Investing in Warwickshire –

Capital Strategy 2023-28

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Introduction

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, a much-valued natural environment and town centres that are a vital part of local life. But looking ahead, we also face significant challenges and economic uncertainty, including high inflation, unsettled financial markets, 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 the 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 resources and assets to deliver our key priorities and to ensure all Warwickshire residents share in the County's economic success.

Our Capital Strategy 2023-28 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 that underpins the delivery of our Council Plan.

Our 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.

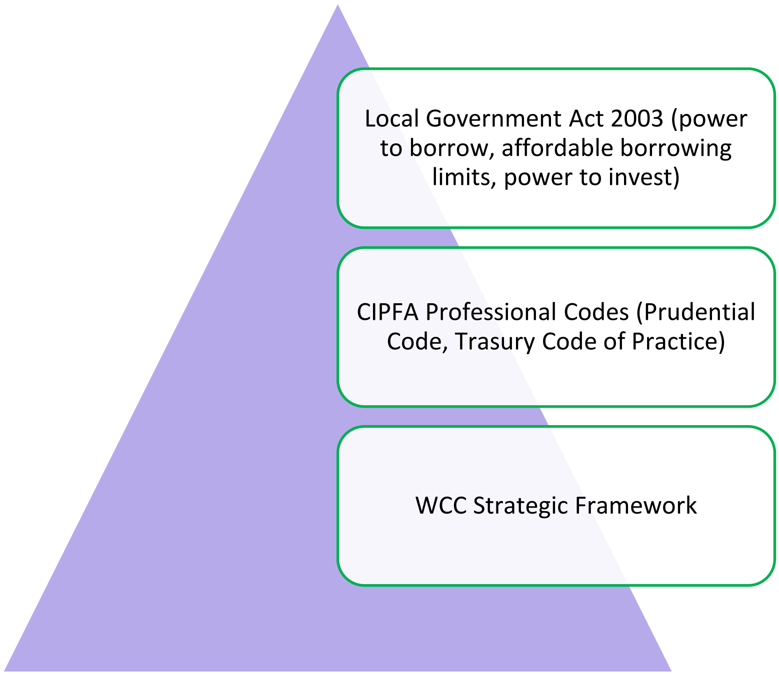
Together these ensure compliance with the CIPFA Prudential Code and HM Treasury rules on financing our borrowing.

We recognise the lasting impact and legacy of good, evidence-based capital investment and the Capital Strategy 2023-28 sets out our approach to making this happen in and for Warwickshire.

Policy Context

Legislative background and the CIPFA Professional Codes

In 2004, local authorities were provided with the flexibility to make their own capital investment decisions. Legislation, guidance and professional codes of practice were introduced to support decision making and ensure investment and borrowing is prudent, sustainable and affordable.



The 2017 edition of the CIPFA Prudential Code for Capital Finance in Local Authorities introduced the requirement for authorities to produce a capital strategy. This was updated in 2021 with additional capital strategy guidance.

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.

Internal Policy Framework

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. It sets out the choices we make in relation to the amount and nature of the capital investment we make and provide a link between capital and revenue budgets.

The Strategy is made up of three key elements:

- Strategic context – Sets out the aspiration and direction for our capital investment within the context of the Council Plan and longer term social, demographic and economic trends (Why).
- Programme – Sets out the capital programme funded by our investment; the key governance and decision-making framework with consideration to risk (What).
- Framework – Sets out the way we plan and prioritise investments; manage capital spend and the capital programme in line with best practice and statutory requirements; and how we fund this strategy within a balanced medium term financial strategy (How).

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 and addresses how we intend to pay for our capital investments and activities.

Our approach to capital investment is informed by a number of existing strategies within the Council's policy framework as detailed in the technical annex E, with the key ones shown below.

The desired outcomes of the Capital Strategy are aligned to the core strategies to influence wider agendas and partnership working such as the Warwickshire Property and Development Group, the Warwickshire Recovery Investment Fund, the Health and Wellbeing Partnership, the West Midlands Combined Authority, and other local authorities in the region.

Strategic Context

The intent of the Capital Strategy is to support the vision for Warwickshire as set out in the Council Plan: To make Warwickshire the best it can be, sustainable now and for future generations. In order to achieve this the Strategy aims to create the infrastructure that will enable, encourage and support:

- A county with a thriving economy and places that have the right jobs, skills, education and infrastructure;
- A county where all people can live their best lives; where communities and individuals are supported to live safely, healthily, happily and independently;
- A county with a sustainable future which means adapting to and mitigating climate change and meeting net zero commitments; and
- Us to become a great council and partner.

In addition to delivering the above priorities the Capital Strategy also needs to remain flexible to be able to address the challenges presented by the ever-changing environment the Council operates in; including local and national politics, macroeconomic trends, social and technological changes all set in the context of climate change, the impact of high inflation, post EU Exit and post-Covid recovery. The key themes that drive our capital strategy are highlighted below:

Economic Challenges

In the Autumn Statement the Chancellor confirmed the UK is in Recession, with the size of the economy expected to shrink by 1.4%. In addition to this, we have seen a difficult economic picture emerge this year through high levels of inflation, a tight labour market and higher interest rates, all these factors place an additional burden on our businesses and residents as costs for energy, food, fuel, and raw materials are high. Despite Warwickshire's strong economic foundations, the impact of the external economic factors presents challenges for our key sectors.

The capital strategy can play a key role in supporting 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 recovery outcomes and support for businesses that are in need. Our longer-term ambitions for Warwickshire are being driven through our place-based programme which will identify specific opportunities for investment and growth.

Social changes – a growing and ageing population

Warwickshire continues to be an attractive place to live, work and visit, which is forecast to experience significant population and housing growth. Population growth is forecast to increase by 17.2% on the mid-2020 population estimates. The fastest growth is expected to take place in older age groups: those aged 70 and over are projected to increase by almost 14% by 2025 and those aged 85 plus will increase by 22% over the same period. By 2025 there will be an estimated 4,300 residents in care homes aged over 65, which represents a 20% increase from the 2019 estimate.

A growing ageing population is likely to see increases in those living with disabilities and other long-term health conditions. The current forecasts indicate a 16% increase in residents living with dementia. This will lead to additional demand pressures on public services including health, social care and fire to protect, prevent and support vulnerable people, and 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.

Warwickshire's Children & Families Service have worked hard to safely reduce the numbers of children in care. This is reflected in a 5.7% reduction in children in care between the 2021 and 2022 calendar year end. Numbers of children in care can fluctuate although Warwickshire are successfully seeing reductions compared to the national trend where increases have continued.

Our school age population is projected to increase by 3% by 2030 and continue to increase steadily to 2043. There is an estimated need for an additional 4,300 school places by 2026.

The growth in population and households will mean a need for additional infrastructure, particularly transport, waste and school places, including places for pupils with special education needs.

Financial sustainability

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.

International, national, and local disruptions in supply chain and increasing inflation will make it more challenging to deliver our capital ambition within available resources.

Population growth, whilst brings its own challenges, will help increase the Council tax base and positively impacts on our ability to borrow for capital investment.

Technology and automation – ‘the fourth industrial revolution’

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.

The current phase of automation is multi-dimensional and includes the use of robotics/drones, AI & AR (Artificial Intelligence & Augmented Reality), 3D printing through to new uses of databases and enhanced information analysis in terms of blockchains. Each individual element is transformational on its own and together will bring revolutionary change to how we provide services.

Inclusive Growth and Levelling Up

As a county we perform well and are relatively affluent compared to other areas of the country. We have a strong economy, good services, and mature partnerships, but there are still areas of our county where long-term inequalities and disparities exist. The Capital Strategy has a key part to play in ‘levelling up’ these areas of our county by prioritising and identifying projects that support regeneration and build connectivity.

The Climate Change Emergency

The UK Government has committed to Net Zero by 2050 and has undertaken a process of extensive policy development and new legislation. These policies and new laws will impact on Warwickshire businesses, public services and communities.

Every aspect of life is expected to be impacted by climate change from how our energy is produced through to how we preserve local biodiversity, from how we encourage new green economic sectors and retrain people for a rapidly changing green economy, to supporting the retrofitting of homes with green technology like replacing gas boilers with ground source heat pumps.

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. This year we have published our draft sustainable Futures Strategy which sets out our council vision and action plan to make Warwickshire a Net Zero county by 2050, this will need to take significant investment and require us to consider the environment in all decisions we take.

Asset Management Planning

Our Capital Strategy for Warwickshire is more than a plan for investment; it incorporates a comprehensive and funded plan for maintaining, replacing and improving the assets the Council controls.

The Council has responsibility for assets used in service delivery including property, highway infrastructure (roads, footpaths, structures, lighting) assets and a wide range of vehicles, plant and equipment. It is essential to understand the need, utilisation, condition and the investment and operating cost requirements of assets, whether owned or leased.

When prioritising investment, it is key to understand the long-term cost of maintaining and operating existing assets and their fitness for purpose, having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses.

A funded programme of planned replacement of assets underpins the Council's capital investment strategy, aids business continuity and reduces operational risk.

Risk Appetite

In undertaking complex projects, decision making will continue to be supported by proportionate business cases in line with best practice covering strategic, economic, financial, commercial and management cases. For large complex projects, professional external advice and services will be sourced to undertake due diligence to understand risks and inform decision making.

Capital investments can be broadly split into four types:

1. Approved Maintenance Programme: Expenditure on existing assets to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs.
2. Approved Investment Programme: Expenditure on specific projects to meet strategic objectives.
3. Treasury Capital Investment: To meet strategic aims. Non treasury capital investments could include loans towards capital expenditure incurred by external bodies, Council subsidiaries or joint ventures.
4. Corporate Capital Funds: Expenditure to enable the organisation to save revenue resources.

We recognise that achieving these aims could require consideration of alternative delivery structures and of all forms of funding, including additional borrowing. Capital investment funded by borrowing will be undertaken in priority areas to meet our capital ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

Non treasury investment funded by additional borrowing would only be undertaken after:

- Cabinet approval of a robust business case supported by independent advice;
- Consideration of the legal basis on which the expenditure is being incurred;
- Affordability and risk assessment of such expenditure over the longer term; and
- Assurance the proposal is in line with HM Treasury rules on financing our borrowing and the CIPFA Prudential Code.

Governance and Decision Making

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.

Corporate Board review the draft future capital programme, consider its affordability and make recommendations to Cabinet. 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 Full Council for approval.

A pipeline of potential future capital projects provides insight so priorities can be weighted across the organisation and geographical area of Warwickshire. Further information can be found in the Appendix E-Capital Technical Annex.

Project approval

Capital projects will be brought to Members for approval throughout the year. Only when approved will projects become part of the capital programme.

Financial Monitoring

The technical appendix to this strategy 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.

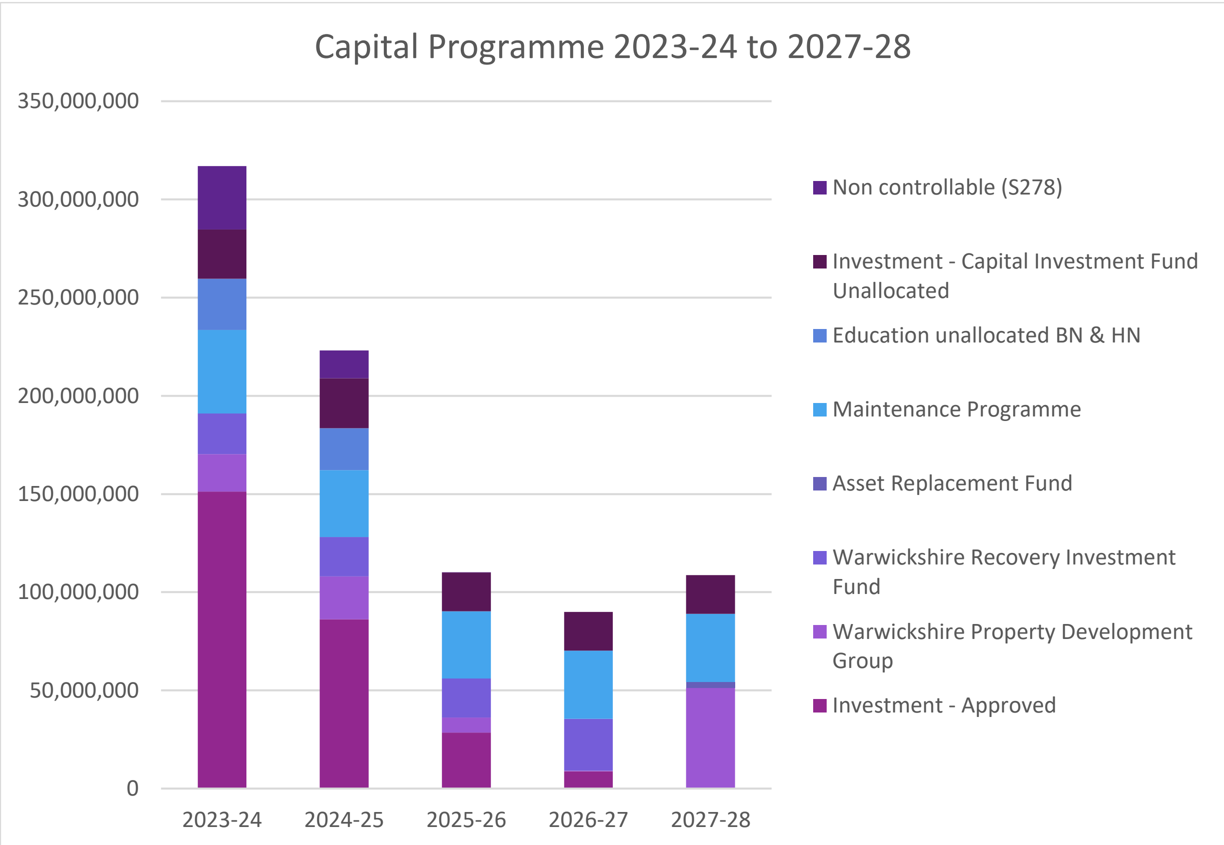
Capital Programme

The Council maintains an approved rolling capital programme, that covers a 5-year period, which is subject to an annual update as part of the budget process.

The capital programme incorporates:

- Roll forward of existing approved capital
- Annual 'rightsizing' of approved capital budgets to ensure optimal allocation of corporate resources and review of lending profile to WPDG and WRIF
- Allocations for rolling, annual maintenance programmes and review of inflation
- Allocations for business-as-usual replacements
- A prioritised Capital Investment Fund for new investment

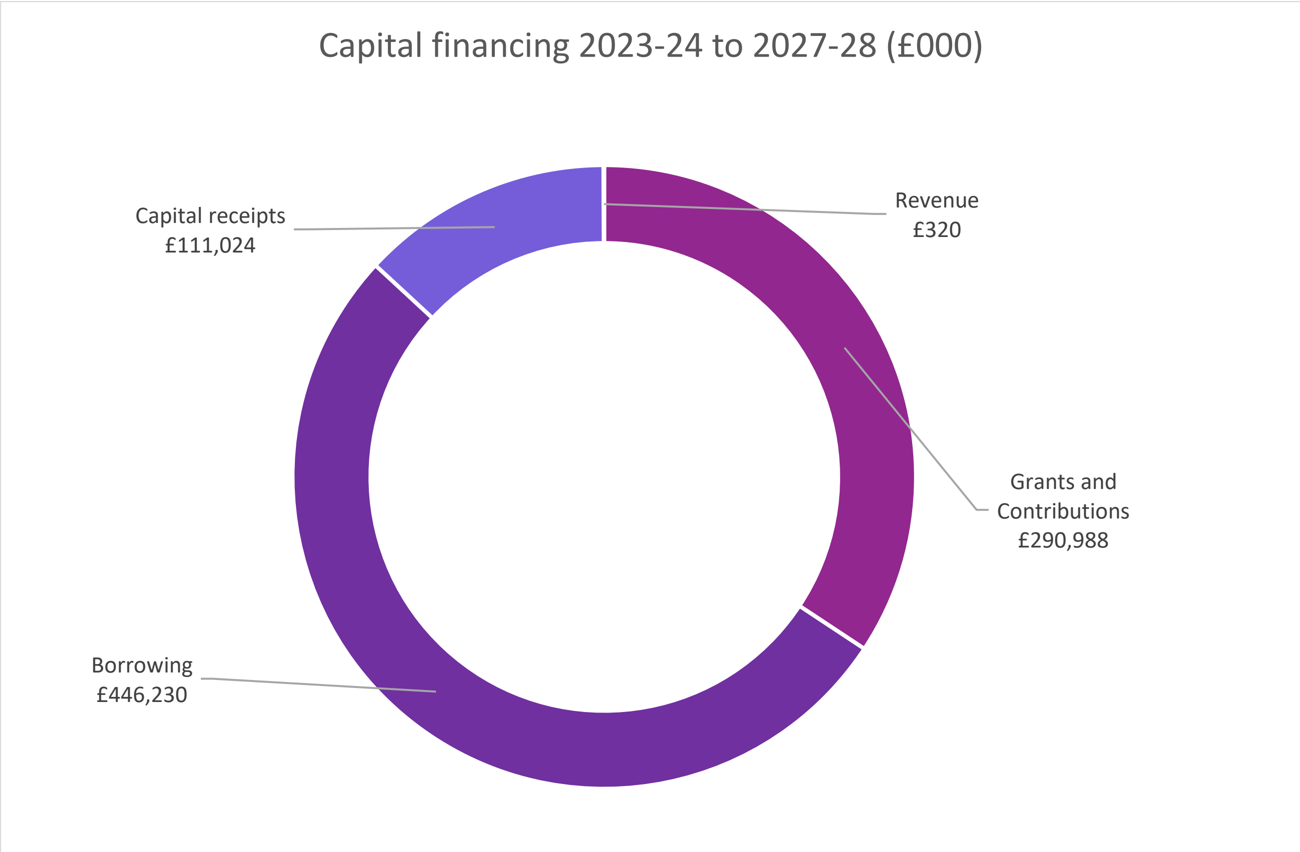
The current Capital Programme is summarised in the table below:

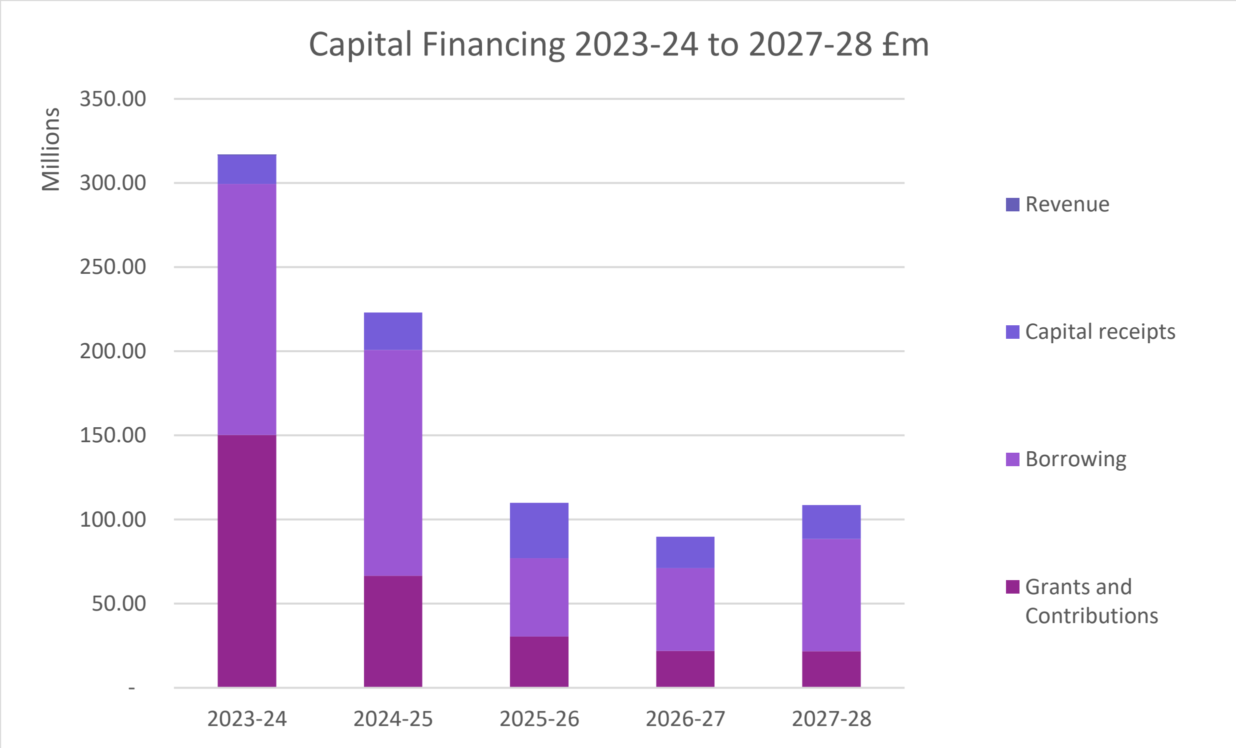


In comparison, actual capital expenditure in 2022/23 was £117.8million and projected capital expenditure in 2022/23 is £316.9 million.

Funding the Strategy

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, we expect to spend £813.6m capital 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 the capital budget resolution and Appendix E to the technical appendix.

Our borrowing strategy is set out in the Treasury Management Strategy 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 Treasury Management Strategy.

The basis for the delivery of the overall capital programme is:

- £35.5million new borrowing annually, funded as part of the revenue proposals for the 2023-28 Medium Term Financial Strategy.

- £11.3 million of maintenance allocations funded from a top slice of this borrowing, uprated annually for inflation and strictly cash limited. Inflation allocations expected to increase to £12.8m by the end of 2026/27.

- £3.0 million to fund business as usual replacement of assets funded from a top slice of the annual borrowing.

- The balance of the £19.7 million annual borrowing will be allocated to the Capital Investment Fund where services will be commissioned to prepare business cases relating to pipeline projects for funding throughout the year.

- All capital receipts (excluding those from the disposal of schools) are used to offset the need for additional borrowing. 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 larger levels of offsetting additional borrowing or greater revenue savings than would have been achieved by simply offsetting planned 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 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.

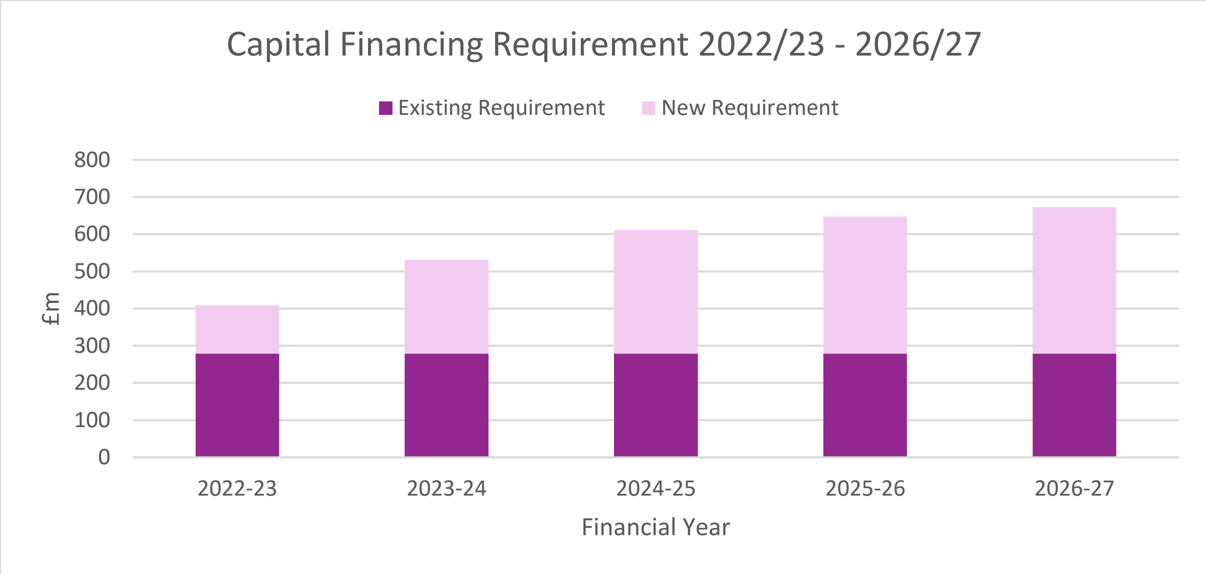
- Contributions from developers are maximised and applied to appropriate schemes ahead of Council resources whenever possible.

Managing the Borrowing Requirement

The Council's Treasury Management Strategy considers how the cash requirements arising from the Council's Capital Strategy and detailed investment programme are managed by external borrowing and the timing of any such borrowing.

Where capital expenditure has been incurred without a resource to pay for it i.e. when proposed to be paid for by borrowing, this will increase what is termed the Council's Capital Financing Requirement (CFR) which is our underlying need to borrow. The Council is required to make a prudent annual provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy. This annual provision reduces the CFR, just as new spend financed from borrowing increases it.

Future projections of the CFR based on the capital investment programme and resources deemed available to fund it are shown in the table below. Forecasts are subject to the timing of capital expenditure and receipt of funding sources.



By 2027/28 the CFR is forecast to increase to £602.8m. This would place the Council's level of debt in the upper quartile of shire counties but the CFR would remain within our debt capacity (the amount of debt we can take on without jeopardising our financial position). The MTFS projections include the costs of servicing the borrowing requirement. The Treasury Management Strategy addresses how the Council will meet the borrowing requirement including any external borrowing. The Council can consider various debt instruments, with the main source of long-term borrowing for local authorities historically being the Public Works Loan Board.

However, alternative options could be considered for specific council projects. Advantages and disadvantages of such products, supported by external advice in respect of different options, would need to be considered including risks, track record and cost of issuance.

Treasury management best practice is that loans are not taken on a project-by-project basis and our treasury management practices are aligned with this.

Affordability

The fundamental objective in the consideration of the affordability of the Authority's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.

Capital investment undertaken historically, and the proposed Capital Programme, form an integral part of our revenue budget and MTFS. The revenue impact of capital schemes on council tax include:

- The costs of operating / maintaining new assets.

- The capital financing costs of servicing any borrowing required to pay for investment (interest and prudent provision for repayment of capital investment paid for by borrowing). Where capital expenditure is paid for using borrowing, the Council has a statutory duty to charge an amount to future revenue budgets for the eventual repayment of that expenditure. This spreads the cost of capital expenditure incurred now, and historically, to future revenue budgets. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP). Our MRP policy is included in the Treasury Management Strategy and details about its impact on the MTFS are provided in the technical annex.

- The revenue costs of preparing and delivering projects.

- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all costs of investments may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents of the county.

We recognise that the Council cannot afford to do everything, however where revenue resources are deemed available to increase the level of Council borrowing, where it needs to do so, this will be considered.

The percentage of the Council's revenue budget that is committed to capital financing costs is increasing in the long term due to the recent expansion of the capital programme through the Capital Investment Fund and the creation of Warwickshire Property and Development Group and the Warwickshire Recovery & Investment Fund.

A detailed review of our debt capacity has been undertaken and it found that Warwickshire has sufficient scope to increase borrowing to the levels set out in our capital programme and fund the increased borrowing cost within the revenue budget as set out in the MTFS. An analysis of WCC debt capacity is included in the technical appendix E.

Future Strategy Development

Our objective for the future development of this strategy is to ensure the optimum alignment of the strategic objectives, focus areas, delivery plans and the detailed capital framework at a more granular level.

We expect to commission business cases to support investment in the areas of focus set out in the Council Plan and though this develop a long-term pipeline of projects that will form the basis of our capital programme going forward. Further information can be found in the technical appendix E.