

DRAFT INVESTMENT PROGRAMME 2020-21 TO 2024-25

Executive Summary

The Investment Programme sets out the capital and one off investments required to deliver the Council's key strategies and objectives.

The Covid pandemic has had a considerable impact on local government finances. Whilst the government has provided support through a series of grant payments, these have not covered all the Council's costs nor does the income compensation scheme fully mitigate income losses. Into 2021/22 there is no guarantee that this government support will continue. Whilst the pandemic may ease, the economic consequences and the financial impact on the Council are likely to take much longer to recover. The Council is particularly affected by loss of commercial rents and the risk of potential further non-payment in the future due to business failure.

In preparing the draft Investment Programme for 2021/22 it has therefore been necessary to temporarily suspend projects which have not yet been committed but which would have revenue consequences through use of the Council's revenue reserves or financing costs of borrowing.

It is hoped that these can be re-instated once the financial position is more stable.

This paper is the first iteration in the process of updating the Investment Programme for 2021/22 onwards. It reflects slippage and a view on those projects which could be suspended. This will continue to be refined and the plans challenged.

The impact of the Investment Programme on revenue, capital and reserves are included in appendices attached to this report. The financial forecast is very uncertain and there is a risk that a substantial use of reserves would be required to meet revenue losses in both 2020/21 and 20/21/22. Beyond that an economic slowdown could mean that income takes some time to recover. The draft General Fund budget, also on this agenda, recommends the Council requests permission from the government to spread Covid related losses through the use of a Capitalisation Direction. This would protect the Council from the immediate and considerable loss of reserves.

It is also recommended that the Council seek a reduction in PWLB rates for the three regeneration schemes to which the Council is committed – Victoria Square, Sheerwater and the HIF project. A reduction in financing costs would significantly improve the viability of these projects and the Council's ability to manage the consequences as they progress.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) the draft Investment Programme for 2020/21 to 2024/25 be received;
- (ii) Managers, Corporate Management Group and Portfolio Holders be asked to review the Programme for any further cost improvements including reviewing the projects, their costs and timing to achieve savings with the minimum impact on citizen outcomes;

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- (iii) the Finance Director requests a reduction in PWLB borrowing rate, through the reduction of the margin applied by the government, to support the Victoria Square, Sheerwater and HIF regeneration schemes;
- (iv) Officers work with Surrey County Council to agree an acceptable use of additional Council Tax generated through the Long Term Empty premium to support climate change initiatives; and

RECOMMEND to Council That

- (v) **the loan facility provided to Thamesway Energy Ltd for the expanded Poole Road Energy Centre be increased to £35.6m.**

Reasons for Decision

Reason: To agree the draft Investment Programme for consultation before submission for final approval to the Council in February 2021.

The Executive has authority to determine recommendations (i) to (iv) above; (v) will need to be dealt with by way of a recommendation to Council.

Background Papers:	None.
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1.0 Introduction

- 1.1 The Investment Programme sets out the capital and one off investment necessary to support the achievement of the Council's strategies and objectives. The Council recognises that its Investment Programme ambitions exceed the resources immediately available to finance all of these ambitions.

2.0 Approach to updating the Investment Programme

- 2.1 The Covid pandemic has had a considerable impact on local government finances. Whilst the government has provided support through a series of grant payments, these have not covered all the Council's costs nor does the income compensation scheme fully mitigate income losses. Into 2021/22 there is no guarantee that this government support will continue. Whilst the pandemic may ease, the economic consequences and the financial impact on the Council are likely to take much longer to recover. The Council is particularly affected by loss of commercial rents and the risk of potential further non-payment in the future due to business failure.
- 2.2 In preparing the draft Investment Programme for 2021/22 it has therefore been necessary to temporarily suspend projects which have not yet been committed but which would have revenue consequences through use of the Council's revenue reserves or financing costs of borrowing. It is hoped that these can be re-instated once the financial position is more stable.
- 2.3 As set out within this report, it is recommended that the Council request access to PWLB borrowing at reduced rates of interest, to assist in progressing the Council's committed regeneration schemes – Victoria Square, Sheerwater and the town centre HIF.

3.0 Overview of the Investment Programme

- 3.1 The Investment Programme lists all the Council's projects and includes a separate appendix to show projects which have been temporarily suspended, but the Council proposes to resume once the resources and financial outlook permit. The estimated costs of the funded projects are shown in total in Appendix 1 and in more detail in Appendices 3 and 4.
- 3.2 For each project a proposed source of funding is identified (for example capital receipts, grant, development contributions, borrowing or use of revenue reserves). Actual funding decisions will be taken at the end of the year to optimise use of resources. The Investment Programme in itself is not a source of funding; it is the list of projects together with a summary of the implications on the resources available.
- 3.3 The following appendices are attached to this report:

Appendix	Title	Description
1	IP Summary	Sets out the total funded projects in the Investment Programme.
2	Financing summary	A summary of how the General Fund and Housing Investment Programme projects will be financed.
3	Housing Investment Programme	A breakdown of the projects included in the Housing Investment Programme (HIP) where allowance will be made in the General Fund or HRA revenue budgets.
4	General Fund Projects	A list of projects included in the Investment Programme (allowance made in the General Fund budget).
5	Projects Temporarily Suspended	A list of projects which have been temporarily removed from the funded Investment Programme to protect the Council's revenue reserves due to the impact of the Covid-19 pandemic

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6	Glossary	An explanation of the technical terms used in the IP.
7a & 7b	Energy Station	Further details of the Woking Energy Station Project.

4.0 Finance Task Group

- 4.1 An early draft of the Investment Programme was considered by the Finance Task Group on 30 September. This included project slippage from 2019/20, and new projects approved since February 2020, however was prior to the suspension of the projects in Appendix 5. Comments were sought on the projects within the Investment Programme regarding priorities, timing and any detail on the projects included in the Programme.
- 4.2 The Group will also review an updated version of the programme at the January 2021 meeting. Any comments will be reported at the Executive or taken into consideration in preparing the final Investment Programme as appropriate.

5.0 General Fund Investment Programme

- 5.1 The current and committed project details are set out in Appendix 4.
- 5.2 Where external funding is expected towards the cost of a project this is indicated against each project in the programme. If the external funding is specific to a project or type of project those external resources cannot be made available to fund other Investment Programme projects. External resources mean that some projects are able to continue despite the need to preserve reserves.
- 5.3 Where the project is to be funded by revenue, this is indicated as this expenditure must be taken directly from revenue reserves in the year in which it is incurred.
- 5.4 Some projects are income generating and can therefore remain in the Programme.

6.0 Housing Investment Programme

- 6.1 Works on the Council's housing stock are currently managed by New Vision Homes (NVH) and the Asset Management Plan through to 2023/24 is reflected in the Housing Investment Programme.
- 6.2 The breakdown of the Woking Borough Council Homes Section of the Housing Investment Programme (Appendix 3) is illustrative and priorities will be agreed between WBC Officers and NVH. The NVH Asset Management Plan is based on stock condition surveys and NVH continually review and develop the Asset Management Strategy for the stock.
- 6.3 The total Asset Management Plan budget is £3,885,000 for 2020/21. This is funded by a contribution to the Major Repairs Reserve which is the value of depreciation charged on Council Dwellings.
- 6.4 The Housing Investment Programme includes a Communal Heating and Hot Water System upgrade project. As reported to the Executive on 15th October 2015 these works were previously delivered as part of the New Vision Homes AMP. To avoid the New Vision Homes 18% overhead and profit management fee these works are now procured directly through Thamesway Maintenance Services Ltd (TMSL).
- 6.5 The Mandatory Disabled Facilities Grants (DFG) item on the Housing Investment Programme is funded by a £1,093,000 grant provided as part of the Department of Health's Better Care Fund.

Provision of New Housing

- 6.6 Please see the report elsewhere on the agenda regarding the purchase in Chertsey Road providing additional temporary accommodation in the Borough. This is in addition to acquisition of Waterman House which is being converted into temporary accommodation. This expenditure is included under the temporary accommodation item on the Housing Investment Programme.
- 6.7 Local Authorities can retain an element of Right to Buy receipts locally to be used on one for one replacement housing. Currently these receipts can be used to fund up to 30% of the cost of the replacement housing and must be used within 3 years or passed to the Government.
- 6.8 Officers have reviewed the land assets held by the authority, and other potential development sites around the Borough, to identify suitable new build affordable housing developments. The Housing Investment Programme lists these schemes which are mostly funded by 30% retained receipts and 70% HRA\General Fund Borrowing. The developments detailed in the Housing Investment Programme will utilise all of the existing retained one for one receipts balance and there is a risk the HRA will not be able to build up enough receipts to fully finance 30% of the scheduled developments at the time of construction. If there is a short fall in retained receipts the HRA will have to borrow to fund 100% of the development until sufficient receipts have been received.
- 6.9 The Council has recently secured Homes England Investment Partner Status. Officers will continue to work with Homes England to access grant for other affordable housing schemes to deliver this programme.
- 6.10 The HRA new build developments include Hale End Court (the Old Woking Independent Living Scheme, OWILS), Monument Way, Bonsey Lane, and Corner of Rydens Way\Sundridge Road sites. The OWILS, Bonsey Lane and Rydens Way\Sundridge Road projects are expected to complete in 2021/22.
- 6.11 A bid for Homes England funding for the OWILS Scheme has been successful with a contribution of almost £2m towards the scheme. This funding cannot be used in conjunction with retained Right to Buy receipts. For financing purposes the development will therefore be split into two elements; one to be funded by HRA borrowing\retained receipts and the other by HRA Borrowing\Homes England grant. The presentation of this financing will be updated for the final estimates (this has no practical impact on the project – only the way it is financed).

Sheerwater Regeneration

- 6.12 In February 2020 the Council approved the updated Sheerwater Regeneration project and financing arrangements. It was clear that close monitoring and further work would be required to seek to improve the financial position of the project. The Council on 30 July 2020 authorised the use of Compulsory Purchase Order (CPO) powers for the scheme.
- 6.13 During the year good progress has been made on the construction of the new Leisure Centre and the initial 'Purple' phase of residential properties. Work is underway preparing for the next phases. It is expected that once the financial modelling is updated financial risks will remain in the current climate. It is therefore recommended that a reduction in PWLB financing costs is sought to facilitate this major housing regeneration project.
- 6.14 The allowance for Sheerwater Social Support remains in the funded Investment Programme, recognising the critical need to support the community through this project.

7.0 Reserves Forecast and Resources Statements

- 7.1 The Council has a number of reserves which reflect funds set aside to manage the Council through its Medium Term Financial Strategy, including the town centre regeneration. It is possible that all of these accumulated reserves would need to be used to cover revenue losses as a result of the Covid pandemic, national lockdown and ongoing social distancing requirements during 2020/21 and 2021/22. This would leave the Council without the 'buffer' it needed to manage the launch of these major projects, and with minimal scope to cope with continued losses beyond 2021/22.
- 7.2 The Reserves section of the Investment Programme will show the effect of the spending on HIP and GF Committed projects on the Council's reserves. At the current time it is critical that reserves are maintained to meet the temporary, and potentially ongoing, reductions in income as a result of the Covid pandemic. The reserves forecast will be presented with the next version of the Investment Programme once expenditure plans and forecasts have been reviewed and refined.
- 7.3 The Investment Programme contains some projects which are of a revenue nature. In accounting terms these projects do not produce an asset and so they cannot be funded from capital sources such as capital receipts or borrowing. The cost of these projects fall on revenue sources and are included in the Investment Strategy Reserve (General Fund) and HIP Reserve (Housing Revenue Account). Details of the General Fund and HRA impacts are included in other reports on the agenda. These impacts have been minimised through the temporary suspension of revenue projects where possible.
- 7.4 All of the costs relating to the Investment Programme are built into the General Fund and Housing Revenue Account estimates. However, given the ongoing pressures on revenue reserves and the current economic uncertainty, the Council's financial position will be considered before projects commence, and further delaying projects remains an option.

8.0 Priorities

- 8.1 The projects are included within the Investment Programme using the priorities established by the Capital Strategy. The use of capital resources are prioritised in the Capital Strategy as follows:
- schemes that are essential to comply with Health and Safety or security obligations;
 - schemes that are essential to enable the Council to carry on its business with economy, efficiency and effectiveness, including electronic service delivery;
 - schemes that are for essential maintenance of assets;
 - schemes that enable the Council to further the objectives of the Community Strategy;
 - schemes that secure or enhance the income base; and
 - schemes that secure reductions in the cost base.
- 8.2 Prioritisation of the use of capital resources has regard to the Council's service priorities, as determined at least annually as part of the budget process.

9.0 Reporting of Project Progress

- 9.1 The Executive receives a quarterly report of progress on projects. The report focuses on active projects and shows the project progress and assesses overall project risk as well as the total cost of projects (including costs incurred in previous years).
- 9.2 When a project is planned, a project mandate is prepared and these mandates are used to update the Investment Programme. Spending should only commence on a project once it has been through an authorisation process and the budget released.

9.3 Supporting detail for projects will be presented with the final Investment Programme in February. This is generated from project data on SharePoint and provides further information on the project objectives. The inclusion of the project reference also enables cross reference to the quarterly progress report.

10.0 Schemes included within the Investment Programme

10.1 The Investment Programme includes the following new schemes which have been added since the Investment Programme was approved in February 2020.

- SEN School at Brookwood Farm
- Green Homes Grant Local Authority Delivery scheme
- Victoria Square Financial Modelling
- Transit Site Project

Victoria Square

10.2 As reported to the Council in July 2020, the pandemic is having a significant impact on the progress of the Victoria Square town centre regeneration. The progress was much slower than planned as the site was affected by lockdown and since then by the necessary social distancing measures. Delay in the programme ultimately increases costs of the contractor, professional support and financing of the construction. A later opening and more uncertain economic environment also impacts the operations of the scheme once complete.

10.3 The Victoria Square financial model has been reviewed and updated. Costings continue to be refined and will be reflected in the model once available.

10.4 A Members Briefing will be held on 15 December 2020 to update Members on the detail of the modelling and views of the professional advisors to the scheme on the economic outlook.

10.5 It is recommended that the Council request access to the PWLB at a reduced rate for this project to mitigate costs of delay and the likely continued difficult conditions on launching the scheme in 2021. The request would cover both the loans to Victoria Square Woking Ltd (VSWL) and the acquisition of the car parks by the Council. If car parking activity continues to be significantly less than previous levels it may also be necessary to consider future Minimum Revenue Provision (MRP) policy for these new assets do delay repayment of the debt whilst they are not fully utilised.

Housing Infrastructure Fund (HIF)

10.6 In July 2019 the Council was awarded a £95 million grant from the Ministry of Housing, Communities and Local Government Housing Infrastructure Fund. The investment will be used to address inadequacies of the A320 Guildford Road and Victoria Arch, to improve pedestrian and cycle routes and replace the railway bridge.

10.7 The terms of the funding were agreed in early 2020 and the Council has received £20,234,670 to date.

10.8 The Council's element of the project funding depends on developers contributions from the development sites which will benefit from the infrastructure improvements. The potential medium term economic consequences of the pandemic, including the time for the economy to recover, may result in a delay in the assumed development. It is therefore recommended that the Council seek a reduction in the PWLB rate for borrowing associated with this project.

Opportunity Purchases

- 10.9 The Investment Programme includes a budget allowance for Opportunity Purchases. This is for property which becomes available and which would assist in progressing the Council's long term objectives.
- 10.10 It is assumed that all Opportunity Purchases will be neutral to the revenue budget, either providing an income stream to meet financing costs, or being part of a development site where financing costs can be capitalised until the asset is complete. It is important that future Opportunity Purchases do not result in increased revenue costs for the Council.

Brookwood Cemetery

- 10.11 The Investment Programme previously included capital and revenue grants to Brookwood Cemetery to fund backlog maintenance as well as capital improvements at £1m capital grant and £500k revenue grant each year.
- 10.12 The assumed level of these grants has been reduced in this draft Investment Programme as both are ultimately funded from the Council's revenue reserves. The Cemetery board will be requested to consider the minimum resources required to continue the service until the Council has a secure financial plan for the future.

We Are Woking

- 10.13 Under normal circumstances the We Are Woking campaign aims to ensure the town is seen as 'open for business' during development works as well as attracting new commercial, visitor and local interest to the Borough. This item is still included in the Investment Programme in 2020/21. This budget has also been used to support residents and promote the work of local community groups during the first lockdown, as well as the safe accessibility to Borough businesses which have been open over (or open some of) the last six months.

Transit Site

- 10.14 The project to develop a transit site for Surrey has long been a shared ambition of all Surrey authorities. A transit site in the County would enable Surrey Police to use Section 62a of the Criminal Justice and Public Order Act 1994 to direct travellers from Unauthorised Encampments (UEs) and to prohibit them from returning to any UE within the Borough for a period of 3 months. In addition the existence of a Transit Site will help minimise the conflict between travelling and settled communities and address the welfare needs of the travelling community.
- 10.15 A site has been identified in the East of the County which, subject to Planning Consent, could be developed into a 10-pitch transit site. Surrey County Council own the site and is willing to make it available and remove contamination from the site.
- 10.16 Borough and District Councils, other than the host Borough, have been requested to make a financial contribution in 2021/22 of:-
- a one off contribution of up to £127,000 in capital funding for the construction of the site; and
 - an annual contribution of £7,500 revenue funding for the maintenance of the site.

MTFS Investment Requirement

- 10.17 The Council has approved some use of the MTFS Investment Strategy budget which has not yet been progressed. The financial impact of approved decisions is included in the base budgets for 2021/22, with unallocated allowance included in financing costs, but neutralised to ensure no impact on net revenue budgets.
- 10.18 During the year the government consulted on changes to the terms of Public Works Loans Board (PWLB) borrowing which would result in loss of access to the PWLB if an authority intended to acquire property for yield during the financial year. Since the consultation closed in July, there has been no feedback on the potential changes.
- 10.19 Whilst the Council has acquired property in Borough, and with a strategic purpose alongside the financial benefit, it remains a risk that some proposed use of these budget would not be acceptable to the government. It would not be possible to proceed if there was any doubt whether a transaction would be acceptable, as it would risk access to the PWLB for the rest of the Council's Investment Programme.
- 10.20 No changes have been made to the total MTFS Investment Strategy budget for 2020/21, except slippage of amounts forecast, but not committed, during 2019/20.

SCC Long Term Empty Properties funding

- 10.21 As set out in the General Fund budget also on this agenda, Surrey County Council (SCC) have proposed that any additional Council Tax generated through implementation of additional charges for Long Term Empty Properties may be used by the Districts for priority projects.
- 10.22 SCC would like the reallocated funding to directly support a County initiative or specific project. Examples include work that supports homelessness reduction, addresses climate change commitments and rethinking local transport delivery.
- 10.23 It is recommended that officers explore allocation of the available funding, which is forecast as £135,000 to date, towards climate change initiatives which would otherwise not be able to proceed.

11.0 Schemes in excess of £1m

- 11.1 In accordance with the Notice of Motion agreed by Council on 12 July 2007 the final Investment Programme report will set out the schemes where costs exceed £1m, not all of which have been contractually committed.

12.0 Schemes not yet taken account of

- 12.1 The Woking Football Club project has been removed from the funded Investment Programme at this stage as planning permission for the scheme has not been achieved. The Council is committed to providing a loan financing facility should the project proceed following a successful appeal. The project would need to be reinstated to the funded Investment Programme, but as a margin is generated on the loan it will have a positive impact on the Council's financial position.
- 12.2 The Gymnastics Club project is included on the 'Temporarily Suspended' projects list, as this is associated with the Football Club development which does not currently have the planning permission to progress. Should the project proceed, this Gymnastics Club relocation would also be reinstated in the funded Investment Programme as a Council commitment through the development agreement.

13.0 Additional funding requirement – Thamesway Energy Ltd

- 13.1 Due to the Covid pandemic the Thamesway group will not be producing revised Business Plans, instead continuing to progress the existing plans where possible until any consequences of the pandemic are clearer and a plan for the future can be assessed. Existing loan facilities are sufficient to progress the majority of the Thamesway group plans.
- 13.2 Thamesway Energy Ltd has requested that the Council approve an additional facility for the Poole Road Energy Centre. The building is progressing, taking into account the changes in the scheme to include additional infrastructure within the Victoria Square development, Victoria Arch widening and energy network to support Woking town centre regeneration. During 2017 funding was agreed at £26.1m for the energy station, the enlarged boarder scheme funding requires £35.6m, excluding connection contribution of £6.9m. Additional details of the scheme can be found in Appendix 7.

14.0 Release of funding

- 14.1 The Council's Capital Strategy sets out the arrangements for managing the initiation and approval of projects and includes a delegated arrangement for the Executive to agree new schemes which fall within the following parameters:

“Where the scheme is a new scheme the proposal will be scheduled for consideration by the Executive. The Executive will be granted delegated authority to agree schemes which can be contained within the following parameters set by the Council:

- the capital cost of each individual project does not exceed £5m;
- the aggregate capital cost of schemes approved by the Executive under this delegation does not exceed £10 million in any one financial year; and
- the cost can be contained within the authorised borrowing limits.

The setting of the Authorised and Operational borrowing limits is reserved to the Council. Where the scheme is expected to be outside of the above parameters the scheme will need the approval of the Council.”

- 14.2 The use of this delegated authority is reported in the Green Book.

15.0 Implications

Financial

- 15.1 The financial implications of the Investment Programmes have been incorporated in the draft General Fund and Housing Revenue Account estimates. The Prudential Borrowing implications will be built into the Treasury Management Estimates.
- 15.2 The draft Investment Programme will continue to be reviewed for the timing, scope and funding of projects during the budget process to identify any further possible savings.
- 15.3 A reduction in the borrowing costs associated with the Investment Programme would significantly improve the viability of regeneration projects which are currently impacted by the pandemic.
- 15.4 The Reserves Forecasts and Resource statements will be presented with the next version of the Investment Programme.

Human Resource/Training and Development

- 15.5 The Council has core resources to manage the Investment Programme but relies upon third party consultants to implement a number of its major projects. This is considered the most cost effective way of managing a varied programme.

Community Safety

- 15.6 This report has no specific community safety implications.

Risk Management

- 15.7 The project management arrangements provide for risk analysis as part of the improved control of Investment Programme projects; this seeks to minimise and manage risk. In corporate terms the main risk for the Council is in overstretching its capacity, this is recognised by Officers and from time to time it will be necessary to re-prioritise the programme to reflect the capacity of the Council.
- 15.8 As a result of the Covid-19 pandemic it has been necessary to scale back the Investment Programme to focus on just those projects which are committed until such time as the financial future is more certain.

Sustainability

- 15.9 Projects in the Investment Programme are progressed in accordance with the Procurement Strategy, Crime and Disorder Strategy, and the Climate Change Strategy.

Equalities

- 15.10 This report has no specific equalities implications.

Safeguarding

- 15.11 This report has no specific safeguarding implications.

16.0 Consultations

- 16.1 No general public consultations have been undertaken in connection with this report. The Investment Programme will be reviewed by Managers, Corporate Management Group and Portfolio Holders for cost improvements including reviewing the projects, their costs and timing to achieve savings with the minimum impact on citizen outcomes.

REPORT ENDS