Cambridgeshire County Council

Section 6

Capital Strategy

2022-2023

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1. Executive Summary

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

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

This Strategy describes how the Council's investment of capital resources over the next ten years, matched by key partners, will optimise the ability of the Council to achieve its Strategic Vision and Corporate Priorities outlined within the Council's Strategic Framework. The Strategy is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding, and is updated each year as part of the Business Planning process.

The Council achieves its vision of "Creating a greener, fairer and more caring Cambridgeshire" through delivery of its Business Plan, which targets five key Corporate Priorities. To assist in delivering the Plan, the Council needs to undertake capital investment in order to deliver on its major commitments. This includes investment in new schools and in modernising school buildings, regeneration and improvement of the county's transport infrastructure and tackling the Council's ambitious net-zero target towards 2030.

Creating a greener, fairer and more caring Cambridgeshire

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

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

2. Strategic context

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

Cambridgeshire is a fast-growing place. In 2021, approximately 686,000 people lived in Cambridgeshire; by 2036, our forecasts expect this figure to increase by 14% to 779,000. Over that period, we could see a 12% increase in the number of under 25s living in Cambridgeshire and 33% increase in over 65s. This growth is not new to us – since 2011, we have already seen 10% growth in the number of people living in our communities. Over the last 20 years, there have been between 2,000 and 4,000 dwellings added to the housing stock each year.

Public services must continue to prepare for this growth in our local population in order to ensure those in need of services can access them, that infrastructure is designed and maintained to meet the needs of both current and future communities and that the Council has a robust approach to early intervention and prevention in order to support people to remain healthy and independent for as long as possible and reduce health inequalities exposed by the Covid-19 pandemic.

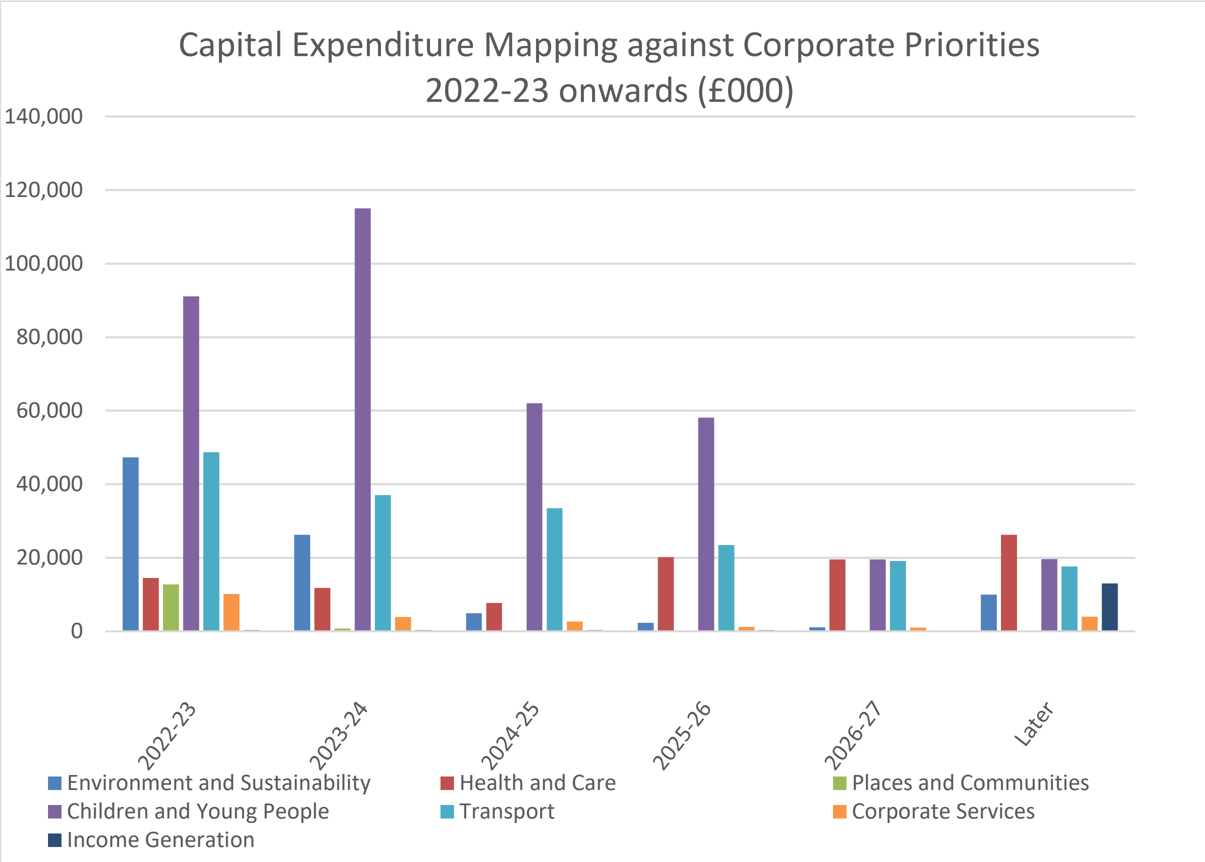
The Climate Change and Environment Strategy sets out the Council's ambition for tackling the climate and biodiversity emergencies. The Council is aiming to reduce the organisations carbon footprint for scope 1 and 2 emissions to achieve net zero by 2030 in line with the Independent Commission for Climate Change for Cambridgeshire and Peterborough. Between 2005 and 2019, Cambridgeshire saw a 24% reduction in CO2 emissions, but significant further reductions are needed to reach net-zero. The largest share of CO2 emissions was from land use, land use change and forestry, followed by transport and domestic.

The Council is also working to reduce its scope 3 emissions by 50.4% by 2030, a scientific target set against the 2018 baseline. This will require engagement with our suppliers and the market to build understanding and commitment to reduce the carbon footprint of the goods and services we commission and the investments we make.

The biodiversity emergency becomes more apparent everyday as the space and opportunity for nature to thrive diminishes through our economic activities. Valuing the environment and nature and placing equal priority on these to that of finance, is the triple bottom line that the Council is seeking to deliver.

3. Capital Investment Mapping

The Council's investment ambition can be mapped to the Council's Corporate Priorities as follows:



A more detailed review of the Capital Programme is provided in part 5d.

4. Future Years Strategy Development

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

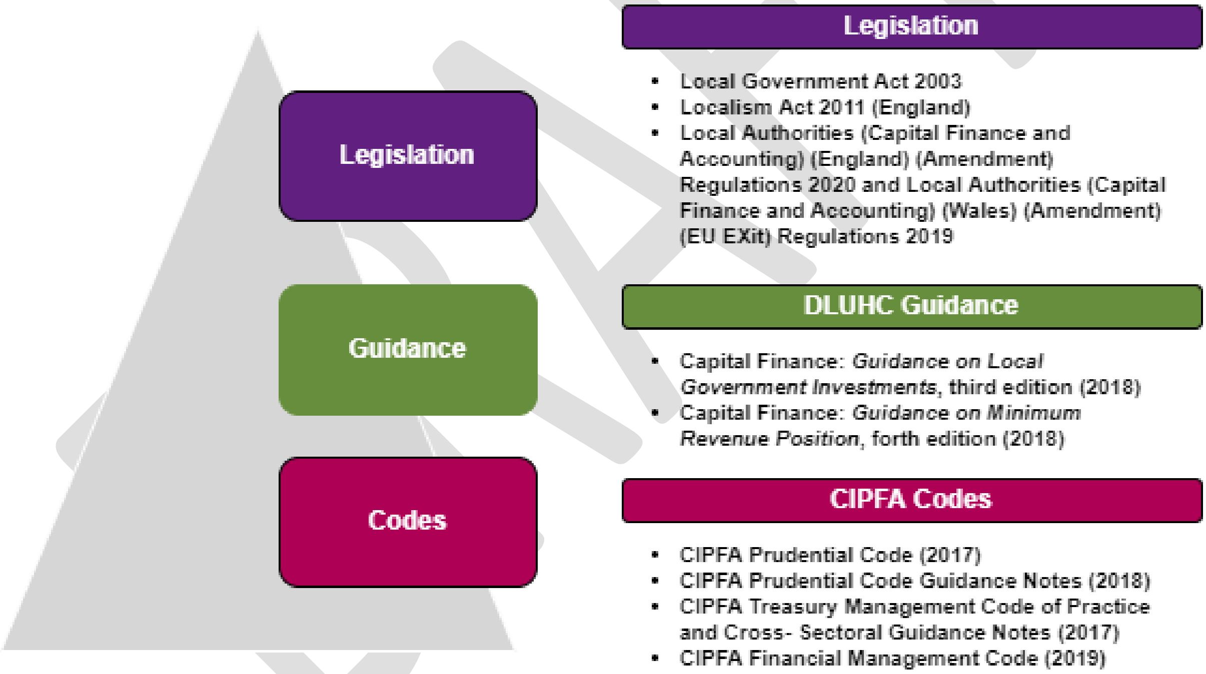
- Further development of the long-term (20-to-30-years) approach to the Capital Strategy, aligned to our longer-term corporate strategies
- Alignment with the development of the 2023-25 Corporate Strategy

- Assessment of asset management planning to inform decision making and risk as part of the development of the new Asset Management Strategy
- Updates to reflect the new Prudential Code, due to be implemented in 2023-24, and any other changes to statutory guidance
- Review of Business Case best practice and alignment of the prioritisation process with the new Corporate Priorities
- Inclusion of carbon pricing within investment decisions across all schemes.

5 – Detailed Strategy

5a. Statutory Framework

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



5b. Working with partners

The Council is committed to developing strong and positive partnerships that not only enhance the investment potential of the Council through opportunities for support and contributions from third parties but enable delivery of the Council's Corporate Priorities. Partnership working enables the

Council to leverage a larger package of investment that extends beyond our investment potential as an individual organisation.

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

Cambridgeshire and Peterborough Combined Authority (CPCA)

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

- doubling the size of the local economy
- accelerating house building rates to meet local and UK need
- delivering outstanding and much needed connectivity in terms of transport and digital links providing the UK's most technically skilled workforce
- transforming public service delivery to be much more seamless and responsive to local need growing international recognition for our knowledge-based economy
- improving the quality of life by tackling areas suffering from deprivation.

The CPCA receives funding and powers from Central Government, which the Mayor and the Combined Authority Board oversee, and it sets out strategies and plans for delivering its ambitions. It is expected that CCC will deliver much of the capital work commissioned by the CPCA within Cambridgeshire, and several schemes form part of our capital programme.

Greater Cambridge Partnership

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

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

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

In 2013, £100m of government funding was made available for transport improvements until 2020. Following successful completion of the Gateway Review in May 2020, an extra £200 million funding was made available up to 2025. The Greater Cambridge Partnership continues to explore funding opportunities, for example through Section 106 agreements with developers, and to explore private funding opportunities.

It is expected that Cambridgeshire County Council will undertake most of this work on behalf of the GCP.

Connecting Cambridgeshire

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

Together with £3m from PCC and £8.75m government funding, the Council's initial outlay of £20m in 2011 has since been used to leverage further funding, grants and private investments, including £5.6m from CPCA, to extend the programme to improve mobile and public access Wi-fi as well as fibre broadband. The rollout has now brought superfast access to over 98% of premises – above the national average – with plans to reach over 99% coverage. The superfast broadband rollout is continuing to fill remaining gaps in coverage – using the latest fibre to the premise technology to bring gigabit-capable connections through a combination of commercial and public investment.

The Connecting Cambridgeshire Digital Connectivity Strategy 2018-2022 gives an overview of work underway to significantly improve broadband, mobile and public access Wi-fi coverage across the region by 2022. In addition to the key areas of broadband, mobile and public access Wi-fi, the strategy is underpinned by an Enabling Digital Delivery programme and a new Keeping Everyone Connected workstream, to support businesses and communities.

This Land

This Land Ltd was established as a wholly owned company of the Council in 2016 in order to enable development of land for housing. The company aims to develop the land it has acquired, predominantly from the Council, to provide individual, high-quality homes and new communities that are in much demand across Cambridgeshire and the surrounding counties in the East of England. As of January 2022, the Council had issued long-term loans of £113.851m, for which it receives an annual revenue return by way of interest payments, and equity of £5.851m to This Land. The Council is in the process of undertaking a shareholder review of This Land, assessing its commercial operation and future exposure to risk.

Light Blue Fibre

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

Swaffham Prior Community Heat Network

The Council is working with Swaffham Prior Community Land Trust to bring renewable energy to Swaffham Prior by becoming one of the first villages in the UK to install a heating network into an existing community. The village is not connected to the gas grid, meaning 70% of homes rely on burning oil for heating. The ambition is to:

- End fuel poverty
- Reduce dependence on oil
- Provide cheaper, renewable heating to as many homes as possible

Over half the village have already outlined their intention to join the Heat Network, which will use Ground Source and Air Source Heat Pumps pumped through a community network to provide thermal energy, recognising the need for change and the Government's plans to phase out gas and oil boilers. Once the Energy Centre has been built and the heating network pipes have been laid, homes will be connected over time with the first connections anticipated from March 2022. The Council's role will then become that of the Energy Supplier in conjunction with the Council's technical partner, Bouygues Energy Services.

One Public Estate (OPE)

OPE is an established national programme delivered in partnership by the Office of Government Property (OGP) within the Cabinet Office and the Local Government Association (LGA). It provides practical and technical support and funding to councils to deliver ambitious property-focused programmes in collaboration with central government and other public sector partners. Cambridgeshire's OPE group allows partners, including the district councils, health partners and the emergency services, to effectively collaborate on strategic asset management and rationalise the combined operational property estate within the county. The programme has secured up to £2.2m in funding so far to bring forward major projects for joint asset rationalisation and land release. OPE projects that are being delivered in conjunction with OPE partners include:

- North Huntingdon Strategic Growth Partnership – Wyton redevelopment of 4,500 homes with Huntingdonshire District Council (HDC)
- Think Communities Property workstream (previously the Community Hubs project)
- Ely Hospital redevelopment with NHS Cambridgeshire Community Services (CCS)
- Wisbech Hospital redevelopment with NHS CCS
- Ely Care Home development at Ely Hospital with NHS CCS
- Fenland Nene Riverfront with Fenland District Council

Community Infrastructure Levy (CIL)

The Council also works closely with the city and district councils on the creation of new infrastructure needed as a result of development. CIL is at the discretion of the Local Planning Authority i.e., the city and district councils, who are responsible for setting the levy and have the final decision on how the funds are spent. However, as the County Council has responsibility for the provision of much of the infrastructure resulting from development, it is imperative that it is involved in the CIL governance arrangements of the city and district councils, and that it works closely with these authorities to ensure that it is able to influence investment decisions that affect the Council's services.

Local Area Energy Planning

Local Area Energy Planning is about determining the most cost-effective way of reaching net zero; identifying the partnerships that need to be created and the investments that will be required to achieve this. There are three strands:

- Place making – to achieve low carbon, oil and gas infrastructure use needs shifting to greater levels of 'electricity infrastructure', which will be the dominant infrastructure for heating and lighting buildings and transport for cars and light vans – or hydrogen for heavy transport. The Council therefore has a role in infrastructure planning and delivery.
- Green Investment – the Council can use its assets e.g., buildings and land either to host energy generation, for battery storage for larger projects or to become part of a project as an anchor tenant. The Council can also invest in energy projects for carbon reductions and carbon credits to sell.
- Local energy economy – investing in local energy provides jobs and services locally and financial benefits for the local economy.

The Council is in the initial stages of scoping out the process, with budget allocated to progress this during 2022-23.

5c. Internal Influences

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

Strategy	Influence
Strategic Framework	Ensures the Council's plans are driven by the shared vision to create a greener, fairer, and more caring Cambridgeshire and focuses on achieving a number of outcomes for the people of Cambridgeshire.
Medium Term Financial Strategy	Sets out the financial picture facing the Council over the next five years, the resources available to the Council, and the Council's strategy for managing its resources effectively.
Flexible Use of Capital Receipts Strategy	Sets out how the Council will use the Flexible Use of Capital Receipts direction on transformational activity that reduces costs or demand for services.
Service Financial Plans	Set out the level of financial resources available for each Service area, across both revenue and capital.

Treasury Management Strategy	Establishes the framework for the effective and efficient management of the Council's treasury management activity, including the Council's borrowing and investment portfolio, within legislative, regulatory, and best practice regimes. The Strategy balances risk against reward in the best interests of stewardship of the public purse.
Investment Strategy	In addition to a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, it provides an overview of how the associated risk of financial and non-financial investments is managed and the implications for future financial sustainability.
Accommodation Needs Assessment for Older People and People with Physical Disabilities	Sets out Cambridgeshire and Peterborough's long term commissioning intentions for accommodation for older people and adults with physical disabilities to ensure sufficient, affordable, and quality accommodation is available to meet demand up to 2036.
Education Organisation Plan	Sets out the strategic direction on education across the Combined Authority area, based on the Council's statutory duties regarding the sufficiency, diversity, and planning of places for early years, school-aged children (including special schools) and post-16 education and training provision.
Think Communities Approach	Outlines how the Council will work collaboratively with parish councils, town councils, health, education and police services, local businesses, and local communities to allocate resources where and when they are needed for the people in that community.
Transport Investment Strategy	Sets out the transport infrastructure, services and initiatives that are required to support the growth of Cambridgeshire.
Transport Delivery Plan	Provides forward visibility of all the planned highway and transport capital schemes on the local network that are in all probability going to be delivered within the 3-year timeframe.
Supporting New Communities Strategy	Ensures that infrastructure in new communities is designed to meet the needs of the community now and in the future. Supports the development of a self-supporting, healthy, and resilient community. Ensures that where people's needs are greater than can be met within

	community resources, they are supported by the right services and are helped to return to independence.
Planning Obligations Strategy	Sets out the Council's approach to securing developer contributions. Forms the principles for the advice which officers provide, including details about the service areas for which we may seek planning obligations.
Climate Change and Environment Strategy	Sets out the Council's ambitious plans to reduce our own and the county's carbon footprint, and to support others in their efforts
Asset Management Strategy	Provides detail on the framework for operational asset management.
County Farms Estate Strategy	Outlines how the estate will be managed to optimise income and development returns to produce a target revenue return to the Council of 4%, as well as how the estate will be managed to promote rural businesses, healthy living and to protect the environment.
Cambs 2020 Programme	Sets out the Council's plans for creating a new 'hub and spoke' approach to providing Council services, allowing the Council to move closer to the communities it serves and reduce pressure on the congested infrastructure of Cambridge. This is not just a programme of office moves, but a catalyst for change for the Council and its employees to deliver services in a different way. As this programme draws to a close, its successor will look at workspace and working practices through best use of IT and property to reduce overall costs and improve delivery.
Commercial Strategy	Sets out how the organisation will develop, foster, and enhance commercial activity which delivers financial, environmental, and social value, through continuing to use its assets, skills, and position to support delivery of crucial front-line services and Corporate Priorities
IT Strategy	Articulates how staff in shared services can work effectively with colleagues across both the Council and PCC to deliver more effective services to our citizens. Staff need access to IT that supports this vision and enables secure, easy, and robust sharing with collaboration tools delivered on a cost-effective basis, with the minimum level of duplicate costs for equipment and licences.

Procurement Strategy	This strategy has been created in line with the current National Procurement Strategy implemented in 2018 and following the service's withdrawal on 1st October 2020 from the LGSS shared service partnership. It sets out how the Procurement model of delivery will focus on transforming the recently repatriated Cambridgeshire Procurement team to an enhanced function that operates in partnership with PCC, supporting joint initiatives and Cambridgeshire's strategic requirements.

Commercial Strategy

To build on the ambitions and practice achieved as part of the 2019 - 2021 Commercial Strategy, the Commercial Strategy has been reviewed and re-set for the 2021-2025 period. This new strategy focuses on and reflects the changing and increasingly challenging economic, financial, and social landscape of Cambridgeshire. Priorities across the organisation in the last two years, coupled with the external impacts of Covid-19, the targeted recovery, changes to local authority funding and loan conditions, and the new Administration of CCC; require a refocus of commercial, business-like activities and practice within the Council.

In order to support an increasing and necessary focus on social value, the Commercial Strategy seeks to embed commercial expertise and practice in services that will sustainably enable the organisation's desired outcomes with pace and efficiency. The strategy is underpinned and supported by a strong base which will ensure effective procurement, contract management controls, understanding of full costs, ongoing engagement with supply chains and partners and horizon scanning, as well as ensuring current and planned income, commercial activities and funding streams remain maximised and sustainable. A suitable risk-based approach enables the Council to identify risks and mitigations and know when to embrace or reduce their potential impact. To align with services and deliver this broader strategy for the Council, three themes have been prioritised, enabling clarity and ownership:

- Assets
- Placemaking and Communities

– External Environment

The strategy sets out commercial activity to include:

– thinking about the commercial, environmental, and social return on investment for every pound the Council spends
– making robust decisions on a consistent basis with evidence and a sound business case
– making a surplus - from trading and investments
– maximising value for money from contractual relationships
– considering the whole life cost of policy decisions, including market impact
– collaborating with the market and with partners to develop alternative models for greater returns/cost efficiencies
– considering new and innovative ways of generating income
– maximising use of revenue and assets

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

Scheme	Total Investment (£m)	Total Net Return* (£m)
Independent Living Service: East Cambridgeshire	17.8	0.9
Independent Living Services	40.1	TBC
Swaffham Prior Community Heat Scheme	13.5	21.6

Smart Energy Grid Demonstrator scheme at the St Ives Park and Ride	4.9	2.9
Babraham Smart Energy Grid	7.5	7.6
Trumpington Smart Energy Grid	7.0	7.0
Stanground Closed Landfill Energy Project	8.3	8.9
Woodston Closed Landfill Energy Project	2.5	9.2
North Angle Solar Farm, Soham	26.4	40.0
Housing schemes	148.7	58.2
Lower Portland Farm	3.8	15.1
County Farms investment (Viability)	2.7	5.0
Shire Hall Relocation	18.7	45.2
TOTAL	**301.9**	**221.6**

**The net return includes the cost of financing the capital expenditure and the ongoing revenue costs associated with the investment (therefore a zero net return indicates that the project has broken even).*

Asset Management Strategy

The Council's Capital Strategy inevitably has strong links to the Council's property 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 and carbon reduction, why property is retained, together with the policies, procedures 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 Strategy and Resources Committee.

The Strategy will focus on the key objectives of:

- Reducing costs
- Co-locating front and/or back-office services
- Reducing carbon emissions

- Adapting assets to build resilience to a changing climate
- Increasing returns on capital
- Opening up investment opportunities
- Improving service delivery to communities
- Taking advantage of lease breaks

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

Investment Strategy (Non-financial)

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

CIPFA's revised Prudential and Treasury Management Codes 2017 requires from 2019-20 onwards that all local authorities prepare an investment strategy, covering both financial and non-financial assets. The Investment Strategy for financial assets is included within the Treasury Management Strategy; for non-financial assets, it is included here and should provide (in addition to a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services):

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

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

However, recent changes to the Public Works Loan Board (PWLB) rules and anticipated changes to CIPFA's Prudential Code mean that the Council is not looking to invest further in new commercial property acquisitions beyond the current portfolio over the medium-term.

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

Dependency on Commercial Income:

	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %
Commercial income* to net service expenditure	-3.5%	-3.7%	-3.9%	-4.0%	-3.8%	-3.6%

** Commercial income here includes both financial and non-financial income*

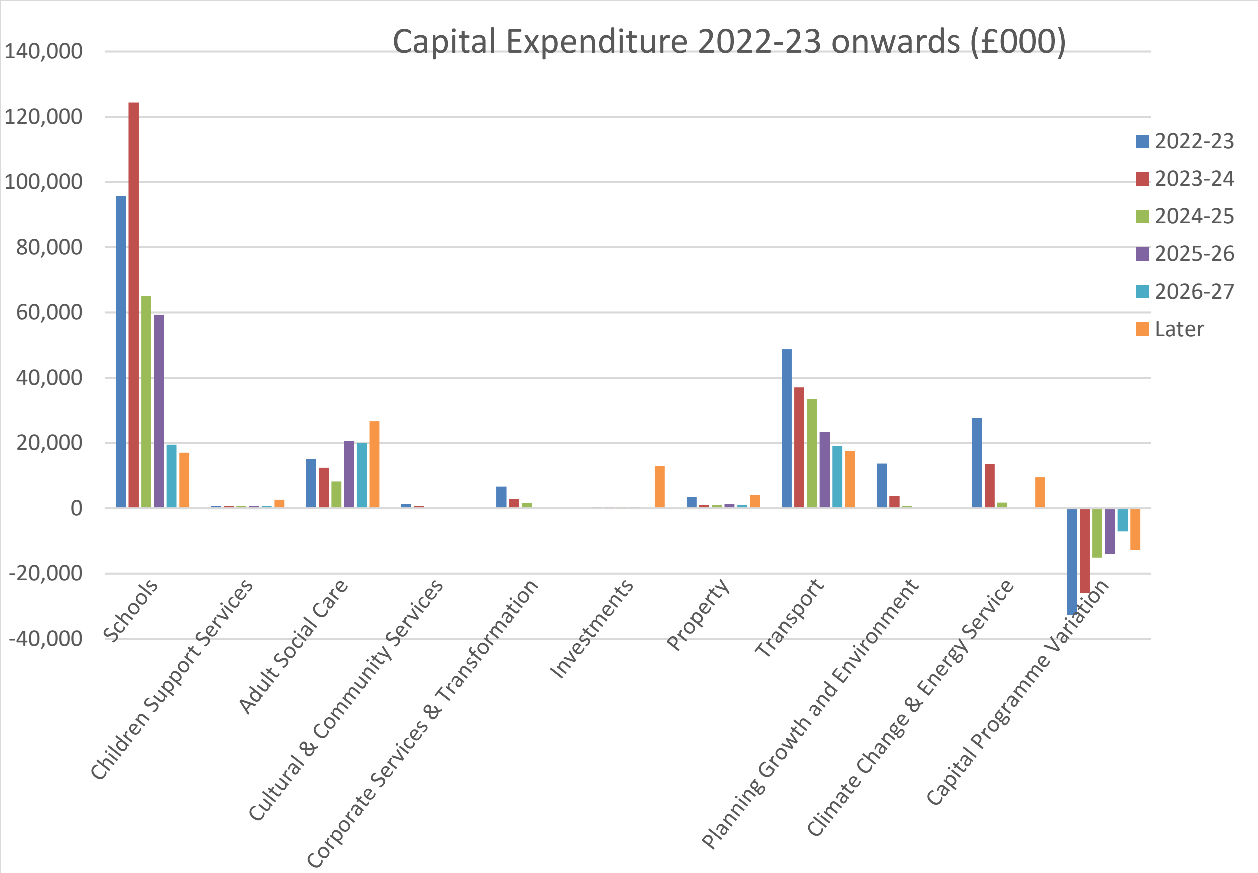
As part of this Capital Strategy, the Council sets a debt charges limit at the beginning of the business planning process as a mechanism to ensure that the Council does not overcommit its revenue resources to servicing debt. This can also be reviewed in terms of debt as a proportion of net service expenditure;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

There may be a need in the future to dispose of property investments. This could occur because of the need to return the investment to cash for other purposes, poor financial performance of a particular property, or poor environmental and energy performance, for example. Whilst it is expected that the majority of investments will be held for the medium to long-term in order to achieve the required return and to justify the cost of the acquisition, it is important to understand the opportunities to dispose of any investment. Therefore, as part of the investment decision, consideration has been given to the potential ways in which the Council could "exit" from the investment, such as sale to another investor, sale for redevelopment, etc. These exit strategies are detailed in the current investment portfolio summary in Appendix 1 of this Strategy.

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

5d. Capital Investment Plan

Including an estimated previous spend of £675.1m on active schemes, the total value of the 2022-23 Capital Programme is £1.4bn. The following chart provides the areas of spend from 2022-23 onwards; the three categories of most significant capital expenditure for the Council are schools, transport, and energy.



Schools

Capital Scheme Category	£m	Description
Basic Need	301.9	The population of Cambridgeshire is growing; therefore, additional school places are required. This covers early years, primary and secondary education for both maintained and academy schools, as the Council retains the statutory duty to provide school places.
Adaptions	7.3	Covers rebuilds after major incidents such as fire or flooding, adaptions to bring older buildings up to date in line with the Department of Education Building Bulletin guidance, and work to address long-standing suitability and condition issues.
Condition & Maintenance	25.5	Addresses significant condition and statutory compliance issues identified in maintained schools' asset management plans, ensuring places are

		sustainable and safe. This funding is used alongside Government grants and loans to fund non-carbon heating solutions in some schools where oil or gas boilers require replacement.
Schools Managed Capital	7.0	This funding is allocated directly to maintained schools to enable them to undertake low-level refurbishments, minor condition and maintenance works, and purchase equipment such as IT.
Specialist Provision	32.3	Covers both basic need provision for Special Educational Need and Disability (SEND) places, as well as adaptions to facilitate placement of children with SEND in mainstream schools in line with decisions taken by the County Resourcing Panel.
Temporary Accommodation	7.0	Enables the Council to increase the number of school places provided using mobile accommodation. This could be related to temporary increases in pupil numbers that do not require long-term resolution or could be a short-term solution whilst a longer-term resolution is identified and developed.

Transport

Capital Scheme Category	£m	Description
Integrated Transport	46.3	Covers local infrastructure improvements regarding accessibility, road safety engineering work, new cycle route provision and the Council's contribution to the Highways Agency A14 upgrade scheme.
Operating the Network	55.9	Carriageway and footway maintenance, improvements to the Rights of Way network, bridge strengthening and traffic signal replacement. It also supports provision of the Integrated Highways Management Centre and Real Time Bus

		Information system, which provide real-time travel information.
Highways & Transport	77.3	One-off schemes to provide resolutions to specific highways and transport issues. Examples include full reconstruction of the B1050 Shelfords Road and replacement of the King’s Dyke level crossing in Whittlesey.

Energy

Capital Scheme Category	£m	Description
Smart energy grid demonstrators	16.8	Installation of low carbon energy generation assets with battery storage on Park and Ride sites.
Landfill energy projects	10.5	Installation of clean energy schemes on closed landfill sites.
Solar energy schemes	7.2	Creation of a second solar farm and an additional solar park.
Community heat scheme	6.2	This is a ground-breaking scheme enabling residents to decarbonise their heating and hot water by provision of an energy centre which will supply heat via a network of underground pipes that run through the village.
Decarbonisation Fund	11.2	Taking all non-school Council buildings off fossil fuels and converting to low carbon heating solutions such as air or ground source heat pumps.

Capital Programme Variation

The nature of capital planning is such that it can be difficult to accurately forecast timing of capital expenditure for each individual scheme, as it is difficult to pinpoint exactly which schemes will experience unforeseen delays. In order to ensure that this does not unduly impact on the revenue position (see part 5f below for further detail on the impact capital has on revenue), the Council employs the use of centrally calculated and allocated Capital

Programme Variation budgets in order to reduce the overall level of anticipated borrowing each year to a more accurate level. These budgets are calculated by applying a percentage reduction at Service level to the programme, based on several factors such as historical slippage, the nature of the current schemes in the programme, etc. This explains why the expenditure for this area in the chart above is negative. As slippage forecasts are reported throughout the year, they are offset against the variation budgets for each Service, leading to a balanced outturn overall up until the point when rephasing exceeds this budget.

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

5e. Funding the Strategy

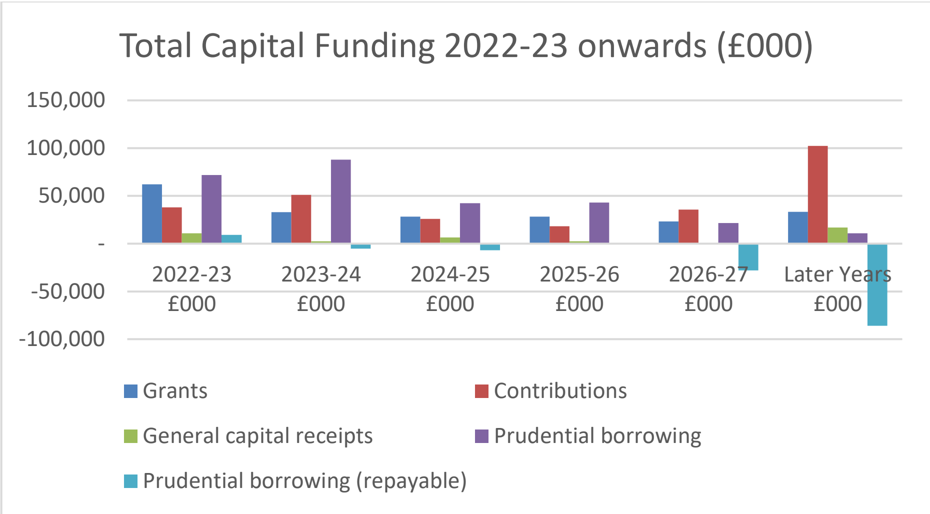
Capital expenditure is financed using a combination of the following funding sources:

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

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

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

The 2022-23 ten-year Programme, worth £680.2m, is budgeted to be funded through £480.1m of external grants and contributions, £39.7m of capital receipts and £160.5m of borrowing.



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

Government Grants

Councils have received one-year funding envelopes for three years in a row, which hampers the Council's ability to make efficient and effective decisions over long-term financial planning. The lack of certainty has been further exacerbated by the number of financial reforms which have been put on hold, particularly during the pandemic. The Government announced in September that a Comprehensive Spending Review covering the period 2022-23 to 2024-25 would be concluded on 27th October 2021 alongside the Autumn Budget. Despite the three-year spending review, the Local Government Finance Settlement was only for one year, which is not conducive to robust financial planning, particularly in relation to capital.

Government Grants - Highways

As part of the National Infrastructure delivery Plan, a National Productivity Investment Fund (NPIF) was created to provide an additional £1.1bn of funding by 2020-21 to relieve congestion and deliver upgrades on local roads and public transport networks. In 2018-19, a £1.7bn Transforming Cities Fund was created out of the NPIF to target projects that drive productivity by improving connectivity, reducing congestion, and utilising mobility services and technology; the Cambridgeshire and Peterborough Combined Authority (CPCA) was allocated £74m from this fund. Key measures in relation to the Cambridge-Milton Keynes-Oxford corridor have also been announced, including a commitment to build up to 1 million new homes in the area by 2050, £5m to develop the proposals for Cambridge South Station, and construction on key elements of the Expressway between Cambridge and Oxford, ready to be open by 2030.

In addition to the Highways Maintenance formula allocation, the Department for Transport (DfT) have previously provided a Challenge Fund and an Incentive Fund. The Challenge Fund was to enable local authorities to bid for major maintenance projects that are otherwise difficult to fund through the normal maintenance funding; in 2020-21 this was amalgamated into the Pothole Fund. The Incentive Fund is to help reward local highway authorities who can demonstrate they are delivering value for money in carrying out asset management to deliver cost effective improvements. Each authority self-assesses themselves against set criteria that determines which of three bands they are allocated to (Band 3 being the highest performing). The Council continues to be successful in maintaining Band 3 status and for 2021-22 has secured the maximum funding available of £10.2m. However, this represents a 29% reduction in needs and incentive-based funding as compared to 2020-21 when the Council received £14.6m. This is reflective of a £250m reduction in the overall national allocations. We await DfT to provide any indication of the grant funding to be provided for 2022-23, which is anticipated in early 2022.

The 2019 Conservative Manifesto committed to an additional £2bn of additional funding for pothole repair; £500m per annum from 2020-21. For 2020-21, the funding provided by DfT came via the new Pothole Fund, which was an amalgamation of Challenge Fund monies and the old Pothole Action Fund. This resulted in additional funding and the Council was allocated £10.2m in 2020-21 and a further £8.3m in 2021-22. This does not include the former Challenge Fund and Pothole Action Fund monies and therefore represents an 18% reduction in potholes funding as compared to 2020-21.

In the Spending Review 2021, the Government announced:

- £2.7bn over the next 3 years for local roads maintenance.
- £3bn of bus investment, including £1.2bn for bus transformation deals in England to deliver London-style services, fare, and infrastructure improvements, and a further £355m new funding for zero emission buses.
- £2bn of investment in cycling and walking to build hundreds of miles of high-quality, segregated bike lanes and other facilities to improve cyclists' safety. This includes £710m of new investment in active travel funding over the next 3 years.

Any allocations of this grant to Cambridgeshire will be factored into the business planning process as they are announced.

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

Government Grants – Levelling Up

In his first speech as Prime Minister, Boris Johnson promised to 'level up across Britain' and 'answer the plea of the forgotten people and the left-behind towns'. Furthermore, the Queen's Speech 2021 said that the Government would "level up opportunities across all parts of the United Kingdom, supporting jobs, businesses and economic growth and addressing the impact of the pandemic on public services". The Budget 2021 document stated that "the government will publish the Levelling Up White Paper by the end of 2021, setting out in more detail the framework and next steps towards levelling up opportunities and boosting livelihoods across the country". This is now expected to be published in the new year. The Levelling Up White Paper will provide further information on the Government's plans to enable more areas to agree ambitious devolution deals, where there is local support, and to strengthen existing devolution arrangements to ensure local leaders can get on and deliver. So far, the following announcements have been made:

- **Levelling Up Fund** – A £4bn fund; round one allocations total £1.7bn and will fund 105 projects. None of the local authorities in Cambridgeshire have received any funding under this round.
- **Community Ownership Fund** – The first 21 projects, which will help communities across the UK protect and manage their most treasured assets, have been announced (none relate to Cambridgeshire). The Fund is being delivered over at least 8 bidding rounds.
- **UK Shared Prosperity Fund** – Over £2.6bn has been allocated to the UK Shared Prosperity Fund (UKSPF) to help people access new opportunities across the UK.
- **Towns fund** – Continued regeneration of some 170 high streets, town centres and local communities across England will occur through the Towns Fund. No funding has been allocated to towns in Cambridgeshire.
- **Street Heritage Action Zone** – Continuing the successful High Street Heritage Action Zone programme in England to revive 67 historic high streets.

- **Freeports** - up to £200m has been announced to deliver eight Freeports in England, creating regions that will flourish as hubs for global trade and investment.
- **Levelling Up Parks Fund** – £9m Levelling Up Parks Fund, funding over 100 new parks in 2022-23 to ensure equal access to parks in urban areas that are deprived of green space.
- **Sports Facilities** – The Government will fund up to 8,000 community multi-use sports and football pitches, as well as refurbish more than 4,500 tennis courts, to improve access to sport facilities.
- **Youth Services** – To support young people, investment of £560m in youth services in England, including through the Youth Investment Fund and National Citizen Service.

Government Grants – Environment

A new discounted interest rate was introduced in 2018, accessible to authorities for 3 years to support up to £1bn of infrastructure projects that are 'high value for money'. The Council submitted two bids to access this discounted interest rate; in November 2019 it was notified that the bids had been successful, and the Council can now secure £61m of borrowing at a discount of 0.4% below standard PWLB borrowing rates. This will support a variety of energy investment and community energy schemes to be delivered by 2023-24. The first tranche was accessed in March 2020 when the Council applied for £8m at the discounted rate, followed by a second tranche of £6m in August 2021.

Following on from this, the UK Infrastructure Bank (UKIB) opened for business in June 2021 and is expected to unlock more than £40bn of infrastructure investment. The Council is evaluating whether any of our energy schemes in particular should apply for this investment.

The Government has also set up several grant schemes to support the retrofit of existing buildings called the Public Sector Decarbonisation Fund, Community Heat Fund, Home Upgrade Grants, a 'Prospering from the Energy revolution' fund and a whole stream of other pump prime funding. It has also brought forward the Environment Bill and Agriculture Act; these will bring inward investment to change the way we do things and value public goods. It will be important to scope the range of Government opportunities and plan how to draw down this investment to support our Capital Strategy and Corporate Priorities.

Government Grants - Education

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

The Council seeks to maximise its Basic Need funding by establishing how the funding allocation model works and providing the School Capacity (SCAP) data to the Department of Education (DfE) in such a way as to maximise the Council's allocation. As the Government has announced a three-year spending review for the period 2022-23 to 2024-25, it is hoped that three-year Basic Need funding allocations will be announced by the DfE in due course. However, based on the SCAP return principles, the Council is anticipating a significantly reduced level of funding than received for 2022-23. This obviously adds a level of uncertainty to the Council's longer-term capital planning.

The DfE has also revised the methodology used to distribute condition allocations in order to target areas of highest condition need. The funding now consists of a weighted pupil element, banded condition scores, and a location factor to represent increased costs as determined by the Building Cost

Information Service. The DfE have also increased the funding rate from £115.15 to £146 per pupil before other factors are applied. Transitional arrangements are in place to offer protection to ensure no eligible body receives less than the 2020-21 funding level. Cambridgeshire did not require this protection in 2021-22.

The National Infrastructure Delivery Plan commits to investment of £23bn over the period 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. To date, the Government has given approval to 9 new free schools in Cambridgeshire to pre-implementation stage. Not all of these, however, are in areas where the Council has an identified basic need requirement. Twelve bids were applied for in Cambridgeshire under Wave 13, however there were much stricter criteria in place around this wave and none of the bids were successful. Two further bids were submitted under Wave 14 of which one was successful: a new Secondary Free School in Wisbech, which is being funded by the Education Funding Agency.

The Spending Review 2020 announced a further 500 new schools will be built over the next decade across the country. This was reaffirmed in the Spending Review 2021, alongside an announcement of £2.6bn to be spent on creating 30,000 new school places for children with special educational needs and disabilities. The Council has recently responded to a DfE consultation on the criteria for the prioritisation and selection of schools for inclusion within the programme. The response also identified those schools in Cambridgeshire that were in most urgent need of investment.

Developer Contributions and Capital Receipts

The strong housing market and prospects of economic recovery have given confidence to housebuilders and developers, which, coupled with increasing investment in Build to Rent, has led to rising demand for development land. New home completions are above pre-Covid levels, with levels in February to mid-March 12% higher than in 2020, according to Energy

Performance Certificates for new dwellings. And despite the changes to Help to Buy, forward sales by the major housebuilders remain robust, with some housebuilders between 50% and 70% forward sold for 2021 completions. As a result of the stronger-than-expected market, having completed more homes and scaled back land-buying activity in 2020, housebuilders need to replenish and add to their immediate land supply to continue delivering homes over the short to medium term. However, a key obstacle for the construction industry is addressing ongoing challenges in securing building materials. Issues around labour are increasing, particularly with skilled trades like bricklayers and carpenters, and even finding qualified professionals such as quantity surveyors is becoming more problematic.

Office take-up has remained below trend in 2021, but some sectors such as life sciences remained strong. The commercial real estate firm CBRE predicted that office take-up for 2021 in the UK would surpass the record lows seen in 2020 but would remain significantly below trend with a forecast decline of 5.3% in UK office rental values for 2021; and a decline in UK office capital values of 2.2% over the same period. CBRE maintains the view that there will be a transition towards a more hybrid form of office work. Sentiment towards commercial real estate is improving but there remains a significant divergence in performance between highly prized industrial and logistics units and out-of-favour retail.

This highlights that the impact of Covid-19 is mixed across differing sectors of the property market, both nationally and locally. However, the strong housing market suggests that the Council's ability to fund capital investment through the sale of surplus land and buildings, or from contributions by developers will not be severely impacted moving forward.

The Government has declared a climate emergency and set a target to reduce carbon emissions by 78% by 2025 based on the recommendations of the Climate Commission on the 6th carbon budget. This in turn should set the country on course to deliver its final target of net-zero carbon emissions for the UK by 2050. Delivering the changes required for the net-zero target will require significant investment into energy infrastructure to facilitate the changes from oil and gas infrastructure for heating homes and transport onto electricity and hydrogen as the main infrastructures plus there will be including regulatory change, regarding planning in particular, as this will shape standards for new developments. Whilst the development industry reacts to these changes, some impact may be felt on developer contributions unless there are also changes made to development viability economics to reflect the new climate and biodiversity emergencies.

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

Community Infrastructure Levy (CIL)

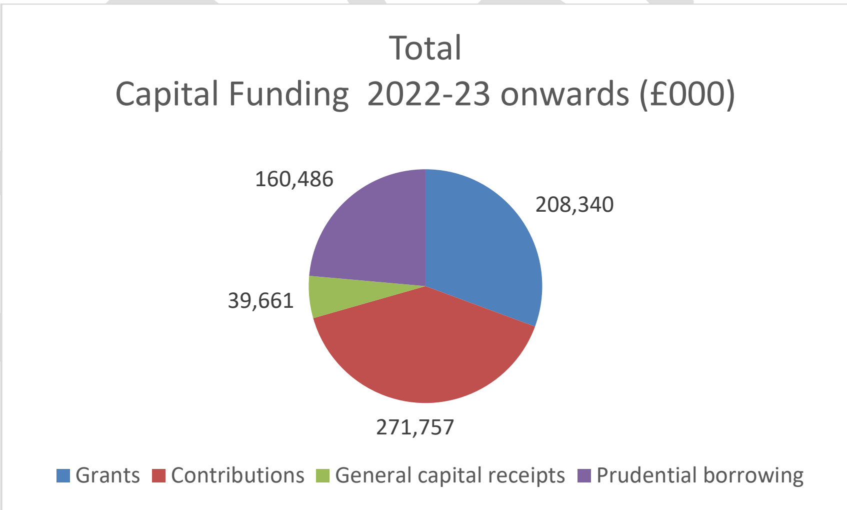
CIL works by levying a charge per net additional floor space created on all small-scale developments, instead of requiring developers to pay specific contributions towards individual projects as per the current developer contribution process (Section 106, which is still in place for large developments).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

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

Moving forward, the Council will also need to consider the use of carbon off-set funds, where developers pay into a fund in order to effectively purchase off-set credits, rather than meet their whole carbon reduction obligation through on-site measures. The fund will then pool payments for investment into priority carbon reduction projects. Consideration will need to be given to how these funds could work and the type of regulation that may come forward as a result. Accessing this type of opportunity may be a future means of funding public infrastructure created as a result of development.

Borrowing

The Council will only look to borrow money to fund a scheme either to allow for schemes that will generate payback and/or reduce future carbon liabilities (via either financial/carbon savings or through income generation), or if all other sources of funding have been exhausted but a scheme is required. Despite this, the Council has an affordability gap of £160.5m over the ten-year programme, which is due to be funded by borrowing.



5f. Revenue Implications and Affordability

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

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

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning process. Both the borrowing costs and ongoing revenue costs/savings of a scheme are considered as part of a scheme's 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 2017 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, Strategy & Resources (S&R) Committee 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.

In order to afford a degree of flexibility from year to year, changes to the phasing of the debt charges is allowed within any three-year block, so long as the advisory aggregate limit remains unchanged. Blocks refer to specific three-year periods, starting from 2015-16, rather than rolling three-year periods. The advisory limit on debt charges is reviewed each year by S&R Committee to ensure that changing factors such as the level of interest rates, or the external funding environment are taken into account when setting both.

Due to the Council's strategic role in stimulating economic growth across the county through infrastructure investment, any capital proposals that can reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory borrowing limit. These schemes are called

Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term. Whilst the financing costs for commercial activity schemes have already been removed from the budget and recharged to the Commercial Activity 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. Following the change in the Minimum Revenue Provision policy, agreed by Full Council in February 2016, the limits in recent years have been increased by 2% each year:

Financing Costs	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
2022-23 draft BP (net figures excluding Invest to Save / Earn schemes)	29.5	33.2	35.9	39.6	40.2	41.7
Recommend limit	39.7	40.5	41.3	42.2	43.0	43.9
HEADROOM	**-10.3**	**-7.3**	**-5.4**	**-2.6**	**-2.8**	**-2.2**
Recommend limit (3 years)	121.5			129.1		
HEADROOM (3 years)	**-23.0**			**-7.6**		

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breach 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.

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

However, there will still be a short-term revenue cost for these schemes, as with all other schemes funded by borrowing. Therefore, S&R Committee still needs to review the timing of the repayments, in conjunction with the overall total level of debt charges to determine affordability of the Capital Programme, before recommending the Business Plan to Full Council. The debt charges budget required to fund capital borrowing for the ten-year programme is forecast to spend £34.0m in 2022-23, increasing to £42.6m by 2026-27. The following table shows the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, resulting from the estimated increase in borrowing levels over the period of the 2022-23 plan. Maintaining the proportion of budget spent on debt charges at 2022/23's level (8.9%) would reduce the revenue cost of capital schemes but would require a reduction or rephasing of the Capital Programme.

	2022-23	2023-24	2024-25	2025-26	2026-27
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	8.9%	9.8%	10.4%	9.6%	9.6%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	6.4%	6.4%	7.0%	6.9%	7.4%

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their capital receipts (excluding Right to Buy receipts) on the revenue costs of reform projects between 2016-17 and 2018-19. The Government then further extended this flexibility to cover a further 3 years until 2021-22 and is anticipated to further extend it to 2024-25. The Council has been using this flexibility to fund transformational activity, and as a result, prudential borrowing undertaken by the Council for the years 2017-18 to 2024-25 will be between £1.5m and £3.9m higher in each respective year. This is expected to create additional Financing costs in the revenue budget of between £82k to £215k each year. For further information, please see the Flexible Use of Capital Receipts Strategy contained within part 8 of the MTFS (Section 2 of the Business Plan).

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

5g. Managing the Borrowing Requirement

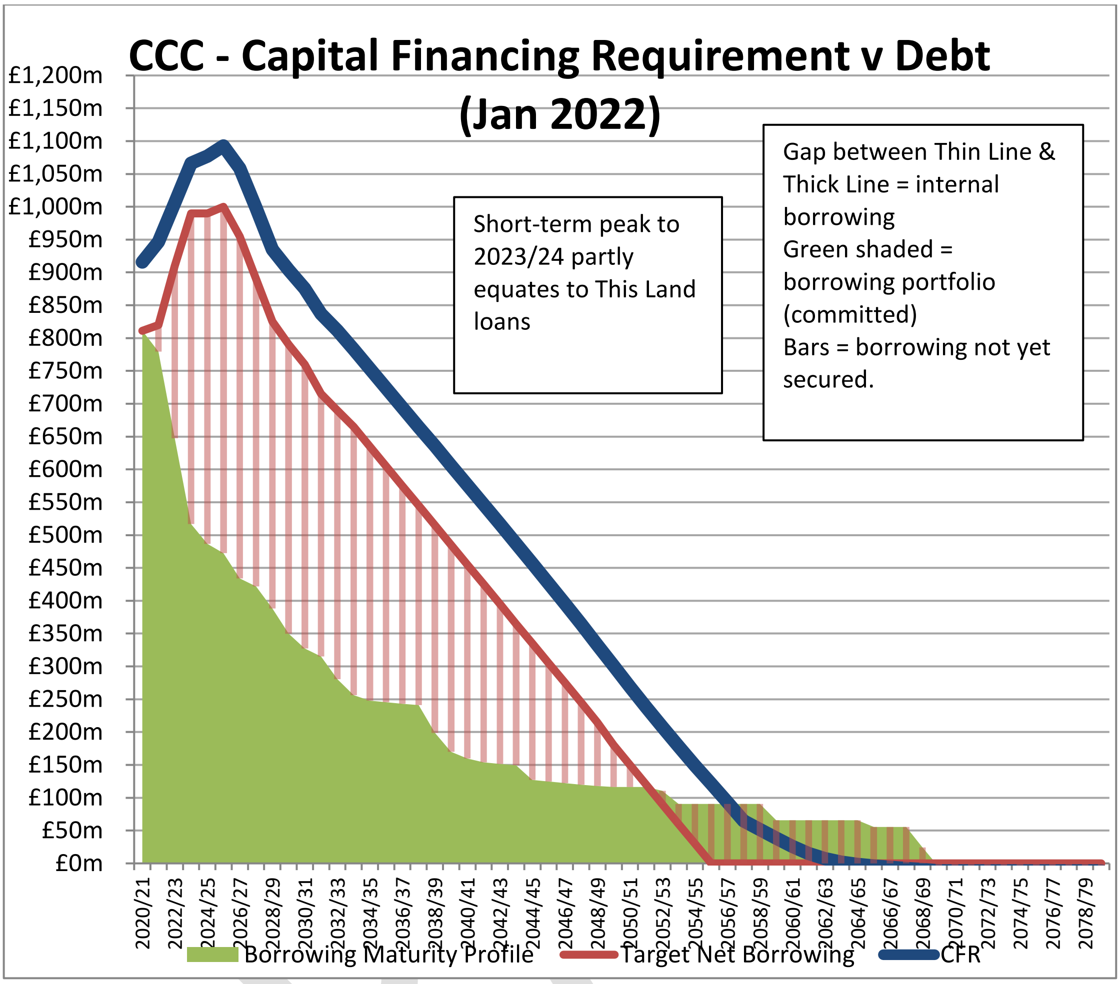
The Council's Treasury Management Strategy (Section 7 of the Business Plan) considers how the cash requirements arising from the Council's Capital Strategy and detailed investment programme are managed by external borrowing, and the timing of any such borrowing. Where capital expenditure has been incurred without a resource to pay for it, i.e., when it is proposed to be funded by borrowing, this will increase the Council's Capital Financing Requirement (CFR). The CFR therefore effectively represents the Council's underlying need to borrow. The Council reduces the CFR by making a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy – this is called Minimum Revenue Provision (MRP). Calculation of the CFR is summarised in the table below and results in the need to borrow money.

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

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

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Total CFR	1,006.2	1,066.4	1,077.2	1,092.7	1,058.4

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



The Council's main objective when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. For further detail regarding the Council's long-term borrowing strategy, please see the Treasury Management Strategy (Section 7 of the Business Plan).

5h. Risk

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

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

Risk	Mitigation
Legislative	Changes in statute and regulation will impact upon capital projects, as they must comply with current legislation. The Council ensures that it keeps abreast of these developments, responding to consultations where appropriate and taking any required adjustments to strategies or processes through the appropriate governance channels.
Property Markets	Various aspects of the programme, such as rental income, income generated by capital receipts and funding through developer contributions are affected by the health of property markets. The Council ensures it has a sound property asset strategy, suitable diversification, adequate resourcing (including use of external experts where required), and a long-term approach.
Environmental	The impacts of a changing climate are being felt globally and Cambridgeshire, being low lying makes it vulnerable to sea level rise, increasing flood risk, drought, and overheating, as well as future resource constraints resulting from loss of nature and global competition for resources.
Interest Rate	A considerable proportion of the Council's programme is funded by borrowing and is therefore exposed to fluctuations in interest rates. The Council uses prudent forecasts for future interest rates and constantly reviews its long-term borrowing strategy to mitigate against

	any interest rate rise risk. Further detail can be found in the Treasury Management Strategy.
Inflation	Given the size of the portfolio, a small rise in inflation can have a significant impact upon project costs. The Council builds in inflation estimates where appropriate to mitigate against this risk, plus schemes include contingency budgets in order to further mitigate against unanticipated rises. Contracts are also negotiated using fixed terms where possible. Close monitoring of the programme supports early identification and therefore appropriate response.
Capacity	A significant challenge in the current environment is the capacity within the supply chain to deliver projects on time and to budget. In addition, the Council needs to ensure it has sufficient project delivery expertise in order to deliver schemes efficiently and effectively. For significant programmes, dedicated project delivery resource is allocated to ensure capacity and expertise. Supply chain capacity is managed at the project and programme level, with residual risks escalated through the Council's governance process as necessary.

Investment Strategy Risk

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

Risk	Mitigation
Income	The main risk in a commercial portfolio is tenant vacancies and the resultant loss of income. The costs of holding a vacant property include non-domestic rates, insurance, utilities, security, inspections and management. In addition, there are costs of marketing the property, the agent's disposal fees and legal fees for completing the lease documentation for re-letting the premises.

Yield	The aim of the majority of investments is to provide a secure return on income. The Council manages its commercial property as a single portfolio, ensuring that the collective returns achieved on the investments meet the overall financial target that is set.
Concentration	Sector Concentration – the main property sectors are retail, office, industrial and leisure/healthcare. The Council has spread its portfolio of investment across the different sectors in order to limit exposure to any volatility in a particular area. Like geographic diversification, industry diversification is sensitive to the diversification requirements of the overall portfolio. Geographical Concentration – it is important for the Council to understand the future economic viability of localities, which will be influenced by a number of local and national economic factors. For example, future major transport infrastructure investment could significantly influence the economic viability of an area and therefore the future value of investments in that locality. Property Concentration – diversifying a real estate portfolio by property type is similar to diversifying a securities portfolio by industry. Different property types cater to different sectors of the economy. For example, office property generally responds to the needs of the financial and services-producing sectors; industrial property to the goods-producing sectors; retail property to the retail sector; and hotels to the travel and tourism sectors, employment growth, and the business cycle. Understanding the return and risk factors attendant to different property types requires understanding the factors affecting each property type's user groups. Tenure Concentration – the portfolio is managed to ensure that it contains a broad spread of tenants. This analysis can be driven by credit ratings, nature of business, lease length, and the value of the leaseholds. It is important to evaluate tenant credit ratings according to the senior corporate debt of the lessees. Leases are compared regarding their length (including renewal options), which may vary considerably, typically from ten to twenty years.

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

5i. Capital Planning and Governance

The Capital Strategy will support, and be aligned to, the new decision-making framework which is currently being developed by the Council. When making long-term investment decisions, clear and informed information is vital to understanding the short- and long-term impact on key social, financial, and environmental indicators. Any investment proposal will be considered within the context of, but not be limited to, the following areas of impact:

- Whether the investment will support the increase of the social foundation within Cambridgeshire; ensuring no community lacks the basics of life on which no one should be left falling short (from food and housing to healthcare and political voice).
- How the investment will ensure we do not overshoot our pressure on the environmental systems (such as a stable climate, fertile soils, and a protective ozone layer).
- A long-term view of the Council's capital expenditure plans and any financial risks to which the Council are exposed.

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

New schemes for inclusion in the Programme are developed by Services in conjunction with Finance in line with the Corporate Priorities outlined in the Strategic Framework. Any new capital scheme costing more than £250,000 is appraised as to its financial, human resources, property, carbon, environment, and economic consequences. The justification and impacts, as well as the expenditure and funding details of these schemes are initially specified in an outline capital Business Case, which becomes more detailed as the proposal develops. At the same time, all schemes from previous planning periods are reviewed and updated as required. All schemes, whether existing or new, are scrutinised and challenged where appropriate by officers to verify the underlying costs and/or establish whether 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 is undertaken as part of the Business Case development, 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 (in addition to the social, financial, and environmental factors listed above) – as this is a transition year, the existing investment criteria have continued to be used, but these will be refreshed for 2023/24. This allows schemes within and across all Services to be ranked and prioritised against each other, considering the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its Corporate Priorities.

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

- Appropriate estimates for cost and time of capital projects
- Robust project and programme management and governance

- Post project evaluation and monitoring of key carbon reductions and environmental benefits
- Prioritisation across the whole programme.

Service Committees review the prioritisation analysis, and the Capital Programme is subsequently agreed by S&R Committee, who recommends it to Full Council as part of the overarching Business Plan.

The Capital Programme is monitored in year through quarterly reporting to Service Committees and S&R Committee via Finance Monitoring Reports. These feed into the Integrated Finance Monitoring Report, which is scrutinised by CPB and also reviewed by S&R Committee. The report identifies changes required to the Capital Programme and seeks approval for:

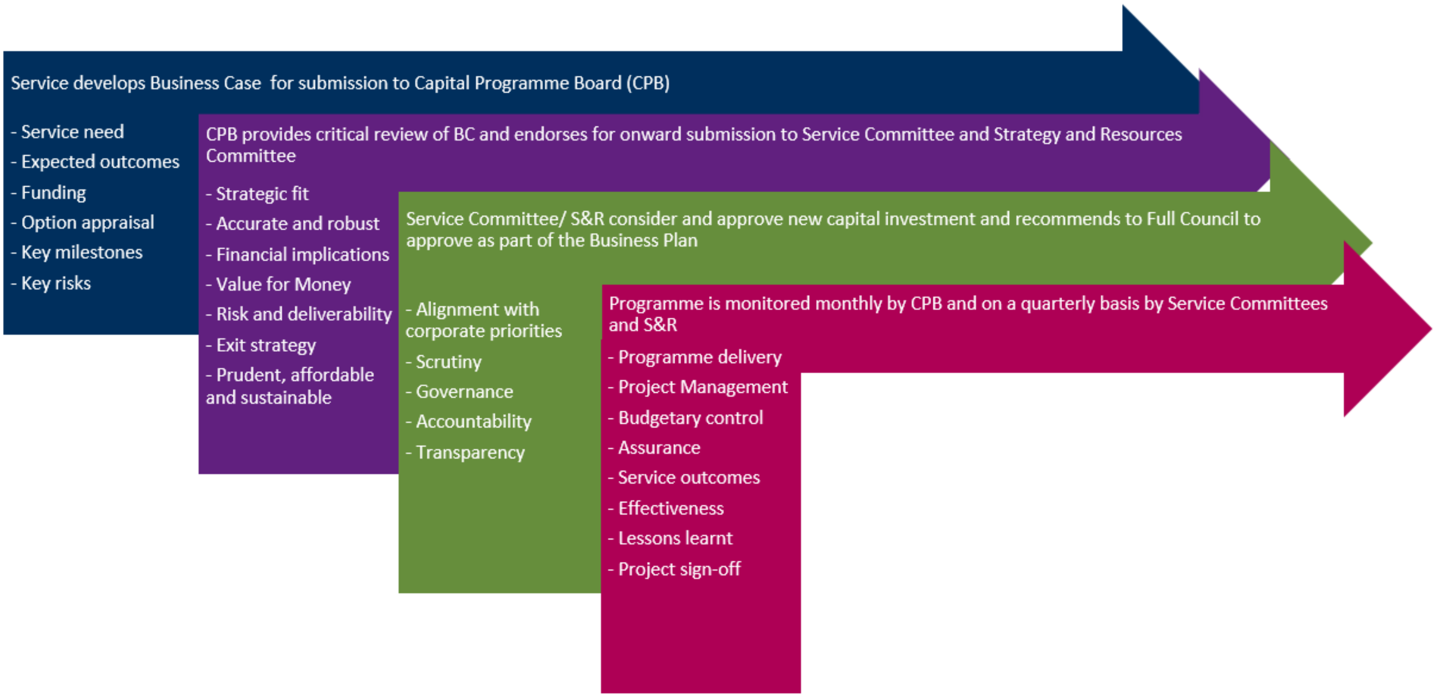
- new / updated resource allocations
- slippage or brought forward programme delivery
- increase / reduction in overall scheme costs
- virements between schemes to maximise delivery against the priorities of the Council.

It is inevitable that new demands and pressures will be identified by the Council on an ongoing basis, however, as far as possible addressing these requirements is undertaken as part of the next business planning process, in line with Regulation 6.4 of the Scheme of Financial Management. Therefore, all new capital schemes should be approved via the Business Plan unless there is an urgent need to seek approval that cannot wait until the next planning process. In these situations, any supplementary capital request will be prepared in consultation with, and with the agreement of, the Chief Finance Officer. Where possible, the report will be reviewed by 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 S&R Committee.

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

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

The following diagram summarises the relevant responsibilities regarding the Capital Strategy to ensure decisions are made legitimately, transparently and deliver against the Corporate Priorities of the Council:



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

Appendix 1: Non-Financial Investment Portfolio

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

Acquisition:	Brunswick House	Date of Acquisition:	26/07/18
Advisors / Market Research	Property Consultants, Carter Jonas, were engaged to appraise the investment opportunity – conducting market research and valuing the property in view of demand, planning conditions, future prospects and condition. Legal advisors, Birketts LLP, dealt with the conveyancing and transaction, providing advice on legal issues arising from Property, Construction, Tax, Commercial, Planning and Employment. The property is managed, staffed and marketed for the Council by Homes for Students who handle all day-to-day management on a contract running to 2022. Should this contract not be renewed, an alternative manager would be procured to continue running Brunswick House as student accommodation. HomesforStudents operate 15,000 student rooms across the country with a strong reputation for student experience, welfare and security.		
Liquidity / Exit Strategy	There are no plans to sell currently. The acquisition was not funded by borrowing; however, if required, the property could be sold. There was an active market for the property when it was acquired, and the property market in Cambridgeshire has strong foundations and resilience. Should student accommodation become less viable the Council would investigate alternatives such as residential apartments or accommodation for elderly people.		
If funded by borrowing, why was this required?	N/A	Why has Statutory Guidance not been adhered to?	N/A

Cost (£m)	Funded by Borrowing (£m)	Total Interest Costs (£m)	Annual Income (£m)	Annual Costs (£m)	Annual Net Return (£m)
39.5	-	-	-2.2	0.5	-1.7

Acquisition:	Brunswick House		Date of Acquisition:	26/07/18	
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over 25 Years (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
16.4	4.8 increasing to 6.1	69.6	66.9	4.4	8.3
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
The Council has established a sinking fund with at least 5% of net income in order to maintain and improve the property and compete with new entrants to the student accommodation market in Cambridge.	30.2	-9.3	The reported loss arises partly from the temporary impact of new competition opening in the immediate area, plus the impact of Covid-19 (albeit this is also expected to be relatively short-term). As such, occupancy was slightly below 100% for the 2019-20 academic year and fell further in the latter part of 2019-20 as students returned home, reducing the Council's return. However, occupancy for the new academic year is at 95%.		

Acquisition:	Cromwell Leisure Park	Date of Acquisition:	24/05/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the leisure sector, supporting the local economy. This is the only large cinema in Wisbech, creating both a significant draw into the town and leisure provision opportunity across the Fenland/west Norfolk/south Lincolnshire sub region. Provides geographic diversity to the portfolio by investment into the most deprived district in the county.		
Assessment of Risks	Risks include the reliance on rent from the leisure market which has experienced a recent downturn and has been put under further pressure during the pandemic. The investment market for leisure is also quiet at present so there may be a liquidity risk if the Council needed to sell the property. The cinema anchors the Leisure Park investment; however, the cinema industry has been hit very hard due to social distancing issues with Covid-19. However, cinemas had been trading well prior to the pandemic and there is backlog of major film releases that would help restore the sector once restrictions ease sufficiently.		
Advisors / Market Research	The Council commissioned Carter Jonas to produce a purchase report which examined the local area, cinema brands, food and beverage markets, the property itself and the relevant surveys and the current leases and service charges. Legal advice on the lease was also obtained from Mills and Reeve LLP.		
Liquidity / Exit Strategy	There are no plans to sell currently. There are four units, with two of the smaller units now vacant. The existing tenants are the Light Cinema and Prezzo Plc, who both have a		

<table>
<tr><th>Acquisition:</th><th colspan="2">Cromwell Leisure Park</th><th>Date of Acquisition:</th><th colspan="2">24/05/2019</th></tr>
<tr><td></td><td colspan="5">tenancy running to 2039 with a break in 2029. In the event of any tenants vacating, new tenants are sought; one of the vacant units is currently under negotiation.

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

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

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

(£m)</td><td>Funded by Borrowing (£m)</td><td>Total Interest Costs (£m)</td><td>Annual Income (£m)</td><td>Annual Costs (£m)</td><td>Annual Net Return (£m)</td></tr>
<tr><td>7.0</td><td>-</td><td>-</td><td>0.6</td><td>0.0</td><td>0.6</td></tr>
</table>

Acquisition:	Cromwell Leisure Park		Date of Acquisition:	24/05/2019	
Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over asset life (50 Years) (£m)	Internal Rate of Return (%)	Net Present Value (£m)
17	10.1 falling to 7.8	206.0	29.1	6.0	5.3
Additional Investment (£m)	Current Value (£m)	Gain (+) / Loss (-) (£m)	Revenue implications of reported loss / Mitigating action		
0	7.3	+0.3	N/A		

Acquisition:	Superstore Site, Newmarket Road	Date of Acquisition:	15/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the retail sector, supporting the local economy. Site provides the largest supermarket within 2 miles of the city centre and benefits from both considerable scale (e.g., extensive car parking) and diversification opportunities. It is a key selling point for both local residents and also college and university inhabitants and the prospering tourist market. Site is let on a number of continuous leases; the Council believes there is strong residual value in the event the tenant leaves and a replacement is needed, or there is opportunity to completely redevelop the site for housing.		
Assessment of Risks	Risks are reduced by having a single tenant who is financially sound and trading in a prime area of Cambridge. The BNP Paribas Acquisition Report identifies a potential risk in the lease where Tesco have a "Substitution Clause". Tesco could serve notice to replace the Newmarket Road property with another subject to the replacement complying with terms outlined in the BNP Paribas report (i.e., an investment of equivalent standing). BNP Paribas are of the view that due to the strong levels of trade enjoyed by Tesco at the property, the chances of a trigger event occurring are very low and accordingly don't feel the clause presents a risk to the long leasehold owner.		
Advisors / Market Research	BNP Paribas Real Estate provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. The Council also commissioned Birketts LLP as legal advisors for this transaction and to consider in detail the terms of the leases.		
Liquidity / Exit Strategy	There are no plans to sell currently. Tesco's current lease is due to expire in December 2029, however they do have the option to renew for further periods. There is a risk that Tesco		

Acquisition:	Superstore Site, Newmarket Road	Date of Acquisition:	15/08/2019
	may decide to not renew their lease in the future and stop trading from the Newmarket Road site. Whilst it is perceived unlikely in the short to medium-term, if this decision was taken by Tesco in 2029, we would explore re-letting the property to another retailer who would be interested in leasing the whole site. Alternatively, we could explore reconfiguring the existing unit and site to create smaller individual units which could be rented out on a long-term basis. A third option would be to consider a residential led re-development of the site, given the option to purchase the freehold interest for a nominal amount. The Council also has the option to sell its interest in the property, particularly given the location and tenure on this site.		
If funded by borrowing, why was this required?	The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.	Why has Statutory Guidance not been adhered to?	N/A

Cost (£m)	Funded by Borrowing (£m)	Total Interest Costs (£m)	Annual Income (£m)	Annual Costs (£m)	Annual Net Return (£m)
54.5	54.5	25.0	2.6	0.0	2.6

Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over asset life (50 Years) (£m)	Internal Rate of Return (%)	Net Present Value (£m)
20	4.6 rising to 5.6	167.9	150.8	4.8	35.4

<table>
<tr><th>Acquisition:</th><th colspan="2">Superstore Site, Newmarket Road</th><th>Date of Acquisition:</th><th>15/08/2019</th></tr>
<tr><th>Additional Investment (£m)</th><th>Current Value (£m)</th><th>Gain (+) / Loss (-) (£m)</th><th colspan="2">Revenue implications of reported loss / Mitigating action</th></tr>
<tr><td>0.0</td><td>51.0</td><td>-3.5</td><td colspan="2">The loss mainly relates to acquisition costs of purchase (Stamp Duty Land Tax, legal fees etc), totalling £3.0m. It is anticipated that the value of the property will increase sufficiently in time over and above these costs, therefore no mitigation required.</td></tr>
</table>

Acquisition:	Kingsbridge Centre, Peterborough	Date of Acquisition:	21/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the industrial sector, supporting the local economy. Whilst this investment is slightly out of county, it is very much located in an area that is intrinsically linked to the Cambridgeshire local economy. Investment also provides opportunity to diversify the portfolio into the industrial / manufacturing sector.		
Assessment of Risks	Well specified, freehold, self-contained distribution warehouse; originally designed as 5 industrial units, enabling split up and flexibility upon re-letting. The building is extensively fitted out by both occupiers to suit operational needs. One of the tenants is wedded to the building, with significant sunken costs and upgraded power supply, making it difficult for the business to relocate operation. Both tenants have long income to strong covenant ratings with guaranteed rental performance to Oct 2025 and no arrears. There is an acute shortage of available 'oven ready' supply, with the All Industrial void rate the lowest it's been in over a decade and no new speculative development of large warehouses on the horizon. Watts Environmental Phase 1 report concludes a low to medium environmental risk. This is satisfactory for a building in its current industrial use.		
Advisors / Market Research	DTRE provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. Legal advice was obtained from Birketts LLP.		

<table>
<tr><th>Acquisition:</th><th colspan="2">Kingsbridge Centre, Peterborough</th><th>Date of Acquisition:</th><th colspan="2">21/08/2019</th></tr>
<tr><td>Liquidity / Exit Strategy</td><td colspan="5">There are no plans to sell currently, however if required, the property could be sold. There was an active market for the property when it was acquired, and the industrial sector is currently very tight due to lack of supply, particularly in Peterborough which benefits from good road links.</td></tr>
<tr><td>If funded by borrowing, why was this required?</td><td colspan="2">The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.</td><td>Why has Statutory Guidance not been adhered to?</td><td colspan="2">This is an out of county acquisition, supporting the industrial sector in Peterborough. Whilst it is out of county, it is very close geographically to the county border and is therefore inextricably linked with the local Cambridgeshire economy.</td></tr>
<tr><td>Cost (£m)</td><td>Funded by Borrowing (£m)</td><td>Total Interest Costs (£m)</td><td>Annual Income (£m)</td><td>Annual Costs (£m)</td><td>Annual Net Return (£m)</td></tr>
<tr><td>12.3</td><td>1.6</td><td>0.7</td><td>0.8</td><td>0.0</td><td>0.8</td></tr>
<tr><td>Payback Period (Yrs)</td><td>Net Income Yield (%)</td><td>Return on Investment (%)</td><td>Total Return over asset life (50 Years) (£m)</td><td>Internal Rate of Return (%)</td><td>Net Present Value (£m)</td></tr>
<tr><td>20</td><td>5.9 rising to 7.5</td><td>213.5</td><td>45.5</td><td>5.4</td><td>10.8</td></tr>
<tr><td>Additional Investment (£m)</td><td>Current Value (£m)</td><td>Gain (+) / Loss (-) (£m)</td><td colspan="3">Revenue implications of reported loss / Mitigating action</td></tr>
<tr><td>0.0</td><td>11.7</td><td>-0.6</td><td colspan="3">The loss mainly relates to acquisition costs of purchase (Stamp Duty Land Tax, legal fees etc), totalling £0.7m. It is anticipated that the value of the property</td></tr>
</table>

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

<table>
<tr><td>Acquisition:</td><td colspan="2">Evolution Business Park, Impington</td><td>Date of Acquisition:</td><td colspan="2">31/01/2020</td></tr>
<tr><td>Service Objectives</td><td colspan="5">Diversify and increase income streams to the Council, protecting frontline services, notwithstanding reducing government grant and rising demand.

Investing in a site that provide jobs in Cambridgeshire and promotes a thriving local economy.</td></tr>
<tr><td>Assessment of Risks</td><td colspan="5">A key risk is the funding arrangements for one tenant, a young but successful company, which currently underpins 45% of the income from the site. The Council does have the option to pursue a further unit (currently being explored), which would help to mitigate some of the tenant risk.</td></tr>
<tr><td>Advisors / Market Research</td><td colspan="5">The Council commissioned a pre-purchase report by Carter Jonas which included review of the locations and site accommodation, lease and tenant reviews and market commentary. Legal advice was obtained from Birketts LLP.</td></tr>
<tr><td>Liquidity</td><td colspan="5">There are no plans to sell currently. Investor appetite has been very strong in the area which suggests the site could be sold if required.</td></tr>
<tr><td>If funded by borrowing, why was this required?</td><td colspan="2">The level of income generation being targeted by the Council was unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.</td><td>Why has Statutory Guidance not been adhered to?</td><td colspan="2">N/A</td></tr>
<tr><td>Cost

(£m)</td><td>Funded by Borrowing
(£m)</td><td>Total Interest Costs
(£m)</td><td>Annual Income
(£m)</td><td>Annual Costs
(£m)</td><td>Annual Net Return
(£m)</td></tr>
<tr><td>29.7</td><td>29.7</td><td>17.5</td><td>1.7</td><td>0.0</td><td>1.7</td></tr>
</table>

Acquisition:	Evolution Business Park, Impington		Date of Acquisition:	31/01/2020	
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over 25 Years (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
16	5.7 rising to 6.6	230.5	45.6	6.6	34.8
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0.0	23.7	-6.0	The loss partly relates to acquisition costs of purchase (Stamp Duty Land Tax, legal fees etc), totalling £1.6m. The lower value also reflects the market post Covid-19 whereby the demand for large office accommodation has decreased.		

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 levy that local authorities can choose to charge on new developments in their area and replaces a substantial proportion of S106 agreements. Other external contributions are made by a variety of organisations such as district councils, often contributing towards jointly funded schemes.

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

The Council has previously made use of additional government support through PFI and PPP and has dedicated resource to manage schemes that are funded via this source. Previous schemes that have been funded this way include Waste, Street Lighting and Schools. However, due to increasing criticism around some high-profile, large-scale PFI projects failing to deliver Value for Money, the Government announced in October 2018 that this form of capital finance will be abolished. It is believed another model will be created to continue allowing the private sector to fund public infrastructure, but it is not yet clear what form this will take.

Borrowing (known as prudential borrowing)

The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence, and sustainability of that borrowing, in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017. Borrowing levels for the capital programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing, considered in the context of the overall revenue budget deliberations. Further information is contained within the Treasury Management Strategy (Section 7 of the Business Plan).

Revenue Funding

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