LONDON BOROUGH OF RICHMOND UPON THAMES

COMMITTEE	**Finance, Policy and Resources Committee**
DATE:	**24 February 2022**
REPORT OF:	**Director of Resources**
TITLE OF DECISION:	**Capital Programme and Funding Review**
WARDS:	**All**
KEY DECISION?:	**YES**

IF YES, IN FORWARD PLAN?: YES

1. MATTER FOR CONSIDERATION

1.1. The Committee is asked to consider and approve the review of the current six year capital programme. The report looks at the programme approved in September 2021, outlines changes to budgets since then, provides details of new schemes, and looks at how the capital programme is funded.

2. RECOMMENDATIONS

2.1. The Committee are recommended to:

- review the capital programme and the changes being proposed.
- RECOMMEND to Council to approve the revised capital programme and its funding in Appendix A
- RECOMMEND to Council the Prudential Indicators in Appendix C for approval
- RECOMMEND to Council the Capital Strategy in Appendix D for approval

3. BACKGROUND

3.1. Since 2010 the Council has spent £547m on the capital programme to support investment in the borough. The current six year programme was approved by Committee in September 2021. That programme included a potential need to borrow a further £55.8m which brought the Council’s total underlying need for borrowing by the end of the programme to around £185m. The total expenditure for the six years approved by this report was £130.6m.

3.2. Since September 2021 the programme has been adjusted for:

- budget slippage and rephasing
- new schemes since approved by Members/under delegated authority
- the addition of new schemes and increases to budget
- removal of non-committed schemes
- changes to financing

4. THE REVISED PROGRAMME

4.1. The main schemes in the revised six year capital programme relate to school expansion projects, Disabled Facilities Grant (DFG) housing grants and loans, street lighting and highways and pavement works. There is also provision for affordable housing schemes and expenditure on the Richmond Climate Emergency Strategy.

4.2. During the course of this year, various new approved schemes have been added to the programme under the appropriate approval process. A breakdown of the changes since the current programme was approved in September 2021 are summarised below:

	£000		£000
Capital Programme 2021/22 to 2026/27 (before in-year additions below)			**130,585**
Additions to the budget during 2021/22:		Funded by:	
Residential Property Acquisitions Programme	12,500	Borrowing, S106 and Grant	
Affordable Housing Schemes - Unallocated	2,833	S106	
Public Realm Improvement Fund	1,699	Reserves	
Schools Condition Allocation Capital Maintenance Programme – various schemes	1,369	Grant and contributions	
TfL Funded Transport Schemes	886	Grant	
Replacement of pitch surfaces at Whitton Sports Centre and Sheen Sports Centre	405	Reserves	
Hospital Bridge Road/Turing House School - Highways Improvements	300	Reimbursements	
Electric Vehicle Charging Points	300	Grant	
			20,292
6 Year Programme 2021/22 to 2026/27 (before changes proposed in this report)			**150,877**

5. REVIEW OF NEED TO SPEND

5.1. The Council has a significant borrowing requirement in future years and a need to continue the prudent management of finances in order to keep Council Tax increases to a minimum. It is therefore necessary to continue to keep all expenditure under review, including capital projects. Any increase in capital spend is likely to require new borrowing. To ensure that capital budgets remain appropriate to the priorities of the Council and the levels of funding available, cash flows have been amended to reflect the latest forecast of spending profiles and budgets have been rephased as a result. This provides a more realistic projection of the borrowing required to support the programme, and therefore the interest and repayment budgets needed which feed in to current and future forecasting and budgets.

5.2. The following table summarises the revised programme after a review of the existing programme:

	£000	
Current Programme 2021/22 to 2026/27 (before budget changes)	**150,877**	
Removal of budgets from programme:		**Reason for budget removal**
Schools General Planned Maintenance	-866	Aligning 2022/23 budget with anticipated allocation.
TfL funded schemes	-628	To be captured within revenue budget.
Green Homes Grant	-425	Grant repaid to BEIS as expired and could no longer be spent.
Hammersmith Bridge Ferry Service	-375	No longer requirement for ferry service. Bridge reopened summer 2021.
Kingston Lane Adaptations	-64	Budget has been reduced in line with the planned spend.
E-cargo bike sustainable freight scheme	-30	Budget reduced in line with confirmed pricing schedule for scheme.
Total Budget Removed	**-2,388**	
Revised Programme after budget changes	**148,589**	
The above was to be financed by:		
Borrowing	1,440	
Grant funding	948	
	2,388	

5.3. The removal of unallocated spend has released £1.4m of assumed borrowing from the programme which would reduce the revenue spend of the Council by approximately £75,000 per annum. Future revenue budgets will be adjusted accordingly, where appropriate.

6. NEW SCHEMES AND INCREASES TO BUDGET (NEW BIDS)

6.1. Appendix B details the new schemes and increases to existing budgets to be added to the capital programme. This is summarised below:

Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
Committee	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Adult Social Services, Health & Housing	105	956	175	175	175	375	**1,961**
Environment, Sustainability, Culture & Sport	0	1,682	0	0	0	1,450	**3,132**
Finance, Policy & Resources	0	99	0	0	0	1,330	**1,429**
Transport & Air Quality	450	3,428	820	10	0	1,700	**6,408**
Total new schemes and increases to budget	**555**	**6,165**	**995**	**185**	**175**	**4,855**	**12,930**

6.2. In addition to the bids for new schemes being put forward for approval, officers are aware of a number of major pipeline schemes that are under development and may require addition funding in future programmes. These include:

- Twickenham Riverside re-development
- Ham Close re-development
- Queens Road Hostel
- Richmond Education and Enterprise Campus sports hall

Funding for these will be added into the programme as schemes are agreed.

6.3. Below is a breakdown of the changes to the Council's Capital Programme as a result of the new schemes noted above:

	£000	£000
Current Programme 2021/22 to 2026/27 (before changes proposed in this report)		**150,877**
Removal of unfinanced schemes	-2,388	
New schemes funded by borrowing, Affordable Housing S106, capital receipts, Strategic CIL, grant & revenue contributions	8,250	
Add recurring spend for 2026/27	4,680	
Total Changes to Programme in this report		**10,542**
Proposed Capital Programme 2021/22 to 2026/27 (Appendix B)		**161,419**

7. FINANCING

7.1. The below table summarises the updated borrowing position following the changes proposed in this report:

	£000	£000
Current Financing Requirement 2021/22 to 2026/27 (before changes proposed in this report)		**55,796**
In-year additions to the capital programme financed from borrowing (para 4.2)	5,900	
Removal of unallocated programmes financed by borrowing (para 5.3)	-1,440	
Add recurring spend for 2026/27	3,413	
Proposed Capital Programme 2021/22 to 2026/27 Financing Requirement		**63,669**

7.2. ***Borrowing***: The Council's potential underlying need to borrow to fund the approved programme would therefore increase to £63.7m from the currently assumed position of £55.8m. This borrowing requirement represents 39% of the budget in the proposed six year programme. Whilst the Council does not hold a significant balance of available capital resources, these will be used to replace borrowing in the programme as they become identified. Council officers will continue to proactively pursue additional external funding to reduce the Council's need to borrow.

7.3. ***Capital Receipts***: At the start of 2021/22, the Council held a balance of £9.7m of capital receipts. This included £0.6m from the sale of equity share properties relating to the Home Loans Unit (HLU) which is not available to finance capital expenditure. These receipts have been drawn upon to finance a significant proportion of the new bids to be approved in this paper.

7.4. ***Community Infrastructure Levy***: At the start of 2021/22, a balance of £3.1m of strategic Borough CIL had been received and not spent. In agreeing the new capital programme (and/or in financing the final outturn for the current year) the Council may decide to either:

(i) Refinance existing schemes via the use of CIL and thereby reduce the cost of the existing capital programme to the taxpayer;

(ii) Introduce new schemes to be funded from CIL (including those linked to the environmental priorities of the Council);

(iii) Retain the unallocated CIL receipts for future years; or

(iv) A combination of the above.

7.5. ***Affordable Housing Section 106 Receipts:*** The Affordable Housing capital programme supports affordable housing delivery in the borough and is funded in the first instance from Section 106 affordable housing receipts. These receipts had an opening balance of £11.392m at the beginning of 2021/22 and an additional £5.602m has been received in the year to date, bringing total available resources to £16.994m. £6.875m is firmly committed to existing capital schemes and an element committed to revenue totalling £1.128m. This includes £3.6m for the Residential Property Acquisition Programme approved at Adult Social Services, Health and Housing Committee in February 2022, continuing support of the Affordable Housing Delivery team and the Empty Property Grants pilot programme.

7.6. In addition to the £8.991m currently available the Council has a further £18.377m secured in planning permissions (but not yet received). A total of £27.368m is therefore shown as unallocated within the capital programme. Further work is underway to estimate the timing profile of these potential future receipts, particularly for larger sites, however the timing of the receipt of future S106 payments cannot be guaranteed as they are dependent on whether individual developments progress and whether they hit key trigger points and milestones. This is subject to regular scrutiny and monitoring from the S106 Team within the Environment and Community Services Directorate and the Affordable Housing Team within the Housing and Regeneration Directorate.

7.7. There are some significant affordable housing schemes already in the pipeline that may draw down on these receipts estimated in the region of £5-£7m, including Council led developments such as Twickenham Riverside and Elleray Hall and to support, if required, the provision of additional affordable housing as part of the Ham Close regeneration being led by Richmond Housing Partnership. Further schemes are being worked up by officers and further funding will be committed as and when contributions are received and proposals are approved by Members. However, S106 affordable housing receipts are only one source of funding for any such schemes, the Council could utilise grants from other organisations such as the GLA if available. Additionally, Council borrowing can be used to top up available funding if necessary and where a business case is made and objectives align with the housing aims and objectives of the Council.

7.8. The Development Delivery Agreement is an agreement between the Council and Richmond Housing Partnership to combine available funding resources to improve and increase the delivery of affordable housing in the borough. The Council utilises funds held both under the Trust Account Deed (which is built up as a result of Richmond Housing Partnership receipts from disposals of transferred assets) and from the Housing Capital Programme funded by Section 106 Affordable Housing receipts. The scheme was originally approved in September 2019. The first call on supporting funding in the Development Delivery Agreement will come from the Trust Account resources to expedite the utilisation of the disposal proceeds, with Council funding utilised in later years although this will be adjusted where necessary. The intention of the Delivery Development Agreement is to enable Richmond Housing Partnership to deliver additional homes beyond those already in its pipeline. One scheme at Bucklands has been approved, with the first tranche of funding due to be paid to Richmond Housing Partnership in 2021/22.

7.9. Final decisions on financing will be brought to this Committee for approval as part of future reports.

7.10. **Timing of grants and contributions:** Whilst expenditure budgets are approved with particular funding sources, the timing of expenditure does not always align with the receipt of the funding. This is the case for the Busen reprovision scheme, which is to be financed by £1m borrowing, £0.4m contribution and £0.5m grants. Spend is currently ongoing but the external grants and contribution will be claimed during 2022/23 upon practical completion and therefore 2021/22 expenditure will be met by either capital receipts or borrowing. These resources will be replenished upon receipt of the external funding intended for the scheme.

8. PROPOSED CAPITAL PROGRAMME

8.1. Following all the proposals in this programme, the revised six year capital programme will have total expenditure of £161.4m. The most significant sources of financing are borrowing (£63.7m), grants (£42.9m), and Affordable Housing Section 106 receipts (£34.2m), however opportunities are taken to make use of ringfenced sources of funding to minimise borrowing, where possible.

8.2. A summary of the full capital programme is shown in the table below, along with how the programme is financed. Full details of the capital programme are available in Appendix A.

Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
Committee	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Adult Social Services, Health & Housing	2,324	17,489	3,626	3,626	2,426	29,294	**58,785**
Education & Children's Services	3,608	16,930	1,508	1,508	1,441	1,441	**26,436**
Environment, Sustainability, Culture & Sport	3,248	2,725	1,246	1,450	1,450	0	**10,120**
Finance, Policy & Resources	8,687	8,834	2,230	1,405	1,330	0	**22,486**
Transport & Air Quality	12,651	10,418	4,194	1,700	1,700	0	**30,663**
New Bids	555	6,165	995	185	175	4,855	**12,930**
Total Capital Programme	**31,073**	**62,561**	**13,799**	**9,874**	**8,522**	**35,590**	**161,419**

Financed By							
Grants	8,045	23,152	2,743	2,743	2,676	3,542	**42,901**
S106 & CIL	1,567	1,503	719	0	0	0	**3,789**
Affordable Housing S106	50	4,176	549	1,600	400	27,468	**34,243**
Contributions	602	1,797	1,051	0	0	0	**3,450**
Revenue Funding	917	110	0	0	0	0	**1,027**
Earmarked Reserves	1,750	1,243	0	0	0	0	**2,993**
Capital Receipts	879	6,215	1,001	85	0	1,167	**9,347**
Borrowing	17,263	24,365	7,736	5,446	5,446	3,413	**63,669**
Total Financing	**31,073**	**62,561**	**13,799**	**9,874**	**8,522**	**35,590**	**161,419**

9. FINANCE AND EFFICIENCY IMPLICATIONS

9.1. The timing and funding of capital expenditure has a direct impact on the level of Council cash balances and the level of borrowing. Therefore, any changes to the Programme will have an impact on the Treasury Management position.

9.2. The current approved programme relies on an estimated £63.7m of borrowing which would require around £3.4m of annual revenue spend to support it. For future years' additions, Members will need to be mindful of the ongoing uncertainty around central Government funding and ongoing demand pressures on revenue budgets, particularly as there are already some further large capital schemes that are under development (as detailed in paragraph 6.2).

10. CAPITAL STRATEGY

10.1. The Council's Capital Strategy has been written using the guidance in the CIPFA Prudential Code and is attached as Appendix D for approval.

11. PROCUREMENT IMPLICATION

11.1. None in specific relation to this report

12. LEGAL IMPLICATIONS

12.1. None specifically in relation to this report

13. RISK ASSESSMENT

13.1. The key risks associated with this report are the cost of financing the potential demands on the Council's capital programme at a time when public sector funding is severely constrained, and that borrowing costs do not rise significantly above the current projections. These should be set against the risk that if expenditure is not committed, it is likely that the Council will fail to achieve a number of its key non-financial priorities.

14. CONSULTATION AND ENGAGEMENT

14.1. Consultation and engagement will be carried on individual schemes within the capital programme.

15. BACKGROUND INFORMATION:

Previous capital programme report(s)

16. APPENDICES

Appendix A – Revised six year capital programme 2021/22 to 2026/27
Appendix B – New schemes and increases to budget 2021/22 to 2026/27
Appendix C – Prudential Indicators
Appendix D – Capital Strategy

17. CONTACTS

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6 Year Capital Programme 2021/22 to 2026/27

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Education & Children's Services							
Devolved Formula Capital & Healthy Pupils Fund	235	225	225	225	225	225	**1,360**
Basic Needs - unallocated funding	0	4,000	417	417	350	350	**5,534**
East Sheen double demountable classrooms	96	1,500	0	0	0	0	**1,596**
Collis KS1 rebuild	106	0	0	0	0	0	**106**
Hampton Academy	0	114	0	0	0	0	**114**
Twickenham Academy	0	111	0	0	0	0	**111**
Christ School SEN	65	0	0	0	0	0	**65**
Richmond upon Thames School	360	1,197	0	0	0	0	**1,557**
Sixth Forms							
Richmond Park Academy 6th Form	300	0	0	0	0	0	**300**
SEN Provision							
Strathmore at the Russell SEN	25	405	0	0	0	0	**430**
Additional Places / Future Schemes	24	1,123	0	0	0	0	**1,147**
Special Resource Provision at Hampton High	405	0	0	0	0	0	**405**
Norman Jackson Flat - SEND Provision	10	0	0	0	0	0	**10**
Acoustic Works at Hampton Hill Junior School	3	0	0	0	0	0	**3**
The Gateway - Health & Safety	83	0	0	0	0	0	**83**
High Needs Provision Capital Allocation	0	1,076	0	0	0	0	**1,076**
Strathmore at Hampton High	300	4,700	0	0	0	0	**5,000**
Vineyard Primary Special Resource Provision - feasibility	60	0	0	0	0	0	**60**
Schools General Planned Maintenance							
Schools General Planned Maintenance - unallocated funding	0	0	866	866	866	866	**3,464**
Buckingham Primary - upgrade toilets	4	97	0	0	0	0	**101**
Carlisle Infants - staff toilets	73	0	0	0	0	0	**73**
Collis Primary - roof/gutter repair	3	37	0	0	0	0	**40**
Darell Primary School - Condition of the Internal Fire Doors	0	19	0	0	0	0	**19**
Darell Primary School - Roof replacement	0	203	0	0	0	0	**203**
East Sheen Primary - Condition of KS2 Toilets	0	57	0	0	0	0	**57**
Hampton Infants - nursery block & boiler replacement	181	660	0	0	0	0	**841**
Hampton Hill Junior - roof repair	100	0	0	0	0	0	**100**
Hampton Hill Junior - Electrical upgrade/rewiring	0	159	0	0	0	0	**159**
Hampton Wick Infants - toilet refurbishment	92	0	0	0	0	0	**92**
Hampton Wick Infants - condition of playground and outdoor play spaces	0	256	0	0	0	0	**256**
Heathfield Schools Partnership - replace boilers, calorifiers & associated	182	0	0	0	0	0	**182**
Heathfield School Partnership - Windows and Doors	0	158	0	0	0	0	**158**
Meadlands Nursery Block	568	242	0	0	0	0	**810**
Orleans Primary - windows & floor repairs	62	0	0	0	0	0	**62**
Orleans Primary - Playground and Soft Play areas	0	130	0	0	0	0	**130**
Sheen Mount Primary - boiler replacements	37	0	0	0	0	0	**37**
Vineyard Primary - boundary wall & toilet repairs	110	121	0	0	0	0	**231**
Windham Nursery - Security safeguarding works	0	19	0	0	0	0	**19**
Condition Surveys	45	30	0	0	0	0	**75**
Contingency	0	100	0	0	0	0	**100**
Design Development	0	30	0	0	0	0	**30**
Urgent Health & Safety works	20	50	0	0	0	0	**70**
Final Retention Payments - various schemes	50	3	0	0	0	0	**53**
General Planned Maintenance - Preliminary	9	0	0	0	0	0	**9**
Children’s Centres	0	97	0	0	0	0	**97**
Short Break Care	0	11	0	0	0	0	**11**
Total Education & Children's Services	**3,608**	**16,930**	**1,508**	**1,508**	**1,441**	**1,441**	**26,436**

6 Year Capital Programme 2021/22 to 2026/27

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Adult Social Services, Health & Housing							
Adult Social Care							
Kingston Lane Adaptations	48	48	0	0	0	0	**96**
LD Care Home Reprovision (Normansfield)	0	46	0	0	0	0	**46**
Supported Living Homes fit out	0	114	0	0	0	0	**114**
Flexible Use of Disabled Facilities Grant (Better Care Fund - Adults)	200	200	200	200	200	200	**1,200**
Housing & Regeneration							
Sponsored Moves	50	180	100	100	100	100	**630**
Residential Acquisitions Programme	0	12,500	0	0	0	0	**12,500**
Housing Grants							
Disabled Facilities Grant (Except Richmond Housing Partnership)	1,101	2,156	1,426	1,426	1,426	1,426	**8,961**
Disabled Facilities Grant (Richmond Housing Partnership)	500	300	300	300	300	300	**2,000**
Empty Property Grants	50	245	0	0	0	0	**295**
Coldbusters Home Repair Assistance Grant	175	175	175	175	175	175	**1,050**
Affordable Housing Development							
RHP Extension Programme	0	200	100	100	100	100	**600**
Development Delivery Agreement (DDA)	200	1,500	1,500	1,500	300	0	**5,000**
Affordable Housing Schemes - Unallocated	0	0	0	0	0	27,368	**27,368**
Compliance and Health and Safety works - Corporate Buildings	0	500	0	0	0	0	**500**
Carlisle Park Pavilion - Heating Plant replacement	0	95	0	0	0	0	**95**
Ferguson Hall and Adjoining WCs - Asbestos removal and demolition	0	186	0	0	0	0	**186**
Joint control room - CCTV Upgrade	105	0	0	0	0	0	**105**
Total Adult Social Services, Health & Housing	**2,429**	**18,445**	**3,801**	**3,801**	**2,601**	**29,669**	**60,746**
Finance, Policy & Resources							
Elleray Hall Redevelopment	250	1,711	900	75	0	0	**2,936**
Busen - Reprovision	1,633	290	0	0	0	0	**1,923**
Twickenham Riverside	2,386	434	0	0	0	0	**2,820**
Empty Property Purchase	74	0	0	0	0	0	**74**
Property Maintenance and Improvement	868	1,520	0	0	0	0	**2,388**
General Planned Maintenance	1,330	1,330	1,330	1,330	1,330	0	**6,650**
Statutory Compliance Remedial Works	272	240	0	0	0	1,330	**1,842**
Emergency Plant and Equipment Renewal	300	0	0	0	0	0	**300**
SSA wide, Replace access control system hardware and software	20	230	0	0	0	0	**250**
Roof and fabric repair and replacement	155	0	0	0	0	0	**155**
Richmond Hybrid AV, upgrade all equipments	150	0	0	0	0	0	**150**
Landlord works: Old Deer Park Kids Academy	42	0	0	0	0	0	**42**
York House - Audio Visual System Renewal and Upgrade	0	99	0	0	0	0	**99**
Decarbonisation Projects	20	1,010	0	0	0	0	**1,030**
Public Sector Decarbonisation	186	0	0	0	0	0	**186**
ICT Investment	236	2,069	0	0	0	0	**2,305**
IT Infrastructure - PCI & PSN Compliance	24	0	0	0	0	0	**24**
Loan for SWMC for Crematorium Services	100	0	0	0	0	0	**100**
Richmond Community Fund (round 3)	297	0	0	0	0	0	**297**
Richmond Community Fund (round 4)	344	0	0	0	0	0	**344**
Total Finance, Policy & Resources	**8,687**	**8,933**	**2,230**	**1,405**	**1,330**	**1,330**	**23,915**

6 Year Capital Programme 2021/22 to 2026/27

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Environment, Sustainability, Culture & Sport							
Climate Change Strategy (RCES) - unallocated	0	1,104	796	1,000	1,000	1,000	**4,900**
Green Homes Grant	75	0	0	0	0	0	**75**
Green Homes Grant - Phase B	565	0	0	0	0	0	**565**
Parks Cyclical Maintenance	308	150	150	150	150	450	**1,358**
Parks Strategy	520	300	300	300	300	0	**1,720**
Orleans House Gallery - Delivery phase	25	148	0	0	0	0	**173**
Teddington Library First Floor refurbishment	100	127	0	0	0	0	**227**
Richmond Libraries RFID Replacement	165	0	0	0	0	0	**165**
Local Studies Library, AHU replacement	12	81	0	0	0	0	**93**
Old Town Hall Library (Richmond Museum) - New Lift	0	142	0	0	0	0	**142**
Public Recyling Points Vehicle	200	0	0	0	0	0	**200**
Ham Close MUGA at St Richard's	14	0	0	0	0	0	**14**
Pools on the Park - Replace pool lights	80	141	0	0	0	0	**221**
Pools on the Park - Upgrade ventilation	180	43	0	0	0	0	**223**
Pools on the Park - Replacement of the pool hall ceiling/AHU/Lighting System	0	812	0	0	0	0	**812**
Pools on the Park - Health Suite Refurbishment	0	187	0	0	0	0	**187**
Pools on the Park - Refurbishment of swimming changing room & associated toilets/shower blocks	0	157	0	0	0	0	**157**
Pools on the Park - Refurbishment of the gym members changing room, associated toilets/shower blocks and café toilet block	0	157	0	0	0	0	**157**
Pools on the Park - Boundary Wall Replacement	0	78	0	0	0	0	**78**
Pools on the Park - UV Installation POTP & TPFC	0	149	0	0	0	0	**149**
Teddington Pools, Boilers	468	0	0	0	0	0	**468**
Teddington Pools, AHU replacement	25	226	0	0	0	0	**251**
Artificial pitches at Whitton Sports Centre	0	212	0	0	0	0	**212**
Artificial pitches at Shene Sports Centre	0	193	0	0	0	0	**193**
Central Depot - Weighbridge replacement	51	0	0	0	0	0	**51**
Resurfacing of Richmond Riverside Terraces	0	0	0	0	0	0	**0**
Boroughwide Park improvements (PRIF)	420	0	0	0	0	0	**420**
Public Realm Investment Fund - unallocated	40	0	0	0	0	0	**40**
Total Environment, Sustainability, Culture & Sport	**3,248**	**4,407**	**1,246**	**1,450**	**1,450**	**1,450**	**13,252**
Transport and Air Quality							
Highways and Pavements	2,768	2,700	1,700	1,700	1,700	1,700	**12,268**
Street Lighting	2,900	6,153	2,140	0	0	0	**11,193**
Specialised Street Lighting Columns	0	20	20	10	0	0	**50**
Uplift Schemes/Twickenham Area Action Plan	220	0	0	0	0	0	**220**
Railshead Road – S106	284	0	0	0	0	0	**284**
S106 Schemes	32	0	0	0	0	0	**32**
TfL Funded Schemes	117	0	0	0	0	0	**117**
Strawberry Vale Corridor	676	0	0	0	0	0	**676**
Hampton Healthy Streets	98	0	0	0	0	0	**98**
Heath Road TFL PRN	200	0	0	0	0	0	**200**
Cross Deep / Grotto Road	30	0	0	0	0	0	**30**
South Worple Way retaining wall	90	0	0	0	0	0	**90**
Street Trees	0	145	0	0	0	0	**145**
Top up of Highways funding to replace lost LIP funding	1	50	0	0	0	0	**51**
Legacy pavement repair and tree re-stocking programme (RCES)	411	376	204	0	0	0	**990**
Hospital Bridge Road	529	300	200	0	0	0	**1,029**
Zebra Crossing Meadway, linking Kneller Gardens and Crane Park	0	125	0	0	0	0	**125**
Zebra Crossing, Broad Lane between Nightingale Road and Wensleydale Road	0	135	0	0	0	0	**135**
Richmond Road East Twickenham	475	325	0	0	0	0	**800**
Friar's Lane Car Park Improvement	250	0	0	0	0	0	**250**
Flood Alleviation Works	70	280	150	0	0	0	**500**
Heathfield Shop Front improvements (PRIF)	100	0	0	0	0	0	**100**
Richmond Town Centre signage and wayfinding (PRIF)	150	0	0	0	0	0	**150**
Ham Parade - Improved public realm/outdoor seating (PRIF)	500	0	0	0	0	0	**500**
East Twickenham public realm improvements (PRIF)	200	0	0	0	0	0	**200**
Broad Street improvements (PRIF)	234	0	0	0	0	0	**234**
Improvement/redesign of Garfield Road pocket park	55	0	0	0	0	0	**55**
Electric Vehicle Charge Points (part RCES)	241	577	0	0	0	0	**818**
Cycle Parking - public on-street (RCES)	50	20	0	0	0	0	**70**
Richmond Cycle Hub (RCES)	402	0	0	0	0	0	**402**
Bikehangars - residential scheme (RCES)	151	0	0	0	0	0	**151**
Bike Hangar Installation	0	72	0	0	0	0	**72**
E-Cargo bike sustainable freight scheme (RCES)	30	0	0	0	0	0	**30**
School Streets (RCES)	88	55	0	0	0	0	**143**
School cycle parking (RCES)	45	0	0	0	0	0	**45**
Contraflow cycle schemes (RCES)	90	0	0	0	0	0	**90**
Hampton Court Rd Cycle Scheme	0	125	350	0	0	0	**475**
Strawberry Vale Cycle Scheme	450	0	0	0	0	0	**450**
Automatic Number Plate Recognition Cameras for School Streets enforcement	0	145	0	0	0	0	**145**
Traffic Improvements	68	32	0	0	0	0	**100**
Traffic Calming Measures	0	230	0	0	0	0	**230**
20 mph schemes - Phase 2	0	300	100	0	0	0	**400**
Hammersmith Bridge Mitigation measures	165	0	0	0	0	0	**165**
Lock Cut Footbridge	130	620	50	0	0	0	**800**
Teddington Suspension footbridge	440	690	100	0	0	0	**1,230**
Amyand Park - Winchester Road footbridge refurbishment	250	0	0	0	0	0	**250**

6 Year Capital Programme 2021/22 to 2026/27

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Kew Gardens Pedestrian bridge - Repainting	0	50	0	0	0	0	**50**
Electrification of trading pitches (RCES)	112	0	0	0	0	0	**112**
Gritter machines (ULEZ compliant)	0	321	0	0	0	0	**321**
Total Transport and Air Quality	**13,101**	**13,846**	**5,014**	**1,710**	**1,700**	**1,700**	**37,071**
Total Capital Programme	**31,073**	**62,561**	**13,799**	**9,874**	**8,522**	**35,590**	**161,419**
Financed By :							
Grants	8,045	23,152	2,743	2,743	2,676	3,542	**42,901**
S106 & CIL	1,567	1,503	719	0	0	0	**3,789**
Affordable Housing S106	50	4,176	549	1,600	400	27,468	**34,243**
Contributions	602	1,797	1,051	0	0	0	**3,450**
Revenue Funding	917	110	0	0	0	0	**1,027**
Earmarked Reserves	1,750	1,243	0	0	0	0	**2,993**
Application of Capital Receipts	879	6,215	1,001	85	0	1,167	**9,347**
Borrowing Requirement	17,263	24,365	7,736	5,446	5,446	3,413	**63,669**
Total Financing	**31,073**	**62,561**	**13,799**	**9,874**	**8,522**	**35,590**	**161,419**

New schemes and increases to budget 2021/22 to 2026/27

Adult Social Services, Health & Housing	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
RHP Extension Programme	0	0	0	0	0	100	**100**
Sponsored Moves	0	0	0	0	0	100	**100**
Coldbusters Home Repair Assistance Grant	0	175	175	175	175	175	**875**
Joint control room - CCTV Upgrade	105	0	0	0	0	0	**105**
Compliance and Health and Safety works - Corporate Buildings	0	500	0	0	0	0	**500**
Carlisle Park Pavilion - Heating Plant replacement	0	95	0	0	0	0	**95**
Ferguson Hall and Adjoining WCs - Asbestos removal and demolition	0	186	0	0	0	0	**186**
Total Adult Social Services, Health & Housing	**105**	**956**	**175**	**175**	**175**	**375**	**1,961**

Finance, Policy & Resources	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Statutory Compliance Remedial Works	0	0	0	0	0	1,330	**1,330**
York House - Audio Visual System Renewal and Upgrade	0	99	0	0	0	0	**99**
Total Finance, Policy & Resources	**0**	**99**	**0**	**0**	**0**	**1,330**	**1,429**

Environment, Sustainability, Culture & Sport	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Parks Cyclical Maintenance	0	0	0	0	0	450	**450**
Climate Change Strategy	0	0	0	0	0	1,000	**1,000**
Old Town Hall Library (Richmond Museum) - New Lift	0	142	0	0	0	0	**142**
Pools on the Park - Replacement of the pool hall ceiling/AHU/Lighting System	0	812	0	0	0	0	**812**
Pools on the Park - Health Suite Refurbishment	0	187	0	0	0	0	**187**
Pools on the Park - Refurbishment of swimming changing room & associated toilets/shower blocks	0	157	0	0	0	0	**157**
Pools on the Park - Refurbishment of the gym members changing room, associated toilets/shower blocks and café toilet block	0	157	0	0	0	0	**157**
Pools on the Park - Boundary Wall Replacement	0	78	0	0	0	0	**78**
Pools on the Park - UV Installation POTP & TPFC	0	149	0	0	0	0	**149**
Total Environment, Sustainability, Culture & Sport	**0**	**1,682**	**0**	**0**	**0**	**1,450**	**3,132**

Transport and Air Quality	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Highways and Pavements	0	0	0	0	0	1,700	**1,700**
Specialised Street Lighting Columns	0	20	20	10	0	0	**50**
Electric Vehicle Charge Points	0	150	0	0	0	0	**150**
Automatic Number Plate Recognition Cameras for School Streets enforcement	0	145	0	0	0	0	**145**
Street Trees	0	145	0	0	0	0	**145**
20 mph schemes - Phase 2	0	300	100	0	0	0	**400**
Traffic Calming measures	0	230	0	0	0	0	**230**
Hospital Bridge Road	0	300	200	0	0	0	**500**
Kew Gardens Pedestrian bridge - Repainting	0	50	0	0	0	0	**50**
Lock Cut Footbridge	0	620	50	0	0	0	**670**
Teddington Suspension footbridge	0	690	100	0	0	0	**790**
Zebra Crossing Meadway, linking Kneller Gardens and Crane Park	0	125	0	0	0	0	**125**
Zebra Crossing, Broad Lane between Nightingale Road and Wensleydale Road	0	135	0	0	0	0	**135**
Hampton Court Rd Cycle Scheme	0	125	350	0	0	0	**475**
Strawberry Vale Cycle Scheme	450	0	0	0	0	0	**450**
Bike Hangar Installation	0	72	0	0	0	0	**72**
Gritter machines (ULEZ compliant)	0	321	0	0	0	0	**321**
Total Transport and Air Quality	**450**	**3,428**	**820**	**10**	**0**	**1,700**	**6,408**

Total new schemes and increases to budget	**555**	**6,165**	**995**	**185**	**175**	**4,855**	**12,930**
Financed By :							
Grants	0	175	175	175	175	175	**875**
S106 & CIL	0	917	650	0	0	0	**1,567**
Affordable Housing S106	0	0	0	0	0	100	**100**
Revenue Funding	0	110	0	0	0	0	**110**
Application of Capital Receipts	555	4,963	170	10	0	1,167	**6,865**
Borrowing Requirement	0	0	0	0	0	3,413	**3,413**
Total Financing	**555**	**6,165**	**995**	**185**	**175**	**4,855**	**12,930**

Prudential Indicators

The Prudential Indicators (PIs) required by statutory guidance are classified as controls on the affordability, sustainability and prudence of the planned borrowing.

The Prudential Borrowing regime, where councils set their own limit on borrowing using Prudential Indicators as controls, is based on the rule that councils are only authorised to borrow long term to fund capital projects, although they can borrow short term for cash flow purposes.

However, government guidance on Treasury Management requires councils to treat liquidity almost as highly as security when investing surplus cash, and on this basis it should be unusual for a Council to have the need to borrow short term on a regular basis.

The key information in setting PI is therefore the amount of capital expenditure financed by borrowing and the existing need to borrow.

It should be noted that the calculation of PI is set by regulations, which defines Borrowing as being formal loans and Debt as being Borrowing plus leases and other similar debt instruments.

These prescribed definitions do not match those used by the Council for its own internal budget monitoring and therefore totals are split where possible to assist users in matching PI figures to those used in budget setting and monitoring throughout the year.

The Council now takes new loans on an annuity basis. These are very similar to a mortgage, with set annual payments split between interest and principal repayment. This means that the element of principal repayment is being taken as making prudent provision for repayment, and included in MRP. This is described fully in the Treasury Strategy and Policy report elsewhere on this agenda.

A. Capital Expenditure

Councils are only authorised to borrow long term to fund capital spend (although they can borrow very short term to cover cash flow). The financing of the Capital Programme is therefore key to determining future borrowing need.

Capital expenditure forms the basis of determining the need to borrow. The capital expenditure shown in this indicator reflects the proposed Capital Programme for 2021/22 to 2026/27.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Capital Expenditure	31,073	62,561	13,799	9,874	8,522	35,590
Of Which:						
Financed from Grants & Contributions	10,264	30,628	5,062	4,343	3,076	31,010
Financed by RuT	3,546	7,568	1,001	85	0	1,167
New Borrowing Required by Programme	17,263	24,365	7,736	5,446	5,446	3,413

The estimate of capital expenditure changes during the course of the year as schemes are added and completion dates change.

The Programme includes significant school expansion projects up to 2022/23 and a significant amount of spend on Street Lighting column replacement to address health and safety issues. The remaining Programme then includes significant spend on Affordable Housing and Highways and Pavements works, as well as Disabled Facilities Grant housing grants and loans.

Significant elements of the proposed Capital Programme reduce after 2022/23, as school expansion projects complete and Street Lighting expenditure reduces. External funding also decreases with the government grants held to finance schools schemes being spent. The new Programme includes £13m of new and recurring schemes for approval in this report, increasing the Council's underlying need to borrow for 2022/23 unless other funding sources can be identified.

The amount financed by RuT includes the use of capital receipts that the Council has generated during the current and previous years, plus expected receipts from the disposal of Council assets in 2023/24, 2024/25 and 2026/27. Factoring in additional estimated receipts from the disposal programme could potentially improve the funding position.

B. The Capital Financing Requirement

The Capital Financing Requirement (CFR) determines the authority’s underlying need to borrow for capital purposes. Schemes that have no specific funding source increase the authority’s underlying need to borrow hence the CFR increases. The level of provision required to repay debt (MRP) also increases, which will decrease the CFR.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Capital Financing Requirement (CFR)	**180,474**	**197,140**	**196,777**	**193,776**	**190,500**	**187,376**
Year on Year Increase/Decrease in CFR	+11,068	+16,666	-362	-3,001	-3,276	-3,124
Change represented by:						
Schemes financed by Borrowing (incl. leases)	17,263	24,365	7,736	5,446	5,446	3,413
MRP contributions to fund the Requirement						
- represented by MRP	-4,623	-5,901	-6,159	-6,355	-6,468	-5,414
- Financing Leases and Similar (incl. PFI)	-1,285	-1,489	-1,606	-1,733	-1,871	-744
Loan repayment used to reduce CFR - WLWA & Waste Fleet	-287	-309	-333	-359	-387	-387
	11,068	**16,666**	**-362**	**-3,001**	**-3,280**	**-3,132**

The CFR increases when there is an increase in spending which is not funded from existing resources. The Council would therefore need to borrow to fund this expenditure. The CFR does not distinguish between real borrowing (either by taking out a loan or financing lease from an external body) and "internal borrowing" from cash flow.

The Council's £15m Capital Loan to WLWA is included in the CFR, and therefore requires money is set aside for debt repayment. WLWA are now repaying the loan, and the Council is using these principal repayments as the prudent provision, transferring them to reduce the CFR on receipt. As WLWA is effectively a group of London Boroughs there are no concerns about its ability to repay the loan in full.

The CFR decreases where there is either no new debt taken or contributions to repay debt are higher than the new debt. Repayments rise as borrowing rises, and the decrease in spend later in the programme means the increase in borrowing in year falls below the amount to be repaid from 2023/24 onwards.

Indicators of Affordability

Affordability indicators are designed to ensure authorities have considered the costs of borrowing in a number of ways before they approve the capital spend that requires them to borrow. To do this, they consider :

The interest and principal repayment costs as a percentage of the Council's revenue budget.
The impact of the change in financing costs on Council Tax.

C. Ratio of Financing Costs to Net Revenue Stream

This indicator compares the net financing costs budget (interest due, interest receivable, set aside and actual repayment of principal) to the Council's Budget Requirement (before Formula Grant, GLA Precept and Collection Fund surplus).

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Net Financing Costs	9,107	10,849	11,138	11,292	11,372	8,963
Net Revenue Stream	162,676	168,568	177,464	185,252	192,870	199,299
As a Ratio	**5.60%**	**6.44%**	**6.28%**	**6.10%**	**5.90%**	**4.50%**

Financing costs represent the net interest costs to the Council (interest payable on debt less interest due on balances) and a prudent provision for debt repayment (the Minimum Revenue Provision).
These costs include those paid as part of a financing lease arrangement, such as in PFI contracts.

These costs are taken as a percentage of the Council's Net Revenue Stream, which is the amount the Council has budgeted to spend for the year net of specific grants but excluding Council Tax, NNDR and Formula Grant income.

This figure is a latest estimate and will not be final until the Council approve the budget and Council Tax in March. Future year figures are estimates per the Medium Term Financial Strategy.

The financing costs are linked to movements in interest rates, as well as principal borrowed. Most borrowing is at a fixed rate, meaning interest payments will not vary, whereas most investments are for under a year meaning there are often amounts maturing which can be reinvested during the year.

The interest payable costs are budgeted to increase every year until 2025/26 as new borrowing is taken to fund the Capital Programme.

The loan to West London Waste Authority is now being repaid. Annual interest receivable on this loan is over £1m, although this will reduce over the 25 year term as principal is repaid.

D. Ratio of Net Income from commercial and service investments to Net Revenue Stream

Net income from commercial and service investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property. The costs comprise investment management costs and any other direct revenue costs of investment. The costs of borrowing (interest and MRP) may not be deducted for the purposes of this indicator, which is intended to show the financial exposure of the authority to the loss of income.

	Revised 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Net Income from Commercial and Service Investments	3,337	3,314	3,290	3,263	3,235	3,235
Net Revenue Stream	162,676	168,568	177,464	185,252	192,870	199,299
As a Ratio	**2.05%**	**1.97%**	**1.85%**	**1.76%**	**1.68%**	**1.62%**

E. The impact of Capital Investment decisions on the Council Tax

This indicator shows the change in the level of Council Tax each year that will result from the authority's total capital plans. This can be viewed in 2 ways, both by the impact of the full effect of changes in financing costs as a percentage of Council Tax, or as the increase in a Band D Council Tax.

Impact of Change in Financing Costs	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Interest Payable						
- Direct borrowing	3,899	4,229	4,274	4,255	4,245	4,167
- Leases and PFI	1,379	1,272	1,156	1,029	890	790
Interest Receivable	-2,079	-2,042	-2,057	-2,080	-2,102	-2,152
Principal Repayment						
- Represented by MRP	4,623	5,901	6,159	6,355	6,468	5,414
- Financing Leases and Similar (incl. PFI)	1,285	1,489	1,606	1,733	1,871	744
Financing Costs	9,107	10,849	11,138	11,292	11,372	8,963
Year on Year Change	+69	+1,742	+289	+154	+80	-2,409
Impact on the Council Tax Requirement (RuT element)	**0.05%**	**1.21%**	**0.19%**	**0.10%**	**0.05%**	**-1.36%**
Impact on a Band D Property	**£0.78**	**£19.64**	**£3.25**	**£1.72**	**£0.89**	**-£26.80**

This indicator is designed to allow Members to make informed decisions on project approval based on affordability to the Council and priority against other cost pressures.

The cost to the Council Tax Payer is either a cost of borrowing to finance the scheme or an opportunity cost of lost income where balances (such as S106, Infrastructure Fund, Capital Receipts) are spent instead of being held as investments.

To comply with IFRS these costs include leased assets which are or will be at the end of the lease owned by the Council, such as the PFI Schools and Care Homes. The costs of financing these assets via the lease are also now shown in the principal repayment (the lease includes elements of loan charges and can also include service charges not included here, as with the PFI arrangements). PFI principal costs are fixed over the long life of the lease. The 25-year PFI contract for the construction, maintenance and operation of 3 care homes comes to an end in 2025/26, which is therefore the final year in which a repayment of principal is made on this contract. This accounts for the reduction of principal repayments in 2026/27.

There is a steady increase in Principal Repayments represented by MRP until 2025/26 due to the anticipated increased need to borrow which increases the provision for debt repayment. This consists of actual repayments for new annuity loans and set aside for repayment on maturity for historic debt.

Interest payable would be expected to increase over time as the anticipated level of debt increases. However, the move to the use of annuity repayment loans (similar to a mortgage) for new borrowing limits this increase. This is because the total cash payment is the same every year, but in early years it is predominantly interest with low principal value, with the balance switching over the term of the loan as principal repayment leads to interest being charged on a lower balance.

There are 2 loans maturing over the next 2 years with interest rates around 5%. The anticipated interest rates for new borrowing are lower, giving a lower than anticipated increase in interest payable.

Interest Receivable is fairly stable. The main element of this income is the WLWA loan interest which is around £1m pa.

The year on year change in Financing Costs is due to the financing of the capital programme. This will change if further resources are identified to reduce the borrowing requirement, or if there is additional borrowing in the programme. The reduction in the size of the Programme and therefore reduced need to increase borrowing in later years could result in principal repayments being higher than new borrowing.

Indicators of Prudence

Prudence indicators are designed to ensure authorities consider the impact of their spending decisions on borrowing. To do this, they compare Gross Borrowing (being loan debt and other financing lease arrangements) to the Capital Financing Requirement.

F. Gross Debt and the Capital Financing Requirement

The Prudential Code states that ‘In order to ensure that over the medium term borrowing will only be for a capital purpose, the local authority should ensure that borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.’

Gross Debt is defined as all external borrowing in the form of loans as well as financing leases.

The limit for debt is based on the current CFR plus the increase in the CFR over the next 3 years (the amount of the capital programme which is financed from borrowing in these years) to comply with the Code.

This limit allows authorities to borrow to meet their current need and to borrow in advance of need where this is prudent. For example, if an authority has £50m borrowing planned for capital spend over the next 3 years and interest rates are anticipated to rise next year, it could be prudent to borrow some of that £50m now.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Gross External Debt Limit Set	196,800	193,800	190,500	190,500	n/a	n/a
Projected Gross External Debt	137,512	156,484	158,398	157,646	n/a	n/a
Amount above/(below) limit	-59,288	-37,316	-32,102	-32,854	n/a	n/a

Debt is projected to stay within the limit set in the medium term.

The limit takes into account repayment of maturity loans.

This indicator cannot be set for 2025/26 and 26/27 as this would require an additional 2 years to be added to the Capital Programme (2027/28 and 2028/29) to allow for the potential to borrow up to 2 years in advance of need to be calculated for inclusion in the 2025/26 limit.

Indicators for Treasury Management

Treasury Management indicators use debt, being formal loan arrangements only, as opposed to the accounting definition of borrowing used for indicator E above, which includes finance leases.

G. Authorised Limit for External Debt

The authorised limit is the absolute limit of borrowing based upon the authority’s plans and includes sufficient headroom for unpredictable cash movements. External Debt includes both direct borrowing and indirect borrowing implied in a financing lease or PFI arrangement. It excludes internal borrowing.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Authorised Limit Set	166,000	176,000	178,000	178,000	178,000	174,000
Projected Gross External Debt	137,512	156,484	158,398	157,646	154,003	151,754
Amount above/(below) limit	-28,488	-19,516	-19,602	-20,354	-23,997	-22,246

The above indicator shows the maximum level of external borrowing including use of financing leases, and net of scheduled repayments on annuity loans. An in principle decision has been made to borrow externally due to the low level of balances not allowing for significant increased internal borrowing.

The Council is projected to stay well within the Authorised Limit set. This limit is at the Council's discretion and any change in the projected external debt should be reflected in this limit.

The limit takes into account repayment of maturity loans.

H. Operational Boundary

The operational boundary should be based upon the authority's plans and should show the maximum level of external debt. It is not significant if the operational boundary is breached on occasion although sustained or regular trend above the boundary should warrant further investigation.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Operational Boundary Set	161,000	171,000	173,000	173,000	173,000	169,000
Projected External Debt	137,512	156,484	158,398	157,646	154,003	151,754
Amount below Limit	-23,488	-14,516	-14,602	-15,354	-18,997	-17,246

The Council is projected to stay well within this limit.
The limit takes into account repayment of maturity loans.

I. Adoption of the CIPFA Code of Practice for Treasury Management

The CIPFA Code of Practice sets out best practice in treasury management and the Code has always been followed in Richmond. The Prudential Indicator states that Authorities should adhere to the Code of Practice. All Treasury activities currently adhere to the Code of Practice and regular reviews ensure that this continues.

J. Limits on Fixed and Variable Interest Exposure

This indicator is designed to show that the authority can manage fluctuations in interest rates and that both the borrowing and investment portfolios are balanced between fixed and variable rates.

The limits are set on net exposure, which is borrowing (loans and leases/PFIs) less investments.

Short term investments or debt which last less than a year are included as variable rate investments. Although the rate is fixed for the duration, the money may be re-invested or re-borrowed at a different rate when it matures during the year. Investments and debt lasting over a year are included as fixed rate exposure.

Fixed Rate Exposure	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Upper Limit	146,000	165,000	168,000	168,000	166,000	164,000
Lower Limit	96,000	115,000	118,000	118,000	116,000	114,000
Projected Exposure	120,595	140,445	143,237	143,364	140,599	139,228

Changes in the exposure limit are linked to the timing of projected borrowing in future years (which will be at a fixed rate) and repayment of existing loans.

Variable Rate Exposure	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Upper Limit	-149,000	-110,000	-109,000	-113,000	-116,000	-117,000
Lower Limit	-74,000	-35,000	-34,000	-38,000	-41,000	-42,000
Projected Exposure	-99,286	-60,040	-59,106	-62,974	-65,840	-66,670

The movements in the exposure limit reflects the projected change balances. Borrowing is mainly taken at fixed rates for certainty, and the variable rate exposure is therefore closely linked to short term investment levels.

K. Maturity Structure of Borrowing

This indicator sets limits for the amount of fixed rate borrowing that will mature within certain time bands in the future. This is designed to ensure that authorities spread the maturity dates of their loans to avoid the risks associated with having to repay or re-borrow large amounts within a short period.

The Council has decided to take all new borrowing on an annuity basis, making annual repayments of principal. This indicator is therefore less relevant for Richmond going forward as the risk of large values becoming due in any one year is mitigated by the regular repayments. Loans which have annual repayments are therefore excluded from this PI on this basis.

	Lower Limit 2021/22 %	Upper Limit 2021/22 %	Estimate 2021/22 %
Under 1 year	0%	30%	14%
1 to 2 years	0%	40%	0%
2 to 5 years	0%	50%	5%
5 to 10 years	0%	60%	15%
10 to 15 years	0%	}	25%
15 to 25 years	0%	} 85%	30%
over 25 years	0%	}	10%

L. Total Principal Sum Invested Beyond the Period End.

Previously, authorities with debt could not invest for greater than 364 days. Under the prudential controls this restriction is lifted (i.e. Authorities can invest for more than one year).

This limit is to ensure that authorities do not invest too much of their portfolio beyond one year (which could lead to losses in interest during times of volatile interest rate fluctuations)

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Limit	10,000	10,000	10,000	10,000	10,000	10,000
Projected Investments at 31st March	0	0	0	0	0	0

Interest rates are usually higher for longer term investments than short term. However, given the current levels of internal borrowing and relatively low cash balances, it is unlikely that there will be significant long term investments in the near future.

Officers are reviewing the levels of "core cash" which could be invested for the medium term with minimal risk to liquidity. These levels will be considered with any potential medium term investments and where the likely increased return outweighs the additional risk of these investments and is significant, longer term investments will be made.

Local Indicators

The Council has opted to set some local indicators to give further information and controls.

M1. Ratio of External Loans to Fixed Assets

The Council has opted to set a further, local indicator to review the value of its external loans.
This looks at the ratio of anticipated external loans to anticipated value of fixed assets (land & buildings, furniture, equipment, long licences etc.).

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Value of Loans at 31st March	123,024	143,525	147,084
Estimated value of Fixed Assets at 31st March	1,356,792	1,488,207	1,522,395
Loans as % of Assets	9.1%	9.6%	9.7%
Current Limit	15.0%	15.0%	15.0%

The estimated value of assets includes allowance for depreciation and revaluation changes as well as sale of assets per the approved disposal programme.

M2. Ratio of Gross Loan Interest to RuT Gross Budget

The Council has opted to set a further, local indicator to review the affordability of its external loans.
This looks at the ratio of interest payable on anticipated external borrowing in the form of loans.

	Revised 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Budgeted Loan Interest	3,899	4,229	4,274
RuT Gross Budget	418,091	418,494	418,494
Interest as % of Revenue	0.9%	1.0%	1.0%
Current Limit	2.0%	2.0%	2.0%

Appendix D

London Borough of Richmond upon Thames

Capital Strategy 2022/23

1. This capital strategy is in response to changes in CIPFA's Prudential Code and Treasury Management Code and sets out the long-term context within which capital expenditure, borrowing and investment decisions are made. It is to be approved by full Council. The overall aim of the framework is to demonstrate that such decisions properly take account of stewardship, prudence, value for money, sustainability, proportionality and affordability.

   The Prudential Code issued by CIPFA in 2017 was revised and published on 20th December 2021. Due to late publication of both the Treasury Management Code and the Prudential Code, CIPFA has communicated a soft implementation of both these Codes, therefore full implementation is not mandatory until 2023/24. The amendments to both Codes largely still relate to commercial investments such as purchase of investment properties, investments in subsidiaries or investments for service objectives including regeneration. The wording changes within the 2021 Edition of the Prudential Code have been incorporated into this 2022/23 capital strategy and prudential indicators have been amended in line with the amended Code requirements.

2. Capital Expenditure – Capital Programme

Overview of Governance Process

2.1 The capital programme is based upon the approved capital schemes, Treasury Management Strategy, Asset Management strategy, capital resources projections and an annual process for prioritising additions which recognises cost in use and sustainability issues.

2.2 It contains currently approved spending and sets the financial parameters within which the Committee may add to commitments in the context of reserves and resources anticipated in the medium-term outlook.

2.3 The overall programme is reviewed and approved by the Full Council in February after additions are made to the programme. Individual schemes may be approved and added to the programme during the year using Committee approval or other delegated decision making frameworks as appropriate.

2.4 Monitoring of capital expenditure is embedded throughout the organisation with project managers working with finance teams to update their cost estimates and budgets. These reports are regularly reviewed by the Council's management team, and monitoring reported to Committees periodically.

2.5 Capital budgets are reviewed and reported annually to Full Council. Budgets are reviewed and updated throughout the year, with additional capital budgets approved where appropriate. These projects are prioritised based on their ability to meet strategic priorities, ensure continued service delivery, reduce annual revenue costs and protect Council income. All bids are reviewed by senior officer working groups and lead Council Members before being presented for consideration and approval at Full Council. General assumptions are as follows:

General assumptions are as follows:

a) Expenditure on schools is driven by the Council's duty to educate and provide sufficient places for every age group in buildings which are fit for purpose. While much of the costs of repairs and new pupil places is funded from either Government grant, the Council will also use S106/CIL receipts and other resources and borrowing as required to meet this statutory duty.

b) For non-housing and non-school related Council operational property, schemes are prioritised where they will either provide future revenue savings, are critical to keeping a property in use, or will facilitate the Council's regeneration schemes. Schemes that are critical to keeping a property in use are selected based upon the current condition information and maintenance forecast.

c) Highways type schemes and other areas where there is a regular annual budget are prioritised where there are health and safety considerations to road and pavement users, as well as facilitating travel within the Borough for residents and visitors to promote economic activity in the area.

2.6 Capital spend and the availability of resources to finance that spend are monitored by the Director of Resources on a monthly basis.

Long-term View of Capital Spending Plans

2.7 The Capital Programme considers the programme and available resources for the current year and five subsequent years. The Council's ability to finance capital spending is restricted only by its own view on affordability, subject to the Government's possible imposition of limits on local authority borrowing for macro-economic reasons.

2.8 The potential sources of finance for the Capital Programme are:

d) Grants – either earmarked for particular schemes or services, or available for any scheme. There is no revenue effect, provided that the receipt of grant is not significantly delayed.

e) CIL and Section 106 – these are either earmarked for particular use or generally for a specific type of spend. Where conditions are more general, these will be used to replace financing from borrowing or Council resources wherever possible. There is no revenue effect.

f) Borrowing – this is used where a need to spend is identified and no alternative funding is available. Borrowing is financially disadvantageous compared to other sources of finance. The Council must make annual provision for debt repayment and debt charges. Where possible the Council will use internal borrowing and the debt charge will be the loss of interest from reducing balances invested. Where there is no scope to borrow internally, external loans are taken out and the Council will make either “repayment” or “interest only” mortgage type payments. All borrowing costs are financed as a charge to the revenue budget (e.g. a charge to the Council Tax payer)

g) Revenue Reserves – other than specific schemes from the Repairs and Renewals Fund this is rarely used as there are minimal earmarked reserves available. This reduces balances invested and therefore the interest income to the Council.

h) Capital Receipts – these are used where available in preference to borrowing. There is a loss of investment interest associated with their use. The Council reviews its assets regularly and will dispose of under-utilised assets and has used the proceeds extensively over time to support the Capital Programme.

3. Investment

3.1 The underlying objectives of the Council’s Investment Policy are security of the capital sums invested and liquidity to ensure the funds invested are available for expenditure when needed. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The Council’s Investment activities are conducted in a manner that regards the successful identification, monitoring and control of risk as of prime importance and accordingly the analysis and reporting includes a substantial focus on the risk implications.

Treasury Management Investments

3.2 These are investments that arise from the Council’s cash flows and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

3.3 The Council’s policy on Treasury Management Investments is submitted to the Finance, Policy and Resources Committee and approved by the Full Council. The overall arrangements and strategy for the ensuing financial year are reviewed and approved in February or March, an Annual Report after the end of the financial year and a mid-year review report. From time to time the Director of Resources may submit additional reports recommending changes in Policy for approval if circumstances require.

3.4 The Council’s Treasury Management Practices (TMPs) are in accordance with the Treasury Management Code issued by CIPFA in 2002, which was revised in 2011, 2017, and recently in late December 2021. Due to the late publication of the Code, CIPFA is advising a soft implementation until 2023/24. As prescribed in the new Code, the Director of Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Resources will also ensure that those engaged in Treasury Management follow the policies and procedures set out. The present arrangements are documented and monitored by the responsible officer in effective day to day management of the Treasury Management function. Treasury Management activities and issues are reviewed monthly by a meeting within the Resources Directorate, attended by the Director of Resources and day to day Treasury Management activities are handled by the Financial Management Division of the Resources Directorate. Treasury Management staff attend training courses and seminars to ensure they maintain sufficient knowledge as prescribed by the Code in order to keep up to date with current developments.

3.5 Treasury Management advisers are appointed at least once within the lifetime of each Council to carry out an independent review of the Council’s Treasury Management activities. Link Treasury Services commenced the last lifetime review in January 2021, the next review therefore being due in January 2025.

3.6 The Council’s detailed investment policy is contained within the Treasury Policy Statement. Its overriding purpose is the control of risk. It specifies the types of investments that may be used and the limits of their use. These limits relate to the maximum time period for each investment type and to the maximum amount that may be held at any one time. The choice of limits is governed by the requirement to safeguard the security of the Council’s portfolio and to spread risk through suitable diversification. The Council uses credit rating information from the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s) and this data is supplemented by other available information where appropriate. The limits also consider liquidity requirements and finally the yield that may be obtained.

3.7 The Council held investments of £175m at 31st December 2021, at an average rate of 0.09%. The Council is expected to begin 2022/23 with investments of around £130m and the estimated movements for the following two years based upon current cash flows show that investments are likely to decrease to around £94m.

Investments that are not part of Treasury Management Activity

3.8 The Council may invest in other financial assets and property primarily for service and commercial purposes that are not part of Treasury Management activity. These activities are subject to similar assessments of risk as for Treasury Management investments. They are approved as part of the capital programme as described in Sections 2 or 3 of this Capital Strategy.

3.9 The Prudential Code determines that certain acts or practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment. The Council has complied with paragraph 51 of the Prudential Code, which states that an authority must not borrow to invest primarily for financial return, and states that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

3.10 Investment Property. The Council owns Investment Property and may occasionally use capital receipts or other funds to purchase investment properties. The annual review of Council assets may lead to operational use ceasing and the asset being reclassified as an investment property either to retain them long term for income generation or pending a further decision to dispose of or redevelop the site. The level of borrowing required to finance the Capital Programme is a consideration when reviewing the use of these assets.

3.11 Suitable properties for purchase by the Council are selected after going through robust procedures to assess the security of the investment in the short, medium and longer term, that the risk of not achieving satisfactory rental returns is minimised and that there are the best prospects of future rental and capital growth.

3.12 The Council's valuers are supported through the acquisition process by specialist property investment surveyors and legal advisers. The Council may contact agents in the market to help identify potential investment properties for sale as these are not frequently widely marketed, or commission its specialist property advisers to undertake a search for specific suitable properties. The adviser undertakes negotiations with the vendor for the acquisition subject to approval by officers. A set of assessment criteria are used in evaluating the suitability of properties. These criteria are as follows:

a) Location
b) Tenancy strength/strength of covenant
c) Length of tenure
d) Occupier's lease length
e) Repairing terms/obligations
f) Lot size (value of the investment)

3.13 These criteria are assessed against weighting factors ranging from Excellent to Unacceptable

3.14 If a property is considered to meet the Council's investment criteria, the Council commissions a Property Investment Surveyor (not the same one used to identify the property) to provide a market report on the property. This report will include commentary on the credit worthiness of the tenant, an opinion of value and a recommendation in respect of the provisionally agreed acquisition price. This is undertaken in accordance with the Royal Institute of Chartered Surveyors Red Book

3.15 Prior to acquiring any properties, officers also undertake a further due diligence exercise including reviewing the leases, commissioning a building survey and report, a mechanical and electrical survey, a valuation report, and ensuring that there is an Energy Performance Certificate in place with a rating of at least D, but this has been revised to B due to changing regulations. Solicitors also undertake legal due diligence with a further review of the leases, the planning position and a report on title, highlighting any potential title defects.

3.16 All investment properties are revalued annually at fair value as part of the Council's preparation of final accounts and aduit process. Consideration is given at the end of each financial year as to whether impairment of any properties is required.

3.17 Loans to facilitate Council Policy. The Council may make loans to organisations the Council has an interest in (e.g. WLWA, SWMCB, AfC), academy schools, other service providers, voluntary organisations or other bodies working to achieve Council priorities. The Council's Treasury Policy Statement also covers the terms under which such loans can be made.

3.18 The main loans made under this facility at present are :

- £15m loan to WLWA to facilitate the building of a new EfW facility. This is made by Richmond as a constituent authority of WLWA who will therefore benefit from the improved facilities. This loan is now being repaid so the balance is declining. Interest was fixed when the loan was agreed
- Revolving Credit Agreement for AfC where the Council shares the cash flow "overdraft" funding for AfC pro rata to its ownership of the organisations with RB Kingston and RB Windsor & Maidenhead. This loan varies with the cash flow of Achieving for Children.
- A loan to the South West Middlesex Crematorium Board has been agreed in principle to finance the cremator replacement project. This loan is estimated at £1.1m for around 3 years and is made by Richmond as a constituent authority of the Board.

4 Borrowing

4.1 **External Borrowing.** The Council's external long-term borrowing is from the Public Works Loan Board (PWLB) except for £15m from Mayor of London's Energy Efficiency Fund (MEEF) and £5m from Barclays Bank. Historically, loans were taken on a maturity basis. However, the decision was taken to switch to repayment loans as a result of changes to the regulatory framework and as a way to minimise cost of carry and the potential loss of investment following financial crisis in 2008.

4.2 The Council also offers deposit facilities to various other bodies and manages invests on behalf of various Trusts, including Richmond Housing Partnership (RHP). The Council passes on its average investment return to these depositors.

4.3 **Internal Borrowing.** This arises where capital expenditure is financed by borrowing but no external loan is taken out. This is effectively using positive cash flow in lieu of external debt. The money still has to be repaid (effectively the Council is not holding the cash required to support its reserves position, and the money will be needed when the reserves are used) but instead of incurring interest costs payable to PWLB or a bank, the Council receives less interest as it holds less investments.

4.4 In prior years the Council has had substantial cash balances which were used to support internal borrowing where required as it is cheaper than external borrowing. However, as the Council has a projected continuing need to increase its borrowing, it has to manage the risk of interest rate increases against the current saving. Decisions on capital expenditure being funded from any available cash flow (internal) or formal (external) borrowing will therefore be taken to balance the risks and rewards of both options considering market expectations and the Council's appetite for risk.

4.5 The following table shows estimates of the Council's External and Internal Borrowing outstanding balances based upon the currently approved capital programme.

	31st March 2022	31st March 2023	31st March 2024	31st March 2025	31st March 2026	31st March 2027
	£000	£000	£000	£000	£000	£000
External Borrowing						
- Loans	123,024	143,525	147,084	148,105	146,372	144,906
- Leases/PFI	14,488	12,959	11,314	9,542	7,631	6,848
Internal Borrowing	42,962	40,656	38,379	36,130	36,497	35,622
Underlying Need to Borrow	180,474	197,140	196,777	193,776	190,500	187,376

4.6 **Minimum Revenue Provision.** Regulations issued under the Local Government Act 2003 require local authorities to make prudent provision for the repayment of debt. This is referred to as the Minimum Revenue Provision (MRP) and is funded from revenue (e.g. is part of the Council Tax Requirement calculation). The annual statement on the Council's MRP Policy is contained within the Treasury Policy Statement and approved by full Council in February or March.

4.7 **Voluntary Revenue Provision.** The Council can make more than the minimum prudent set aside to cover debt repayment if it decides that is the best use of its resources in any year. However, this would again be funded from revenue budget and an there are other ways to produce future savings in a more flexible way which are more likely to be used.

4.8 **Authorised and Operational Borrowing Limits.** Section 3 of Part 1 of the Local Government Act 2003 requires local authorities to set an affordable borrowing limit and operational boundary each year. This is contained within the Prudential Indicators and approved by full Council in February or March each year. In February 2021, the authorised limit and operational boundary for 2021/22 were set at £175m and £170m respectively. It is proposed to set the authorised limit for 2022/23 at £176m and the operational boundary at £171m.