Agenda Item No:10

DRAFT 2020-21 CAPITAL PROGRAMME AND CAPITAL PRIORITISATION

To:	**General Purposes Committee**
Meeting Date:	**26th November 2019**
From:	**Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**
Purpose:	**This report provides the Committee with an overview of the full draft Business Plan Capital Programme and results from the capital prioritisation process.**
Recommendation:	**It is requested that the Committee:**

a) Note the overview and context provided for the 2020-21 Capital Programme

b) Note and comment on the results of the capital prioritisation process, taking into consideration the most up to date estimations for financing costs and the overall revenue position

c) Comment on the draft proposals for the full 2020-21 Capital Programme and endorse their development

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1. CAPITAL STRATEGY

1.1 The Council strives to achieve its vision through delivery of its Business Plan. To assist in delivering the Plan the Council needs to provide, maintain and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year. Expenditure on these long term assets is categorised as capital expenditure, and is detailed within the Capital Programme for the Council.

1.2 Each year the Council adopts a ten year rolling capital programme as part of the Business Plan. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.

1.3 This report forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes have been developed by Services and all existing schemes have been reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees for further review and development.

1.4 An Investment Appraisal of each capital scheme (excluding committed schemes and schemes with 100% ring-fenced funding) has also been undertaken / revised in order to determine a prioritisation score. This score allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its outcomes.

2. DEVELOPMENT OF THE 2020-21 CAPITAL PROGRAMME

2.1 Service Capital Programmes have been reviewed individually by Service Committees in October, alongside the addition, revision and update of schemes. Once the prioritisation of schemes across the whole programme has been reviewed by GPC as part of this report, firm capital and revenue spending plans will be considered by Service Committees in December. In January, GPC will review the overall levels of borrowing and financing costs, before recommending the programme as part of the overarching Business Plan for Full Council to consider in February.

2.2 All capital schemes are funded using capital resources or borrowing, as this is the most financially sensible option for the Council due to the ability to borrow money for capital schemes and defray the cost of that expenditure to the Council over the life of the asset. Therefore any Invest to Save or Earn schemes will continue to be funded over time by the revenue payback they produce via savings or increased income; this means the Transformation Fund can be prioritised towards revenue investment.

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

- The Older People's Accommodation Strategy
- Care that is provided to service-users with learning disabilities, particular those placed out-of-county due to lack of suitable local provision.
- The King's Dyke project.

3. REVENUE IMPLICATIONS

3.1 All capital schemes can have a potential two-fold impact on the revenue position, relating to the cost of borrowing through interest payments and repayment of principal and the ongoing revenue costs or benefits of the scheme. Conversely, not undertaking schemes can also have an impact via needing to provide alternative solutions, such as Home to School Transport (e.g. transporting children to schools with capacity rather than investing in capacity in oversubscribed areas).

3.2 The Council is required by the Charted Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, GPC recommends an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan. In order to afford a degree of flexibility from year to year, changes to the phasing of the limit is allowed within any three-year block (the current block started in 2018-19), so long as the aggregate limit remains unchanged.

3.3 For the 2020-21 Business Plan, GPC has agreed as part of the Capital Strategy paper that went to October committee that this should continue to equate to the level of revenue debt charges as set out in the 2014-15 Business Plan and then limited to around £39m annually from 2019-20 onwards (restated to take into account the change to the Minimum Revenue Policy agreed by GPC in February 2016).

4. SUMMARY OF THE DRAFT CAPITAL PROGRAMME

4.1 Following on from October service committees, the revised draft Capital Programme is as follows (please see **Appendix A** for the full programme):

Service Block	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
People and Communities	56,744	73,744	72,262	77,315	48,033	52,217
Place and Economy	25,998	32,338	21,330	15,025	15,025	16,000
Corporate and Managed Services	7,929	3,002	112	112	-	-
Commercial and Investment Committee	107,192	37,379	10,335	6,922	800	4,000
Total	**197,863**	**146,463**	**104,039**	**99,374**	**63,858**	**72,217**

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

Funding Source	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
Grants	51,265	38,199	33,062	28,419	32,382	58,071
Contributions	12,526	41,978	54,600	38,908	22,423	194,012
Capital Receipts	36,770	2,944	592	692	375	875
Borrowing	58,108	50,347	17,296	25,771	11,938	2,017
Borrowing (Repayable)*	39,194	12,995	-1,511	5,584	-3,260	-182,758
Total	**197,863**	**146,463**	**104,039**	**99,374**	**63,858**	**72,217**

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

4.3 The following table shows how each Service's borrowing position has changed since the 2019-20 Capital Programme was set:

Service Block	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
People and Communities	-22,011	19,087	-9,397	269	15,397	2,598
Place and Economy	1,935	-3,485	188	2,916	-	-
Corporate and Managed Services	5,329	470	112	112	-	-
Commercial and Investment Committee	23,774	38,725	9,443	5,930	125	-47,035
Corporate and Managed Services – relating to general capital receipts	-	-	-	-	-	-
Total	**9,027**	**54,797**	**346**	**9,227**	**15,522**	**-44,437**

4.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
New	13,218	3,225	0	0	0	0
Removed/Ended	15	-336	-3,785	-5,828	4,170	2,850
Minor Changes/Rephasing*	-33,606	26,676	8,346	10,991	14,899	3,904
Increased Cost (includes rephasing)	-757	1,835	1,300	139	0	0
Reduced Cost (includes rephasing)	-19,033	7,849	33	-195	0	1,300
Change to other funding (includes rephasing)	1,667	-3,541	-7,752	-2,317	-1,095	-874
Housing Schemes	50,951	28,732	4,925	7,288	0	-67,842
Variation Budget	-3,428	-9,643	-2,721	-851	-2,452	16,225
Total	**9,027**	**54,797**	**346**	**9,227**	**15,522**	**-44,437**

**This does not off-set to zero across the years because the rephasing also relates to pre-2020-21.*

4.5 In addition to rephasing, the main changes to borrowing relate to (this includes any costs incurred pre-2020-21):

New schemes

- Three school schemes, at a total borrowing cost of £6.7m, to respond to anticipated demand for new school places
- The relocation of the Data Centre, at a total borrowing cost of £5.4m
- A new IT Strategy at a total borrowing cost of £3.3m
- The Cambs 2020 Spokes Asset Review scheme, at a total borrowing cost of £6.0m (this includes the previously agreed repurposed Shire Hall Maintenance budget of £0.6m)

Removed schemes

- Three school schemes, at a total borrowing cost of £6.3m, to reflect where need is now required
- Citizen First, Digital First, at a total borrowing cost of £3.5m, as this workstream will be incorporated into the IT Strategy
- Joint Highways Depot, at a total borrowing cost of £0.4m, as this scheme is being revised

Increased cost of schemes

- Increased borrowing costs of £1.6m for 1 school scheme

Decreased cost of schemes

- Decreased borrowing costs of £7.3m for 3 school schemes
- Decreased borrowing costs of £6.6m for 2 energy schemes

Change in funding:

- Additional S106 contributions for 5 school schemes of £13.3m, which reduces borrowing by the same amount
- Additional Basic Need funding, estimated at £2.2m, which reduces borrowing by the same amount
- Reduction in S106 contributions available for the Waste – Household Recycling Centre Improvements scheme, which increase borrowing by £0.4m

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

- Changes in phasing, and therefore funding profile for several schemes, including the Housing schemes
- Reduced costs of £6.6m for 2 energy schemes
- Additional S106 contributions for several school schemes
- Updates to the Variation Budgets to reflect the above changes

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

Financing Costs	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
2018-19 agreed BP	33.4	39.6	42.0	44.4	-
2019-20 draft BP	29.0	32.7	32.5	34.1	36.9
CHANGE (+) increase / (-) decrease	**-4.4**	**-6.9**	**-9.5**	**-10.3**	**36.9***

**This is a large increase due to having a new year 5 (i.e. there was no budget for 2024-25 in the 2019-20 BP).*

4.8 Financing costs have decreased, despite an increase in the levels of borrowing forecast, due to a reset of the financing costs model. This has taken into account revised levels of forecast spend for both the latter period of 2018-19 and current forecasts for 2019-20, as well as updated projections on levels of internal cash balances held by the Council, and also interest rates on recently secured loans and expectations regarding future interest rates. Whilst the cost of Public Works Loan Board (PWLB) borrowing increased by 100 basis points during October 2019, due to having secured £100m of borrowing prior to rate rises, the Council's track record in securing good value borrowing from other lenders (particularly other local authorities) and also remaining 'internally borrowed' (utilising cash balances to mitigate the level of external borrowing), the Council does not expect this rate rise to impact significantly over the life of the Business Plan.

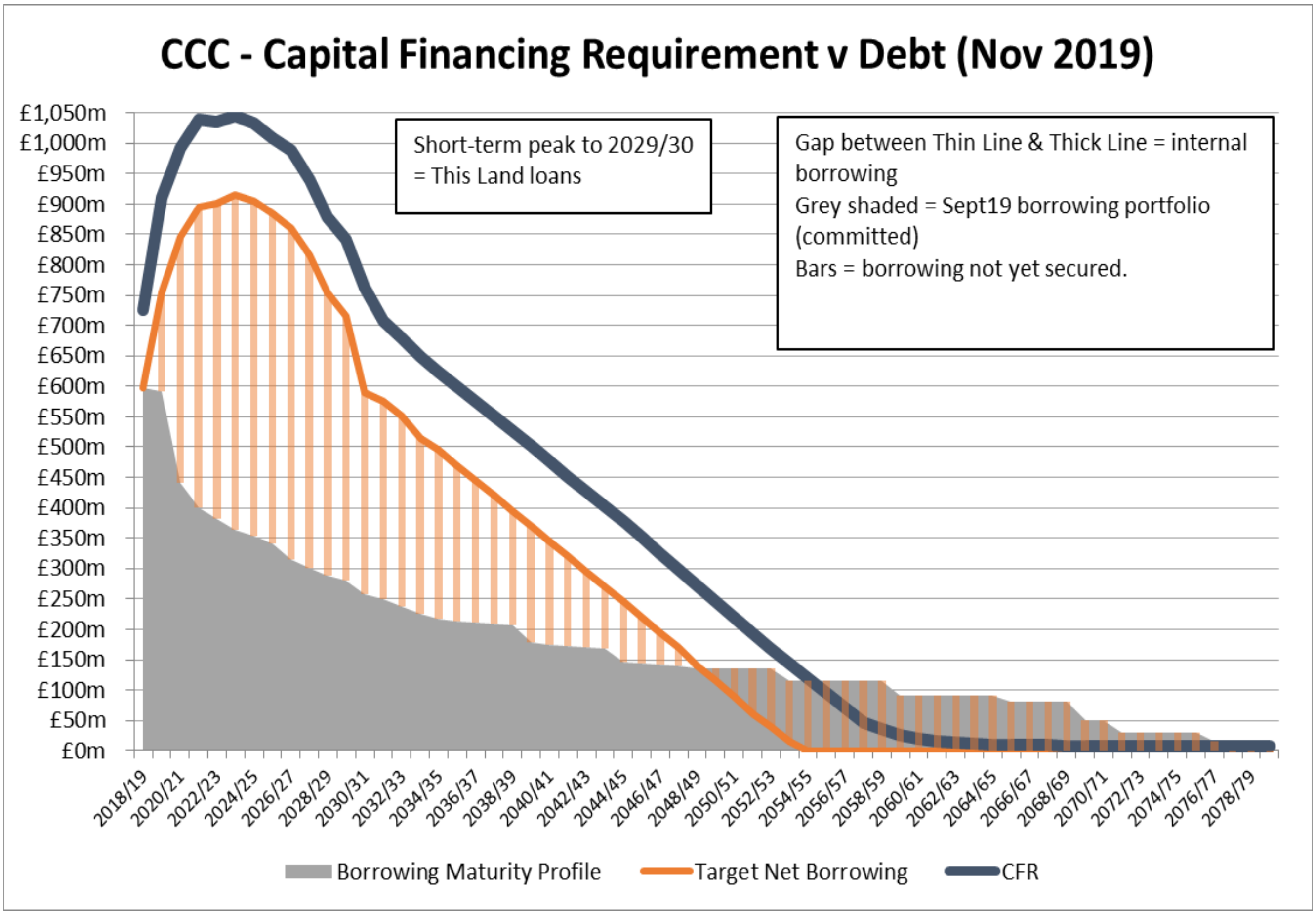
4.9 In addition to the above, the financing costs for any commercial activity are now recharged out of the financing costs budget to the service of the specific scheme in question. This has therefore also reduced the financing costs budget, however it is a net nil change when considering the Council's budget as a whole.

4.10 Invest to Save / Earn schemes are excluded from the advisory financing costs limit – whilst the financing costs for commercial activity have already been removed from the budget, 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. In order to afford a degree of flexibility from year to year, the limit is reviewed over a three-year period – based on the revised programme, the advisory limit is not exceeded for either of these 3 year blocks.

Financing Costs	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
2019-20 draft BP (net figures excluding Invest to Save / Earn schemes)	24.5	26.0	28.2	31.9	31.7	33.3
Recommend limit	37.9	38.6	39.2	39.7	40.3	40.8
HEADROOM	**-13.4**	**-12.6**	**-11.0**	**-7.9**	**-8.6**	**-7.5**
Recommend limit (3 years)	115.7			120.8		
HEADROOM (3 years)	**-37.0**			**-24.0**		

4.11 Whilst the limit hasn't been exceeded, GPC still has an obligation to ensure that the overall total level of debt remains affordable. The following table and chart show the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, and the estimated increase in borrowing levels over the period of the 2020-21 plan:

	2020-21	2021-22	2022-23	2023-24	2024-25
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	9.2%	9.5%	9.5%	9.7%	10.0%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	7.1%	7.3%	7.0%	7.2%	7.5%



5. CAPITAL PRIORITISATION

5.1 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 B** for criteria). Schemes that are already committed (i.e. where the asset is already part constructed, or we have entered into a commitment to incur expenditure) are not subsequently scored; nor are schemes that are fully funded by non-borrowing resources.

5.2 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 outcomes. A summary of results for all scored schemes (excludes committed and fully funded schemes) is included in Appendix B.

5.3 It should be noted that it is difficult to score many of the school schemes for use of non-borrowing funding, as the allocation of Basic Need / Capital Maintenance grants and prudential borrowing is often arbitrary and could in theory be moved around.

5.4 **Appendix C** ranks the scored schemes in order of priority, provides detail of cost and borrowing figures and detail on flexibility of timing of spend or alternative methods of delivery (which is particularly helpful with regard to assessing the school schemes).

6. NEXT STEPS

6.1 The following amendments are expected to be made before the Service Capital Programmes are presented to Service committees again in December:

- Updated capitalisation of interest figures
- Refresh of the Housing Schemes in line with the company's updated business plan, which is currently under review

7. ALIGNMENT WITH CORPORATE PRIORITIES

7.1 A good quality of life for everyone

For detail on significant implications within this category, please see the September Service Committee reports.

7.2 Thriving places for people to live

For detail on significant implications within this category, please see the September Service Committee reports.

7.3 The best start for Cambridgeshire's children

For detail on significant implications within this category, please see the September Service Committee reports.

8. SIGNIFICANT IMPLICATIONS

8.1 Resource Implications

The report above is entirely concerned with resource issues and the significant implications are included throughout the report.

8.2 Procurement/Contractual/Council Contract Procedure Rules Implications

For detail on significant implications within this category, please see the October Service Committee reports.

8.3 Statutory, Legal and Risk Implications

For detail on significant implications within this category, please see the October Service Committee reports.

8.4 Equality and Diversity Implications

There are no significant implications within this category.

8.5 Engagement and Communications Implications

The significant engagement and consultation implications will be addressed as part of the overarching Business Planning Process.

8.6 Localism and Local Member Involvement

There are no significant implications within this category.

8.7 Public Health Implications

There are no significant implications within this category.

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

Source Documents	Location
2019-20 Business Plan	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/
October 2019 Service Committee reports;	
General Purposes Committee	https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1014/Committee/2/Default.aspx
Children and Young People Committee	https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1026/Committee/4/Default.aspx
Economy and Environment Committee	https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1050/Committee/5/Default.aspx
Highways and Infrastructure Committee	https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1145/Committee/7/Default.aspx
Commercial & Investment Committee	https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1121/Committee/31/Default.aspx