.3 Whilst this Strategy sets out the framework for identifying, approving, implementing and reviewing capital projects, the details are set out in the Financial Instructions for Capital.

8.2 Governance Boards

8.2.1 Although the assets held by the Council can be as diverse as the services it delivers, they can be grouped into a few broad categories, namely: property; technology; and highways. For each of these broad categories there will be an appropriate governance board chaired by the relevant Cabinet Member and with further member representation. In addition, a Housing Infrastructure Fund Investment Board (HIF Investment Board) has been established to specifically monitor the delivery of the substantial HIF funded schemes, due to formal monitoring arrangements agreed with Homes England. These are capital governance advisory boards; Cabinet authority will still be required where a key decision is required.

8.2.2 The relationship between these Boards is illustrated in Appendix A. Each Board will have an officer group that will review all business cases before they go forward to the relevant Board to ensure that all due diligence has been undertaken beforehand. The Strategic Investment Assurance function in Planning Growth and Sustainability works across these boards and integrates projects and asks into the Buckinghamshire Strategic Infrastructure Tool. If it is determined that additional specialist boards are required to monitor the delivery of specific capital projects, then they will be established alongside the Property, ICT, Highways and HIF Investment Boards and report into the Corporate Capital Investment Board (CCIB).

8.2.3 The Growth Board is an external board which facilitates growth bids alongside the Council's partners and establishes the place-based ambition for Buckinghamshire. The Council will implement certain programmes of work to deliver the growth agenda across Buckinghamshire. To this end, the Property, Highways and HIF Investment Boards will align to and advise the Growth Board where project delivery feeds into major growth projects they are considering, although the Growth Board is not a decision-making body of the Council.

8.2.4 The Property Board will cover all land and property whether held for service delivery purposes, or as an investment for financial return. It will be responsible for all land and property regardless of which services are delivered from those premises at any point in time. So, for example, it will cover multi use offices, but also care homes, highways depots, waste processing sites and other single service premises.

8.2.5 The ICT Board will cover all technology assets, be that laptops, screens, phones, or servers, cabling and other hidden infrastructure. It will also include capitalisable software licences and assistive technology. This will apply to technology assets owned by the council whether they are within council premises, or elsewhere.

8.2.6 The Highways Board will cover all highways assets, such as roads and footpaths, but also bridges, signals, road safety projects etc.

8.2.7 The HIF Investment Board will cover all projects that receive HIF funding from Homes England.

8.2.8 For any assets that do not fall readily into any of these major categories, potentially some items of plant and equipment, CMT will either allocate responsibility to one of the above Boards or exercise that responsibility directly itself.

8.2.9 To ensure that appropriate technical financial advice is available to each of the boards, the relevant directorate Head of Finance will be a representative on each board.

8.2.10 All the capital governance boards provide oversight on the delivery of the capital programme. The responsibility and accountability for the delivery of the individual schemes once funding has been released by the relevant governance board rests with Corporate Directors and their project managers.

8.3 Development of the Capital Programme

8.3.1 Each year the Capital Programme will be developed as part of the Medium-Term Financial Plan, culminating in approval by full Council in February each year. The table below sets out the broad timeline to be followed.

Jun – Aug	Portfolio groups/Directorates review existing programme and develop capital bids in line with relevant strategies where appropriate.

	(Robust business cases produced and supported by the relevant Directorate Head of Finance)
Early Sep	Corporate Finance consolidates bids and reports summary to CMT
	CMT advise on strategy to resolve any gap.
Mid Sep	Property/ICT/Highways Capital Boards review bids and prioritise
Late Sept/ Early Oct	Service Director Corporate Finance (SDCF) convenes a Corporate Capital Investment Board meeting of Board lead Members/officers to scrutinise bids in detail and arrive at a proposal for a balanced capital programme.
Mid Oct/Nov	CMT reviews SDCF proposal and agrees recommendation to Cabinet
Dec	Cabinet approves draft capital programme for consultation
Jan -Feb	Follows MTFP approval process in parallel with the revenue budget

8.3.2 Bids to the capital programme should be prioritised by both Portfolio groups and the three governance boards taking guidance from this Capital Strategy and any relevant service priorities. The following criteria will be used to prioritise bids in order to close any gap to the available resources:

a) Statutory requirement (e.g. H&S, school places, disabled facilities, waste collection, household waste recycling centres, statutory reporting – but only to the extent that is statutorily required).

b) Ringfenced funding has been identified (i.e. s106 or genuinely ringfenced government grants), the scheme is fully funded, **and** aligns with corporate priorities.

c) Strong financial business case resulting in savings paying back the cost of investment within 7 years or less or a capital receipt is generated in excess of the investment assisting with COVID recovery and financial sustainability.

d) Maintains the life and/or quality of our assets.

e) The scheme leverages ringfenced external funding (i.e. s106 or genuinely ringfenced government grants), the scheme is at least 50% funded **and** aligns with corporate priorities.

f) In line with corporate and directorate priorities as set out in the Capital and Investment Strategy and the Buckinghamshire Strategic Infrastructure Tool.

g) Provides a geographic balance to the consistency of service provision across the Council area.

8.4 Monitoring of Progress

8.4.1 Once the Capital Programme is approved individual schemes will be allocated to the most appropriate governance board. Each Board will then have the authority to release resources on individual schemes to project managers in line with the Capital Gateway Process, subject to the necessary requirements at that stage, e.g. outline business case, full business case, etc.

8.4.2 Each Board will put in place appropriate arrangements to monitor progress and drive delivery of the individual projects both in financial terms and practical delivery, effectively carrying out a high-level Programme Management Office role.

8.4.3 The Corporate Capital Investment Board will be convened at least on a 6 monthly basis to review the delivery of the overall capital programme for the Council.

The Buckinghamshire Council Capital Programme for 2022/23-25/26 can be found <u>here</u>

CAPITAL INVESTMENT GOVERNANCE ADVISORY BOARDS

Appendix A