Agenda Item No:7

BUSINESS PLANNING - SERVICE COMMITTEE REVIEW OF THE DRAFT 2016-26 CAPITAL PROGRAMME

To:	**General Purposes Committee**
Meeting Date:	**15 September 2015**
From:	**Director, Customer Service and Transformation**
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 asked to:**

a) note the overview and context provided for the 2016-17 Capital Programme for Corporate and Managed Services; and

b) comment on the draft proposals for Corporate and Managed Services' 2016-17 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 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 2016-17 CAPITAL PROGRAMME

2.1 For the 2016-17 Business Planning process, 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 be reviewed by General Purposes Committee (GPC) in October, before firm spending plans are considered by Service Committees in December. 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 This year, the Council has refocused its strategic planning on seven outcomes and five enablers in order to find new ways of meeting the needs of Cambridgeshire's communities. The Council's Operating Model considers what the organisation needs to look like by 2020-21 in order to deliver its outcomes in the context of a significant reduction in available resource. It is anticipated that work on the Operating Model will generate several Invest to Save / Earn capital schemes that will be included within the Capital Programme. However, as work on the Operating Model will not be presented to Service Committees until November, any capital schemes associated with this work are not included within this set of draft proposals. As these schemes will all be Invest to Save / Earn schemes, any associated borrowing is excluded from contributing towards the advisory borrowing limit.

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 Charted 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 (starting from 2015-16), so long as the aggregate limit remains unchanged.

3.3 For the 2016-17 Business Plan, Council 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, and limited to £45m annually from 2019-20 onwards. Although the Council did not exceed the advisory debt charges limit for the 2015-16 Business Plan, both the March and the May Integrated Resources and Performance Report have already highlighted some additional costs for existing schemes and also the requirement for four new CFA schemes. Therefore, availability of additional borrowing remains constrained.

4. SUMMARY OF THE DRAFT CAPITAL PROGRAMME

4.1 The revised draft Capital Programme is as follows:

Service Block	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Yrs £'000
Children, Families and Adults	87,929	81,131	60,144	56,258	60,119	139,083
Economy, Transport and Environment	91,539	71,114	44,956	43,688	23,302	39,727
Public Health	-	-	-	-	-	-
Corporate and Managed Services	30,031	28,652	30,002	28,204	15,920	27,700
LGSS Operational	1,104	-	-	-	-	-
Total	**210,603**	**180,897**	**135,102**	**128,150**	**99,341**	**206,510**

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

Funding Source	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Yrs £'000
Grants	70,852	83,884	55,967	51,867	31,423	103,122
Contributions	38,350	36,839	22,401	32,817	44,169	36,981
Capital Receipts	13,268	2,689	2,704	2,727	7,113	13,058
Borrowing	84,648	73,175	49,782	49,640	21,156	68,509
Borrowing (Repayable)*	3,485	-15,690	4,248	-8,901	-4,520	-15,160
Total	**210,603**	**180,897**	**135,102**	**128,150**	**99,341**	**206,510**

* 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 2015-16 Capital Programme was set:

Service Block	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Yrs £'000
Children, Families and Adults	1,115	29,828	-8,365	17,940	6,877	-27,187	-7,438
Economy, Transport and Environment	714	983	21,614	610	2,150	1,705	-12,249
Public Health	-	-	-	-	-	-	-
Corporate and Managed Services	-2,479	29,909	22,192	25,522	22,744	14,161	19,700
LGSS Operational	-	1,104	-	-	-	-	-
Corporate and Managed Services – relating to general capital receipts	-793	-5,088	3,642	1,065	1,865	-2,124	-3,280
Total	**-1,443**	**56,736**	**39,083**	**45,137**	**33,636**	**-13,445**	**-3,267**

4.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Yrs £'000
New	800	17,840	20,532	28,172	15,534	2,650	300
Removed/Ended	-547	2,043	-	-	-	-	-
Minor Changes/Rephasing*	-6,059	9,089	6,440	1,045	25	-2,119	2,974
Increased Cost (includes rephasing)	545	47,708	-2,528	12,226	9,090	11,625	18,386
Reduced Cost (includes rephasing)	5,289	-1,465	-2,239	757	715	-18,456	-17,328
Change to other funding (includes rephasing)**	-1,471	-18,479	16,878	2,937	8,272	-7,145	-7,599
Total	**-1,443**	**56,736**	**39,083**	**45,137**	**33,636**	**-13,445**	**-3,267**

**This does not off-set to zero across the years because the rephasing also relates to pre-2015-16.*
***This includes a decrease in the level of general capital receipts expected to be available to fund the overall programme as well as a £1.2m shortfall on previously anticipated Capital Maintenance Funding.*

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

Financing Costs	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
2015-16 agreed BP	40,139	41,001	41,064	40,254	41,017
2016-17 draft BP	40,409	45,788	49,352	52,067	53,025
CHANGE (+) increase / (-) decrease	**270**	**4,787**	**8,288**	**11,813**	**12,008**

NB Both sets of figures include a £1m allowance for slippage, agreed as part of the 2014-15 Business Plan.

4.6 The significant change in financing costs is largely as a result of changes to, or new, Invest to Save / Earn schemes. These schemes are still under development, including method of delivery, and as such it is possible that there will be substantial changes to these figures over the planning process.

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. Based on the revised programme, the advisory limit is exceeded in 2019-20 by £0.4m. In order to afford a degree of flexibility from year to year, the limit is reviewed over a three-year period, however as there is very little headroom in years 2018-21, the advisory limit is still exceeded by £0.3m over this three-year period.

Financing Costs	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m0	2020-21 £m
2016-17 draft BP (excluding Invest to Save / Earn schemes)	34.1	40.9	44.3	45.8	46.4	46.0
Recommend limit	40.2	44.6	45.4	45.9	46.0	46.0
HEADROOM	**6.1**	**3.7**	**1.1**	**0.1**	**-0.4**	**0.0**
Recommend limit (3 years)	136.2			56.3		
HEADROOM (3 years)	**10.9**			**-0.3**		

4.8 Although the limit has 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. Therefore, it is anticipated that this small excess over the limit will be dealt with over the course of the continued development of the Programme. However, the Financing Costs will need to be closely monitored over this period to ensure that any further revisions do not cause a more significant 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:

Service Block	Previous Years £000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Years £'000
Managed Services - Invest to Save	2,082	25,148	26,082	23,482	26,734	15,000	23,250
Managed Services - Other Schemes	12,757	4,883	2,570	6,520	1,470	920	4,450
Corporate Services	0	0	0	0	0	0	0
TOTAL	**14,839**	**30,031**	**28,652**	**30,002**	**28,204**	**15,920**	**27,700**

Further detail can be found in the draft Corporate and Managed Service's Business Planning capital tables (**Appendix A**).

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

Funding Source	Previous Years £000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Years £'000
Contributions	415	0	0	0	0	0	0
Capital Receipts	5,444	4,041	464	170	0	600	4,200
Borrowing	8,855	26,651	27,568	29,350	23,970	15,920	27,700
Borrowing (Repayable)	125	-661	620	482	4,234	-600	-4,200
*General Capital Receipts**	*4,498*	*9,227*	*2,225*	*2,534*	*2,727*	*6,513*	*8,858*
*Reduction in Borrowing**	*-4,498*	*-9,227*	*-2,225*	*-2,534*	*-2,727*	*-6,513*	*-8,858*

*The receipts generated from the General Capital Receipts programme, and the subsequent reduction to the overall borrowing requirement for the Council, is not available as direct funding for the Corporate and Managed Services schemes. It is shown separately for the purposes of this report so that the impact of this programme can be seen.

Further detail can be found in the draft Corporate and Managed Service's Business Planning capital tables (Appendix A).

5.3 The following table shows how each section's borrowing position has changed since the 2015-16 Capital Programme was set:

Service Block	Previous Years £000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Years £'000
Managed Services - Invest to Save	-1,540	28,314	20,832	20,212	22,484	13,901	17,850
Managed Services - Other Schemes	-1,016	-3,493	5,002	6,375	2,125	-1,864	-1,430
Corporate Services	-300	0	0	0	0	0	0
TOTAL	**-2,856**	**24,821**	**25,834**	**26,587**	**24,609**	**12,037**	**16,420**

There is a total increase in borrowing of £127.5m across the Corporate and Managed Services programme, of which £122.1m relates to Invest to Save schemes and £5.4m to other schemes. This is the result of:

- New schemes for 2016-17 +£73.9m;
- Increased cost +£58.6m;
- Removal / ending of schemes -£1.8m;
- Reduced cost -£5.1m;
- Minor changes / rephasing -£1.7m;
- Change to other funding +£3.5m.

Reasons for change in borrowing	Previous Years £000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	Later Years £'000
New	0	9,450	17,582	20,482	19,234	6,900	300
Removed / Ended	-1,800	0	0	0	0	0	0
Minor Changes / Rephasing	-4,125	1,240	550	0	0	0	620
Increased Cost (includes rephasing)	-592	20,855	3,560	3,560	3,510	7,760	19,980
Reduced Cost (includes rephasing)	-1,429	-1,011	-500	-500	0	-499	-1,200
Change to Other Funding (includes rephasing)	5,090	-5,713	4,642	3,045	1,865	-2,124	-3,280
TOTAL	**-2,856**	**24,821**	**25,834**	**26,587**	**24,609**	**12,037**	**16,420**

5.4 Investment appraisals have been completed for all applicable schemes within the draft Corporate and Managed Services capital programme. These have produced prioritisation scores that are detailed in **Appendix A**.

5.5 The following changes have been made to existing material schemes (those over £0.5m) in the 2016-17 Business Plan:

- **Optimising the Benefits of IT for 'Smarter Business' Working (ref. C/C.2.001) -** Expenditure has been rephased to reflect the priorities set by the County Council for the provision of the IT infrastructure and devices to support mobile working, and a revised timescale for implementation. There are no changes to the overall borrowing requirements but the re-phasing results in lower borrowing in previous years and increased borrowing 2016-17 and 2017-18.

- **IT Infrastructure Investment (ref. C/C.2.003) –** Expenditure has been rephased to better reflect timescales for the delivery of upgrades / refresh of the core IT software and hardware systems that underpin the use of IT across the Council. There are no changes to the overall borrowing requirements but the re-phasing results in lower borrowing in previous years and increased borrowing 2016-17.

- **County Farms investment (Viability) (ref C/C.2.101) -** The level of funding required for this scheme has been reassessed and it has been determined that it can be reduced by £0.5m per year to better reflect actual activity with tenant farmers more cautious due to the unsettled global market.

- **Renewable Energy – Soham (ref. C/C.2.102) –** This Invest to Save scheme has been updated following the Council's successful bid in the competitive auction for contacts and subsequent completion of an Investment Grade Proposal by Bouygues. This has resulted in a £2.2m reduction in total scheme costs, largely due to the removal of the later years' investment following a change in treatment of Lifecycle Replacement costs as revenue.

- **Local Plans – representations (ref. C/C.2.103) –** This scheme has been updated to more accurately reflect the expected costs associated with making representations to Local Plans, taking into account members' preference (where feasible) for self-development in place of asset disposal. The increase in scheme costs (£2.7m) requires additional borrowing from 2016-17 onwards, with a view to adding value to County Farms and other Council land, whilst meeting Council objectives through the use / development of such land.

- **Housing Invest To Save Schemes –** The Council are evaluating a number of proposals that will build a mixture of both private and affordable housing on a number of land holdings owned by the Council. The key aspiration of the Council is to create a long term and sustainable revenue stream for the Council significantly in excess of any revenue that is currently derived from the sites. The exact nature of the mix of properties (i.e. rented or for sale) will be dependent upon the individual sites, sector demand in those areas, and the capital investment requirements. Each proposal will be subject to a site specific business case.

    - **Burwell Newmarket Road - 350 Homes Invest To Save (ref. C/C.2.104) –** Total scheme costs estimated to be in the region of £53m.
    - **Worts Causeway – 230 Homes Invest To Save (ref. C/C.2.115)** – Total scheme costs estimated to be in the region of £34.85m.
    - **Shepreth Housing Invest To Save – 7 Homes Invest To Save (ref. C/C.2.116)** Total scheme costs estimated to be in the region of £1.2m.
    - **Cottenham 200 Homes Invest To Save - (ref. C/C.2.117)** Total scheme costs estimated to be in the region of £30.0m

  <u>Justification</u>

  For all of the above schemes the development of new "affordable" housing and open market rent on Council owned land in order to generate an ongoing income stream. The Council has historically sold any sites where it has secured directly or via a developer an open market consent for residential. This traditional approach has been challenged and the Council sees that it has the opportunity to retain the ‘profit’ from such developments rather than see this pass to the private sector investors. This will enable the financial benefits derived from new communities to be retained to support the delivery of on-going services to those communities. The County also anticipate that it would build and retain the affordable units again as a long term income stream but that this would be via a wholly owned subsidiary of the Council.

- **MAC Market Towns Project (March) (ref. C/C.2.107) –** This Invest to Save scheme has been updated to reflect revised costs and rephasing for scheme implementation. The total scheme budget has been reduced to £1.5m, and capital receipt generation is now expected to be circa £1.8m, producing a net gain of £0.3m receipts over cost.

5.6 The following new schemes have been added to the 2016-17 Business Plan:

- **CPSN Replacement (ref. C/C.2.006)**

  Proposal submitted for £0.5m in 2017-18 and £5.0m in 2018-19, to be funded by borrowing.

  <u>Justification</u>

  This is for the procurement of a replacement Wide Area Network solution. The current contract service is due to end in June 2018. This proposal is for funding for the 2017-18 and 2018-19 financial years to allow for the procurement and transition to a new service.

  The Wide Area Network provides network and wireless connectivity for all CCC employees to access IT systems in all CCC locations. The partnership nature of CPSN also allows for the flexibility of accessing systems within other Public Sector locations. This is a fundamental element of providing all IT Services within the council and it buildings.

- **MAC Joint Highways Depot (ref. C/C.2.114)**

  Invest to Save proposal submitted for total cost of £5.2m, expected to generate £4.8m capital receipts and annual revenue savings to repay the cost of borrowing in the medium term.

  Justification

  The Joint Highways Depot Project will facilitate the physical co-location of partner organisations to a single depot site, with joint-working practices implemented initially, with an aspiration to develop shared services in the future.

  This has developed from previous work undertaken by the Making Assets Count Partnership (MAC) on a proposed Joint Operations Centre. Initial discussions by MAC partners identified that a number of public sector partners across the county had requirements for depot space/vehicle storage in southern Cambridgeshire. This function is currently split across a number of sites, often close to each other with a large number of overlapping requirements. It was suggested that significant savings could be achieved if these sites were merged into a single major hub to service the whole of this southern part of Cambridgeshire.

  The Joint Highways depot focuses on the co-location of the highway depot functions of Cambridgeshire County Council and Highways England, with touchdown and workshop facilities available for other services (e.g. Cambridgeshire Fire and Rescue Service, Highways England Traffic Officers).

  Project objectives (in ranked order) are set out below:
  1. Achieve savings for partners (reduced operational running costs);
  2. Make best use of assets in a more appropriate location in the county;
  3. Maximise receipts (capital/revenue);
  4. Improve resilience and continuity in service delivery through joint working practices;
  5. Improve partner collaboration and capitalise on partner synergies;
  6. Increase better ways of working.

- **Redevelopment of Milton Road Library, Cambridge (ref. C/C.2.118)**

  Invest to Save proposal submitted for total cost of £2.0m. Long-term income generation is not expected to fully repay the costs of borrowing over the life of the asset.

  Justification

  A scheme to replace the existing structurally failing Milton Road Library building with a new building including a Community room with 8 private market rent flats on two floors above. GPC members voted in July 15 to self-develop this building rather than allow a developer to build a new no cost library funded by the profits from selling the 8 leasehold flats over. The key outcomes are a new purpose built sustainable library and flats that generate long term income for the County. No affordable housing is triggered so income is maximized.

5.7 Key risks associated with the draft Corporate and Managed Services capital programme are as follows:

Funding-related:

- Failure to achieve forecast levels of capital receipts due to changes in market conditions (impacting on price and saleability) or Committee decisions regarding individual disposals could result in higher levels of borrowing. Associated with the following schemes:

    - Disposal / Relocation of Huntingdon Highways Depot (£3m)
    - MAC Market Towns Project (March) (£1.8m)
    - General Capital Receipts generation (£36.6m)

- Failure to achieve forecast levels of income generation to repay cost of borrowing on Invest to Save schemes. Associated with the following schemes:

    - Renewable Energy – Soham (net revenue impact -£10.2m)
    - Burwell Newmarket Road Housing (net revenue impact -£25.7m)
    - Worts Causeway 230 Homes GB2 (net revenue impact -£34.5m)
    - Shepreth – PRS Plus Affordable (net revenue impact -£5.4m)
    - Cottenham Circa 200 Homes Affordable and Private Rent (net revenue impact -£13.9m)
    - Redevelopment of Milton Road Library, Cambridge (net revenue impact +£0.4m)

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 Committee is asked to consider the resource implications outlined in the overview and context provided for the 2016-17 Capital Programme for Corporate and LGSS Managed Services and the resource implications of the draft proposals for the Corporate and LGSS Managed Services' 2016-17 Capital Programme.

7.2 Statutory, Risk and Legal Implications

As in 7.1 the Committee is asked to consider issues which could have statutory, risk and legal implications.

7.3 Equality and Diversity Implications

As in 7.1 the Committee is asked to consider issues which could have equality and diversity implications.

7.4 Engagement and Consultation Implications

On 12 March GPC agreed the formation of a Member 'Consultation Working Group'. This Group has worked with officers to develop and implement the consultation activity that will support this year's business planning process.

Specific proposals will continue to be subject to focused engagement and consultation, which GPC will consider alongside any specific decisions required to implement that proposal.

7.5 Localism and Local Member Involvement

The Services discussed in this report contribute to localism and local Member involvement.

7.6 Public Health Implications

The Services discussed in this report contribute to Public Health Outcomes.

Source Documents	Location
Council Business Plan 2015/16	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2015_to_2016