

SERVICE COMMITTEE REVIEW OF THE DRAFT 2018-19 CAPITAL PROGRAMME

To: **General Purposes Committee**

Meeting Date: **28th November 2017**

From: **Director: Corporate and Customer Services
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 Corporate and Managed Services.**

Recommendation: **The Committee is requested to:**

- a) note the overview and context provided for the 2018-19 Capital Programme for Corporate and Managed Services; and**
- b) comment on the draft proposals for Corporate and Managed Services 2018-19 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 Council.
- 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 have been developed by Services and all existing schemes have been reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees in September for further review and development.
- 1.4 An Investment Appraisal of each capital scheme (excluding committed schemes and schemes with 100% ring-fenced funding) has also been undertaken / revised in order to determine a prioritisation score. This score 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 2018-19 CAPITAL PROGRAMME

- 2.1 Prioritisation of schemes has been reviewed individually by Service Committees alongside the addition, revision and update of schemes. Prioritisation of schemes across the whole programme was also reviewed by General Purposes Committee (GPC) in October. GPC will review the final overall programme in December, in particular regarding the overall levels of borrowing and financing costs, before recommending the programme in January as part of the overarching Business Plan for Full Council to consider in February.
- 2.2 The introduction of the Transformation Fund for the 2017-18 planning process 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 two main schemes that this applies to:

- The Adults Committee first considered the Older People's Accommodation Strategy in 2016. Following consideration of outline modelling and a business case to increase the availability of affordable care home beds in the County through more direct intervention in the market by the Council, the Adults Committee received an update in September on market engagement and next steps towards a more detailed business case and procurement. Amongst a number of options, there is potential for implications for the Council's capital plans through provision of land, other assets or involvement with construction. The Council is engaged with health partners on these challenges, and plans are also in development for an investment in housing for vulnerable people using improved better care fund monies.
- The Council is in the fortunate position of being a major landowner in Cambridgeshire and this provides an asset capable of generating both revenue and capital returns. This has, however, required the Council to move from being a seller of sites to a developer of sites, through a Housing Company. A Special Purpose Vehicle has been established, the Cambridgeshire Housing Investment Company (CHIC), through which the Council will operate to make best use of sites with development potential in a co-ordinated and planned manner, in order to progress those sites for a range of development options. This will generate capital receipts to support site development and create significant revenue income for the Council which will help support services and communities.

A comprehensive 10-year pipeline of development projects has been identified and the initial model is undergoing extensive review and refinement by both CHIC and the Council, taking into account the different options available. This work is nearing its conclusion, however the timing of it has meant that no update to figures has been included in this paper.

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 2011 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 (the next block starts in 2018-19), so long as the aggregate limit remains unchanged.

- 3.3 For the 2018-19 Business Plan, GPC has agreed that this should 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 Minimum Revenue Policy agreed by GPC in January 2016), and limited to around £39m annually from 2019-20 onwards.

4. SUMMARY OF THE DRAFT CAPITAL PROGRAMME

- 4.1 The revised draft Capital Programme is as follows:

Service Block	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
People and Communities	88,880	122,132	79,045	40,734	29,562	79,549
Economy, Transport and Environment	34,714	24,946	17,940	18,894	20,152	19,238
Public Health	-	-	-	-	-	-
Commercial and Investment Committee	54,544	6,958	800	12,051	800	18,720
Corporate and Managed Services	8,453	734	680	460	-	-
LGSS Operational	-	-	-	-	-	-
Total	186,591	154,770	98,465	72,139	50,514	117,507

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

Funding Source	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
Grants	51,521	32,989	32,855	33,844	35,832	76,427
Contributions	25,040	44,232	54,660	16,672	8,635	192,872
Capital Receipts	15,677	4,362	5,098	17,906	500	2,500
Borrowing	68,595	70,193	22,195	13,852	10,293	8,510
Borrowing (Repayable)*	25,758	2,994	-16,343	-10,135	-4,746	-162,802
Total	186,591	154,770	98,465	72,139	50,514	117,507

* 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 2017-18 Capital Programme was set:

Service Block	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
People and Communities	285	16,205	38,385	3,319	795	-7,506	-3,104
Economy, Transport and Environment	13,537	462	-1,908	-2,572	-2,745	-6,435	-1,674
Public Health	-	-	-	-	-	-	-
Corporate and Managed Services	628	1,755	274	220	-	-	-
LGSS Operational	-100	-	-	-	-	-	-
Commercial and Investment Committee	340	8,999	-145	-337	-316	42	2,008
Corporate and Managed Services – relating to general capital receipts	-	5,999	890	1,517	1,630	1,409	7,056
Total	14,690	33,420	37,496	2,147	-636	-12,490	4,286

4.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
New	669	24,899	18,424	4,885	2,490	300	3,850
Removed/Ended	-4,986	-70	0	-170	-300	-9,550	10,715
Minor Changes/Rephasing*	-2,705	6,369	6,546	-9,333	5,748	3,320	-8,192
Increased Cost (includes rephasing)	-2,552	4,347	14,674	4,167	-1,799	-1,139	1,080
Reduced Cost (includes rephasing)	2,822	-3,341	-2,174	-1,820	-1,885	-3,182	0
Change to other funding (includes rephasing)	5,257	5,627	6,687	6,940	-2,462	1,155	154
Variation Budget	16,185**	-4,411	-6,661	-2,522	-2,428	-3,394	-3,321
Total	14,690	33,420	37,496	2,147	-636	-12,490	4,286

*This does not off-set to zero across the years because the rephasing also relates to pre-2017-18.

**This reflects removal of this budget for 2017-18, as it is a rolling budget that is refreshed every year

4.5 Since October GPC, there has been some movement regarding the levels of borrowing included within the above figures, mainly relating to:

- Addition of the new Shire Hall Relocation scheme (£10.3m)
- Addition of the new Laptop refresh scheme (£0.2m)
- Minor rephasing of school schemes
- Removal of the new Rackham primary scheme whilst the scheme assumptions are being reviewed (-£5.6m)
- Increase in cost for the new Spring Common Special School scheme to reflect latest cost estimates (£0.9m)
- Increase in cost for the new Milton Rd Library scheme to reflect fit-out of the library, as well as furniture and fixings (£0.3m)
- Refining of the General Capital Receipts forecasts, to remove any double counting with the housing schemes - this scheme has also moved from CS to C&I to reflect the movement of the Property team (-£10m over first 5 years)
- Revision to the Capital Variation budgets to reflect the above changes

4.6 The revised levels of borrowing result in the following levels of financing costs:

Financing Costs	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
2017-18 agreed BP	18.6	18.9	22.0	22.9	-
2018-19 draft BP	18.0	19.4	23.7	25.9	27.3
CHANGE (+) increase / (-) decrease	-0.6	0.5	1.7	3.0	27.3

4.7 Invest to Save / Earn schemes are excluded from the advisory financing costs limit – the following table therefore compares revised financing costs excluding these schemes. In order to afford a degree of flexibility from year to year, the limit is reviewed over a three-year period – based on the revised programme, the advisory limit is not exceeded for either of these 3 year blocks.

Financing Costs	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
2018-19 draft BP (excluding Invest to Save / Earn schemes)	27.8	30.3	33.9	36.2	37.8	37.8
Recommend limit	37.9	38.6	39.2	39.7	40.3	40.8
HEADROOM	-10.1	-8.2	-5.3	-3.5	-2.5	-3.1
Recommend limit (3 years)	115.7			120.8		
HEADROOM (3 years)	-23.6			-9.1		

- 4.8 Although the limit has not been exceeded, the Business Plan is still under review and as such adjustments to schemes and phasing will continue over the next two to three months. However, as there is significant headroom available, it is not expected that any further revisions will cause a breach of the advisory limit.

5. OVERVIEW OF CORPORATE & MANAGED SERVICE'S DRAFT CAPITAL PROGRAMME

- 5.1 The revised draft Capital Programme for the Council's Corporate and Managed Services is as follows:

Capital Expenditure	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
Corporate & Managed Services	8,453	734	680	460	-	-

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

Funding Source	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Later Yrs £'000
Capital Receipts	2,293	-	-	-	-	-
Borrowing	6,160	734	680	460	-	-
Total	8,453	734	680	460	-	-

- 5.3 The full list of Corporate and Managed Services capital schemes are shown in the draft capital programme at **appendix one**. Table 4 lists the schemes with a description and with funding shown against years. Table 5 shows the breakdown of the total funding of the schemes, for example whether schemes are funded by capital receipts or prudential borrowing.

- 5.4 The following changes have been made to existing schemes in the 2018-19 Corporate & Managed Services Business Plan:

- **C/C.2.012 Laptop Refresh**
A one year budget has been added to the programme for 2018-19 to complete the rollout of laptops across the Council and replace any of the early machines. From 2019-20, a £1.1m budget will be added to revenue in order to facilitate the refresh of a third of all laptops on a 3-year rolling programme basis. This budget is being added to revenue rather than capital as it is a more efficient use of resources due to the short life of these assets and the nature of the rolling programme.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 Developing the local economy for the benefit of all

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

6.2 Helping people live healthy and independent lives

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

6.3 Supporting and protecting vulnerable people

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

- There may be revenue implications associated with operating new or enhanced capital assets but equally capital schemes can prevent the need for other revenue expenditure.
- The overall scale of the capital programme has been reduced to limit the impact on the Council's revenue budget and this in turn will have beneficial impacts on the services that are provided from that source.

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:

- Regulations for capital expenditure are set out under Statute. The possibility of capital investment, from these accumulated funds, may ameliorate risks from reducing revenue resources.
- At this stage, there are no proposals with significant risk arising from "pay-back" expectations.

7.4 Equality and Diversity Implications

There are no significant implications within this category.

7.5 Engagement and Communications Implications

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

- Consultation is continuous and ongoing between those parties involved to ensure the most effective use of capital funding.

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 Officer: Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Not applicable
Has the impact on statutory, legal and risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Fiona McMillan
Have the equality and diversity implications been cleared by your Service Contact?	Not applicable
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Christine Birchall
Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Name of Officer: Tom Barden
Have any Public Health implications been cleared by Public Health	Not applicable

Source Documents	Location
The 2017/18 Business Plan, including the Capital Strategy	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/
Capital Planning and Forecast: financial models	c/o Group Accountants 1st Floor Octagon Shire Hall Cambridge