

Investing in Warwickshire- Capital Strategy 2020-30





Introduction



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Investing in Warwickshire is a fundamental part of our role as a County Council. We want Warwickshire to be the best it can be, sustainable now and for future generations.

As a county, we boast a broad range of strengths that make Warwickshire a great place to be. We benefit from a buoyant economy, significant business and housing growth, considerable community capital, much valued natural environment and town centres that are a vital part of local life. But looking ahead, we also face significant challenges, including the impact of Covid-19, demographic pressures and climate change.

As an organisation, we are equally well placed but face uncertainty over future funding levels and our ability to meet growing demand for the services we provide.

Together, these factors influence our approach to capital investment. To respond effectively, we need to take a strategic and holistic approach to the use of our capital investment fund and assets to deliver our key priorities.

Our refreshed Capital Strategy 2020-30 aims to optimise the way in which we generate, manage and allocate the capital funds at our disposal.

It forms a critical part of our policy and financial planning process. It is an integral part of the Medium Term Financial Strategy to help deliver our Council Plan 2025.

Our new approach aims to maximise the use of capital resources to continue to make Warwickshire an attractive place to live, work, visit and do business, ensuring good stewardship and opportunities for sound investment when they arise.

This capital strategy has been developed to ensure that our long-term approach to investment takes proper account of prudence, value for money, risk, sustainability and affordability. It is supported by a robust delivery and governance framework to guide expenditure and investment decisions; performance will be monitored at overall, programme and project levels to track progress and achievements against priorities. Together these ensure compliance with the CIPFA Prudential code.

We recognise the lasting impact and legacy of good, evidence-based capital investment and the Capital Strategy 2020-30 sets out our approach to making this happen in and for Warwickshire.

1.

Purpose of our Capital Strategy

What is Capital?

Within local government, capital is funding which is used to purchase or upgrade specific assets such as buildings, machinery, equipment, ICT, vehicles or intangible assets.

Unlike for revenue funding, these are investments that last a number of years and deliver long term benefit to the community, place and council.

Such capital investment is funded by borrowing, grants, capital receipts, developer contributions council contributions etc.

What is a Capital Strategy?

A capital strategy sets out the choices we make in relation to the amount and nature of the capital investment we spend. It is made up of three key elements:

- 1. Strategic intent** – Sets out the aspiration and direction for our capital investment, defining the outcomes we are seeking to achieve through investment (Why).
- 2. Programme** – Sets out the activity, programmes and projects that are funded by our capital investment (What).
- 3. Framework** – Sets out the way we will plan and prioritise investments; manage capital spend and the capital programme in line with best practice and statutory requirements; execute the delivery of projects; manage risks and measure performance (How).

Together these elements set out the ambition for investment, the nature of that investment and the assurance of delivery.

2.

Why do we need a capital strategy?

Our Capital strategy sets out the direction, nature and focus of the capital programme and the framework which we operate to.

As a public body, we have a statutory duty to produce a capital strategy. An effective Capital Strategy helps ensure that the Council's capital and revenue expenditure on the asset portfolio is directed to deliver our key priorities.

The Council Plan 2025 has a clear vision to make **Warwickshire the best it can be, sustainable now and for future generations.**

Our capital investment will be aimed at delivering our Council Plan and its priority outcomes using the draft investment criteria below:

Warwickshire's communities and individuals are supported to be safe, healthy and independent (Supporting people) - invest to:

- **manage long-term demand through innovation**, sustainable service redesign, new technology and digital solutions;
- **strengthen community assets and community resilience** by investing in community capacity, self-help and capability, supporting local actions and priorities like climate change;
- **keep communities, including children, safe** by investing in safety, providing early support, preventing harm and helping to reduce crime;
- **meet future demand** through early intervention and timely provision of capital assets to support vulnerable people to live well (school places, independent living accommodation).

Warwickshire's economy is vibrant and supported by the right jobs, training, skills and infrastructure (Shaping places) - invest to:

- make Warwickshire sustainable now and for the future through actions to secure carbon reduction, mitigate against climate change, increasing recycling, reducing waste, using products from sustainable sources and encouraging community actions;
- help economic growth by supporting the recovery from Covid, rebuilding confidence in our towns and visitor economy, reducing unemployment, improving skills, improving education provision, supporting business growth, local industries and attracting investment to Warwickshire;
- enable infrastructure improvement to support economic growth and investment, improve connectivity, enable modal shifts in travel, maintain networks etc;
- support local economic resilience through local area regeneration, sustaining town centres;
- enhance Warwickshire as a place to live and visit improving Warwickshire's attractiveness, public spaces, natural parks, visitor assets and community places.

Making the best use of our resources (Maximising our resources) - invest to:

- **generate income** through investments that generate tax revenue, grow revenue streams or deliver enhanced capital receipts;
- **create social value** through our procurement, commissioning, service delivery and estate management to produce wider social, economic or environmental benefits for our communities and
- **ensure good stewardship of Council assets** through timely maintenance, appropriate use of technology and energy efficiency.

Strengthening our strategic focus

Matching our programme to our ambition

Optimising Delivery

Our enhanced approach is to adopt:

- a portfolio view;
- a holistic and outward looking focus;
- investment to transform services;
- a streamlined approach and
- a medium/long term perspective.

Benefits of an effective capital strategy

- look to the long term future;
- influence the decisions and choices we make;
- create opportunities and influence agendas;
- focus on our place-shaping role and working with partners and
- create consistency and coherence to our investment.

How does this fit with other strategies?

The capital strategy is a key part of our strategic framework and a critical element of our Medium Term Financial Strategy (MTFS), which is in turn aligned to the Council Plan 2025.

Whilst the MTFS covers a rolling 5-year period, the capital strategy reflects the long-term nature and benefit of capital investment and is fixed over a longer timeframe, stretching to 2030, and addresses how we intend to pay for our capital investments and activities.

Our approach to capital investment is informed by our:

- Risk management strategy;
- Reserves strategy; and
- Treasury management strategy.

The outcomes are aligned to the core strategies to influence wider agendas and partnership working such as the Warwickshire Property and Development Company, the Warwickshire Recovery Investment Fund, the Health and Wellbeing Partnership, the West Midlands Combined Authority, the Coventry and Warwickshire Local Enterprise Partnership, the City of Culture, the Commonwealth Games and other local authorities.

3.

Drivers for Capital Investment

Local and national factors that will shape the need for capital investment during the next 10 years include:

- The impact from the Coronavirus pandemic has had significant impact on the UK, its businesses and its communities. The sudden impact of the pandemic caused GDP to drop by over 19% during 2020. Even though the economy has returned to some level of growth, most economic sectors remain below their February 2020 peak.
- The capital strategy can play a key role in supporting the recovery of key sectors such as construction, as well as playing a role working with partners such as the Coventry and Warwickshire Local Enterprise Partnership to invest in projects and infrastructure which will give the local economy the confidence and certainty to invest and grow. It will do this through the prioritised allocation of resources to initiatives which best meet the recovery outcomes.



- Warwickshire continues to be an attractive place to live, work and visit, which will experience significant population and housing growth over the next 20 years. Population growth is forecast to increase by at least 7.2% by 2041 and may well exceed this in view of housing development trends.
- The main growth will be in older age groups: those aged 70 and over are projected to increase by almost 50% by 2041 and those aged 85 plus will more than double.
- A growing ageing population is likely to see increases in those living with disabilities and other long-term health conditions, leading to additional demand pressures on public services including health, social care and fire to protect, prevent and support vulnerable people.

This will require us to work differently; to invest in early interventions, demand management encourage service innovation, reduce costly care packages and enable more self-help and resilience in our communities.

- The number of Children Looked After by the Council is projected to continue to rise, reflecting population increases and national trends.
- Our School age population is projected to increase by 3% by 2025 but this will then slow down by 2041. There is an estimated need for an additional 8,000 school places by 2025.
- The growth in population and households will mean a need for additional infrastructure requirement, particularly transport, waste and school places including special education needs.



Shaping Warwickshire as a place to live, work and visit

- The Council has declared a climate change emergency and is developing an action plan in recognition of its role as community leader, service provider and estate manager.
- The number of households is projected to increase by 13% to 271,497 by 204. Each of the 5 District /Borough areas are projecting growth in households of 10,000 or more by 2033.
- Managing and maintaining Warwickshire’s transport network poses several challenges including: the need for new infrastructure, improving connectivity, securing a modal shift away from cars, dealing with the impacts of congested town centres and improving road safety.
- Our ambitions for Warwickshire are being driven through our place-based programme which will identify specific opportunities and needs to be addressed.
- Despite Warwickshire’s strong economic foundations, the impact of the Covid-19 pandemic presents challenges for our key sectors. The automotive and advanced manufacturing sectors

face short-term impacts in terms of disruption to work and supply chains, whilst our tourism sector faces significant pressures which could see unemployment rise as government support schemes (such as Furlough) come to an end.

- The capital strategy plays a critical role in recovery by supporting key sectors through specialist land and facilities, enabling the adjustments within sectors to respond to new opportunities such as green technology and transport, and adaptations in working patterns.
- The West Midlands has been selected as the preferred partner for the government’s Urban Connected Communities project to develop a large-scale, 5G pilot across the region, with a hub in Coventry. 5G mobile connectivity is expected to revolutionise the digital environment, with benefits to business, public services and society, attracting investment, talent and contributing to innovation.
- Population growth helps increase the Council tax base and positively impacts on our ability to borrow for capital investment.
- Strong partnership efforts and investment will be needed to sustain the role of our town centres

in the face of Covid-19, changing consumer habits and emerging opportunities.

- We need to work in different and innovative ways to reduce costs and optimise use of our assets to aid our sustainability in the face of growing demand and an uncertain financial climate for local authorities.
- There are opportunities and challenges to leverage external contributions (grants, developer contributions etc) for our capital programme.
- We need to optimise our commercial approach and activities to generate income and grow the tax base in order to deliver wider outcomes for Warwickshire.
- Technological advances and changes in the way customers interact with service providers, will lead us to maximise the use of digital and other technologies across our services.
- Our asset management strategies and estate modernisation plans will help sustain our core assets, support modern flexible ways of working, our climate change commitment and our people strategy.

4.

Guiding principles for our Capital investments.

Approach

This capital strategy represents a step change in our approach to capital investment, and is guided by these three key principles:

**1.
Strengthening our
strategic focus**

and role as a shaper of place for Warwickshire by applying a holistic, forward looking and externally focused approach to our capital investment

**2.
Matching our
programme to our
ambition**

Right sizing the capital programme to ensure it reflects the broad range of our ambition and outcomes

**3.
Optimising Delivery**

Strengthening our performance in relation to capital projects, adopting commercial principles and practices which enhance evidence-based decision making and robust benefit realisation

The key principles of our Capital Strategy are:

 **Strengthening our strategic focus**

Focusing on our core purpose, helping the achievement of the Council's priority outcomes and supporting Warwickshire's

The capital strategy exists to deliver the Council's Corporate Plan priority outcomes, strategic objectives and to help implement our key strategies. It will take a holistic, balanced and joined up view on investment across the full spectrum of Council objectives as outlined in the Council Plan 2025.

 **Matching the programme content to our ambition**

Taking a holistic view and ensuring strategic fit: The capital strategy will drive the right prioritisation of capital investment through an integrated approach across the Council, to drive recovery from Covid, innovation and creative solutions for managing demand, improving productivity and reducing cost. It will support good investments, maximise returns and exploit opportunities. Our capital programme will make the best use of resources and mechanisms to meet current needs, deliver a sustainable future for the next generation and be affordable.

Being risk aware: Our capital programme will be guided by our risk appetite and tolerances. We will be risk aware, ensuring compliance with our statutory duties and providing proportionate and appropriate scrutiny to drive improvement. We will operate within agreed tolerances for risk, reading across the entire capital programme and learning from the delivery of individual projects.

 **Optimising delivery**

Building a commercial and business-like approach to investment: The capital strategy is critical to embedding a more strategic, business-like and risk-aware approach, as encapsulated by our new commercial strategy. It will be informed by a long-term pipeline of investment and external funding opportunities. All capital investments will be supported by a robust business case, setting out the requirement, objectives of the capital expenditure, intended outcomes and benefits, the costs and the risks.

Our Warwickshire Property and Development Company will play a key role in optimising delivery of our investment strategies for our land and property assets in support of the Council Plan 2020-25.

Assurance: The capital strategy must drive a capital delivery programme which maximises the return (social value and financial benefits) from our capital investment. It will be supported by the right capabilities, plans and delivery management to minimise slippage, accelerate benefits realisation and achieve value for money.

5.

Capital Programme

The Council maintains an approved capital programme, that covers a 5-year period, which is subject to an annual update as part of the budget process and Medium Term Financial Plan. The capital programme incorporates:

- the roll forward of existing approved capital projects;
- an annual 'rightsizing' of approved capital budgets to ensure optimal allocation of corporate resources;
- allocations for rolling, annual maintenance programmes; and
- a single investment pot to fund new priorities.

The effect of investment priorities is reflected in both the Medium-Term Financial Strategy and Treasury Management Strategy.

Capital Programme approval process

The capital programme is developed in line with the Medium-Term Financial Strategy and approved as part of the Capital Budget Resolution by Full Council in February each year.

The Corporate Board will review the draft future capital programme, consider its affordability and make recommendations to the Cabinet.

The Cabinet is responsible for considering the capital programme, along with recommendations on how it should be financed as a whole, its affordability and priorities, and will recommend a revenue budget and a capital programme to the Full Council for approval.

Project approval

Capital projects will be brought to Members for approval throughout the year. Capital approval rules allow for this, meaning that the capital programme evolves throughout the year.

Assessment of bids for investment will take place through the established capital governance process.

Once a need for a new asset/project has been identified, it will be developed in line with the Council's project management framework and standards. This will involve preparing an outline business case to enable an assessment of the desirability and affordability of the project.

If approved, a full business case is developed and submitted for approval through our Gateway Process via a Technical Panel of in-house independent experts from finance, legal, property, project management and independent front line services.

The full business case will include an options appraisal and will ensure that the full implications of every proposal are clearly understood to enable decisions on whether to proceed with the project and to prioritise the application of capital against our investment criteria. It will also ensure that capacity to deliver the project, risks associated with the project, and value for money have all been considered.

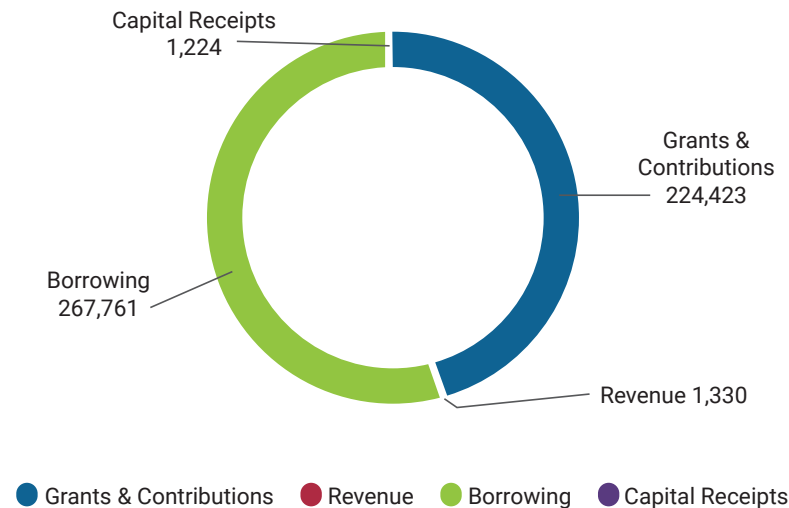
Once approved, these will be added to the Capital Programme.

Financial Monitoring

The technical appendix sets out how the capital programme is monitored to ensure that our capital spending is effectively managed to deliver value for money, together with the capital governance framework.

The funding of capital expenditure and funding principles

Our main capital resources are service specific grants, third-party contributions, capital receipts, contributions from revenue and borrowing. When assessing the level of planned capital investment to undertake, we make a judgement about the level of capital resources that are likely to be available over the period of the programme. We aim to optimise the use of all other available sources before using borrowing to fund our capital programme. The funding of the capital programme is outlined in the chart below:



Based on current estimates, WCC is expecting to spend £494.7m over the next 5 years. A breakdown of the capital programme is attached to the capital budget resolution and analysis of the allocations is included in the technical appendix. Future capital priorities not yet included in the capital programme are included in Annex D to the technical appendix.

The Council's strategy for its borrowing is set out in the Treasury Management Strategy Statement and takes account of factors such as interest rates and the spreading of loan repayment dates to reduce risk. The technical appendix outlines the approach taken to assessing sustainability and affordability of the capital programme and illustrates the effect of borrowing decisions on the revenue budget. Prudential indicators will be approved as part of the capital budget resolution.

The basis for the delivery of the overall capital programme are subject to Member approval:

- £35.600 million new borrowing annually, funded as part of the Revenue Plan proposals for the 2021-26 Medium Term Financial Strategy.
- £10.682 million of maintenance allocations funded from a top slice of this borrowing and are strictly cash limited.
- The balance of the £35.600 million annual borrowing (£24.918 million a year) will be allocated to the Capital Investment Fund where services will be invited to submit business cases to bid for funding throughout the year.
- All capital receipts (excluding those from the disposal of schools) are used to repay debt. Exceptions to this policy are only considered when as part of an invest-to-save project such that investing the capital receipt will result in bigger reductions in debt outstanding or greater revenue savings than would have been achieved by simply repaying debt (or if previously agreed by Members as being earmarked for a particular purpose).

- The disposal profile of capital receipts will be used to inform the MTFS and revenue savings targets by offsetting the revenue cost impact of new borrowing.
- The base level of investment in the school stock is fixed at the level of government capital grant for schools plus receipts generated from the sale of school assets and developer contributions. Circa £3.000 million of the government grant forms an annual contribution to the cost of school maintenance. The remainder of funding is used to invest in the provision of additional places.
- The base level of investment in the maintenance of Warwickshire's highways and street lighting and casualty reduction is fixed at the level of government grant for this purpose.
- Contributions from developers are maximised and applied to appropriate schemes ahead of Council resources whenever possible.

CIPFA Prudential Code

The 2017 edition of the CIPFA Prudential Code for Capital Finance in Local Authorities introduced the requirement for authorities to produce a capital strategy. The purpose of the capital strategy is to place decisions about borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets. The guidance is not prescriptive and allows the capital strategy to be tailored to the individual authority's circumstances. The Council has adhered to this guidance in this Capital Strategy.

6.

Capital Framework

Our Capital Framework covers:

- how we plan for capital investment, identifying priorities, inter-relationships and a long-term pipeline;
- the selection of projects, sub-programme priorities and the total capital programme;
- governance, including decision-making, risk management, assurance and control;
- the planning and execution of projects (using PMO, Prince2 & RIBA standards); and
- performance measurement using KPIs (financial, technical, economic, environmental & social metrics) to track progress at different stages, delivery, benefits/ achievements, reporting and lessons learnt.

The capital framework includes a methodology to classify the different stages of a project based on recognised industry standards along with other best practice.

We will provide a clear definition about what performance is, and how it will be measured to allow us to assess whether our projects and investments are on track. KPIs and benchmarking will be used to capture our position and how well we are doing.

We will ensure governance through established arrangements that include a Gateway process and Investment Panel where senior officers review project proposals at project inception and at full business case stage. Projects will be scrutinised by appropriate experts and recommendations on

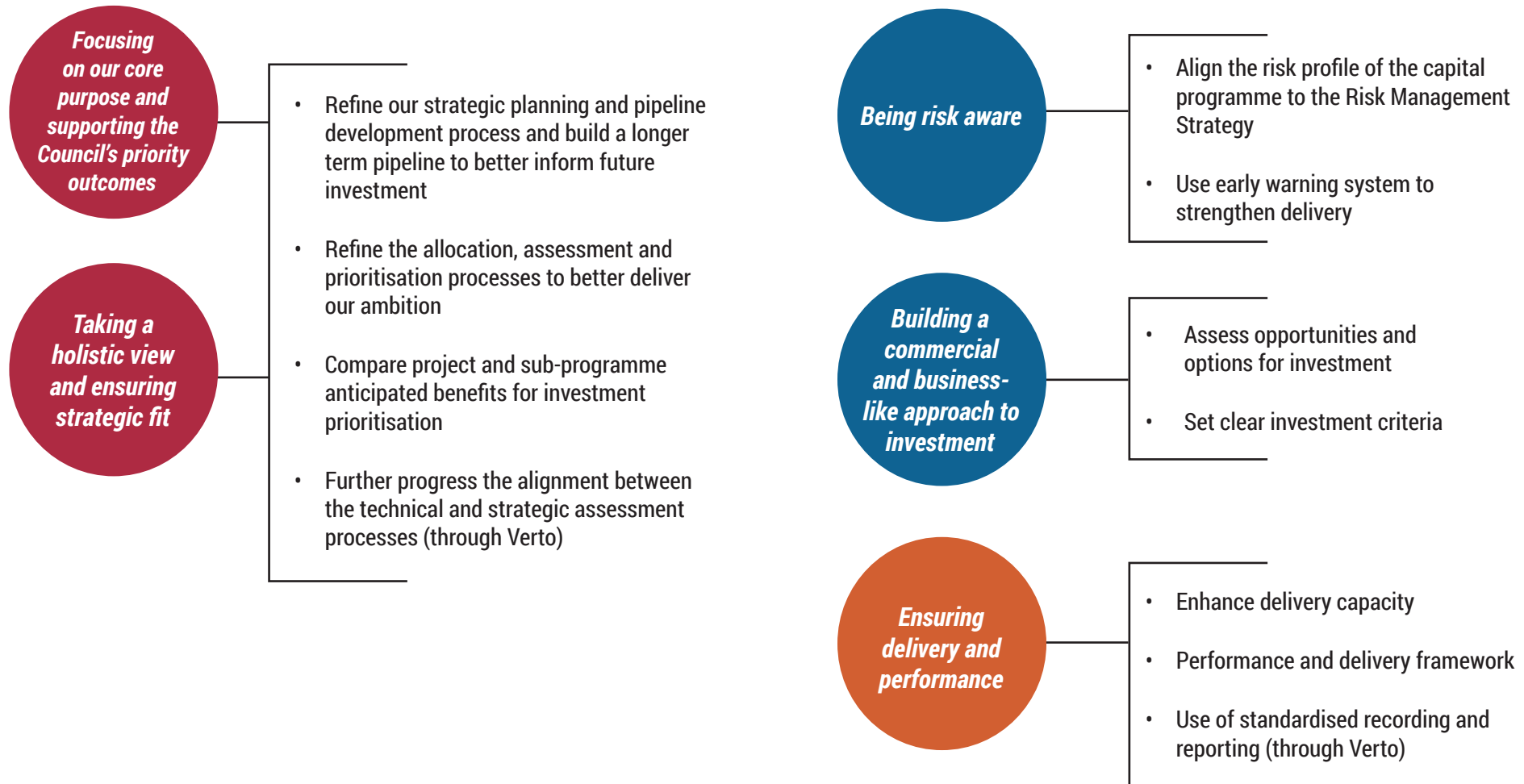
whether to approve will be made to Corporate Board, and where appropriate to Cabinet before delivery commences.

We will use our ncil-wide project system (to record and manage all projects. Project delivery will be through cross-directorate delivery boards, led by strategic directors who will support and challenge progress. These Boards are also responsible for assuring delivery of projects and programs to time, cost, quality, benefits and risk manage.

7.

Making it happen

The following are some key actions that will help the delivery of the strategy over the next 12 months.



Our Capital strategy will be reviewed annually alongside the annual refresh of the Capital Programme

The enhanced assurance framework will ensure that the programme and framework are constantly reviewed and relevant.

Performance will be reported quarterly to Cabinet. December 2020