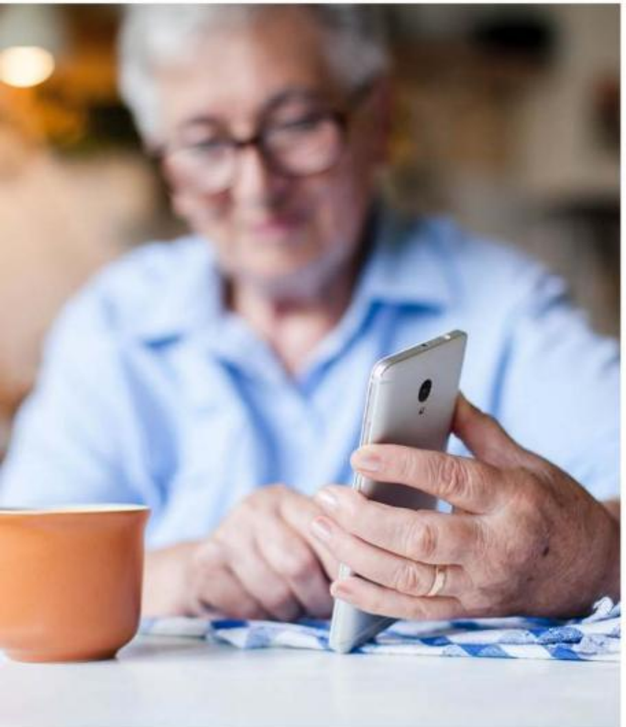
Capital Strategy

2024-25

Business Plan Section 6



Cambridgeshire County Council

Contents

1. Executive Summary

The Council's strategic financial plan is comprised of three distinct, but interdependent, strategies set out within this Business Plan:

- Medium-Term Financial Strategy (MTFS) (section 2)
- Capital Strategy (section 6)
- Treasury Management Strategy (section 7)

This strategy, the Capital Strategy, describes how the Council's investment of capital resources over the next ten years will optimise the ability of the Council to achieve its strategic vision and ambitions outlined within the Council's strategic framework. The Strategy is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding, and is updated each year as part of the business planning process.

The Council achieves its vision to "Create a greener, fairer and more caring Cambridgeshire" through delivery of its Business Plan, which targets seven ambitions. To enable delivery of the plan, the Council needs to undertake capital investment. This includes investment in new schools and in modernising school buildings, regeneration and improvement of the county's transport infrastructure, and tackling the Council's ambitious net-zero target towards 2045.

"Create a greener, fairer and more caring Cambridgeshire"

It is crucial that when long-term investment decisions are undertaken, decision-makers can rely on clear and informed information. This includes:

- A long-term view of capital expenditure plans and any financial risks to which the Council is exposed.
- Ensuring due regard to the long-term financing affordability implications and potential risks.
- A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications.

The Council's 2024-25 ten-year capital programme is summarised by service as follows:

	Prev Years £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Later Yrs £m	Total £m
Children, Education and Families	147,088	76,611	91,643	42,854	13,182	4,836	26,487	**402,701**
Adults, Health and Commissioning	816	14,481	20,205	10,670	15,005	15,005	30,188	**106,370**
Place and Sustainability	273,532	100,176	46,027	19,534	19,561	19,584	17,361	**495,775**
Finance and Resources	147,184	5,547	2,288	1,116	1,116	1,008	4,320	**162,579**
Strategy and Partnerships	10,562	1,810	7	-	-	-	-	**12,379**
Total spend	**579,182**	**198,625**	**160,170**	**74,174**	**48,864**	**40,433**	**78,356**	**1,179,804**

This is due to be funded as follows:

	Prev Years £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Later Yrs £m	Total £m
Grants	174,799	71,305	49,179	26,680	27,407	26,467	37,362	**413,199**
Contributions	108,061	33,040	28,635	42,908	42,453	49,943	12,213	**317,253**
Capital Receipts	16,058	1,095	400	4,000	4,000	4,000	28,000	**57,553**
Prudential Borrowing	166,413	93,185	81,956	28,465	11,850	9,149	781	**391,799**
Prudential Borrowing (repayable)	113,851	-	-	-27,879	-36,846	-49,126	-	**-**
Total funding	**579,182**	**198,625**	**160,170**	**74,174**	**48,864**	**40,433**	**78,356**	**1,179,804**

Please see the following sections for further detail.

2. Strategic context

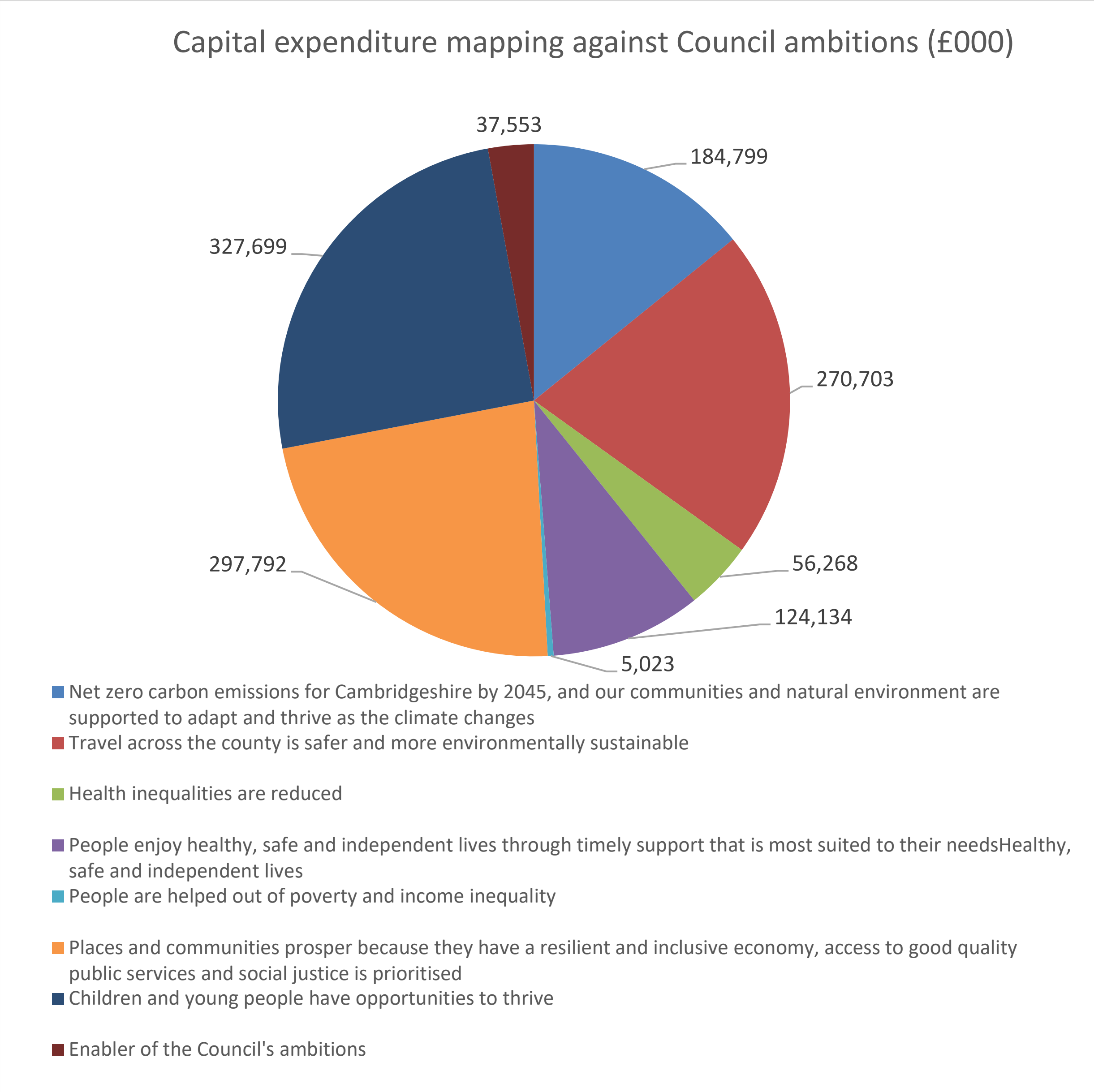
The development of this Strategy, along with the Council's other core strategies and plans, is informed by the current and longer-term strategic context, as set out in the strategic framework.

Cambridgeshire is a fast-growing place. In 2021, approximately 679,000 people lived in Cambridgeshire, one of the fastest growing populations over the last decade. Cambridge City was the second highest growing local authority in the East of England, mainly concentrated in younger adults, while our rural districts are seeing higher growth in over 65s. We expect population growth to continue through the next decade, particularly for our older age groups. Cambridgeshire also has areas of deprivation, including 16 neighbourhoods in the 20% most relatively deprived nationally. Around 7,700 adults receive long-term social care, either partially or fully funded by the Council, and there has been a 103% increase since January 2017 in the number of children supported with Education, Health and Care Plans, taking the number to 7,400 children.

The Climate Change and Environment Strategy sets out the Council's ambition for tackling the climate and biodiversity emergencies. The carbon footprint for Cambridgeshire in 2020 was 6.89m tonnes of carbon dioxide equivalent (CO_2e) emissions; for this Council in 2021-22 it was 131,610 tonnes, including indirect ("scope 3") emissions. We must work over the coming years to reduce the carbon footprint of both the Council and the county, with targets for these to be net zero by 2030 (for the council's scopes 1 and 2 emissions) and by 2045 (for the county).

3. Capital Prioritisation Mapping

The Council's prioritisation of its capital programme can be mapped to the Council's key ambitions as follows:



A more detailed review of the capital programme is provided in part 5d.

4. Future Years Strategy Development

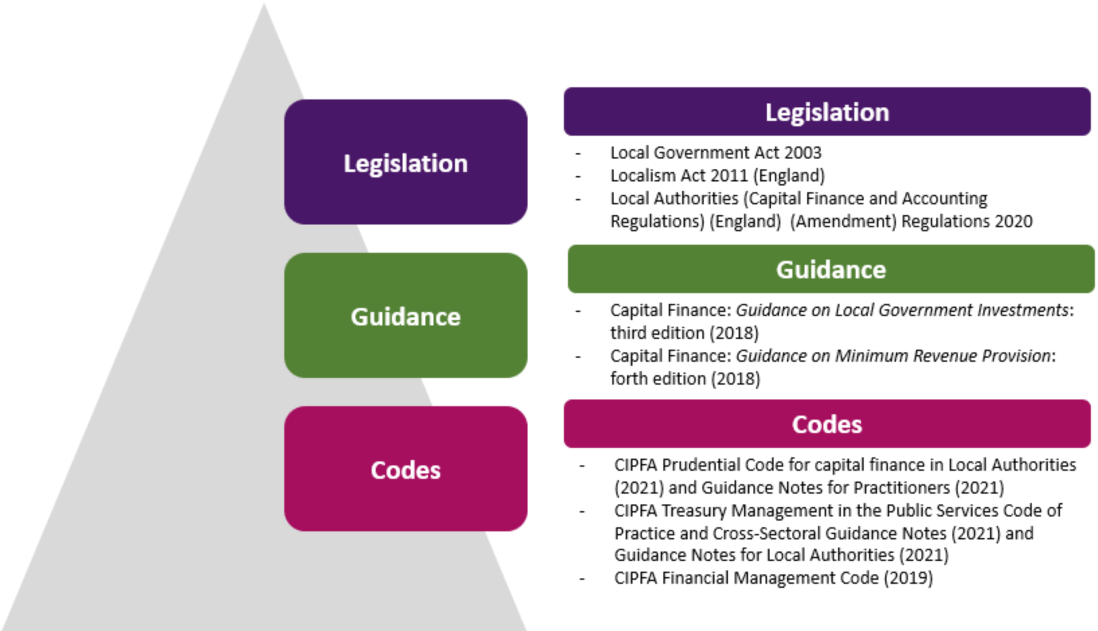
The Capital Strategy undergoes continuous development as part of a process of continuous improvement to support members in their decision making.
Future identified activity includes:

- Further development of the long-term (20-to-30-years) approach to the Capital Strategy, aligned to our longer-term corporate strategies.
- Assessment of asset management planning to inform decision making and risk, in particular to climate change impacts, as part of the development of the new Land and Property Strategy.
- Any upcoming changes to statutory guidance.
- Continuing development of the use of carbon emissions modelling and assessment within investment decisions across all schemes.

5. Detailed Strategy

5a. Statutory Framework

Local government capital finance is governed and operates under the Prudential Framework in England, Wales, and Scotland. The Prudential Framework is an umbrella term for several statutory provisions and professional requirements that allow authorities largely to determine their own plans for capital investment, subject to an authority following due process in agreeing these plans and being able to provide assurance that they are prudent and affordable. The relevant legislation, guidance and codes are set out as follows:



5b. Working with partners

The Council is committed to developing strong and positive partnerships that not only enhance the investment potential of the Council through opportunities for support and contributions from third parties but enable delivery of the Council's Corporate Priorities. Partnership working enables the Council to leverage a larger package of investment that extends beyond our investment potential as an individual organisation.

There are a range of capital schemes currently being delivered in conjunction with partners and our commitment to social and environmental values further demonstrate our aspiration to work with the public and private sector to deliver better outcomes for people, the environment, and communities. The following summarises some of the Council's key partnerships.

Cambridgeshire and Peterborough Combined Authority (CPCA)

The CPCA, led by the Mayor and representatives from the seven constituent councils, was created in 2017 to deliver the region's devolution deal. The CPCA works with the Business Board and other local partners to deliver strategic projects. Key ambitions for the Combined Authority include:

- doubling the size of the local economy
- delivering outstanding and much needed connectivity in terms of transport and digital links
- providing the UK's most technically skilled workforce
- growing international recognition for our knowledge-based economy
- improving the quality of life by tackling areas suffering from deprivation.

The Mayor and Combined Authority has a role to play in enabling carbon reduction and adaptation to climate change; therefore, the CPCAs activities and policies are informed by an ambition to tackle climate change.

As the Strategic Transport Authority for the region, the CPCA receives funding and powers from central government, which the Mayor and the Combined Authority Board oversee, and it sets out strategies and plans for delivering its ambitions. As the Local Highway Authority, it is expected that CCC will deliver much of the capital work commissioned by the CPCA within Cambridgeshire, and several schemes form part of our capital programme.

Greater Cambridge Partnership

The Greater Cambridge Partnership is the local delivery body for a City Deal with central government, bringing powers and investment, worth up to £500 million over 15 years, to vital improvements in infrastructure, supporting and accelerating the creation of 44,000 new jobs, 33,500 new homes and 420 additional apprenticeships.

It is the largest of several City Deal programmes agreed by central government in 2013 and brings key partners together to work with communities, businesses, and industry leaders to support the continued growth of one of the world's leading tourism and business destinations. The four partners are:

- Cambridge City Council
- Cambridgeshire County Council
- South Cambridgeshire District Council
- University of Cambridge

The Executive Board is made up of members from the four partners, plus one member nominated by the CPCA Business Board.

In 2013, £100m of government funding was made available for transport improvements until 2020. Following successful completion of the Gateway Review in May 2020, an extra £200 million funding was made available up to 2025.

It is expected that Cambridgeshire County Council will undertake most of this work on behalf of the GCP. It is important to ensure that the strategic infrastructure scoped and delivered through the City Deal reduces carbon emissions through designing out carbon emissions where it can from the construction and operation of any new assets as well as a strategic goal of the infrastructure itself.

Connecting Cambridgeshire

The Connecting Cambridgeshire programme is improving Cambridgeshire and Peterborough's digital infrastructure – including broadband, mobile and public access Wi-fi coverage – to drive economic growth, help our businesses and communities to thrive and make it easier to access public services. The project is hosted by Cambridgeshire County Council and led by the CPCA, working with Peterborough City Council (PCC), government bodies, local councils, and external organisations, including telecoms suppliers and mobile operators.

Together with £3m from PCC and £8.75m government funding, the Council's initial outlay of £20m in 2011 has since been used to leverage over £42m of direct funding, from external public and private sector sources, including £7.5m from the CPCA to extend the programme to improve mobile and public access Wi-fi, as well as fibre broadband. The broadband rollout has now brought superfast access to over 98.5% of premises, above the national average, which means the programme is on track to reach the 99% target. As a result of Project Gigabit, 80% of premises can now access gigabit capable broadband coverage with download speeds of at least 1000Mbps. Coverage is increasing at pace through direct intervention and commercial deployment towards exceeding the government target of 85% by 2025.

The Connecting Cambridgeshire Digital Connectivity Strategy 2021-2025 gives an overview of work underway to significantly improve broadband, mobile and public access Wi-fi coverage across the region by 2025. The strategy for the period 2021-2025 builds on the foundations of the existing programme, incorporating multiple workstreams, targeting the different aspects of digital connectivity from broadband, mobile, 'Smart' technology, and public access Wi-Fi to ensure that Cambridgeshire and Peterborough are well positioned to take full advantage of current and emerging technological advances.

This Land

This Land Limited was established as a wholly owned company of the Council in 2016 in order to enable development of land for housing. The company aims to develop the land it has acquired, predominantly from the Council, to provide individual, high-quality homes and new communities that are in much demand across Cambridgeshire and the surrounding counties in the East of England. As of November 2023, the Council had issued long-term loans of £113.851m to This Land, for which it receives an annual revenue return by way of interest payments, and equity of £5.851m. During 2021, the Council undertook a shareholder review of This Land, assessing its commercial operation and future exposure to risk. Several key areas for action were identified, including governance, resourcing, and personnel, improving the commercial and financial position of the company, and taking opportunities to deliver on broader objectives through the company's work. Both the Council and the company have been addressing these actions, monitored through shareholder liaison meetings and formally at Assets and Procurement Committee. During 2023-24, the Council has continued to enhance its governance oversight of This Land and the assurance mechanisms it has in place for assessing the deliverability of the company's business plan.

Light Blue Fibre
Light Blue Fibre Limited, one of the first of its kind in the UK, is a joint venture between the University of Cambridge and Cambridgeshire County Council, making both organisations' existing extensive duct and fibre networks commercially available. It aims to attract telecoms companies, infrastructure providers and technology businesses who understand the importance of full fibre connectivity and are looking to save time and money by reducing the need for expensive and time-consuming infrastructure developments.

One Public Estate (OPE)
OPE is an established national programme delivered in partnership by the Office of Government Property (OGP) within the Cabinet Office and the Local Government Association (LGA). It provides practical and technical support and funding to councils to deliver ambitious property-focused programmes in collaboration with central government and other public sector partners.
Cambridgeshire's OPE group allows partners, including the district councils, health partners and the emergency services, to effectively collaborate on strategic asset management and rationalise the combined operational property estate within the county. The programme has secured up to £3.3m in funding so far to bring forward major projects for joint asset rationalisation and land release. OPE projects that are being delivered in conjunction with OPE partners include:

- Huntingdonshire District Council - North Huntingdon Strategic Growth Partnership – Wyton redevelopment
- Cambridgeshire Community Services (CCS) - Ely Princess of Wales Hospital redevelopment
- CCS - Wisbech North Cambridge Hospital redevelopment
- Cambridgeshire County Council (CCC) - Joint Highways Depot move (from Whittlesford to Swavesey A14)
- CCS / CCC - Ely Care Home (at Ely Princess of Wales)
- Peterborough City Council - Peterborough Middleholme (BLRF)
- Fenland District Council (FDC) - Fenland Nene Waterfront (BLRF)
- CCS / Cambridge City Council (City) - Brookfields / Seymour St
- FDC – Cambridgeshire and Peterborough NHS Foundation Trust (CPFT) - Cambridgeshire Public Sector Accommodation review including NHS ICS and NHS Neighbourhood Hubs Alconbury
- City - Aylesborough Close Ph2, Cambridge

Community Infrastructure Levy (CIL)
The Council also works closely with the city and district councils on the creation of new infrastructure needed as a result of development. CIL is at the discretion of the Local Planning Authority i.e., the city and district councils, who are responsible for setting the levy and have the final decision on how the funds are spent. However, as the County Council has responsibility for the provision of much of the infrastructure resulting from development, it is imperative that it is involved in the CIL governance arrangements of

the city and district councils, and that it works closely with these authorities to ensure that it is able to influence investment decisions that affect the Council's services.

Local Area Energy Planning

Approximately 45% of Cambridgeshire's carbon emissions are associated with energy. Clean energy is essential for powering buildings, warm homes, transport, digital connectivity, distribution of water and supporting businesses. To achieve net zero by 2045, the energy system across Cambridgeshire must change. Communities will need to be actively participating in the energy system to gain benefits managing their bills. Businesses will also need to actively engage in the energy system changes to grow and thrive. Local Area Energy Planning is a whole system approach, led by local government, with key stakeholders. It identifies the most cost-effective masterplan and pathways for the local area to achieve local and national net zero targets. Importantly, it identifies the capital programmes and scale of investment that needs to be delivered. There are three strands:

- Place making – to achieve low carbon, oil and gas infrastructure must shift to greater levels of 'electricity infrastructure'. Clean electricity generation and distribution will be the dominant infrastructure for heating and lighting buildings and transport for cars and light vans – or hydrogen for heavy transport. The Council therefore has a role in infrastructure planning and delivery.
- Green Investment – the Council can use its land and buildings assets, in line with our land & property strategy, to facilitate green projects that support the implementation of the Local Area Energy Masterplan e.g., buildings and land can generate electricity or clean heat, battery storage can support the local grid; highways can support electric vehicle charging and the Council can participate in other green projects as an anchor tenant to support green project business cases. The Council can invest in energy projects for carbon reductions and carbon removals and potentially benefit financially from this too.
- Economic development - investing in local energy projects provides jobs and services locally and benefits our local economy. Without secure and resilient energy supplies our economy cannot compete and thrive. Investing in our local energy economy through skills development, supporting local business to build their capabilities, attracting inward investment and actively supporting market demand.

The Council is working with other Cambridgeshire local authorities and the CPCA to deliver Local Area Energy Planning and to have a masterplan and pathways in place during 2025. The Local Area Energy Plan will inform business plans for distribution and transmission network operators and their business plan submissions to the regulator.

Large Energy Projects

To support Cambridgeshire to get to net zero by 2045, the Council has invested in building its capabilities and learning through developing and constructing energy projects. This investment has built organisational skills and knowledge of the energy system and the changes needed to achieve this. A number of large energy projects are under construction, built as local demonstrator projects; visible assets, that everyone can identify with and learn from. As the Council's Land and Property Strategy and the Local Area Energy Plan come forward, a new programme of energy projects will be scoped to support their delivery, building on the learning to date and the ambitions to achieve net zero, whilst also benefiting from the energy system changes.

Energy Performance Services Framework Contract
Early in 2021, the Council entered into contract with Equans (formerly Bouygues Energies and Services Ltd) and SSE Energy Solutions for design and delivery of clean energy projects to benefit the Council financially, cut energy consumption and reduce carbon emissions. The Framework, led by Equans, includes strategic partners such as UK Power Networks consulting, Envision Digital, Element Energy, Cambridge Cleantech and Cambridge University Leadership in Sustainability, providing insight on the market and technological innovations. This procurement brings the engineering design skills, capabilities and capacities required for a wide range of energy projects including heat networks, building retrofits, electric vehicle charging, smart energy grids and solar farms. The Framework is available to other public bodies via Access Agreements, with the potential to generate revenue in access fees for the Council and its Local Authority partners, if projects progress to completion.

Solar Farms - North Angle Solar Farm
The Council has developed and constructed a new 37MW solar farm which will be generating renewable energy from summer 2024. It will generate sufficient renewable electricity for the equivalent of powering 10,000 homes. Not only will this investment generate local energy, building greater energy security for Cambridgeshire, but it will directly power the heat pumps at the Swaffham Prior Community Heat Network Energy Centre to reach a 98% decarbonisation of heating and hot water for homes connecting to the scheme. This is the second solar farm constructed by the Council – the 12MW Triangle Solar Farm has been operating since 2017 and has generated over £6m in income to date.

Smart Energy Grids – Babraham Road and St Ives Park and Rides
These two projects are currently under construction and will add solar PV canopies over the car parking, electric vehicle charging for cars, battery storage, and supply local customers with renewable electricity. Both projects will complete during 2024-25 and are establishing the case for new business and investment models. The innovation is integrating a number of low carbon technologies together with control systems to direct energy flows to where it is needed and is facilitating electricity sales directly to customers on or next to the sites, generating a revenue stream for the Council.

Supporting communities to benefit from energy system transformation
The Council's first annual Quality of Life Survey with residents in 2023 identified that 86% of residents are concerned about cost-of-living increases, and as a result 48% have cut back on heating use, 27% have cut back on nutritious food, 8% have used a foodbank and 9% have stopped using prescription medicines.

The Council is building up its support for communities to engage in energy projects, improve energy efficiency, generate local renewables and benefit from bill savings.

In 2018, the Swaffham Prior Community Land Trust approached the Council to collaborate on their energy ambitions for the community. The government joined this collaboration to find solutions for rural communities where business cases and investment are more challenging to decarbonise homes. This collaboration resulted in the following project.

Swaffham Prior Community Heat Network

The project is operational and supplying clean heat to customers. It is one of the first villages in the UK to install a heating network into an existing community and generate renewable heat from heat pumps. The lessons learned on this project are shared widely across government, partners and communities.

Currently just over 21% of homes are connected to the heat network and the plan is to connect up to 90% of the village to the heat network over 5 years. The drivers for this project include:

- Support communities to come off oil and cut carbon emissions.
- Prevent future fuel poverty in rural off-gas communities by removing the financial barriers to connect to the system for all homes.
- Provide more cost effective, local energy solutions to help manage future costs for energy.

The Heat Network distributes energy generated at the Energy Centre which, comprises ground source and air source heat pumps to provide thermal energy for heating and hot water. Positive feedback has been received on the heating and hot water services provided to connected homes. The Council's ongoing role is to connect homes as they sign up to the scheme, and as the Energy Supplier. The Council's technical partner, Equans, operates the scheme and connects homes over times.

School Retrofit and Low Carbon Heating Programmes

Working with schools is a key strand of our communities' programme. Schools sit in the heart of our communities and engage strongly with a wide range of residents and organisations. Through developing retrofits and low carbon heating projects with schools, there is an opportunity to build awareness and understanding of low carbon technologies and climate change; and demonstrate practical and visible projects on the ground for everyone to learn from.

The Council has supported 69 Cambridgeshire schools to make energy savings and generate local renewable energy. Total investment to date is £17.3m, funded by government grants, prudential borrowing, and some local contributions. Together this is saving £2m on school energy bills and 1,867 tonnes of CO_2 emissions per annum. Altogether, 10 schools have had low carbon heating solutions installed and a further 13 are in the pipeline.

Decarbonisation of the Council's office and library buildings
Twenty-two Council buildings have had old fossil fuel heating systems replaced with air source heat pumps. These projects have saved around 357 tonnes of carbon emissions per year and reduced the Council's gas use by one third. Funding for these projects has been through a combination of grants (approximately £3m) and Council borrowing (£2.2m). Under the Council's Climate Change and Environment Programme, heat decarbonisation plans have been prepared for a further forty Council buildings. These plans will facilitate applications to the Government's Public Sector Decarbonisation Scheme to help provide funding towards the costs of energy efficiency, low carbon heating and micro renewables.

5c. Internal Influences

As well as the Council's Corporate Strategy, the Capital Strategy has clear links to many other strategies, policies, and plans. The most significant of those strategies and their influence are detailed below.

Strategy	Influence
Strategic Framework	Ensures the Council's plans are driven by the shared vision to create a greener, fairer, and more caring Cambridgeshire and focuses on achieving a number of outcomes for the people of Cambridgeshire.
Medium Term Financial Strategy	Sets out the financial picture facing the Council over the next five years, the resources available to the Council, and the Council's strategy for managing its resources effectively.
Flexible Use of Capital Receipts Strategy	Sets out how the Council will use the Flexible Use of Capital Receipts direction on transformational activity that reduces costs or demand for services.
Service Financial Plans	Set out the level of financial resources available for each service area, across both revenue and capital.
Treasury Management Strategy	Establishes the framework for the effective and efficient management of the Council's treasury management activity, including the Council's borrowing and investment portfolio, within legislative, regulatory, and best practice regimes. The Strategy balances risk against reward in the best interests of stewardship of the public purse.

Strategy	Influence
Investment Strategy	In addition to a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, it provides an overview of how the associated risk of financial and non-financial investments is managed and the implications for future financial sustainability.
Adult Social Care accommodation needs across all care types	Sets out Cambridgeshire's long term commissioning intentions for accommodation for all care types across adult social care to ensure sufficient, affordable, and quality accommodation is available to meet demand up to 2036.
Education Organisation Plan	Sets out the strategic direction on education based on the Council's statutory duties regarding the sufficiency, diversity, and planning of places for early years, school- aged children (including special schools) and post-16 education and training provision.
SEND Transformation Programme	The programme seeks to review all aspects of services funded from the High Needs Block (HNB) of the dedicated schools grant, the element of funding allocated to support special needs, ensuring we deliver the same or better outcomes using the resources we have available. Capital investment in alternative provision is a key component of this programme.
Transport Project Proposals Database	Sets out the transport infrastructure, services and initiatives that are required to support the growth of Cambridgeshire.
Transport Delivery Plan	Provides forward visibility of all the planned highway and transport capital schemes on the local network that are in all probability going to be delivered within the 3-year timeframe.

Strategy	Influence
Planning Obligations Strategy	Sets out the Council's approach to securing developer contributions. Forms the principles for the advice which officers provide, including details about the service areas for which we may seek planning obligations. This will need to be reviewed against the impending regulations introducing the Infrastructure Levey following the Levelling Up Act in relation to the use of securing developer contributions and the possible limitations on the use of s106 agreements to fund infrastructure.
Climate Change and Environment Strategy 2022	Sets out the Council's ambitious plans to reduce our own and the county's carbon footprint, and to support others in their efforts, to adapt to the changing climate and support and enhance nature.
Land and Property Strategy	Provides detail on the framework for operational asset management. A revised strategy is due to be reviewed by Assets and Procurement Committee in March 2024.
County Farms Estate Strategy	Outlines how the estate will be managed to optimise income and development returns to produce a target revenue return to the Council of 4%, as well as how the estate will be managed to promote rural businesses, healthy living, support nature and protect the environment.
Sustainable Procurement Strategy	Sets out how procurement activity will support the delivery of the Council's priorities and the national priority outcomes in a way which is sustainable – our actions today will only have positive effects for those generations living in the Cambridgeshire of the future. Category Strategies, the Social Value Policy and other procurement related plans and policies take their lead from this Strategy.
IT Strategy	Articulates how staff in can work effectively with colleagues across the Council to deliver more effective services to our citizens. Staff need access to IT that supports this vision and enables secure, easy, and robust sharing with collaboration tools delivered on a cost-effective basis, with the minimum level of duplicate costs for equipment and licences.

Sustainable Procurement Strategy

Procurement activity at the Council will be sustainable and recognise the risk that inaction on climate and biodiversity will create to our economy and social fabric; it will have the most positive environmental, social, and economic impacts on a whole life basis.

The Council’s procurement activity will be based on the following fundamentals:

- **Managing Risks**: identification, prioritisation, and management of risks to the Council and its communities through procurement.
- **Due Diligence:** always trying to find a way to address adverse sustainability impacts connected with procurement activity.
- **Setting Priorities:** focusing efforts on managing risks and maximising sustainability.
- **Avoiding Complicity**: avoiding being complicit in wrongful activity.
- **Exercising Influence:** trying to influence the behaviour of suppliers and other stakeholders.

There is a golden thread that runs through procurement activity at the Council. The thread links together:

- Regulation
- Contract Procedure Rules
- Procurement Guidance and standard documentation
- Delivery of operational procurement activity

The key priorities of the Strategy are:

- The Council will support the growth of local businesses and the third sector by making procurement spend more accessible.
- The Council will increase the levels of social value delivered by our suppliers.
- The Council will contribute to the Council’s net zero targets.
- The Council will deliver best value outcomes through procurement activity.
- The Council will ensure that our procurement processes are robust, transparent, non-discriminatory, and compliant.

Land and Property Strategy

The Council’s Capital Strategy inevitably has strong links to the Council’s Land and Property Strategy, which provides detail on the framework for operational asset management; this includes defining the principles which guide asset management, its role in supporting service delivery and carbon reduction, why property is retained, together with the policies, procedures and working arrangements relating to property assets. The Council’s Land and Property Strategy is currently under development and is due to be reviewed by Assets and Procurement Committee in March 2024.

The Strategy will focus on the key objectives of:

- Improving service delivery to communities
- Reducing costs
- Co-locating services and enabling services
- Reducing carbon emissions and improving climate resilience of assets
- Adapting assets to build resilience to a changing climate
- Increasing returns on capital
- Opening up investment opportunities

There will also be a detailed review of existing policy and strategy, and in particular a strengthening of the Corporate Landlord model and its links into corporate strategies such as the Sustainable Procurement Strategy, Think Communities and Older People's Accommodation.

Investment Strategy (Non-financial)

Part of the Council's approach of dealing with the twinned pressures of reduced central government funding and growing demand for services has been to deliver better financial returns from property and asset holdings.

CIPFA's Prudential and Treasury Management Codes 2021 require all local authorities to prepare an investment strategy, covering both financial and non-financial assets. The Investment Strategy for financial assets is included within the Treasury Management Strategy; for non-financial assets, it is included here and should provide (in addition to a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services):

- An overview of how the associated risk of non-financial investments is managed.
- The implications for future financial sustainability.

Any commercial acquisition carries with it a degree of risk and as this involves the investment of public funds, the rationale for engaging in such activity should be clear. As with the rest of the Capital Strategy, all investment activity has been undertaken in line with the Council's vision of 'creating a greener, fairer and more caring Cambridgeshire'.

However, changes to the Public Works Loan Board (PWLB) rules and CIPFA's Prudential Code mean that the Council is not looking to invest further in new commercial property acquisitions beyond the current portfolio over the medium-term. The Council complies with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement to not borrow to invest primarily for financial return.

Whilst no further investment is anticipated, the Council does now hold a commercial property portfolio, and as such, still needs to consider the long- term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure. There are inherent risks associated with commercial activity (for further detail see part 5h) and as such the Council has taken a measured risk approach towards supporting a proportion of its core activity with commercial income.

The table below shows the forecast levels of commercial and service income as a percentage of net service expenditure, demonstrating that the Council could manage to absorb any plausible losses within budget or reserves, without unmanageable detriment to local services.

	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate
Net Income from commercial and services investments to net service expenditure*	5.5%	5.7%	5.3%	4.7%	4.0%

** Income here includes both financial and non-financial income, but excludes income from investments held for Treasury Management purposes*

As part of this Capital Strategy, the Council sets a debt charges limit during the business planning process as a mechanism to ensure that the Council does not overcommit its revenue resources to servicing debt. This can also be reviewed in terms of debt as a proportion of net service expenditure; for details on this see part 5f. However, it should be noted that the majority of these financing costs do not relate to borrowing incurred for commercial investment, but rather to necessary borrowing required to support the Council's service capital programme.

There may be a need in the future to dispose of property investments. This could occur because of the need to return the investment to cash for other purposes, poor financial performance of a particular property, or poor environmental and energy performance, for example. Whilst it is expected that the majority of investments will be held for the medium to long-term in order to achieve the required return and to justify the cost of the acquisition, it is important to understand the opportunities to dispose of any investment.

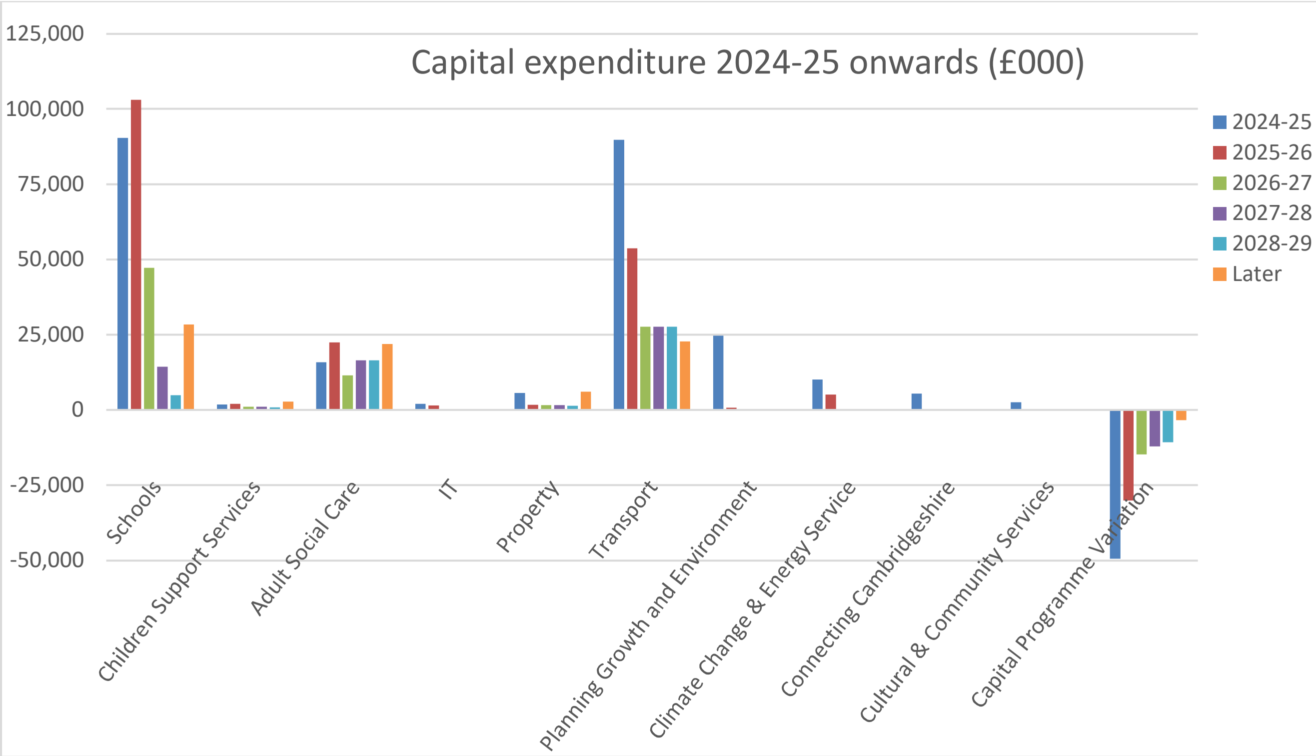
Therefore, as part of the investment decision and ongoing management of the portfolio, consideration has been given to the potential ways in which the Council could "exit" from the investment, such as sale to another investor, sale for redevelopment, etc. These exit strategies are detailed in the current investment portfolio summary in Appendix 1 of this Strategy.

Active monitoring of the performance of individual properties within the portfolio is undertaken jointly across the property and finance teams. If any underperformance is identified, the teams develop action plans to determine how to mitigate any increase in risk or threat to ongoing security, liquidity, and yield.

Whilst all capital schemes are expected to contribute to delivery of the Council's ambitions, there are some schemes that are also expected to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement. These schemes are called Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term.

5d. Capital Investment Plan

Including an estimated previous spend of £579.2m on active schemes, the total value of the 2024-25 capital programme is £1.2bn. The following chart and tables provide the areas of spend from 2024-25 onwards; the categories of most significant capital expenditure for the Council are schools and transport.



Schools

Capital Scheme Category	£m	Description
Basic Need	215.9	The population of Cambridgeshire is growing; therefore, additional school places are required. This covers early years, primary and secondary education for both maintained and academy schools, as the Council retains the statutory duty to provide school places.
Adaptions	2.5	Covers rebuilds after major incidents such as fire or flooding, adaptions to bring older buildings up to date in line with the Department of Education Building Bulletin guidance, and work to address long-standing suitability and condition issues.

Capital Scheme Category	£m	Description
Condition & Maintenance	24.0	Addresses significant condition and statutory compliance issues identified in maintained schools' asset management plans, ensuring places are sustainable and safe. This funding is used alongside government grants and loans to fund low-carbon heating solutions in some schools where oil or gas boilers require replacement.
Schools' Managed Capital	7.0	This funding is allocated directly to maintained schools to enable them to undertake low-level refurbishments, minor condition and maintenance works, and purchase equipment such as IT.
Specialist Provision	32.4	Covers both basic need provision for Special Educational Need and Disability (SEND) places, as well as adaptions to facilitate placement of children with SEND in mainstream schools in line with decisions taken by the County Resourcing Panel.
Temporary Accommodation	0.8	Enables the Council to increase the number of school places provided using mobile accommodation. This could be related to temporary increases in pupil numbers that do not require long-term resolution or could be a short-term solution whilst a longer-term resolution is identified and developed. There may also be a need to provide mobiles for shorter periods to cover loss of accommodation in the event of an emergency e.g., flooding incidents, storm damage, etc.

Transport

Capital Scheme Category	£m	Description
Integrated Transport	42.2	Covers local infrastructure improvements regarding accessibility, road safety engineering work, new cycle route provision and the Council's contribution to the Highways Agency A14 upgrade scheme.
Operating the Network	53.0	Carriageway and footway maintenance, improvements to the Rights of Way network, bridge strengthening and traffic signal replacement. It also supports provision of the Integrated Highways Management Centre and Real Time Bus Information system, which provide real-time travel information.
Highways & Transport	153.9	One-off schemes to provide resolutions to specific highways and transport issues. Examples include delivery of traffic signals at Wheatsheaf crossroads in Bluntisham and replacement of the streetlighting bulbs with LEDs. Also includes additional funding for footpaths and pavements (£20.0m) and potholes (£25.1m).

Capital Programme Variation

The nature of capital planning is such that it can be difficult to accurately forecast timing of capital expenditure for each individual scheme, as it is difficult to pinpoint exactly which schemes will experience unforeseen delays. In order to ensure that this does not unduly impact on the revenue position (see part 5f below for further detail on the impact capital has on revenue), the Council employs the use of centrally calculated and allocated Capital Programme Variation budgets in order to reduce the overall level of anticipated borrowing each year to a more accurate level. These budgets are calculated by applying a percentage reduction at service level to the programme, based on several factors such as historical slippage, the nature of the current schemes in the programme, etc. This explains why the expenditure for this area in the chart above is negative. As slippage forecasts are reported throughout the year, they are offset against the variation budgets for each service, leading to a balanced outturn overall up until the point when rephasing exceeds this budget.

Further detail on all schemes can be found within the individual service finance tables (section 3 of the Business Plan).

5e. Funding the Strategy

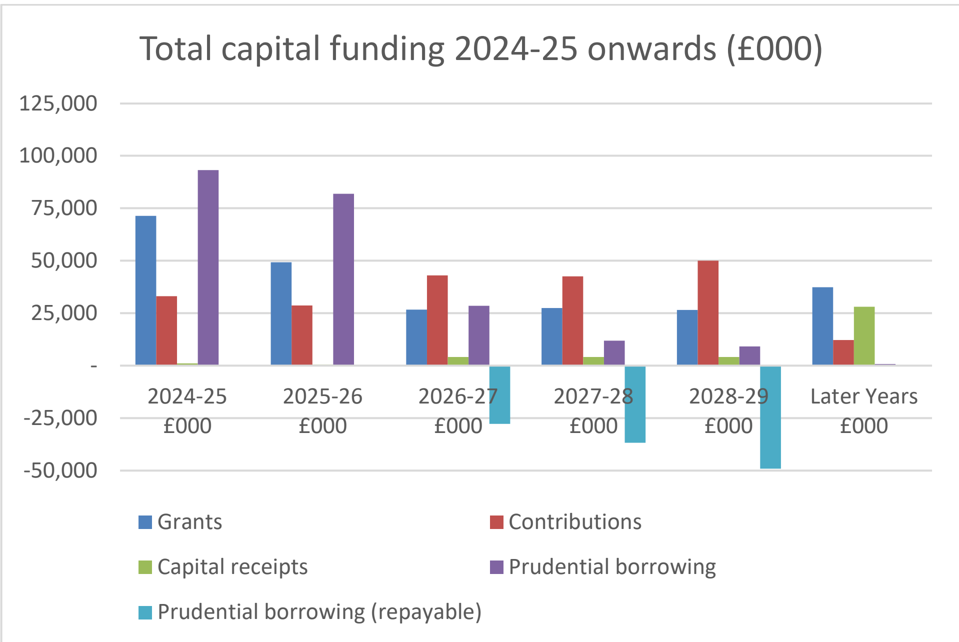
Capital expenditure is financed using a combination of the following funding sources:

Earmarked Funding	Central government and external grants
	Developer contributions (Section 106), Community Infrastructure Levy (CIL) and external contributions
	Private Finance Initiative (PFI) / Public Private Partnerships (PPP)[1]
Discretionary Funding	Central government and external grants
	Prudential Borrowing
	Capital Receipts
	Revenue funding

[1] This source of funding is no longer available for new schemes.

A more detailed explanation of these funding sources is provided in Appendix 2 of this Strategy.

The 2024-25 ten-year programme, worth £600.6m, is budgeted to be funded through £447.6m of external grants and contributions, £41.5m of capital receipts and £111.5m of borrowing.



Prudential borrowing (repayable) normally arises through timing differences between expenditure and receipt of income. This is common in relation to schemes funded, or part-funded, by developer contributions where the timing of the contribution is determined by the pace of development and meeting certain triggers, whereas the infrastructure may be required at an earlier point. For example, a new school may be required early on in a development, even though it will not reach capacity (and therefore will not trigger all the funding milestones usually linked to the number of housing completions) for several years. Prudential borrowing (repayable) will also be used to fund capital loans to other organisations; these loans will eventually be repaid, therefore over the life of the programme the borrowing required is zero. This explains the negative prudential borrowing (repayable) in later years in the above chart.

Government Grants

Councils have received one-year funding envelopes in recent years which has hampered the Council's ability to make efficient and effective decisions over long-term financial planning. The lack of certainty has been further exacerbated by the number of financial reforms which have been put on hold, particularly during the pandemic as well as during various changes in political leadership. The Government's Comprehensive Spending Review (CSR) 2021 covered the period 2022-23 to 2024-25; however, despite this, the Local Government Finance Settlements for this period were each only for one year. This is not conducive to robust financial planning, particularly in relation to capital. However, the Local Government Finance Settlement for 2023-24 did provide an attempt at certainty by clearly setting out the government's intentions and proposals for the 2024-25 settlement. In addition, the Highways grants have been announced on a multi-year, flat basis up to 2025-26.

Government Grants - Highways

In addition to the Integrated Transport Block funding and Highways Maintenance formula allocation, the Department for Transport (DfT) provide a Highways Maintenance Incentive Fund. This fund is to help reward local highway authorities who can demonstrate they are delivering value for money in carrying out asset management to deliver cost effective improvements. Each authority self-assesses themselves against set criteria that determines which of three bands they are allocated to (Band 3 is the highest performing). The Council continues to be successful in maintaining Band 3 status and for 2023-24 has secured the maximum funding available of £10.3m. However, this represents a 29% reduction in needs and incentive-based funding as compared to 2020-21 when the Council received £14.6m. This is reflective of a £250m reduction in the overall national allocations. The DfT have confirmed that these allocations will remain at the same level until 2024-25.

The 2019 Conservative Manifesto committed to an additional £2bn of additional funding for pothole repair: £500m per annum from 2020-21. For 2020-21, the funding provided by DfT came via the new Pothole Fund, which resulted in a funding allocation for the Council of £10.2m. As with the Highways Maintenance allocations, the DfT have confirmed that these allocations will remain at the same level until 2024-25.

In the Spending Review 2021, the government announced:

- £2.7bn over the next 3 years for local roads maintenance (as detailed above).

- £3bn of bus investment, including £1.2bn for bus transformation deals in England to deliver London-style services, fare, and infrastructure improvements, and a further £355m new funding for zero emission buses.
- £2bn of investment in cycling and walking to build hundreds of miles of high-quality, segregated bike lanes and other facilities to improve cyclists' safety. This includes £710m of new investment in active travel funding over the next 3 years.

In the Autumn Statement 2023, the government announced that there will be an additional £2.3m provided for highway maintenance for both the current year 2023-24 and 2024-25. Further funding is being provided beyond that, but it is not clear how much at this time. In addition, the DfT have not advised of the base grant levels for highway maintenance beyond 2024-25. Any further allocations of these grants to Cambridgeshire will be factored into the business planning process as they are announced.

As the CPCA is now the local transport authority, it therefore receives the above DfT local transport authority designated funding on behalf of the County; however, the CPCA continues to commission the Council to carry out the required works on the transport network.

Government Grants – Levelling Up

The Levelling Up White Paper was published in February 2022, setting out in detail the framework and next steps for spreading opportunity more equally across the United Kingdom. The government aim is to support local economic growth in order to regenerate town centres and high streets, support individuals into employment, improve local transport links and invest in local culture, while giving communities a stronger voice to take over cherished local assets that might otherwise be lost.

The White Paper promises a series of next steps:

- consultation on missions and metrics and the new devolution framework
- the establishment of a new independent body focusing on local government data
- rolling out Levelling Up Directors across the UK, alongside a new Levelling Up Advisory Council
- simplifying growth funding
- creating three sub-groups to support the levelling up advisory council
- introducing future legislation to create an obligation on the UK government to publish an annual report on progress and to strengthen devolution legislation in England.

To support these objectives, the government has launched four new investment programmes to support communities right across the country. All share common challenges and opportunities, which the government is anticipating to address in collaboration with local partners. These investment programmes are:

- The UK Community Renewal Fund: £220m of funding to help local areas prepare for the launch of the UK Shared Prosperity Fund. 1,073 bids were submitted by the deadline of June 2021; 477 bids have been accepted totally £203m. The CPCA submitted 7 bids, of which 2 totalling £3.4m were successful.

- The Levelling Up Fund: £4.8bn of funding to invest in infrastructure that improves everyday life across the UK, including regenerating town centres and high streets, upgrading local transport, and investing in culture and heritage assets. The first round allocated £1.7bn to fund 105 projects; none of the local authorities in Cambridgeshire received any funding under this round. The second round allocated £2.1bn to 111 areas; the CPCA was successful in a £47.9m bid for improvements to Peterborough station. The third round has allocated a further £1.1bn across 55 projects; none of these relate to Cambridgeshire.
- The Community Ownership Fund: £150m of funding over 4 years to help ensure communities can support and continue benefiting from the local facilities, community assets and amenities most important to them. The fund has allocated £71.4m to 257 projects to date; none of these relate to Cambridgeshire.
- The UK Shared Prosperity Fund: £2.6bn of funding for investment by March 2025, with all areas of the UK receiving an allocation via a funding formula, rather than a competition, recognising that even the most affluent parts of the UK contain pockets of deprivation and need support. Investment plans were required to be submitted by August 2022; the CPCA was awarded £13.9m for Cambridgeshire and Peterborough.

Government Grants – Environment

A new discounted interest rate was introduced in 2018, accessible to authorities for 3 years to support up to £1bn of infrastructure projects that are ‘high value for money’. The Council submitted two bids to access this discounted interest rate; in November 2019 it was notified that the bids had been successful, and the Council can now secure eligible borrowing at a discount of 0.4% below standard PWLB borrowing rates. This will support a variety of energy investment and community energy schemes to be delivered by 2023-24. The first tranche was accessed in March 2020 when the Council applied for £8m at the discounted rate, followed by a second tranche of £6m in August 2021 and a third tranche of £9m in December 2021.

Following on from this, the UK Infrastructure Bank (UKIB) opened for business in June 2021 and was initially expected to unlock more than £40bn of infrastructure investment. The Autumn Statement 2022 announced that the government is placing the Bank on a statutory footing, cementing its status as a key institution that will facilitate long-term investment in infrastructure to tackle climate change and support regional and local growth. The Council is evaluating whether any of our schemes should apply for this investment.

The government has set up several grant schemes to support the retrofit of existing buildings across public and private assets, including the Public Sector Decarbonisation Scheme, Community Heat Fund, Home Upgrade Grants, a ‘Prospering from the Energy revolution’ fund and a whole stream of other pump prime funding. It has also brought forward the Environment Bill and Agriculture Act; these will bring inward investment to change the way we do things and value public goods.

The Council has secured over £8m of funding from the Public Sector Decarbonisation Scheme to help decarbonise heating and improve energy efficiency in Council buildings and schools. The Council is part of the Cambridgeshire Energy Retrofit Partnership (CERP); this covers all Cambridgeshire local authorities as well as the CPCA and together submits funding bids to the Sustainable Warmth, Home Upgrade Grants, and local authority decarbonisation schemes. To date, just over £20m has been secured for domestic retrofits across the different funding schemes.

Government Grants - Education

The government allocates capital funding over a two-to-three-year time frame to enable authorities to provide sufficient school places for every child who needs one and to aid the forward planning of school places. Unfortunately, the current methodology used to distribute funding for additional school places does not always reflect the Council's need, requiring additional borrowing on top of grants received. Almost all of this need relates to infrastructure that the Council has a statutory responsibility to provide, therefore, there is limited flexibility for the Council in deciding whether to proceed with these schemes and allowing for their costs within the capital programme.

The Council seeks to maximise its Basic Need funding by establishing how the funding allocation model works and providing the School Capacity (SCAP) data to the Department of Education (DfE) in such a way as to maximise the Council's allocation. The Council has been allocated £2.3m of Basic Need funding for 2023-24 and £12.5m for 2024-25, based on the Council's SCAP return submitted for May 2021.

The DfE has also revised the methodology used to distribute condition allocations to target areas of highest condition need. The funding now consists of a weighted pupil element, banded condition scores, and a location factor to represent increased costs as determined by the Building Cost Information Service. The DfE have also increased the funding rate from £146 in 2021-22 to £148.50 per pupil for 2022-23, before other factors are applied. Transitional arrangements were put in place for the 2022-23 allocation round so that protected responsible bodies received no less than 75% of the allocation they received in 2020-21. In the 2023-24 round, responsible bodies that previously received a protection will continue to receive it if their calculated SCA falls below 50% of the amount they received in 2020-21. The protection will be equal to the difference between their calculated amount and 50% of the amount they received in 2020-21. If their calculated amount is equal to or greater than 50% of the amount they received in 2020-21, they will receive their calculated amount.

Cambridgeshire does not fall into this category of protection as our SCA has remained quite stable over the past few years (similar amounts of grant each year).

The DfE intends to further reduce the level of protection offered by 25% points per annum until 2025-26, when no protection will remain. However, the exact methodology for calculating SCA in future years is yet to be confirmed, therefore this approach will be kept under review. The Council anticipates funding for 2024-25 will be announced in Spring 2024.

To date, there are currently 9 Free Schools open in Cambridgeshire, the most recent being Cambridge Maths School, a 16-19 provision which opened on 1 September 2023. There are an additional 9 Free Schools currently approved to pre-opening stage in Cambridgeshire. This includes 3 primary schools, 5 secondaries and 1 all through special school. The majority of these schools in pre-opening are in areas where the Council has identified a basic need requirement for places. It is not known when, or if, Wave 16 will open.

The Spending Review 2021 reaffirmed the government’s commitment to rebuilding 500 schools in the worst condition over the next decade across the country as part of the Priority Schools Building Programme (PSBP), alongside an announcement of £2.6bn to be spent on creating 30,000 new school places for children with special educational needs and disabilities.

The Council responded to a DfE consultation on the criteria for the prioritisation and selection of schools for inclusion within the PSBP, also identifying those schools in Cambridgeshire that are in most urgent need of investment. Although no bids from Cambridgeshire were approved in the most recent DfE announcement, neither were they rejected. They have been rolled forward for consideration in a future round of the PSBP.

Following invitation from the DfE, the Council made an application to participate in the 2022-23 Safety Valve Programme. The programme is designed to assist local authorities in reducing overspends in their High Needs Block expenditure for Special Educational Needs and Disabilities (SEND). As part of its DfE safety valve application, the Council requested capital funding for a number of additional SEND capital schemes. This forms part of the overall strategy to increase capacity and reduce the reliance on more costly external placements. The Council entered into a Safety Valve Agreement in March 2023. The Agreement is based on the following arrangements:

- Revenue contribution of £49m from the DfE to support the repayment of the deficit, supported by a contribution of £9m from the Council’s reserves.
- A further £11.3m for capital funding to support new SEND provision on mainstream school sites.
- Two new special free schools for Cambridgeshire to be established in March (opening September 2026) and Gamlingay (opening September 2025). Significantly, there are also new free schools being established in Bedfordshire and Norfolk which will potentially reduce the number of children accessing our specialist provision from outside of the county.

The Safety Valve agreement commits Cambridgeshire to report to the DfE’s Funding Policy Unit (FPU) in writing on the progress towards the savings targets and conditions set in the agreement. The Department will use this tri-annual reporting to monitor the progress of the agreement conditions. We have an established SEND Transformation Programme Board which is monitoring performance of the programme in line with the Safety Valve Agreement. The schemes included in the capital programme are:

- A 50-place expansion of Highfield Littleport Academy has started on site

- The 63-place expansion of Samuel Pepys has started on site.
- The 60-place expansion of Martin Bacon Academy through satellite provision at Swavesey Village College (40 places) and an extension post 16 block co-located with Northstowe Secondary College (20 places) are being progressed.

There are also proposals to establish Enhanced Resource Base (ERB) provisions in primary schools. Two schools are currently consulting on this proposal with a view to an Easter 2024 start date for these provisions. A further 4 primary schools have been shortlisted for consideration.

Developer Contributions and Capital Receipts

2023 has been a challenging year for real estate due to persistent inflation and a 15-year high interest rates, both of which negatively impacted economic growth. However, the property market is looking more optimistic as we head into 2024 with inflation falling significantly towards the end of 2023 and anticipated to continue falling, and with a real prospect of rate reductions in the latter half of 2024. This, combined with the shortage of building land for housing caused by the pandemic cutback in purchases by developers suggests that the Council's ability to fund capital investment through the sale of surplus land and buildings, or from contributions by developers will not be severely impacted moving forward.
However, delivering the changes required for the net-zero target will require investment into energy infrastructure, building retrofits, circular economy, active travel, and mobility that changes our dependency on fossil fuels for heating and powering homes and businesses, moving around and waste. The changes will be significant and will include regulatory improvements to building standards, land use, transport planning, and waste management to ensure clean and sustainable growth. Whilst the development industry reacts to these changes, some impact may be felt on developer contributions as our national and local systems shift focus to tackle climate and biodiversity emergencies.

The Council will re-invest 100% of all capital receipts received (after funding costs of disposal up to the allowable limit of 4% of receipt) back into the capital programme, focusing these on schemes that either generate an ongoing revenue return, remove carbon emissions or are short-life assets.

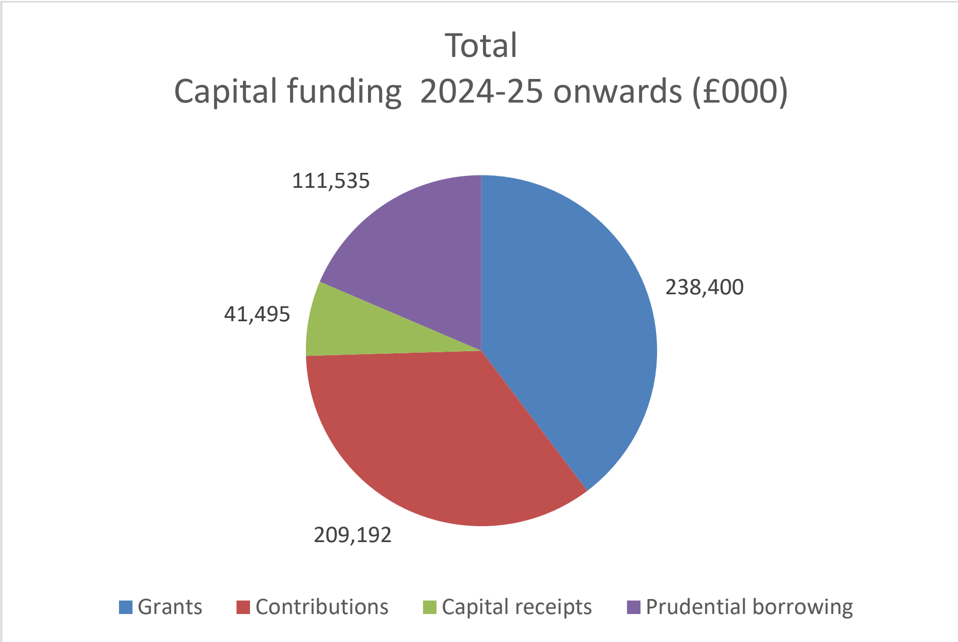
Community Infrastructure Levy (CIL)

CIL works by levying a charge per net additional floor space created on all small-scale developments, instead of requiring developers to pay specific contributions towards individual projects as per the current developer contribution process (Section 106, which is still in place for large developments). Although this is designed to create a more consistent charging mechanism, it also complicates the ability of the Council to fund the necessary infrastructure requirements created by new development due to the changes in process and the involvement of the city and district councils who have exclusive legal responsibility for determining expenditure. The Council therefore generally receives a much lower proportion of the cost of infrastructure requirements through CIL contributions.

Huntingdonshire and East Cambridgeshire District Councils are currently the only districts within Cambridgeshire to have adopted CIL. Cambridge City Council, South Cambridgeshire District Council and Fenland District Council currently have no plans to implement.

Borrowing

The Council will only look to borrow money to fund a scheme either to allow for schemes that will generate payback and/or reduce future carbon liabilities (via either financial/carbon savings or through income generation), or if all other sources of funding have been exhausted but a scheme is required. Despite this, the Council has an affordability gap of £111.5m over the ten-year programme, which is due to be funded by borrowing:



5fi. Revenue Implications and Affordability

All capital schemes have a potential two-fold impact on the revenue position, due to:

- the cost of borrowing through interest payments and repayment of principal (called Minimum Revenue Provision), or through the loss of investment income; and
- the ongoing revenue impact of the scheme (such as staff salaries, utility bills, maintenance, administrative costs etc.), or revenue benefits (such as savings or additional income).

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning process.

Both the borrowing costs and ongoing revenue costs/savings of a scheme are considered as part of a scheme's appraisal, and therefore, the process for prioritising schemes against their ability to deliver outcomes.

In addition, the Council is required by CIPFA's Prudential Code for Capital Finance in Local Authorities 2021 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to guide this process, the Council sets an advisory limit on the value of the revenue budget that can be spent on capital financing costs over the coming business planning period. This is based on an assessment of affordability of financing borrowing costs over the medium-term.

In order to afford a degree of flexibility from year to year, changes to the phasing of the debt charges is allowed within any three-year block, so long as the advisory aggregate limit remains unchanged. Blocks refer to specific three- year periods, starting from 2015-16, rather than rolling three-year periods. The advisory limit on capital financing costs is reviewed annually by the Section 151 Officer and considered by Committee.

Due to the Council's strategic role in stimulating economic growth across the county through infrastructure investment, any capital proposals that can reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory borrowing limit. These schemes are called Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term. Whilst the financing costs for commercial activity schemes have already been removed from the budget and recharged to the Investment Activity budget within Finance and Resources, there are several other Invest to Save / Earn schemes that have not been recharged e.g., third party loans. The following table therefore compares revised net financing costs excluding these costs. Following the change in the Minimum Revenue Provision policy, agreed by Full Council in February 2016, the limits in recent years have been increased by 2% each year:

Financing Costs	2024-25 £m	2025-26 £m	2026-27 £m	2024-25 £m	2025-26 £m	2026-27 £m
2024-25 draft BP (net figures excluding Invest to Save / Earn schemes)	41.0	45.3	47.5	45.0	42.2	39.6
Recommend limit	42.2	43.0	43.9	44.7	45.6	46.5
HEADROOM (-)	**-1.2**	**2.3**	**3.6**	**0.3**	**-3.4**	**-6.9**

Recommend limit (3 years)	129.1	136.8
HEADROOM (-) (3 years)	**4.7**	**-10.0**

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breach the advisory limit as they currently appear to, schemes will either be re-prioritised in order to reduce borrowing levels, or the number of schemes included will be limited.

Invest to Save and Invest to Earn schemes for all services are expected to fund any revenue pressures, including borrowing costs, over the life of the asset. However, any additional savings or income generated in addition to this repayment will be retained by the respective Service and will contribute towards their revenue savings targets.

However, there will still be a short-term revenue cost for these schemes, as with all other schemes funded by borrowing. Therefore, SR&P Committee still needs to review the timing of the repayments, in conjunction with the overall total level of debt charges to determine affordability of the capital programme, before recommending the Business Plan to Full Council. The debt charges budget required to fund capital borrowing for the ten-year programme is forecast to spend £41.1m in 2024-25, increasing to £42.3m by 2028-29. The following table shows the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, resulting from the estimated increase in borrowing levels over the period of the 2024-25 plan. Maintaining the proportion of budget spent on debt charges at 2024-25's level (10.8%) would reduce the revenue cost of capital schemes, but would require a reduction or rephasing of the capital programme.

	2024-25	2025-26	2026-27	2027-28	2028-29
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	10.8%	11.0%	10.8%	9.8%	8.3%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	7.7%	7.9%	8.1%	7.4%	6.8%

The Council also includes the capitalisation of the cost of borrowing within all schemes; this has helped the Council to better reflect the cost of assets when they actually become operational. Although the capitalised interest cost budgets are initially held on an overall service basis within the capital programme, the funding is ultimately moved to the appropriate schemes each year once exact figures have been calculated.

5fii. Flexible Use of Capital Receipts Policy & Strategy

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects. The flexibility was extended to the end of 2024-25.

This flexibility applies as long as the Council complies with the following:

- The expenditure is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years; and

- The expenditure is properly incurred for the financial years that begin on 1 April 2016 to 1 April 2024 (anticipated to be extended beyond) and can only be met from capital receipts which have been received in the years to which this direction applies.

It is important to note that avoiding/reducing costs and demand in later years is an increasingly large part of our transformation plan in respect of capital receipts funded costs.

We will use this direction to fund those members of staff, primarily in the Policy & Insights team, who are working on designing and delivering service change. This will be used to fund up to £1.682m for 2024-25. The Council funded £2.9m of expenditure in 2017-18 using this direction, £3.9m in 2018-19, £2.6m in 2019-20, £1.5m in 2020-21, £1.7m in 2021-22, £1.0m in 2022-23 and is forecasting to spend £1.2m in 2023-24.

We expect this funding to be applied in 2024-25 to the following work:

Scheme	Total Actual Cost £000	Total Budgeted Saving £000	Total Actual Saving £000	2024-25 Budgeted Cost £000	2024-25 Budgeted Saving £000
Adult Social Care Transformation	3,535	-23,323	-16,990	0	0
Learning Disability Transformation	300	-1,133	-843	0	0
Commissioning	526	-8,247	-7,275	96	-125
Children’s transformation	1,576	-3,978	-3,612	722	-935
Children’s Centres & Children’s Health Services Transformation	207	-1,022	-1,022	0	0
Learning Transformation	1,054	-819	-719	0	0
Communities	140	-310	-310	0	0
Public Health Transformation	0	-189	-189	0	0
Transport Transformation	501	-3,459	-3,389	516	-669
Assets / Facilities work stream / Property projects	1,689	-2,235	-1,765	319	-414
Automation	339	-397	-191	0	0
Organisational Structure Review	1,192	-1,893	-2,312	0	0
Commercialisation	2,415	-7,985	-3,648	0	0
Waste Transformation	75	-1,085	-310	0	0

Scheme	Total Actual Cost £000	Total Budgeted Saving £000	Total Actual Saving £000	2024-25 Budgeted Cost £000	2024-25 Budgeted Saving £000
Libraries Transformation	222	-230	-230	0	0
Shared Services	445	-1,615	-537	0	0
IT Strategy	113	0	0	0	0
Contract management	321	-310	-628	0	0
Streetlighting transformation – saving in later years	113	0	0	0	0
Other, including savings in later years	796	0	-297	0	0
Total	**15,559**	**-58,230**	**-44,267**	**1,656**	**-2,143**

As a result of using capital receipts in this way rather than applying all capital receipts to the capital programme, prudential borrowing undertaken by the Council for the years 2017-18 to 2024-25 has been, or is budgeted to be, between £1.0m and £3.9m higher in each respective year. This affects the Council's Prudential Indicators as follows:

Prudential Indicator	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Capital Financing Requirement	+2.9	+6.9	+9.5	+11.1	+12.7	+13.7	+14.9	+16.6
Operational Boundary (Total Borrowing)	899	985	1,058	1,063	1,044	1,060	1,250	1,240
Authorised Limit (Total Borrowing)	929	1,015	1,088	1,093	1,074	1,090	1,290	1,280

This is expected to create additional financing costs in the revenue budget of up to £430k once all expenditure has been incurred.

Through the provisional local government finance settlement announced in December 2023, government is consulting on additional capital flexibilities for the sector to alleviate financial pressures and incentivise efficiency. These include extending the purposes for which flexible use of capital receipts could be applied. The government has not committed to any of these proposals.

5g. Managing the Borrowing Requirement

The Council's Treasury Management Strategy (section 7 of the Business Plan) considers how the cash requirements arising from the Council's Capital Strategy and detailed investment programme are managed by external borrowing, and the timing of any such borrowing. Where capital expenditure has been incurred without a resource to pay for it, i.e., when it is proposed to be funded by borrowing, this will increase the

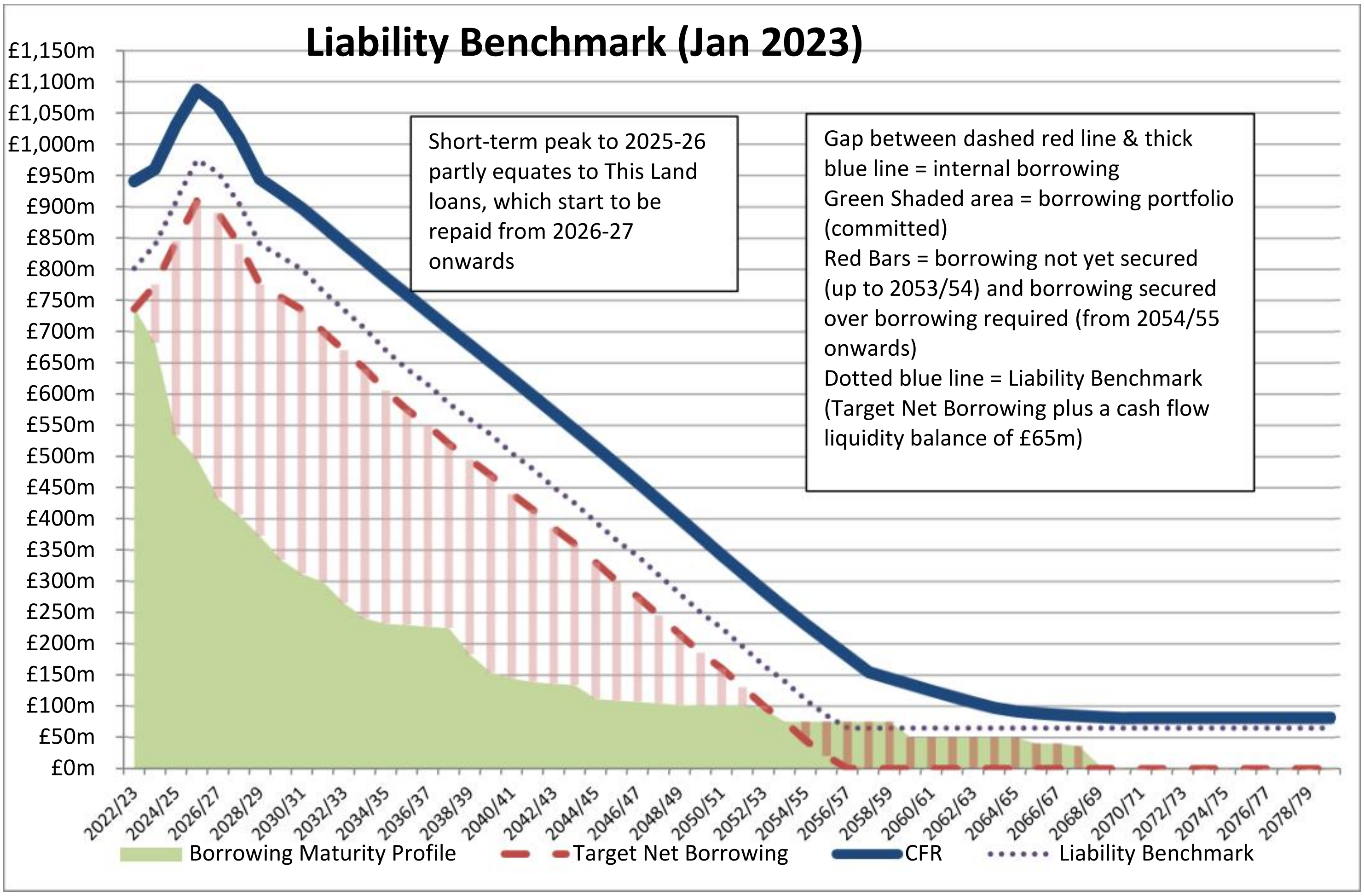
Council's Capital Financing Requirement (CFR). The CFR therefore effectively represents the Council's underlying need to borrow. The Council reduces the CFR by making a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy – this is called Minimum Revenue Provision (MRP). Calculation of the CFR is summarised in the table below and results in the need to borrow money.

	Opening Capital Financing Requirement
+	Capital expenditure incurred in year
-	Grants, contributions, capital receipts and revenue funding used to fund capital expenditure
-	Prudent Minimum Revenue Provision (MRP)
=	**Closing Capital Financing Requirement**

Future projections of the CFR based on the capital programme and resources deemed available to fund it are shown in the table below. Forecasts are subject to the timing of capital expenditure and receipt of funding sources.

	2024-25 £m	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**
Total CFR	1,030.6	1,087.8	1,062.1	1,010.3	944.4

The following chart shows the Council's projected CFR (underlying borrowing need) against the maturity profile of all active loans. The shaded red bars therefore represent the amount of borrowing required to be secured in future in order to meet the Council's projected borrowing requirement, based on the forecast capital programme.



The Council's main objective when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. In the current higher-interest rate environment, the balance is more skewed towards taking out short-term loans; however, this has been made possible due to the Council taking advantage of historically low interest rates during 2021 to extend the maturity profile of the Council's debt by taking out longer-term loans at cheaper rates. For further detail regarding the Council's long-term borrowing strategy, please see the Treasury Management Strategy (section 7 of the Business Plan).

5h. Risk

There are a range of future risks beyond the control of the Council that have the potential to impact upon the Council's ability to deliver its capital ambition. The Covid-19 pandemic has brought into stark focus the potential disruption that health crises, for example, can cause to life as we know it. Retaining a focus on future risk through a risk management approach that identifies, assesses, and manages (as far as is possible) risk is a critical part of the Capital Strategy, approach, and programme. The Council does not have the resources to mitigate all risks faced, so instead manages risk proportionately, utilising the expertise of senior officers.

The Council's planning and governance processes have been developed in such a way as to mitigate these risks. All capital Business Cases are required to complete a section on risk to identify the main drivers and potential mitigations. The following table sets out some of these:

Risk	Mitigation
Legislative	Changes in statute and regulation will impact upon capital projects, as they must comply with current legislation. The Council ensures that it keeps abreast of these developments, responding to consultations where appropriate and taking any required adjustments to strategies or processes through the appropriate governance channels.
Property Markets	Various aspects of the programme, such as rental income, income generated by capital receipts and funding through developer contributions are affected by the health of property markets. The Council ensures it has a sound property asset strategy, suitable diversification, adequate resourcing (including use of external experts where required), and a long-term approach.
Environmental	The impacts of a changing climate are being felt globally. Cambridgeshire is low lying and has a long record of water related challenges, making it vulnerable to sea level rise, increasing flood risk, drought, and overheating, as well as future resource constraints resulting from loss of nature and global competition for resources.
Interest Rate	A considerable proportion of the Council's programme is funded by borrowing and is therefore exposed to fluctuations in interest rates. The Council uses prudent forecasts for future interest rates and constantly reviews its long-term borrowing strategy to mitigate against any interest rate rise risk. Further detail can be found in the Treasury Management Strategy.
Inflation	Given the size of the portfolio, a small rise in inflation can have a significant impact upon project costs. The Council builds in inflation estimates where appropriate to mitigate against this risk, plus schemes include contingency budgets in order to further mitigate against unanticipated rises. Contracts are also negotiated using fixed terms where possible. In a high-inflation environment where tender quotes are only held for a short period, appropriate short-term delegations are put in place to enable rapid response in a short timeframe. Close monitoring of the programme supports early identification and therefore

Risk	Mitigation
	appropriate response.
Capacity	A significant challenge in the current environment is the capacity within the supply chain to deliver projects on time and to budget. In addition, the Council needs to ensure it has sufficient project delivery expertise in order to deliver schemes efficiently and effectively. For significant programmes, dedicated project delivery resource is allocated to ensure capacity and expertise. Supply chain capacity is managed at the project and programme level, with residual risks escalated through the Council's governance process as necessary.

It is important to integrate climate risk into financial risk management to enable decision-makers to understand the climate related issues facing both the Council in how it runs its budget, investments, and services, as well as enabling Cambridgeshire's residents and businesses to thrive. Identifying and diagnosing the challenges and impacts will help us to develop strategies to inform and solve them. For example, the hot summer of 2022 has increased the maintenance costs for highways as a result of roads overheating, and the ground under the highway contracting and then expanding. This type of cost could become more prevalent and needs proactive management.

The Council is still developing its climate risk approach. It will look to ensure climate change is addressed through the Council's governance process; how it impacts on strategy; how climate-related risks and opportunities are assessed and managed; and look to apply performance measures and targets to manage these issues.

Investment Strategy Risk

The structure of the property portfolio has a significant bearing on the portfolio's inherent risk and return profile. Therefore, a key objective of the non-financial investment strategy was to create diversification within the portfolio in order to manage exposure to the risks of concentrating too much activity in any particular sector. Key risks in the portfolio can be categorised in as follows:

Risk	Mitigation
Income	The main risk in a commercial portfolio is tenant vacancies and the resultant loss of income. The costs of holding a vacant property include non-domestic rates, insurance, utilities, security, inspections, and management. In addition, there are costs of marketing the property, the agent's disposal fees and legal fees for completing the lease documentation for re-letting the premises. The Council holds a sinking fund reserve, which is topped up each year in order to provide cover for both ad hoc additional expenditure, as well as both expected and unexpected loss of income through vacant property and/or lease breaks.
Yield	The main aim of the majority of investments is to provide a secure return on income. The Council manages its commercial property as a single portfolio, ensuring that the collective returns achieved on the investments meet the overall financial target that is set.
Concentration	Sector Concentration – the main property sectors are retail, office, industrial and leisure/healthcare. The Council has spread its portfolio of investment across the different sectors in order to limit exposure to any volatility in a particular area. Like geographic diversification, industry diversification is sensitive to the diversification requirements of the overall portfolio. Geographical Concentration – it is important for the Council to understand the future economic viability of localities, which will be influenced by a number of local and national economic factors. For example, future major transport infrastructure investment could significantly influence the economic viability of an area and therefore the future value of investments in that locality.

Risk	Mitigation
	Property Concentration – diversifying a real estate portfolio by property type is similar to diversifying a securities portfolio by industry. Different property types cater to different sectors of the economy. For example, office property generally responds to the needs of the financial and services-producing sectors; industrial property to the goods-producing sectors; retail property to the retail sector; and hotels to the travel and tourism sectors, employment growth, and the business cycle. Understanding the return and risk factors attendant to different property types requires understanding the factors affecting each property type's user groups. Tenure Concentration – the portfolio is managed to ensure that it contains a broad spread of tenants. This analysis can be driven by credit ratings, nature of business, lease length, and the value of the leaseholds. It is important to evaluate tenant credit ratings according to the senior corporate debt of the lessees. Leases are compared regarding their length (including renewal options), which may vary considerably, typically from ten to twenty years.

The Investment Strategy requires continual evaluation of the investment portfolio against the Council's ambitions to ensure that it is fit for purpose. A larger and more balanced portfolio would have helped to achieve the Council's aim of increasing income to support the delivery of services throughout the county, however, balancing this with risk means that a core portfolio of property assets has been sought, diversified by sector (industrial, offices and retail), location and risk.

5i. Capital Planning and Governance

This Capital Strategy supports, and is aligned to, the decision-making framework which has been developed by the Council. When making long-term investment decisions, clear and informed information is vital to understanding the short- and long-term impact on key social, financial, and environmental indicators. Any investment proposal will therefore be considered in line with the impact it has on supporting the Council's seven ambitions.

The Council operates a five-year rolling revenue budget, and a ten-year rolling capital programme. 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 funding streams for the Council.

New schemes for inclusion in the programme are developed by services in conjunction with the finance team in line with the Council ambitions outlined in the Strategic Framework. Any new capital scheme costing more than £250,000 is appraised as to its financial, human resources, property, carbon, environment, and economic consequences. The justification and impacts, as well as the expenditure and funding details of these schemes are initially specified in an outline capital Business Case, which becomes more detailed as the proposal develops. At the same time, all schemes from previous planning periods are reviewed and updated as required. All schemes, whether existing or new, are scrutinised and challenged where appropriate by officers to verify the underlying costs and/or establish whether alternative methods of delivery have been investigated in order to meet the relevant needs and outcomes of the Council.

An investment appraisal of each capital scheme is undertaken as part of the business case development, which allows the scheme to be assessed against social, financial, and environmental factors. This allows schemes within and across all services to be prioritised, considering 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 ambitions.

Capital Programme Board (CPB) is an officer board and provides support and challenge with respect to both the creation of an initial budget for a capital scheme, as well as the deliverability and ongoing monitoring of a scheme. The terms of reference require CPB to ensure that the following outcomes are delivered:

- Appropriate estimates for cost and time of capital projects
- Robust project and programme management and governance
- Post project evaluation and monitoring of key carbon reductions and environmental benefits
- Prioritisation across the whole programme.

Service committees review the draft service programmes, and the overarching capital programme is approved by Full Council each year as part of the business plan.

The capital programme is monitored in year through quarterly reporting to service committees via Finance Monitoring Reports.

These feed into the Integrated Finance Monitoring Report, which is scrutinised by CPB and also reviewed by SR&P Committee. The report identifies changes required to the capital programme and seeks approval for:

- new / updated resource allocations
- slippage or brought forward programme delivery
- increase / reduction in overall scheme costs
- virements between schemes to maximise delivery against the ambitions of the Council.

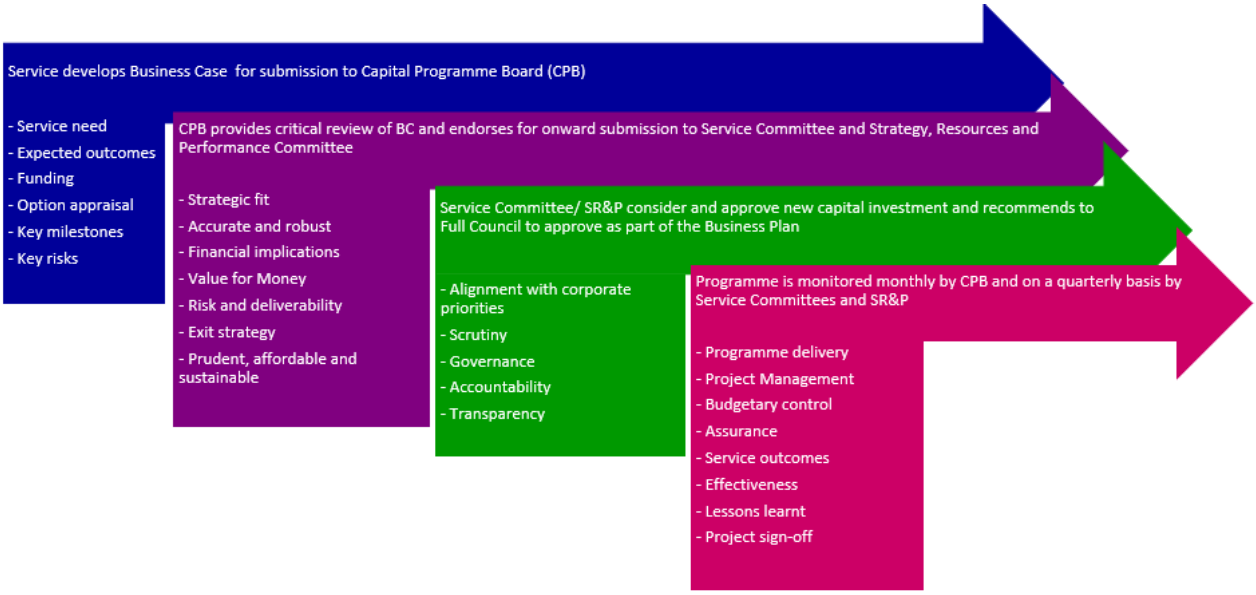
It is inevitable that new demands and pressures will be identified by the Council on an ongoing basis, however, as far as possible, addressing these requirements is undertaken as part of the next business planning process, in line with Regulation 6.4

of the Scheme of Financial Management. Therefore, all new capital schemes should be approved via the Business Plan unless there is an urgent need to seek approval that cannot wait until the next planning process. In these situations, any supplementary capital request will be prepared in consultation with, and with the agreement of, the Section 151 Officer. Where possible, the report will be reviewed by CPB before being taken to the Corporate Leadership Team by the relevant Executive Director and the Section 151 Officer, before any request for a supplementary estimate is put to SR&P Committee.

New demands and pressures and changes to estimated costs and funding for ongoing schemes will also potentially result in the need for virements between schemes. All virements should be carried out in line with the limits set out in Appendix I of the Scheme of Financial Management, up to the upper limit of £250,000 by the Section 151 Officer. Anything above this limit will be dealt with in line with the process for new schemes and will be taken to SR&P Committee for approval as part of the monthly Integrated Finance Monitoring Report. Any overspends, whether in year or in relation to the whole scheme, once approved will be funded using applicable external sources and internal, non-borrowing sources first, before using borrowing as a last resort.

Once a project is complete, CPB follows a post-implementation review process for any significant schemes (schemes over £1m, or for schemes between £0.5m and £1m where the variance is more than 20%) in order to ensure that the Council learns from any issues encountered, and highlights and follows best practice where possible. In addition, the board can request for a review to be completed on any scheme where it is thought helpful to have one.

The following diagram summarises the relevant responsibilities regarding the Capital Strategy to ensure decisions are made legitimately, transparently and deliver against the Council's ambitions:



In order to support prioritisation and to avoid slippage and potentially unanticipated additional costs, the Council needs to ensure it has access to sufficient skills and capacity both within the Council and externally in order to deliver the capital programme. Such capacity could be project management and development skills, technical and design skills, knowledge, availability of contractors as well as wider market factors.

Appendix 1: Non-Financial Investment Portfolio

The Capital Strategy is required by local authority investment guidance issued by central government to report on non-financial investments. This should include quantitative indicators that allow total risk exposure to be assessed and scrutinised – the specific indicators are not set nationally, and so those used have been determined locally to be the most useful in making that assessment and the consistency in use between business plans shows how these have changed over time. We are also required to set out what any exit strategy from these investments might be. Overall, our non-financial investments deliver a good financial return to the council.

The tables below set out our non-financial investments, describes what they are, and provides the referenced indicators to allow for an assessment of risk.

Acquisition:	Brunswick House	Date of Acquisition:	26/07/18
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Supporting sustainable and well managed student accommodation, held in local ownership in Cambridge, one of the world's leading student cities. There is significant undersupply of purpose-built student accommodation in the city with 44% of students unable to access purpose-built accommodation at the time of purchase. Inward economic investment: directly and indirectly supportive to jobs in the education sector, a key industry in the county's economy.		
Assessment of Risks	Constructed in 2012, the property was acquired in good condition, marketed to students at the higher/premium end of the market. The principal financial risk relates to occupancy levels (demand for student housing). Demand for student accommodation in Cambridge is expected to remain strong, despite the short-term impact that Covid-19 had. The nature of the student property market in Cambridge is that quality of student experience is a key aspect of the offer alongside, and indeed in many cases ahead of, pricing. A successful planning application has been made since purchase to relax planning conditions to allow more flexible use of the building outside of university term time, for example for conference use.		

Acquisition:	Brunswick House	Date of Acquisition:	26/07/18
Advisors / Market Research	Property Consultants, Carter Jonas, were engaged to appraise the investment opportunity – conducting market research and valuing the property in view of demand, planning conditions, future prospects and condition. Legal advisors, Birketts LLP, dealt with the conveyancing and transaction, providing advice on legal issues arising from Property, Construction, Tax, Commercial, Planning and Employment. Derwent Students manage, staff and market the property after a retender exercise in 2022. Derwent Students operates five student accommodation sites across the country, with a strong reputation for student experience, welfare, and security.		
Liquidity / Exit Strategy	There are no plans to sell currently. The acquisition was not funded by borrowing; however, if required, the property could be sold. There was an active market for the property when it was acquired. Should student accommodation become less viable the Council would investigate alternatives such as residential apartments or accommodation for elderly people.		
If funded by borrowing, why was this required?	N/A	Why has Statutory Guidance not been adhered to?	N/A

Cost (£m)	Funded by Borrowing (£m)	Total Interest Costs (£m)	Annual Income (£m)	Annual Costs (£m)	Annual Net Return (£m)
39.5	-	-	-2.6	0.8	-1.7

Taken from the original Business Case:

Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over 25 Years (£m)	Internal Rate of Return (%)	Net Present Value (£m)
16.4	4.8 increasing to 6.1	69.6	66.9	4.4	8.3

Acquisition:	Brunswick House		Date of Acquisition:	26/07/18
Additional Investment (£m)	**Current Value 31/03/23 (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**	
223.9	31.3	-8.2	The reported loss arises partly from the temporary impact of new competition opening in the immediate area, plus the impact of Covid-19 (albeit this is also expected to be relatively short-term). Whilst occupancy fell during the various lockdowns as students returned home, occupancy is back to 100%, albeit at slightly lower rates than originally envisaged in the Business Plan, therefore providing a lower return. It is envisaged this will improve over time, as further investment is incurred and rates can be increased further.	

Acquisition:	Cromwell Leisure Park	Date of Acquisition:	24/05/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the leisure sector, supporting the local economy. This is the only large cinema in Wisbech, creating both a significant draw into the town and leisure provision opportunity across the Fenland/west Norfolk/south Lincolnshire sub region. Provides geographic diversity to the portfolio by investment into the most deprived district in the county.		
Assessment of Risks	Risks include the reliance on rent from the leisure market which has been put under pressure during the pandemic, and the cost-of-living crisis. The investment market for leisure is also quiet at present so there may be a liquidity risk if the Council needed to sell the property. The cinema anchors the Leisure Park investment; however, the cinema industry was hit very hard during the pandemic due to social distancing issues. This position has since improved, however it has not yet reached post-pandemic levels of trading.		
Advisors / Market Research	The Council commissioned Carter Jonas to produce a purchase report which examined the local area, cinema brands, food and beverage markets, the property itself and the relevant surveys and the current leases and service charges. Legal advice on the lease was also obtained from Mills and Reeve LLP.		
Liquidity / Exit Strategy	There are no plans to sell currently.		

<table>
<tr><th>Acquisition:</th><td colspan="2">Cromwell Leisure Park</td><th>Date of Acquisition:</th><td colspan="2">24/05/2019</td></tr>
<tr><th></th><td colspan="5">There are four units, with two of the smaller units now vacant. The existing tenants are the Light Cinema and Prezzo Plc, who both have a tenancy running to 2039 with a break in 2029. In the event of any tenants vacating, new tenants are sought; one of the vacant units is currently under negotiation.

It is most likely that the cinema would remain a cinema given that it’s fitted out for this purpose and based on the lack of local competition. Other leisure uses would be the most likely alternatives to a cinema but would require fitting out. Similarly, the small units are likely to remain as restaurants given the lack of local competition, the proximity of a cinema attraction and the Tesco supermarket nearby. However, the Council has been approached regarding potential other uses; consideration of the mix of use will need to be carefully balanced with any new lettings.

The Council also has the option to sell the property, though this may be difficult in the current climate for the leisure sector.</td></tr>
<tr><th>If funded by borrowing, why was this required?</th><td colspan="2">The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.</td><th>Why has Statutory Guidance not been adhered to?</th><td colspan="2">N/A

This is an in-county acquisition, supporting the leisure sector in Fenland.</td></tr>
<tr><th>Cost

(£m)</th><th>Funded by Borrowing (£m)</th><th>Total Interest Costs (£m)</th><th>Annual Income (£m)</th><th>Annual Costs (£m)</th><th>Annual Net Return (£m)</th></tr>
<tr><td>7.0</td><td>-</td><td>-</td><td>0.5</td><td>0.0</td><td>0.5</td></tr>
</table>

Acquisition:	Cromwell Leisure Park		Date of Acquisition:	24/05/2019	
Taken from the original Business Case:					
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over asset life (50 Years) (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
17	10.1 falling to 7.8	206.0	29.1	6.0	5.3
Additional Investment (£m)	**Current Value 31/03/23 (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0.0	6.7	-0.3	N/A		

Acquisition:	Superstore Site, Newmarket Road	Date of Acquisition:	15/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the retail sector, supporting the local economy. Site provides the largest supermarket within 2 miles of the city centre and benefits from both considerable scale (e.g., extensive car parking) and diversification opportunities. It is a key selling point for both local residents and also college and university inhabitants and the prospering tourist market. Site is let on a number of continuous leases; the Council believes there is strong residual value in the event the tenant leaves and a replacement is needed, or there is opportunity to completely redevelop the site for housing.		
Assessment of Risks	Risks are reduced by having a single tenant who is financially sound and trading in a prime area of Cambridge. The BNP Paribas Acquisition Report identified a potential risk in the lease where Tesco have a “Substitution Clause”. Tesco could serve notice to replace the Newmarket Road property with another, subject to the replacement complying with terms outlined in the BNP Paribas report (i.e., an investment of equivalent standing). BNP Paribas were of the view that due to the strong levels of trade enjoyed by Tesco at the property, the chances of a trigger event occurring are very low and accordingly did not feel the clause presented a risk to the long leasehold owner.		
Advisors / Market Research	BNP Paribas Real Estate provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. The Council also commissioned Birketts LLP as legal advisors for this transaction and to consider in detail the terms of the leases.		
Liquidity / Exit Strategy	There are no plans to sell currently.		

<table>
<tr><td>Acquisition:</td><td colspan="2">Superstore Site, Newmarket Road</td><td>Date of Acquisition:</td><td colspan="2">15/08/2019</td></tr>
<tr><td></td><td colspan="5">Tesco’s current lease is due to expire in December 2029, however they do have the option to renew for further periods. There is a risk that Tesco may decide to not renew their lease in the future and stop trading from the Newmarket Road site. Whilst it is perceived unlikely in the short to medium-term, if this decision was taken by Tesco in 2029, we would explore re-letting the property to another retailer who would be interested in leasing the whole site. Alternatively, we could explore reconfiguring the existing unit and site to create smaller individual units which could be rented out on a long-term basis. A third option would be to consider a residential led re-development of the site, given the option to purchase the freehold interest for a nominal amount.

The Council also has the option to sell its interest in the property, particularly given the location and tenure on this site.</td></tr>
<tr><td>If funded by borrowing, why was this required?</td><td colspan="2">The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.</td><td>Why has Statutory Guidance not been adhered to?</td><td colspan="2">N/A</td></tr>
<tr><td>Cost

(£m)</td><td>Funded by Borrowing (£m)</td><td>Total Interest Costs (£m)</td><td>Annual Income (£m)</td><td>Annual Costs (£m)</td><td>Annual Net Return (£m)</td></tr>
<tr><td>54.5</td><td>54.5</td><td>25.0</td><td>2.8</td><td>0.0</td><td>2.8</td></tr>
</table>

Acquisition:	Superstore Site, Newmarket Road		Date of Acquisition:	15/08/2019	
Taken from the original Business Case:					
Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over asset life (50 Years) (£m)	Internal Rate of Return (%)	Net Present Value (£m)
20	4.6 rising to 5.6	167.9	150.8	4.8	35.4
Additional Investment (£m)	Current Value 23/03/23 (£m)	Gain (+) / Loss (-) (£m)	Revenue implications of reported loss / Mitigating action		
0.0	55.2	+0.7	N/A		

Acquisition:	Kingsbridge Centre, Peterborough	Date of Acquisition:	21/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the industrial sector, supporting the local economy. Whilst this investment is slightly out of county, it is very much located in an area that is intrinsically linked to the Cambridgeshire local economy. Investment also provides opportunity to diversify the portfolio into the industrial / manufacturing sector.		
Assessment of Risks	Well specified, freehold, self-contained distribution warehouse; originally designed as 5 industrial units, enabling split up and flexibility upon re-letting. The building is extensively fitted out by both occupiers to suit operational needs. One of the tenants is wedded to the building, with significant sunken costs and upgraded power supply, making it difficult for the business to relocate operation. Both tenants had long income to strong covenant ratings, with no arrears at time of purchase. At the time of purchase, there was an acute shortage of available 'oven ready' supply, with the All Industrial void rate the lowest it's been in over a decade and no new speculative development of large warehouses on the horizon. Watts Environmental Phase 1 report concluded a low to medium environmental risk. This is satisfactory for a building in its current industrial use.		
Advisors / Market Research	DTRE provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. Legal advice was obtained from Birketts LLP.		

Acquisition:	Kingsbridge Centre, Peterborough	Date of Acquisition:	21/08/2019
Liquidity / Exit Strategy	There are no plans to sell currently, however if required, the property could be sold. There was an active market for the property when it was acquired, and the industrial sector is currently very tight due to lack of supply, particularly in Peterborough which benefits from good road links.		
If funded by borrowing, why was this required?	The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.	Why has Statutory Guidance not been adhered to?	This is an out of county acquisition, supporting the industrial sector in Peterborough. Whilst it is out of county, it is very close geographically to the county border and is therefore inextricably linked with the local Cambridgeshire economy.

Cost (£m)	Funded by Borrowing (£m)	Total Interest Costs (£m)	Annual Income (£m)	Annual Costs (£m)	Annual Net Return (£m)
12.3	1.6	0.7	0.5	0.0	0.4

Taken from the original Business Case:

Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over asset life (50 Years) (£m)	Internal Rate of Return (%)	Net Present Value (£m)
20	5.9 rising to 7.5	213.5	45.5	5.4	10.8

Additional Investment (£m)	Current Value 23/03/23 (£m)	Gain (+) / Loss (-) (£m)	Revenue implications of reported loss / Mitigating action
0.0	11.3	-1.0	The loss mainly relates to acquisition costs of purchase (Stamp Duty Land Tax, legal fees etc), totalling £0.7m. It is

Acquisition:	Kingsbridge Centre, Peterborough		Date of Acquisition:	21/08/2019
			anticipated that the value of the property will increase sufficiently over and above these costs in time, therefore no mitigation required.	

Acquisition:	Evolution Business Park, Impington	Date of Acquisition:	31/01/2020		
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Investing in a site that provide jobs in Cambridgeshire and promotes a thriving local economy.				
Assessment of Risks	A key risk is the funding arrangements for one tenant, a young but successful company, which at the time of purchase underpinned more than half of the income from the site. The Council had the option to pursue a further unit, which was purchased in January 2023, and this has helped to mitigate some of the tenant risk.				
Advisors / Market Research	The Council commissioned a pre-purchase report by Carter Jonas which included review of the locations and site accommodation, lease and tenant reviews and market commentary. Legal advice was obtained from Birketts LLP.				
Liquidity	There are no plans to sell currently. Investor appetite has been very strong in the area which suggests the site could be sold if required.				
If funded by borrowing, why was this required?	The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.		Why has Statutory Guidance not been adhered to?	N/A	

Cost (£m)	Funded by Borrowing (£m)	Total Interest Costs (£m)	Annual Income (£m)	Annual Costs (£m)	Annual Net Return (£m)
45.8*	29.7	17.5	2.5*	0.0	2.5

Acquisition:	Evolution Business Park, Impington		Date of Acquisition:	31/01/2020	
Taken from the original Business Case:					
Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over 25 Years (£m)	Internal Rate of Return (%)	Net Present Value (£m)
16	5.7 rising to 6.6	230.5	45.6	6.6	34.8
Additional Investment (£m)	Current Value 31/03/23 (£m)	Gain (+) / Loss (-) (£m)	Revenue implications of reported loss / Mitigating action		
0.0	46.5	+0.7	N/A		

* This now includes the purchase (and related rental income) of an additional unit in January 2023.

Appendix 2: Sources of capital funding

Central government and external grants

Grant funding is one of the largest sources of financing for the capital programme. The majority of grants are awarded by central government departments including the Department for Education (DfE) and the Department for Transport (DfT). In addition, the Council receives grants from various external bodies, including lottery funded organisations. Grants can be specific to a scheme or have conditions attached, including time and criteria restrictions.

Capital receipts

The sale of surplus or poor-quality capital assets as determined by the Land & Property Strategy generates capital receipts, which are reinvested in full in order to assist with financing the capital programme.

Section 106 (S106), Community Infrastructure Levy (CIL) and external contributions

S106 contributions are provided by developers towards the provision of public infrastructure (mainly highways and education) required as a result of development. Capital schemes undertaken in new development areas are currently either completely or mostly funded by the S106 agreement negotiated with developers. The Community Infrastructure Levy (CIL) is a levy that local authorities can choose to charge on new developments in their area and replaces a substantial proportion of S106 agreements. Other external contributions are made by a variety of organisations such as district councils, often contributing towards jointly funded schemes.

Private Finance Initiative (PFI) / Public Private Partnerships (PPP)

The Council has previously made use of additional government support through PFI and PPP and has dedicated resource to manage schemes that are funded via this source. Previous schemes that have been funded this way include Waste, Street Lighting and Schools. However, due to increasing criticism around some high-profile, large-scale PFI projects failing to deliver Value for Money, the government announced the abolishment of this form of capital finance in October 2018.

Borrowing (known as prudential borrowing)

The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence, and sustainability of that borrowing, in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2021. Borrowing levels for the capital programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing, considered in the context of the overall revenue budget deliberations. Further information is contained within the Treasury Management Strategy (section 7 of the Business Plan).

Revenue Funding

The Council can use revenue resources to fund capital projects on a direct basis. However, given the existing pressures on the revenue budget, it is unlikely that the Council will often choose to undertake this method of funding.