

SERVICE COMMITTEE REVIEW OF THE DRAFT 2020-2021 CAPITAL PROGRAMME

To: **Commercial & Investment Committee**

Meeting Date: **18th October 2019**

From: **Chief Finance Officer**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:* **No**

Purpose: **This report provides the Committee with an overview of the draft Business Plan Capital Programme for Commercial & Investment.**

Recommendation: **a) It is requested that the Committee note the overview and context provided for the 2020-21 Capital Programme for Commercial & Investment.**

b) It is requested that the Committee comment on the draft proposals for Commercial & Investment's 2020-21 Capital Programme and endorse their development

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1. CAPITAL STRATEGY

- 1.1 The Council strives to achieve its vision through delivery of its Business Plan. To assist in delivering the Plan the Council needs to provide, maintain and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year. Expenditure on these long term assets is categorised as capital expenditure, and is detailed within the Capital Programme for the Authority.
- 1.2 Each year the Council adopts a ten-year rolling capital programme as part of the Business Plan. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.
- 1.3 This report forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes are developed by Services and all existing schemes are reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees for further review and development.
- 1.4 An Investment Appraisal of each capital scheme (excluding committed schemes and schemes with 100% ring-fenced funding) is undertaken / revised, which allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its outcomes.

2. DEVELOPMENT OF THE 2020-21 CAPITAL PROGRAMME

- 2.1 Prioritisation of schemes (where applicable) is included within this report to be reviewed individually by Service Committees alongside the addition, revision and update of schemes. Prioritisation of schemes across the whole programme will also be reviewed by General Purposes Committee (GPC) in November, before firm spending plans are considered again by Service Committees in December. GPC will review the final overall programme in January, in particular regarding the overall levels of borrowing and financing costs, before recommending the programme as part of the overarching Business Plan for Full Council to consider in February.
- 2.2 The introduction of the Transformation Fund has not impacted on the funding sources available to the Capital Programme as any Invest to Save or Earn schemes will continue to be funded over time by the revenue payback they produce via savings or increased income. This is the most financially sensible option for the Council due to the ability to borrow money for capital schemes and defray the cost of that expenditure to the Council over the life of the asset. However, if a scheme is transformational, then it should also move through the governance process agreed for the transformation programme, in line with all other transformational schemes, but without any funding request to the Transformation Fund.

2.3 There are several schemes in progress where work is underway to develop the scheme, however they are either not sufficiently far enough forward to be able to include any capital estimate within the Business Plan, or a draft set of figures have been included but they are, at this stage, highly indicative. The following are the main schemes that this applies to:

- The Adults Committee first considered the Older People's Accommodation Strategy in 2016, and in September 2017 agreed a blended approach for increasing capacity for residential/nursing care. One element of this was to procure an increase in capacity through a number of new build sites, which has potential for implications for the Council's capital plans through provision of land or other assets, or involvement with construction. The Council is engaged with health partners on these challenges, to maximise a 'one public estate' approach.
- The Council, in cooperation with health partners, is reviewing the care that is provided to service-users with learning disabilities, particular those placed out-of-county due to lack of suitable local provision. One option being considered is the acquisition of land and/or buildings that could provide bespoke services to groups of individuals with high needs reducing the need to source high-cost residential placements while improving outcomes. This would have an impact on the Council's capital plans through provision of land or other assets, or involvement with construction. This will only be done where the new provision is more cost-effective than current arrangements.
- On 15th august 2019 the Economy & Environment Committee considered a report detailing the outcome of the stage 1 design contract and the next steps for the King's Dyke project. It was resolved unanimously to:
 - a) Agree that Kier should not be awarded the stage 2 construction contract.
 - b) Reaffirm that route 3 remained the preferred route option.
 - c) Approve the commencement of a restricted two stage OJEU procurement of a target cost with activity schedule design and build contract in accordance with option (c) in section 2.33 of the report.
 - d) Agree the assessment of tender returns based on a 60% - 40% price/quality split.
 - e) Agree that officers should consider potential sources of further scheme funding should it be needed as the procurement proceeds.
 - f) Delegate to the Executive Director in consultation with the Chairman and Vice Chairman of the Committee, the ability to make minor changes to the procurement process and timeline.

The outcome of the tender process will be presented to the Committee, following which the capital project budget will be updated.

3. REVENUE IMPLICATIONS

3.1 All capital schemes can have a potential two-fold impact on the revenue position, relating to the cost of borrowing through interest payments and repayment of principal and the ongoing revenue costs or benefits of the scheme. Conversely, not undertaking schemes can also have an impact via needing to provide alternative solutions, such as Home to School Transport

(e.g. transporting children to schools with capacity rather than investing in capacity in oversubscribed areas).

- 3.2 The Council is required by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, GPC recommends an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan. In order to afford a degree of flexibility from year to year, changes to the phasing of the limit is allowed within any three-year block (starting from 2015-16), so long as the aggregate limit remains unchanged.
- 3.3 For the 2019-20 Business Plan, GPC agreed that this should continue to equate to the level of revenue debt charges as set out in the 2014-15 Business Plan for the next five years (restated to take into account the change to the MRP Policy agreed by GPC in January 2016), and limited to around £39m annually from 2019-20 onwards. GPC are due to set limits for the 2020-21 Business Plan in October.

4. SUMMARY OF THE DRAFT CAPITAL PROGRAMME

- 4.1 The revised draft Capital Programme is as follows:

Service Block	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
People and Communities	56,757	73,830	72,426	77,315	48,033	50,401
Place and Economy	25,998	32,338	21,330	15,025	15,025	16,000
Commercial and Investment	66,608	55,307	6,199	800	800	4,000
Corporate and Managed Services	8,026	2,890	-	-	-	-
Total	157,389	164,365	99,955	93,140	63,858	70,401

- 4.2 This is anticipated to be funded by the following resources:

Funding Source	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
Grants	51,544	37,652	31,603	28,607	32,570	58,332
Contributions	12,713	39,880	47,005	36,403	22,235	213,029
Capital Receipts	5,773	3,231	500	500	500	1,500
Borrowing	44,600	52,717	26,237	27,880	11,813	389
Borrowing (Repayable)*	42,759	30,885	-5,390	-250	-3,260	-202,849
Total	157,389	164,365	99,955	93,140	63,858	70,401

* Repayable borrowing nets off to zero over the life of each scheme and is used to bridge timing gaps between delivery of a scheme and receiving other funding to pay for it.

- 4.3 The following table shows how each Service's borrowing position has changed since the 2018-19 Capital Programme was set:

Service Block	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
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People and Communities	-21,220	-21,906	22,186	-179	2,586	15,397	1,595
Place and Economy	11,875	1,935	-3,485	188	2,916	-	-
Corporate and Managed Services	-342	5,434	578	-	-	-	-
Commercial and Investment	5,652	13,621	55,778	5,399	-	-	-67,751
Corporate and Managed Services – relating to general capital receipts	-	-	-	-	-	-	-
Total	-4,035	-916	75,057	5,408	5,502	15,397	-66,156

4.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
New	4,442	13,068	3,075	-	-	-	-
Removed/Ended	-6,489	-35	-186	-9,096	-10,918	4,170	2,850
Minor Changes/Rephasing*	-33,791	-51,210	44,330	9,779	10,656	14,899	1,780
Increased Cost (includes rephasing)	7,706	-	-	-	-	-	-
Reduced Cost (includes rephasing)	-5,530	-6,651	2,450	105	-	-	1,300
Change to other funding (includes rephasing)	-2,032	1,214	757	6,449	5,229	-1,095	-
Housing schemes	-3,660	43,353	38,885	-	-	-	-68,551
Variation Budget	35,319	-655	-14,254	-1,829	535	-2,577	-3,535
Total	-4,035	-916	75,057	5,408	5,502	15,397	-66,156

*This does not off-set to zero across the years because the rephasing also relates to pre-2019-20.

4.5 These revised levels of borrowing will have an impact on the level of debt charges incurred. The debt charges budget is also currently undergoing thorough review of interest rates, internal cash balances, Minimum Revenue Provision charges and estimates of capitalisation of interest – the results of this will be fed into the next round of committee papers on capital.

5. OVERVIEW OF COMMERCIAL & INVESTMENT'S DRAFT CAPITAL PROGRAMME

5.1 The revised draft capital programme for the Commercial & Investment Service is as follows:

Capital Expenditure	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Years £'000
Commercial & Investment	66,608	55,307	6,199	800	800	4,000

5.2 It is anticipated to be funded by the following resources:

Funding Source	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Years £'000
Specific Grants	1,727	-	-	-	-	-
Agreed Developer Contributions	130	-	-	-	-	-
Capital Receipts	2,217	735	500	500	500	1,500
Prudential Borrowing	18,281	13,647	5,699	300	300	2,500
Prudential Borrowing (Repayable)	43,353	38,885	-	-	-	-201,668
Other Contributions	900	2,040	-	-	-	201,668
Total	66,608	55,307	6,199	800	800	4,000

5.3 The full list of Commercial & Investment capital schemes are shown in the draft capital programme at **Appendix 1**.

5.4 The following changes have been made to existing schemes from the 2019-20 Business Plan:

- **St Ives Smart Energy Grid**

The budget for this scheme has been rephased to reflect the timing of the work. Commencement of work on this scheme has been delayed due to prolonged negotiations over securing the land title, settling the State Aid position, customer negotiations, retendering the works, and discharging planning conditions. This scheme is to be part funded from specific grants and the remainder from prudential borrowing.

- **Babraham Smart Energy Grid**

The budget for this scheme has been rephased to reflect the timing of the work. This scheme is to be funded from prudential borrowing. Work is ongoing to update the business case and as such it is expected that this scheme will be further revised in the December Business Plan report.

- **Trumpington Smart Energy Grid**

The budget for this scheme has been rephased to reflect the timing of the work. Pending guidance from the Property team and Members on whether the site will be put forward for housing in the Local Plan, work on any clean energy project at the existing Trumpington Park and Ride site has been suspended. This scheme is to be funded from prudential borrowing.

- **Stanground Closed Landfill Energy Project**

The budget for this scheme has been rephased to reflect the timing of the work. This scheme is to be funded from prudential borrowing. Work is ongoing to update the business case and as such it is expected that this scheme will be further revised in the December Business Plan report.

- **Woodston Closed Landfill Energy Project**

The budget for this scheme has been rephased to reflect the timing of the work. This scheme is to be funded from prudential borrowing. Work is ongoing to update the business case and as such it is expected that this scheme will be further revised in the December Business Plan report.

- **North Angle Solar Farm, Soham**

The budget for this scheme has been rephased to reflect the timing of the

work. This scheme is to be funded from prudential borrowing. Work is ongoing to update the business case and as such it is expected that this scheme will be further revised in the December Business Plan report.

- **Housing Schemes**

This budget has been rephased to reflect the timing of investment and increased in order to reflect the company's latest business plan. This scheme is largely funded from repayable prudential borrowing, as well as capital receipts for the element that relates to purchasing equity.

5.5 The following scheme has been removed from the 2020-21 Commercial & Investment Business Plan:

- **Joint Highways Depot**

This project is being re-scoped, and a revised budget will be allocated based on the new requirements via the capital budget process. The intention is that this project will still be delivered, however further scoping of the service/build requirements is needed with Highways England, the main partner. Collaboration with blue light services will also be further explored as the scheme is re-scoped.

5.6 The following new scheme has been added to the 2020-21 Commercial & Investment Business Plan:

- **Cambs 2020 Spokes Asset Review**

The Cambs 2020 programme will see the Council move to a 'Hub and Spokes' model. This budget covers the acquisition of a new asset, disposal of surplus assets, and refurbishment of existing buildings to increase capacity. This replaces the Investment in the CCC Asset Portfolio budget, with the new budget to also be funded from Prudential Borrowing. Please see the separate paper being presented to October committee for further detail.

5.7 As highlighted above, work is ongoing to revise the 2020-21 Business Plan, with further updates due to be reported to Committee in December. In addition to the revisions already mentioned, the following work is underway:

- **Commercial Investments**

Active discussions are underway with the Investment Group on further investment activity and future planning.

- **Capital receipts**

Revisions to the capital receipts forecast for the Council are currently being revised, including the receipt expected from the disposal of Shire Hall.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 A good quality of life for everyone

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

6.2 Thriving places for people to live

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

6.3 The best start for Cambridgeshire's children

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

The resource implications have been noted within the main body of the report.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

7.3 Statutory, Legal and Risk Implications

The following bullet points set out details of significant implications identified by officers:

- There is a risk that capital schemes which are expected to result in revenue income do not deliver the level of income expected.

7.4 Equality and Diversity Implications

There are no significant implications within this category.

7.5 Engagement and Consultation Implications

There are no significant implications within this category.

7.6 Localism and Local Member Involvement

The following bullet point sets out details of significant implications identified by officers:

- Local Members will be engaged where schemes impact on their area and where opportunities for strategic investment arise.

7.7 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Ellie Tod
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by Finance?	N/A
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	N/A
Are there any Equality and Diversity implications?	N/A
Have any engagement and communication implications been cleared by Communications?	N/A
Are there any Localism and Local Member involvement issues?	N/A
Have any Public Health implications been cleared by Public Health	N/A

Source Documents	Location
The 2019/20 Business Plan, including the Capital Strategy Capital Planning and Forecast: financial models	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans > c/o Senior Finance Business Partners 1st Floor Octagon Shire Hall Cambridge