Agenda Item No: 12

SERVICE COMMITTEE REVIEW OF THE DRAFT 2020-21 CAPITAL PROGRAMME

To:	**Economy and Environment Committee**
Meeting Date:	**17th October 2019**
From:	**Executive Director, Place and Economy** **Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**
Purpose:	**This report provides the Committee with an overview of the draft Business Plan Capital Programme for Place and Economy**
Recommendation:	**a) It is requested that the Committee note the overview and context provided for the 2020-21 Capital Programme for Place and Economy** **b) It is requested that the Committee comment on the draft proposals for Place and Economy's 2020-21 Capital Programme and endorse their development**

	Officer contact:		***Member contact:***
Name:	Steve Cox	Name:	Councillor Ian Bates
Post:	Executive Director, P&E	Chairman:	Economy and Environment Committee
Email:	Steve.Cox@Cambridgeshire.gov.uk	Email:	Ian.Bates@Cambridgeshire.gov.uk
Tel:	01223 715660	Tel:	01223 706398

1. CAPITAL STRATEGY

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

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

1.3 This report forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes are developed by Services and all existing schemes are reviewed and updated as required before being presented to 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) is undertaken / revised, which allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its outcomes.

2. DEVELOPMENT OF THE 2020-21 CAPITAL PROGRAMME

2.1 Prioritisation of schemes (where applicable) is included within this report to be reviewed individually by Service Committees alongside the addition, revision and update of schemes. Prioritisation of schemes across the whole programme will also be reviewed by General Purposes Committee (GPC) in November, before firm spending plans are considered again by Service Committees in December. GPC will review the final overall programme in January, in particular regarding 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 The introduction of the Transformation Fund has not impacted on the funding sources available to the Capital Programme as any Invest to Save or Earn schemes will continue to be funded over time by the revenue payback they produce via savings or increased income. This is the most financially sensible option for the Council due to the ability to borrow money for capital schemes and defray the cost of that expenditure to the Council over the life of the asset. However, if a scheme is transformational, then it should also move through the governance process agreed for the transformation programme, in line with all other transformational schemes, but without any funding request to the Transformation Fund.

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

- The Adults Committee first considered the Older People's Accommodation Strategy in 2016, and in September 2017 agreed a blended approach for increasing capacity for residential/nursing care. One element of this was to procure an increase in capacity through a number of new build sites, which has potential for implications for the Council's capital plans through provision of land or other assets, or involvement with construction. The Council is engaged with health partners on these challenges, to maximise a 'one public estate' approach.

- The Council, in cooperation with health partners, is reviewing the care that is provided to service-users with learning disabilities, particular those placed out-of-county due to lack of suitable local provision. One option being considered is the acquisition of land and/or buildings that could provide bespoke services to groups of individuals with high needs reducing the need to source high-cost residential placements while improving outcomes. This would have an impact on the Council's capital plans through provision of land or other assets, or involvement with construction. This will only be done where the new provision is more cost-effective than current arrangements.

- On 15th august 2019 the Economy & Environment Committee considered a report detailing the outcome of the stage 1 design contract and the next steps for the King's Dyke project. It was resolved unanimously to:

  a) Agree that Kier should not be awarded the stage 2 construction contract.
  b) Reaffirm that route 3 remained the preferred route option.
  c) Approve the commencement of a restricted two stage Official Journal of the European Union (OJEU) procurement of a target cost with activity schedule design and build contract in accordance with option (c) in section 2.33 of the report.
  d) Agree the assessment of tender returns based on a 60% - 40% price/quality split.
  e) Agree that officers should consider potential sources of further scheme funding should it be needed as the procurement proceeds.
  f) Delegate to the Executive Director in consultation with the Chairman and Vice Chairman of the Committee, the ability to make minor changes to the procurement process and timeline.

  The outcome of the tender process will be presented to the Economy and Environment Committee, following which the capital project budget will be updated.

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

3.3 For the 2019-20 Business Plan, GPC agreed that this should continue to equate to the level of revenue debt charges as set out in the 2014-15 Business Plan for the next five years (restated to take into account the change to the MRP Policy agreed by GPC in January 2016), and limited to around £39m annually from 2019-20 onwards. GPC are due to set limits for the 2020-21 Business Plan in October.

4. SUMMARY OF THE DRAFT CAPITAL PROGRAMME

4.1 The revised draft Capital Programme is as follows:

Service Block	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
People and Communities	56,757	73,830	72,426	77,315	48,033	50,401
Place and Economy	25,998	32,338	21,330	15,025	15,025	16,000
Commercial and Investment	66,608	55,307	6,199	800	800	4,000
Corporate and Managed Services	8,026	2,890	-	-	-	-
Total	**157,389**	**164,365**	**99,955**	**93,140**	**63,858**	**70,401**

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	51,544	37,652	31,603	28,607	32,570	58,332
Contributions	12,713	39,880	47,005	36,403	22,235	213,029
Capital Receipts	5,773	3,231	500	500	500	1,500
Borrowing	44,600	52,717	26,237	27,880	11,813	389
Borrowing (Repayable)*	42,759	30,885	-5,390	-250	-3,260	-202,849
Total	**157,389**	**164,365**	**99,955**	**93,140**	**63,858**	**70,401**

* 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 2018-19 Capital Programme was set:

Service Block	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
People and Communities	-21,220	-21,906	22,186	-179	2,586	15,397	1,595
Place and Economy	11,875	1,935	-3,485	188	2,916	-	-
Corporate and Managed Services	-342	5,434	578	-	-	-	-
Commercial and Investment	5,652	13,621	55,778	5,399	-	-	-67,751
Corporate and Managed Services – relating to general capital receipts	-	-	-	-	-	-	-
Total	**-4,035**	**-916**	**75,057**	**5,408**	**5,502**	**15,397**	**-66,156**

4.4 The table below categorises the reasons for these changes:

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Reasons for change in borrowing	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
New	4,442	13,068	3,075	0	0	0	0
Removed/Ended	-6,489	-35	-186	-3,785	-5,828	4,170	2,850
Minor Changes/Rephasing*	-37,990	-50,464	44,330	9,851	10,851	14,899	1,780
Increased Cost (includes rephasing)	7,627	-757	1,835	1,300	139	0	0
Reduced Cost (includes rephasing)	-2,180	-7,397	2,450	33	-195	0	1,300
Change to other funding (includes rephasing)	-1,104	1,971	-1,078	-162	0	-1,095	0
Housing schemes	-3,660	43,353	38,885	0	0	0	-68,551
Variation Budget	35,319	-655	-14,254	-1,829	535	-2,577	-3,535
Total	**-4,035**	**-916**	**75,057**	**5,408**	**5,502**	**15,397**	**-66,156**

**This does not off-set to zero across the years because the rephasing also relates to pre-2019-20.*

4.5 These revised levels of borrowing will have an impact on the level of debt charges incurred. The debt charges budget is also currently undergoing thorough review of interest rates, internal cash balances, Minimum Revenue Provision charges and estimates of capitalisation of interest – the results of this will be fed into the next round of committee papers on capital.

5. OVERVIEW OF PLACE AND ECONOMY's DRAFT CAPITAL PROGRAMME

5.1 The revised draft Capital Programme for Place and Economy (P&E) is as follows:

Capital Expenditure	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	Later Yrs £'000
Place & Economy	25,998	32,338	21,330	15,025	15,025	16,000

5.2 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	18,028	17,569	17,984	15,213	15,213	16,200
Contributions	2,906	17,716	3,238	812	812	7,500
Borrowing	5,064	-2,947	108	-1,000	-1,000	-7,700
Total	**25,998**	**32,338**	**21,330**	**15,025**	**15,025**	**16,000**

5.3 The full list of P&E capital schemes is shown in the draft capital programme at appendix one. Table 4 lists the schemes with a description and with funding shown against years. Table 5 shows the breakdown of the total funding of the schemes, for example whether schemes are funded by grants, developer contributions or prudential borrowing.

5.4 Papers on the individual schemes have been, or will be, considered separately by the appropriate Service Committee.

5.5 **Changes to Existing Capital Schemes**

5.5.1 Changes to existing schemes, such as rephasing, re-costing, and revised funding are highlighted below. The Integrated Transport Schemes apply to both Economy and Environment Committee and Highways and Infrastructure Committee, so those are listed first. Following that, items are grouped by Service Committee.

5.6 **Integrated Transport Schemes**

5.6.1 This area is mainly funded by Local Transport Plan grant funding from the Department for Transport. The assumption is made that funding that now goes via the Combined Authority will now be passported across to Cambridgeshire. Some of these schemes are further enhanced by the use of S106 developer contributions. A reduction to the current schemes will need to be made to fund the local contribution towards the A14.

5.7 **Economy and Environment Committee**

5.7.1 **King's Dyke**
Details of this scheme are already documented in section 2.3.

5.7.2 **A14**
Along with other local authorities, Cambridgeshire agreed to a local contribution of £25m towards the cost of the A14. This will be paid at £1m per year for the next 25 years, 2020-21 being the first year.
This is to be funded within the integrated transport block, therefore a decision will need to be made as to which schemes are reduced to fund this.

5.8 **Highways and Infrastructure Committee**

5.8.1 **Highways Maintenance**

This is the £90m programme of work to enhance the highways network agreed some years ago. This was originally programmed to be done over 5 years but the number of years was extended to best match the Highways Asset Plan. The budget was reduced from £6m to £4.3m a year in 2018/19 and the remaining years to take account of efficiencies in the new Highways contract. All of this work is funded by prudential borrowing and funding tails off in 2021-22. This funding has been critical to keep the road network up to an acceptable standard. Although we have been fortunate in previous years, in receiving further DfT grants for pothole funding, challenge fund and safer roads fund, this has been for specific schemes or to maintain infrastructure damaged by abnormal weather and currently there is no indication there will be further funding.

5.8.2 **Waste – Household Recycling Centre (HRC) Improvements**

The current budget is based on the need to replace 2 household recycling centres. This is funded by a mixture of S106 developer contributions and borrowing. Further work is taking place to identify the need for these new sites in the light of the overall Council's financial position. Also for one of the sites, there is an adjacent waste site for which it is expected the operator will be looking for planning permission to extend the life of the site, which would probably delay the need for the County Council to replace their existing site.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 Developing the local economy for the benefit of all

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

- Investing in key infrastructure schemes will promote growth in the number of jobs in our area and thus growth of the economy.
- Transport schemes are critical in allowing people to get around effectively and efficiently and to access work and other facilities they need.

6.2 Helping people live healthy and independent lives

See wording under 6.1 above.

6.3 Supporting and protecting vulnerable people

See wording under 6.1 above.

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

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

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

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

7.3 Statutory, Risk and Legal Implications

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

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

7.4 Equality and Diversity Implications

There are no significant implications within this category.

7.5 Engagement and Consultation Implications

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

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

7.6 Localism and Local Member Involvement

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

- Local Members will be engaged where schemes impact on their area and where opportunities for strategic investment arise.

7.7 Public Health Implications

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

- Strategic investment in some of the schemes outlined may have potential to improve Public Health outcomes. This includes schemes that encourage active travel through cycling, walking and use of public transport.

Source Documents	Location
The 2019/20 Business Plan, including the Capital Strategy Capital Planning and Forecast: financial models	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans> c/o Senior Finance Business Partners 1st Floor Octagon Shire Hall Cambridge