Section 6 – Capital Strategy

Contents

1: Introduction

This Capital Strategy describes how the Council's investment of capital resources in the medium term will optimise the ability of the authority to achieve its overriding vision and priorities. It represents an essential element of the Council's overall Business Plan and is reviewed and updated each year as part of the Business Planning Process.

The Strategy sets out the approach of the Council towards capital investment over the next ten years and provides a structure through which the resources of the Council, and those matched by key partners, are allocated to help meet the priorities outlined within the Council's Strategic Framework. It is also closely aligned with the remit of the Assets & Investment (A&I) Committee, and will be informed by the Council's Asset Management Strategy. It is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding.

2: Vision and outcomes

The Council achieves its vision of *"Making Cambridgeshire a great place to call home"* through delivery of its Business Plan which targets key priority outcomes. To assist in delivering the Plan the Council needs to provide, maintain and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year.

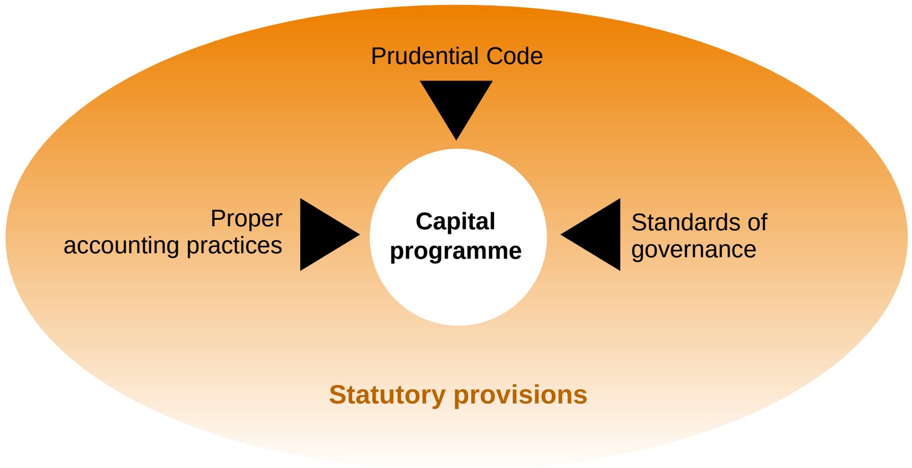
Expenditure on these long term assets is categorised as capital expenditure, and is detailed within the Capital Programme for the Authority. Fixed assets are shaped by the way the Council wants to deliver its services in the long term and they create future financial revenue commitments, through capital financing and ongoing revenue costs.

3: Operating 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 a number of 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 framework is based on the following foundations:

Prudence



4: Capital Expenditure

Capital expenditure, in accordance with proper practice (as defined by CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2015-16) results in the acquisition, creation or enhancement of fixed assets with a long term value to the Council. If expenditure falls outside of this scope[1], it will instead be charged to revenue during the year that the expenditure is incurred. It is therefore crucial that expenditure is analysed against this definition before being included within the Capital Programme to avoid unexpected revenue charges within the year. A guide to what can and cannot be included within the definition of capital expenditure is provided in Appendix 1.

The Council applies a self-determined de minimis limit of £20,000 for capital expenditure. Expenditure below this limit should be expensed to revenue in the year that it is incurred. However, as the de minimis is self-imposed, the Code does allow for it to be overridden if the authority wishes to do so.

All capital expenditure should be undertaken in accordance with the financial regulations; the Scheme of Financial Management, the Scheme of Delegation included within the Council's Constitution and the Contract Procedure Rules.

[1] In addition, expenditure can be classified as capital in the unlikely scenario that:

- It meets one of the definitions specified in regulations made under the 2003 Local Government Act;
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

Further, detailed guidance can also be found in the Council's Capital Guidance Notes (currently in draft format).

5: Capital funding

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

Earmarked Funding	Central Government and external grants
	Section 106 (S106), Community Infrastructure Levy (CIL) and external contributions
	Private Finance Initiative (PFI) / Public Private Partnerships (PPP)
Discretionary Funding	Central Government and external grants
	Prudential borrowing
	Capital receipts
	Revenue funding

Explanation of, and further detail on these funding sources is provided in Appendix 2.

The Council will only look to borrow money to fund a scheme either to allow for cashflow issues for schemes that will generate payback (via either savings or income generation), or if all other sources of funding have been exhausted but a scheme is required. Therefore in order to facilitate this, 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.

6: External environment

The Council uses a mixture of funding sources to finance its Capital Programme. The downturn in the housing and property market after the credit crunch initially caused development to slow and land values have subsequently been struggling to recover. In previous years this has negatively affected the ability of the Council to fund capital investment through the sale of surplus land and buildings, or from contributions by developers. Although this situation still exists for the north of the County, recent indications continue to suggest that in south Cambridgeshire the market is recovering to pre-2008 levels. This is particularly true for the city of Cambridge, where values have risen over and above pre-credit crunch levels. This has led to increased viability of development once again and therefore greater developer contributions in these areas.

Developer contributions have also been impacted by the introduction of Community Infrastructure Levies (CIL). CIL works by levying a charge per net additional floorspace 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 set to continue 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 also expects that a much lower proportion of the cost of infrastructure requirements will be met by CIL contributions. Huntingdonshire and East Cambridgeshire District Councils are currently the only districts within Cambridgeshire to have adopted CIL – Cambridge City Council and South Cambridgeshire were originally due to implement in April 2014, but this is now more likely to be Summer 2017, and Fenland District Council has decided not to implement at present. In addition, since April 2015 it is no longer possible to pool more than five developer contributions together on any one scheme, further reducing funding flexibility.

Central Government and external capital grants have also been heavily impacted during the last few years, as the Government has strived to deliver its programme of austerity. However, as part of the Autumn Statement 2014 the Government reconfirmed its commitment to prioritise capital investment over day-to-day spending over the next few years, in line with the policy of capital investment to aid the economic recovery. The Budget 2015 confirmed public sector gross investment will be held constant in real terms in 2016-17 and 2017-18, and increase in line with GDP from 2018-19. The Spending Review 2015 provided more detail to this, with plans to increase Central Government capital spending by £12 billion over the next 5 years. The Government has set out how it intends to do this in the National Infrastructure Delivery Plan 2016-2021, published in March 2016. This brings together for the first time the Government's plans for economic infrastructure with those to support delivery of housing and social infrastructure. It includes the new Pothole

Action Fund for 2016-17, for which the Council has been allocated an additional £1.0m, specific large-scale schemes such as up to £1.5bn to upgrade the A14 between Cambridge and Huntingdon, as well as potential development of both the A1 East of England and the Oxford to Cambridge Expressway. It also acknowledges the development of Northstowe as a major housing site.

While the Council waits for further specific details to be released regarding the allocation of funding towards the priorities included within the Delivery Plan, and what Cambridgeshire's specific share of the funding will be, the Business Plan anticipates as a general principle that overall infrastructure grant allocations will at least remain constant from 2016-17 onwards.

Alongside the Local Government Finance Settlement for 2014-15, the then Minister of State for Schools announced capital funding to provide for the increasing numbers of school-aged children to enable authorities to make sure that there are enough school places for every child who needs one. He also announced that longer-term capital allocations would be made in order to aid planning for school places. Unfortunately, the new methodology used to distribute funding for additional school places did not initially reflect this commitment as although Cambridgeshire's provisional allocation for 2014-15 was as anticipated, the allocation of £4.4m across the period 2015-16 to 2016-17 was £32m less than the Council had estimated to receive for those years according to our need. Almost all of this loss relates to funding for demographic pressures and new communities, i.e., infrastructure that we have a statutory responsibility to provide, and therefore we have limited flexibility in reducing costs for these schemes.

Given the growth the County is facing, it was difficult to understand these allocations and as such, the Council has continued to lobby the Department for Education (DfE) for a fairer funding settlement that is more closely in line with the DfE's commitment to enable the Council to provide all of the new places required in the County. The DfE did acknowledge one error in their calculations which resulted in the Council receiving an additional £3m on top of the original allocation for these years.

In addition to lobbying the DfE, the Council has also sought in the meantime to maximise its Basic Need funding going forward by establishing how the new funding allocation model works and seeking to provide data to the DfE in such a way as to maximise our allocation. This resulted in a significantly improved allocation of £32.4m for 2017-18 and £25.0m for 2018-19. This goes some way to reduce the Council's shortfall, but still does not come close to covering the costs of all of the Council's Basic Need schemes.

The DfE have also recently revised the methodology used to distribute condition allocations, in order to target areas of highest condition need. A floor protection has been put in place to ensure no authority receives more than a 20% cut in the level of funding until 2018. The £1.2m reduction in allocation for Cambridgeshire for 2015-16 has hit this floor; therefore from 2018 it is expected that the Council's funding from this area will reduce even further.

The National Infrastructure Delivery Plan commits to investment of £23bn over 2016 to 2021 to deliver 500 new free schools, over 600,000 additional school places, rebuild and refurbish over 500 schools and address essential maintenance needs. However it is not clear whether this will increase future allocations for Cambridgeshire, and if so whether it will be sufficient to fully fund demographic need.

The mechanism of providing capital funding has also changed significantly in some areas. In order to drive forward economic growth, Central Government announced in 2013 that it would top-slice numerous existing grants, including transport funding, education funding and revenue funding such as the New Homes Bonus, in order to create a £2 billion Local Growth Fund (LGF) which Local Enterprise Partnerships (LEPs) can bid for. In line with this announcement, the Council's Integrated Transport allocation was reduced from £5.7m in 2014-15 to £3.2m in 2015-16. However, the Government has confirmed its commitment to the LGF fund until 2020-21, and the National Infrastructure Delivery Plan commits £12bn between 2015-16 and 2020-21.

Although the reduction in the Integrated Transport allocation was disappointing, as part of the Autumn Statement 2014 the Department for Transport (DfT) announced indicative Highways Maintenance funding for the next six years which includes an increase of £5m for the Council for 2015-16, and an additional £2m - £3m for each of the following five years (over the original base).

This is not, however, all additional funding, as the Highways Maintenance increase in part replaces one-off, in-year allocations of additional funding that the Council has received in recent years for aspects such as severe weather funding. However, having up-front allocations provides significant benefit to the Council in terms of being able to properly plan and programme in the required work.

In addition to the Highways Maintenance formula allocation, the DfT have created an Incentive Fund element 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 has to score themselves against criteria that determines which of three bands they are allocated to (Band Three being the highest performing). The Council is currently in Band 2, however for 2016/17 this provides the same level of funding (£833k) as for Band 3. From 2017/18 onwards, the difference between Band 2 and Band 3 funding gradually widens, therefore the intention is for the Council to achieve a Band 3 score by the next submission date, which is anticipated as being in November 2016.

Irrespective of the external funding position, the County's population continues to grow. This places additional strain on our infrastructure through higher levels of road maintenance, increased pressure on the transport network, a rise in the demand for school places, a shortage of homes and additional need for libraries, children's centres and community hubs.

As part of the Budget 2014, Central Government announced their agreement for a Greater Cambridge City Deal which will deliver a step change in investment capability; an increase in jobs and homes with benefits for the whole County and the wider LEP area. The agreement provides a grant of up to £500 million for new transport schemes. However, only £100 million of funding has initially been guaranteed with the remaining funding dependent on the achievement of certain triggers.

Despite this deal, as with the revenue position, the external operating environment poses a significant challenge to the Council as it determines how to invest in order to meet its outcomes, whilst facing increasing demands on its infrastructure that are not necessarily matched by an increase in external funding.

7: Working in partnership

The Council is committed to working with partners in the development of the County and the services within it. There are various mechanisms in place that provide opportunities to enhance the investment potential of the Council with support and contributions from other third parties and local strategic partners.

The Making Assets Count (MAC) programme is one of the key partnerships in relation to the overarching Capital Strategy, and 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. MAC has successfully led bids to Wave 3 of DCLG's One Public Estate programme, securing up to £500,000 in funding to bring forward major projects for joint asset rationalisation and land release.

The Local Transport Plan is a key document and is produced in partnership with the city and district councils. There has been a strong working relationship for many years in this area, which has succeeded in bringing together the planning and transport responsibilities of these authorities to ensure an integrated approach to the challenges facing the County.

The Council continues to work with partners and stakeholders to secure commitment to delivery, as well as funding contributions for infrastructure improvements, in order to support continued economic prosperity. For example, the Council has been working with the Greater Cambridge / Greater Peterborough Local Enterprise Partnership (LEP) plus the New Anglia LEP and the South East Midlands LEP, as well as neighbouring local authorities, the city and district councils and the Department for Transport to agree a funding package for improvements to the A14 between Cambridge and Huntingdon, which has now been secured with work due to start in Autumn 2016. The Council will continue with this approach where infrastructure improvements are shown to have widespread benefits to our partners.

The Council is also in discussions in conjunction with various other local authorities and partners with Central Government regarding a devolution deal. An original deal was signed by council leaders in March for authorities and LEPs across Cambridgeshire, Norfolk and Suffolk, but is currently being renegotiated. This deal could deliver £5.2bn of investment to the region; a full public consultation will take place in Summer 2016 to allow local people and businesses to have their say on the plans.

The Greater Cambridge / Greater Peterborough Local Enterprise Partnership (LEP), is now a key mechanism for distributing Central Government and European funding in order to drive forward and deliver sustainable economic growth, through infrastructure, skills development, enterprise and housing. The LEP strives to do this in partnership with local businesses, education providers and the third sector, as well as the public sector including the Council. The LEP has developed a Strategic Economic Plan in order to bid on an annual basis for a share of the Local Growth Fund (LGF). The LEP submitted a bid to the 2015-16 process, the results of which were announced in July 2014. A number of proposals put forward by the LEP were approved, including £5m for the Council's King's Dyke Crossing scheme. The LEP subsequently submitted a bid to the 2016-17 SLGF, which the Government announced in January 2015 was successful and from which the LEP received an additional £38m. The LEP agreed to allocate £16m of this funding to the Council's Ely Crossing Scheme, in addition to a further £1m for work on the Wisbech Access Strategy. This was a new scheme, added into the 2015-16 Capital Programme.

The Council has worked closely with Cambridge City Council, South Cambridgeshire District Council, Cambridge University and the LEP to negotiate the City Deal with Central Government. This has resulted in a changed set of governance arrangements for Greater Cambridge, allowing the County, Cambridge City Council and South Cambridgeshire District Council to pool a limited amount of funding and powers through a Joint Committee. This is helping to deliver a more joined-up and efficient approach to the key economic issues facing this rapidly-growing city region.

Due to the introduction of the Community Infrastructure Levy (CIL) on all but large scale developments, the Council will also be working more closely with the city and district councils on the creation of the 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.

Examples of specific capital schemes currently being delivered in partnership include;

- Rolling out and exploiting better broadband infrastructure across the County; with Peterborough City Council, the district councils, the Local Enterprise Partnership, local businesses and the universities;
- Creation of a new school at Hampton Gardens, in conjunction with Peterborough City Council; and
- MAC projects, being delivered in conjunction with MAC partners, including potential care provision at the Hinchingbrooke Hospital site in Huntingdon, and Ida Darwin Hospital site in Fulbourn, Cambridge, and the creation of a shared Highways Depot at Swavesey.

8: Asset management

The Council's Capital Strategy inevitably has strong links to the Council's Asset Management 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, why property is retained, together with the policies, procedure and working arrangements relating to property assets.

The Council's Asset Management Strategy is currently under review and will be developed under the guidance of the new A&I Committee. The Strategy will continue to focus on the key objectives of:

- Reducing costs
- Co-locating front and/or back-office services
- Reducing carbon emissions
- Increasing returns on capital
- Opening up investment opportunities
- Improving service delivery to communities
- Taking advantage of lease breaks

There will also be a comprehensive review of existing policy and strategy, and in particular a strengthening of the Corporate Landlord model and its links into corporate strategies such as Community Hubs, Older Persons' Accommodation, and the Smarter Business Programme. Specific property initiatives include;

- The Property Portfolio Development Programme, moving the Council towards becoming a developer of its own land, principally for housing, through a wholly-owned Company. This will require significant capital investment through loans to the company for development purposes, but will generate ongoing revenue streams for the Council;

- The County Farms Estate Strategy is under review and will feed into both the Asset Management Strategy and the Development Programme;

- A review of the Shire Hall complex and the potential for alternative approaches to the provision of back office accommodation;

- Renewable Energy Soham, to maximize potential revenue from Council land holdings, helping to secure national energy supplies and helping Government meet carbon reduction targets.

The Capital Strategy also has strong links with the Council's Local Transport Plan (LTP), adopted in March 2011 and refreshed in 2014, covering the period 2011-2031. The Plan sets out the existing and future transport issues for the County, and how the Council will seek to address them.

The LTP demonstrates how the Council's policies and plans for transport contribute towards the vision of the Council, whilst setting a policy framework to ensure that planned, large-scale development can take place in the County in a sustainable way, as well as enabling the Council to take advantage of opportunities that may occur to bring in additional or alternative funding and resources.

The Plan highlights the following eight challenges for transport, as well as the strategy for addressing them:

- Improving the reliability of journey times by managing demand for road space, where appropriate and maximising the capacity and efficiency of the existing network
- Reducing the length of the commute and the need to travel by private car
- Making sustainable modes of transport a viable and attractive alternative to the private car
- Future-proofing the Council's maintenance strategy and new transport infrastructure to cope with the effects of climate change
- Ensuring people – especially those at risk of social exclusion – can access the services they need within reasonable time, cost and effort wherever they live in the County
- Addressing the main causes of road accidents in Cambridgeshire
- Protecting and enhancing the natural environment by minimising the environmental impact of transport
- Influencing national and local decisions on land-use and transport planning that impact on routes through Cambridgeshire

9: Meeting statutory obligations to provide school places

The majority of the schools' Capital Programme, which makes up a significant proportion of the Council's total Capital Programme, is generated in direct response to the statutory requirement to provide sufficient school places to meet demand. There is therefore a limit to the amount of flexibility that can be used to curtail, or reduce the costs for these schemes.

The Education Organisation Plan is refreshed every year and sets out the What, How and Why in relation to planning and delivering the additional school capacity required to meet current and forecast need, including information on how the schools' Programme is prioritised.

Although the geographical areas where places are required is driven by the populations of those areas, the Council still has an element of choice or influence over how it develops its Programme to meet those needs as follows:

- **General costs of construction**

The Council seeks to minimise construction costs on all projects and builds to the latest Government area guidelines that set out accommodation schedules. These detail the specification and size of building required for a given number of pupils. The Council's contractor framework seeks best value for money and mini competition between framework partners helps to ensure this.

- **Quality of build**

In general, the Council aims to build at mid-point in terms of quality. This balances the need to ensure that the materials the Council uses are robust and fit for purpose in respect of both an adequate life cycle for the asset and also maintenance requirements that are not overly burdensome to the end user or operator, but whilst at the same time providing Value for Money in terms of initial capital investment.

- **Future proofing**

The Council aims to build in the most efficient manner possible in order to minimise financial risk and also to avoid future disruption to schools. In some cases building a school or extension in phases may be the best option; in other situations where it is possible that the need for places will come forward, it may be more cost effective overall to build in one phase (even if this costs more in the short term). Early during the review process for each scheme, a recommendation is made as to the most suitable solution; however the Council also tries to be flexible if circumstances change.

- **Temporary accommodation**

The Council uses temporary ‘classroom’ accommodation when it is felt that this provides a suitable short-term solution in addressing a need. Such cases include meeting a temporary bulge in population, filling a gap prior to completion of a permanent solution or in an emergency.

- **Home to School Transport**

If the Council has some places available within the County overall, then it has the option of using Home to School Transport (funded by revenue) to transport children from oversubscribed areas to locations where schools do have capacity. The Council tries to minimise the use of this, as it is often an expensive solution. It is also not ideal to require children to travel longer distances to school and is not a sustainable option in the longer-term.

- **Location (within the geographical area of need)**

In many cases there may be a choice available between two or more schools in order to deliver the additional places for a certain geographical area of need. In these circumstances, a full appraisal is carried out, taking into consideration costs, the opinion and endorsement of the schools, the child forecasts, and the premise and site constraints.

- **Type – extension or new build**

The type will be dependent on a full appraisal of the situation.

- **Planning stipulations**

National and local planning policies and high aspirations of local members, planners and schools – especially Academy Trusts – to provide a higher specification than is statutorily required can cause costs to increase. Cambridge City Council and South Cambridgeshire District Council also require public art which can add an additional cost of up to 1% of the construction budget. All new schools also have to go through the Design Quality Panel, which adds an additional step into the planning process and extends the design phase and is funded by the project. Finally, some of the requirements of a S106 can have an impact on the levels of external funding available – for example, an increased requirement for affordable housing will reduce the amount available to fund education schemes for a development.

10: Development of the Capital Programme

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 revenue streams for the Council.

The process of developing the Programme during each planning cycle has varied over the last few years, influenced by the external environment and the Strategic Framework priorities of the period. As part of the 2014-15 planning process, the Council implemented a structured framework within which to develop the Capital Programme, which is not influenced by these factors (but instead allows them to be taken into account during development of the Programme).

New schemes for inclusion in the Programme are developed by Services (in conjunction with Finance) in line with the outcomes of the Strategic Framework. As stated in the financial regulations, any new capital scheme costing more than £160,000 is appraised as to its financial, human resources, property and economic consequences. The justification and impacts, as well as the expenditure and funding details of these schemes are specified in a Capital Investment Proposal (see pro forma in Appendix 3), which includes an outline level Business Case (see Appendix 4). 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 alternatives 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 (excluding schemes with 100% ring-fenced funding) is undertaken / revised as part of the Investment Proposal, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use (see Appendix 4 for specific details of the criteria). This process allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its targeted priority outcomes.

In light of significant slippage experienced in recent years due to deliverability issues with the in-year Capital programme, a Capital Programme Board (CPB) was established in the latter part of 2015 in order to provide support and challenge with respect to both the creation of an initial budget for a capital scheme and also the deliverability and ongoing monitoring. The Terms of Reference require the CPB to ensure that the following outcomes are delivered:

- Improved estimates for cost and time of capital projects;
- Improved project and programme management and governance;

- Improved post project evaluation; and
- Improved prioritisation process across the programme as a whole.

The CPB scrutinises the programme before it is sent to Committees, and officers undertake any reworking and/or rephasing of schemes as required to ensure the most efficient and effective use of resources deployed. The Board will also ensure that all schemes included within the Business Plan under an initial outline business case are further developed and reviewed before final recommendation is given to start the scheme.

Service Committees and the A&I Committee review the prioritisation analysis and the Capital Programme is subsequently agreed by General Purposes Committee (GPC), who recommends it to Full Council as part of the overarching Business Plan.

Appendix 6 provides a diagram that outlines the governance arrangements that have been put in place for the Capital Programme.

As part of the 2017-18 Business Planning cycle, the Council is also extending the cross-cutting approach to delivering the Business Plan introduced for the 2016-17 process, which operated alongside the traditional process. The Transformation Delivery Model is an alternative cross-cutting approach, designed to ensure we maximise the opportunities across the Council and with partners to deliver services in a different way. For further detail on this approach, please see the Strategic Framework (Section 1).

In time, it is expected that this approach could have significant implications for the Capital Programme, for example, through the generation of additional Invest to Save schemes.

A summary of the Capital Programme can be found in the Medium Term Financial Strategy section of the Business Plan (Section 2), with further detail provided by each Service within their individual finance tables (Section 3).

11: Revenue implications

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, partly through the operating model process. Both the borrowing costs and ongoing revenue costs/savings of a scheme are taken into account as part of a scheme's Investment 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 2011 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to guarantee that it achieves this, towards the start of each Business Planning Process, Council determines what proportion of revenue budget is spent on services and the corresponding maximum amount to be spent on financing borrowing. This is achieved by setting an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan. This in turn can be translated into a limit on the level of borrowing included within the Capital Programme (this limit excludes ultimately self-funded schemes).

In order to afford a degree of flexibility from year to year, changes to the phasing of the borrowing limits 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 debt charges and the corresponding limit on borrowing are reviewed each year by GPC to ensure that changing factors such as the level of interest rates, or the external funding environment are taken into account when setting both.

During the 2015-16 Business Planning process, the following debt charges limits and borrowing limits for three-year blocks were set:

	2015-16 (£m)	2016-17 (£m)	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)	2021-22 (£m)	2022-23 (£m)	2023-24 (£m)
Debt Charges Limits	40.2	44.6	45.4	45.9	46.0	46.0	46.0	46.0	46.0
Three-Year Borrowing Limits	176.7			60.0			60.0		

However, due to the change in the Minimum Revenue Provision policy, agreed by Full Council in February 2016, these debt charge limits have been restated as follows.

	2015-16 (£m)	2016-17 (£m)	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)	2021-22 (£m)	2022-23 (£m)	2023-24 (£m)
Restated Debt Charges Limits	-	35.3	36.8	37.9	38.6	39.2	39.7	40.3	40.8
Three-Year Borrowing Limits	176.7			60.0			60.0		

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breaches the advisory limit, schemes will either be re-worked in order to reduce borrowing levels, or the number of schemes included will be limited according to the ranking of schemes within the prioritisation analysis.

Due to the Council's strategic role in stimulating economic growth across the County through infrastructure investment, any capital proposals that are able to 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.

However, there will still be a revenue cost to these schemes, as with all other schemes funded by borrowing. Therefore, GPC will still need 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.

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.

12: Managing the Capital Programme

The Capital Programme is monitored in year through monthly reporting, incorporated into the Integrated Resources and Performance Report. Services monitor their programmes using their monthly Finance and Performance reports, which are reviewed by the Service Committees and A&I Committee. These feed into the Integrated Report which is scrutinised by the CPB, submitted to the Strategic Management Team, then is subsequently reviewed by GPC. The report identifies changes to the Capital Programme to reflect and seek approval for;

- new / updated resource allocations;
- slippage or brought forward programme delivery;
- increase / reduction in overall scheme costs; and
- virements between schemes to maximise delivery against the priorities 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 is 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 (i.e. because the scheme is required to start within the current financial year, or the following financial year if it is too late to be included within the current Business Plan).

In these situations, any supplementary capital request will be prepared in consultation with, and with the agreement of, the Chief Finance Officer. The report will, where possible, be reviewed by the CPB before being taken to the Strategic Management Team by the relevant Director and the Chief Finance Officer, before any request for a supplementary estimate is put to GPC or the A&I Committee. As part of this report, in line with the Business Planning process, any new schemes costing more than £160,000 will be appraised as to the financial, human resources, property and economic consequences before detailed estimate provision is made.

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 Chief Finance Officer. Anything above this limit will be dealt with in line with the process for new schemes, and will be taken to GPC or A&I Committee for approval as part of the monthly Integrated Resources and Performance Report. Any over spends, 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, The CPB also now requires a post-implementation review to completed on any significant schemes (over £500k) in order to ensure the Council learns from any issues encountered and highlights and follows best practice where possible.

13: Summary of the 2016-17 Capital Programme

Total expenditure on major new investments underway or planned includes:

- Providing for demographic pressures regarding new and improved schools and children's centres (£550m)
- Housing Provision (£194m)
- City Deal schemes (£100m)
- Major road maintenance (£90m)
- Ely Crossing (£36m)
- Rolling out superfast broadband (£31m)
- A14 Upgrade (£25m)
- King's Dyke Crossing (£14m)
- Renewable Energy (£10m)
- Cycling City Ambition Fund (£8m)
- Better Care Fund (£8m)
- Soham Station (£6m)
- Cambridgeshire Public Services Network Replacement (£6m)
- Cambridge Cycling Infrastructure (£5m)
- Abbey - Chesterton Bridge (£5m)
- Waste Facilities – Cambridge Area (£5m)
- MAC Joint Highways Depot (£5m)

The 2016-17 ten-year Programme, worth £990.0 million, is budgeted to be funded through £558.5 million of external grants and contributions, £201.6 million of capital receipts and £230.0 million of borrowing. This is in addition to an estimated previous spend of £377.6m on some of these schemes, creating a total Capital Programme value of £1.4

billion. The related revenue budget to fund capital borrowing is forecast to spend £34.0 million in 2016-17, increasing to £32.3 million by 2020-21.

The 2016-17 Capital Programme includes the following Invest to Save / Invest to Earn schemes:

Scheme	Total Investment (£m)	Total Net Return (£m)
Housing Provision	194.2	148.6
Renewable Energy	9.8	8.2
County Farms Investment	2.6	3.1
MAC Market Towns Project	1.5	2.6
Energy Efficiency Fund	1.0	0.6
MAC Joint Highways Depot	5.2	0.2

Appendix 1: Allowable capital expenditure

Financial regulations proscribe certain costs from being capitalised, in particular administrative and other general overheads, together with employee costs not related to the specific asset (such as configuration and selection activities). Authorities are also required to write off any abnormal costs that arose from inefficiencies (such as design faults, theft of materials etc.).

The following table provides some examples of what can and cannot be capitalised. The examples should be regarded as illustrative rather than definitive – interpretation of accounting rules requires some subjective judgement that will be affected by the specific circumstances of each project.

Item of expenditure	Capital or Revenue?	
Feasibility studies	**Revenue**	Until a specific solution has been decided upon, costs cannot be directly attributable to bringing an asset into working condition. This includes all costs incurred whilst deliberating on any issues, scoping potential solutions, choosing between solutions and assessing whether resources will be available to finance a project. However, feasibility studies can be capitalised if they occur after a decision has been made to go ahead with a particular option i.e. if they are directly attributable in bringing an asset closer to a working (or enhanced) condition.
Demolition of an existing building	**Capital**	Demolition would usually be an act of destruction that would be charged to revenue; however if the costs incurred are necessary in preparing a site for a new scheme, it can be argued that they are an integral part of the new works.
Costs of buying out sitting tenants of existing building	**Capital**	Similar to demolition costs, this would help prepare a site in its existing condition for the new works.
Initial delivery and handling costs	**Capital**	Required to bring the asset closer into working condition.
Costs of renting alternative accommodation for staff during building works	**Revenue**	All costs incurred in carrying out the regular business of the authority whilst construction is underway make no direct contribution to the value of the asset.
Site security during construction	**Revenue**	Although this activity protects the investment during construction, it does not enhance it.
Installation and assembly costs	**Capital**	Required to bring the asset closer into working condition.
Testing whether the asset is functioning properly	**Capital**	Required to bring the asset closer into working condition.

Rectification of design faults	**Capital**	Required to bring the asset closer into working condition. However, the previous expenditure incurred on the defective work would need to be written off to revenue.
Liquidated Damages	**Revenue**	Paying out damages as compensation for breaching a contract does not enhance the value of the asset.
Furniture and fittings	**Capital – but often revenue for CCC**	Items required to bring an asset into working condition are often capitalised as part of the overall cost of the scheme, even if such items fall below the de minimis limit of the authority. However, the Council's policy is to not capitalise equipment, therefore if the purchase is outside of an overarching property scheme, then the costs will be revenue. The downside of capitalisation is that it will not be possible to justify future replacement of furniture and fittings as being capital.
Training and familiarisation of staff	**Revenue**	The asset will be regarded as being in working condition, irrespective of whether anyone in the authority can use it.
Professional fees	**Capital**	But only to the extent that the service provided makes a contribution to the physical fabric of the new construction (e.g. architecture design) or the work required to bring the property into working condition for its intended use (e.g. legal advice in preparation of building contracts).
Finance and Internal Audit staff costs	**Revenue**	These costs are generally incurred for governance reasons, rather than enhancing the value of the asset.

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 Asset Management 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 (normally 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 new levy that local authorities can choose to charge on new developments in their area that will replace a large proportion of S106 agreements once it comes into force. 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 makes 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. The Coalition Government has announced that this form of capital finance will be redesigned to provide improved value for money.

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. 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 Statement (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 general pressures on the revenue budget of the Council, it is unlikely that the Council will often choose to undertake this method of funding.

Appendix 3: Investment Proposal (abbreviated)

Reference	
Title	
Proposal Description	
Active/Rejected Proposal	Active Rejected
Planning Cycle	2012-13 2013-14 2014-15 2015-16 2016-17
Responsible Officer	
Lead Portfolio Holder	
Service Area	CFA DSG ETE CS Financing Debt Charges LGSS Public Health
Committee	Adults Adults, C&YP C&YP E&E E&E, H&CI GPC Health H&CI LGSS JC

Status	New Existing Modified
Budget Type	Revenue Capital
Proposal Type	Technical Finance Adjustment Inflation Demography and Demand Pressures Investments Savings Fees, Charges & Ring-Fenced Grants Funding
Justification	
Supporting Information Link	
Supporting Information Link 2	
Internal Impact	
External Impact	
:: FINANCE SECTION ::	
Capital Scheme Category	CFA – Basic Need – Primary CFA – Basic Need – Secondary CFA – Basic Need – Early Years CFA – Adaptions

	CFA – Condition & Maintenance CFA – Building Schools for the Future CFA – Schools Managed Capital CFA – Specialist Provision CFA – Site Acquisition & Development CFA – Temporary Accommodation CFA – Children Support Services CFA – Adults Social Care CS – Corporate Services CS – Managed Services ETE – Integrated Transport ETE – Operating the Network ETE – Infrastructure Management & Operations ETE – Strategy & Development ETE – Other Schemes ETE – Libraries, Archives & Information ETE – City Deal LGSS – LGSS Operational
Capital Scheme Start Year	Committed Ongoing 2016-17 2017-18 2018-19 2019-20 2020-21 2021-22 2022-23 2023-24 2024-25 2025-26
16-17 Capital Investment	
17-18 Capital Investment	

18-19 Capital Investment	
19-20 Capital Investment	
20-21 Capital Investment	
21-22 Capital Investment	
23-24 Capital Investment	
24-25 Capital Investment	
25-26 Capital Investment	
Later Years Capital Investment	
Link to Capital Funding Template	
Link to Capital Investment Appraisal	
Link to Revenue Proposal	

Appendix 4: Business Case

Savings reference:		Title:	
Investment reference:			
Proposal Status:			
Primary Transformation workstream:			
Directorate:		Sponsoring Director:	
Service Area:			
Committee:		Responsible Officer:	

FINANCE £'000

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 0
Investment	Staff	0	0	0	0	0	0
	Non-staff	0	0	0	0	0	0
	Resources	0	0	0	0	0	0
	IT/Digital	0	0	0	0	0	0
	Assets/Property	0	0	0	0	0	0
	Other	0	0	0	0	0	0
	Revenue impact of capital	0	0	0	0	0	0
	TOTAL	0	0	0	0	0	0
Saving / income total		0	0	0	0	0	
Net saving / income		0	0	0	0	0	

	Q1	Q2	Q3	Q4	
Please phase Year 1 gross savings: *(negative figures in round thousands)*	0	0	0	0	OK

Summary

Options

Scope

Approach (including corporate requirements) & timescales

Key milestones

1	
2	
3	
4	

Link to detail for SMT (if applicable)

Links & dependencies

Assumptions & risks

Proposal appraisal - how likely is it to work?

Consultation (including timescales)

Appendix 5: Capital Investment Appraisal

Scheme Reference:	B/C.4.001
Scheme Title:	**Ely Crossing**
Service Area:	Economy, Transport and Environment Services
Capital Scheme Category:	ETE - Strategy & Development
Committee:	E&E
Responsible Officer:	Bob Menzies

The 100 available points have been allocated to the criteria below in an attempt to "weight" them in terms of their relative priority to the Council

Criteria	Explanation	Weighting	Scoring (points in brackets)	Score	Justification
Strategic:					
1. Meets Outcomes and Enablers	Based on the number of Strategic Framework Themes that the project meets	12	Number of outcomes addressed: (4) points per outcome up to a maximum of	**8**	n/a
2. Bold Economic Investment	A Bold Economic Investment is a major scheme of importance in Cambridge and Cambridgeshire, particularly in respect to economic growth	15	No (0); Yes (15)	**15**	The Ely level crossing is on the A142 Newmarket - Ely - March Road which is the main link road to East Cambridgeshire and Fenland from the A14 and east coast ports. Delays at the level crossing are a major constraint on the economic development of Ely, East Cambridgeshire and Fenland. Five railway lines that meet at Ely and almost all of the trains require the crossing to be closed. Network Rail are increasing the capacity of the rail junction which will lead to a substantial increase in the number of trains. There will therefore be a significant increase in delays if no action is taken. A major expansion of housing is also planned for Ely. There will therefore be a significant economic disbenefit if no action is taken.

Risk Management / Continuity of Service:

3. Complies with Asset Management Strategy	Projects in accordance with the KEY asset management principles detailed in the Cambridgeshire Public Sector Asset Management Strategy adopted by CCC Cabinet 25 October 2011	5	No (0); Yes (5)	**5**	n/a
4. Urgency of investment in order to meet statutory obligations (e.g. Accessibility, Health & Safety, Education Act, NHS and Community Care Act, etc.)	Projects that will help to meet and address a statutory obligation, including Health and Safety and emergency repairs	15	< 2 years (15); 2 - 5 years (10); > 5 years (5); No statutory obligation (0)	**0**	0
5. Mitigating current / avoiding future business interruption, including service delivery	Based on the level of risk from failure to implement the project and mitigate current business / service interruption or risk of future interruption	10	Risk Assessed as: Red (10); Yellow/Brown (5); Green (0)	**10**	0

Promotes Partnership / Joint Working:

6. External, cross-cutting partnership benefits - with public, private or voluntary sector	Projects to be carried out in partnership with other agencies or departments	5	No (0); Yes (5)	**5**	The project has been developed in partnership with Network Rail and ECDC. It will mitgate the impact of train service improvements on the highway network, support growth in Ely and more directly by removing through traffic from the area and facilitate ECDC proposed Ely gateway enhancement project.

Adequacy of Planning:

7. Business Case	The more detailed plans are available, the more likely that the project will be delivered to specification, timetable and budget.	4	Basic SharePoint Proposal (0); Clear statement of need exists (2); Outline Business Case exists (4)	**2**	

Financial:

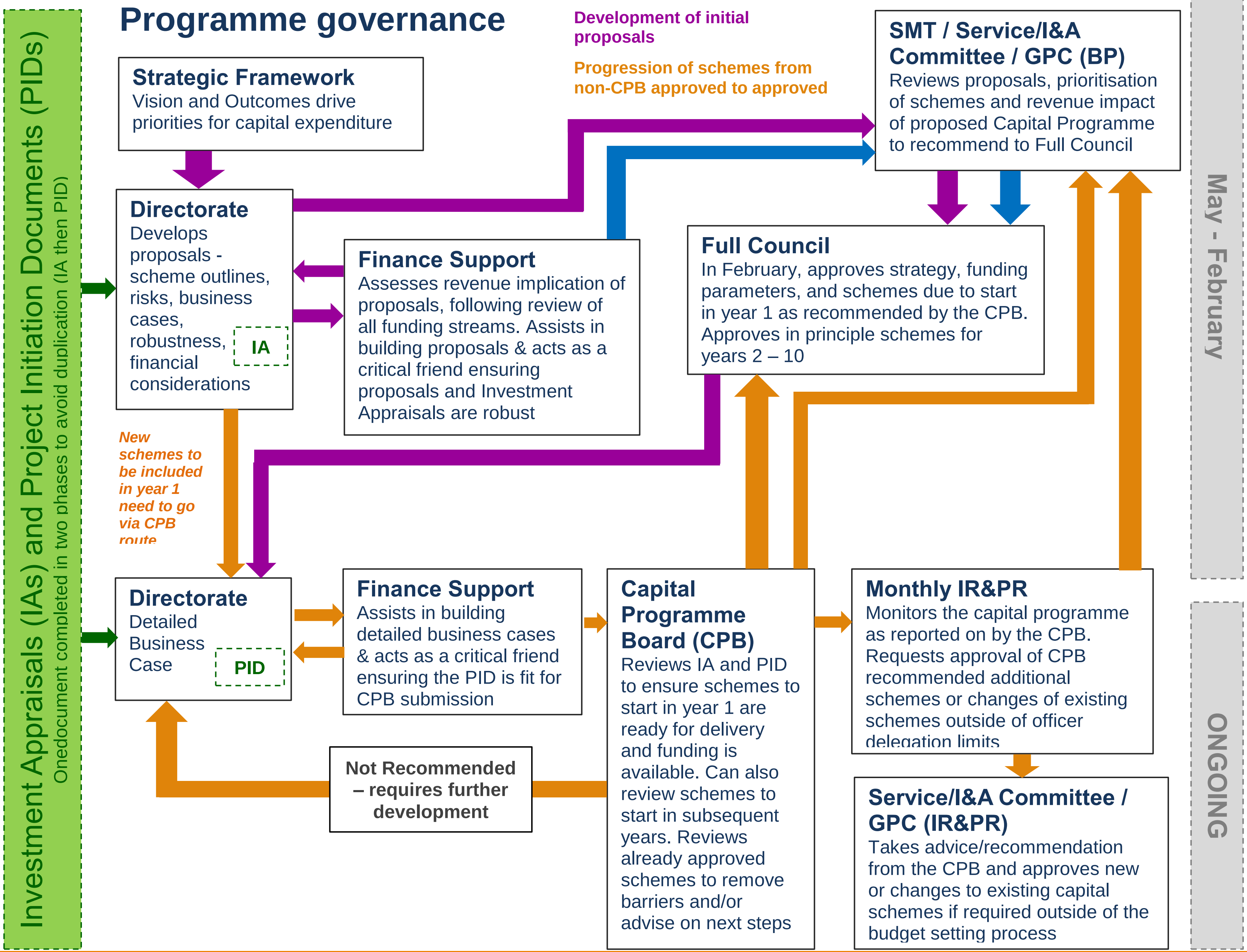
8. Life of the Asset	Based on the life of the asset that will be created by the project	7	Asset Life: < 5 years (0); 5 - 10 years (3); 11 - 25 years (5); > 25 years (7)	**7**	n/a
9. Value for money - produces revenue savings / generates revenue income	Where investment in the project qualifies as an Invest to Save or Invest to Earn Initiative, a measure of the estimated revenue savings / income generation (including impact on debt charges of any capital receipts)	15	Net annual savings or income as % of total capital cost: 0% (0); <100% (5); 100% - 200% (10); > 200% (15)	**0**	0
10. Is part or fully funded from either externally generated resources (e.g. grants) or capital receipts from disposals	Based on the proportion of funding for the project from non-borrowing sources	12	Percentage of capital cost funded by non-borrowing: <5% (0); 5 - 79% (Proportional); 80% + (12)	**5**	0

Total	**100**		55

Additional Information:

Timing Flexibility	n/a
Alternative Methods of Delivery	n/a
Details of Alternative Methods of Delivery	n/a

Appendix 6: Capital Programme governance



Mid May
CPB reviews roll forwards and rephasing (for current year schemes)
May to Mid-August
Services review all existing schemes in programme and develop new bids, inc. IAs
Mid-August
CPB reviews capital IAs and PIDs (Yr 1 schemes)
End August
SMT reviews whole programme
September
Service committees review programme
CPB reviews prioritisation of whole programme
October
GPC reviews prioritisation
November & December
Service committees review relevant parts of the revised programme
January
GPC reviews whole BP and recommends to Full Council
February
Full Council agrees BP

Year 1 schemes not yet approved via CPB – see above timescales

Year 2+ schemes reviewed by CPB as and when developed as part of monthly meetings

CPB monitors capital programme monthly

PIDs for new / changed schemes sent to CPB before approval is requested by service committee / in monthly IR&PR