

Service Committee review of the draft 2022-23 Capital Programme

To: Energy & Green Investment

Meeting Date: 16th November 2021

From: Steve Cox - Executive Director, Place & Economy
Tom Kelly - Chief Finance Officer

Electoral division(s): All

Forward Plan ref: Not applicable

Key decision: No

Outcome: To inform the Council's Business Plan for 2022-23 by presenting to Committee an overview of the draft Business Plan Capital Programme for Place & Economy and providing Members with the opportunity to comment on the draft proposals and endorse their development.

Recommendation: Committee is asked to:

- a) Note the overview and context provided for the 2022-23 Capital Programme for Place & Economy
- b) Consider the draft proposals for Place & Economy's 2022-23 Capital Programme and their further development
- c) Recommend the additional capital borrowing set out in paragraph 2.3 for the St Ives Smart Energy Grid Project for approval at Strategy and Resources Committee

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1. Capital Strategy

- 1.1 The Council strives to achieve its vision through delivery of its Business Plan. To assist in delivering the Plan the Council needs to provide, maintain, and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year. Expenditure on these long-term assets is categorised as capital expenditure and is detailed within the Capital Programme for the Council.
- 1.2 Each year the Council adopts a ten-year rolling capital programme as part of the Business Plan. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore, whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.
- 1.3 This report forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes are developed by Services and all existing schemes are reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees for further review and development.
- 1.4 An Investment Appraisal of each capital scheme (excluding committed schemes and schemes with 100% ring-fenced funding) is undertaken / revised, which allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its outcomes.

2. Development of the 2022-23 capital programme

- 2.1 Prioritisation of schemes (where applicable) is included within this report to be reviewed individually by Service Committees alongside the addition, revision and update of schemes. Prioritisation of schemes across the whole programme will also be reviewed by Strategy & Resources Committee (S&R) in December, after firm spending plans are considered again by Service Committees. S&R will review the final overall programme in January, in particular regarding the overall levels of borrowing and financing costs, before recommending the programme as part of the overarching Business Plan for Full Council to consider in February.
- 2.2 There are several schemes in progress where work is underway to develop the scheme, however they are either not sufficiently far enough forward to be able to include any capital estimate within the Business Plan, or a draft set of figures have been included but they are, at this stage, highly indicative. The following are the main schemes that this applies to at this stage:
 - Waterbeach Waste Treatment Facilities - this scheme has been included; however, figures are highly indicative at this stage.
 - Independent Living Services - this is moving through the committee process and has not yet been included within the plan.

2.3 The St Ives Smart Energy Grid Project

Table 4 of the Capital Programme (reference B/C 5.014) includes the forecast capital cost of the project as £4,321,000. In July 2021 committee approved the investment case for the Project on the understanding that latest costs from suppliers were required on key elements of the Project on the proviso the project continues to demonstrate an acceptable net present value before issuing a Notice to Proceed to Bouygues for project mobilisation. The finalised costs are shown in Table 6 below comparing final costs from the July 2021 investment case approved by Committee to the final costs in November 2021. The overall capital borrowing cost has increased by £372,021 for the project however the overall investment case has significantly improved mainly due to the rising costs and values associated with energy and carbon. These updated figures will be reflected in the Finance Tables being taken to December Committee.

Table 6

| July 2021 | | Nov 2021 | | |
|--------------|--------------|--------------|--------------|------------------------------------|
| Excl. carbon | Incl. carbon | Excl. carbon | Incl. carbon | |
| £2,232,378 | £2,232,378 | £2,604,399 | £2,604,399 | CCC cost to complete project |
| £4,283,123 | £4,283,123 | £4,814,331 | £4,814,331 | Total capital cost |
| £4,503,190 | £5,895,263 | £6,304,650 | £13,129,823 | Net operating revenue for 30 years |
| £1,647,534 | £3,039,607 | £3,492,547 | £10,317,719 | Net Cash Flow after loan costs |
| 2.84% | 4.62% | 4.95% | 11.57% | 30yr Internal Rate of Return (IRR) |
| 21.93 | 18.27 | 19.5 | 10.6 | Payback Period (years) |
| -£58,199 | £755,394 | £330,455 | £3,786,250 | Net Present Value @ 30th Year |
| 7,691 | 7,691 | 14,073 | 14,073 | Tonnes Avoided Over 30 Year Life |
| 256.38 | 256.38 | 469 | 469 | Average Annual Carbon Saving |
| 28.0GWh | 28.0GWh | 28.0GWh | 28.03GWh | Generated over 30 years |
| ~297 | ~297 | ~298 | ~298 | Households equivalent |

2.4 Where the Covid-19 pandemic has had an impact on the costs of a capital scheme and this has been quantified, this has been worked into revised budgets based on the current situation. However, any further changes to Government guidelines in response to the pandemic would also require further revision of costs/timescales, and therefore capital budgets. In addition, there have been signs of a sharp inflationary rise on construction goods due Brexit and wider supply chain issues; where the impact of this is known or can be estimated, it has been included, but further rises are anticipated.

3. Revenue Implications

3.1 All capital schemes can have a potential two-fold impact on the revenue position, relating to any cost of borrowing through interest payments and repayment of principal and the ongoing revenue costs or benefits of the scheme. Conversely, not undertaking schemes can also have an impact via needing to provide alternative solutions, such as Home to

School Transport (e.g. transporting children to schools with capacity rather than investing in capacity in oversubscribed areas).

- 3.2 The Council is required by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, S&R recommends an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan. In order to afford a degree of flexibility from year to year, changes to the phasing of the limit is allowed within any three-year block (the current block starts in 2021-22), so long as the aggregate limit remains unchanged.
- 3.3 For the 2021-22 Business Plan, GPC (prior to the creation of S&R) agreed that this should continue to equate to the level of revenue debt charges as set out in the 2014-15 Business Plan for the next five years (restated to take into account the change to the MRP Policy agreed by GPC in January 2016) and limited to around £39m annually from 2019-20 onwards. S&R are due to set limits for the 2022-23 Business Plan as part of the Capital Strategy review in November.

4. Summary of the draft capital programme

4.1 The revised draft Capital Programme is as follows:

| Service Block | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|------------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| People and Communities | 89,313 | 140,378 | 74,080 | 36,418 | 16,296 | 23,688 |
| Place and Economy | 73,566 | 36,057 | 26,743 | 16,302 | 11,997 | 23,182 |
| Corporate Services | 12,245 | 2,510 | 2,426 | 1,080 | 800 | 12,800 |
| Total | 175,124 | 178,945 | 103,249 | 53,800 | 29,093 | 59,670 |

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

| Funding Source | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|------------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| Grants | 55,698 | 28,788 | 30,570 | 28,325 | 19,047 | 21,437 |
| Contributions | 37,582 | 68,846 | 27,318 | 12,420 | 39,749 | 81,990 |
| Capital Receipts | 1,348 | 3,343 | 3,349 | 2,000 | 2,000 | 8,000 |
| Borrowing | 65,780 | 83,199 | 49,010 | 11,206 | 2,147 | 14,244 |
| Borrowing (Repayable)* | 14,716 | -5,231 | -6,998 | -151 | -33,850 | -66,001 |
| Total | 175,124 | 178,945 | 103,249 | 53,800 | 29,093 | 59,670 |

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

All funding sources above are off-set by an amount included in the capital variation budget, which anticipates a degree of slippage across all programmes and then applies that slippage to individual funding sources.

4.3 The following table shows how each Service's borrowing position has changed since the 2021-22 Capital Programme was set:

| Service Block | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| People and Communities | -3,945 | -26,983 | 27,081 | 23,501 | 8,004 | 1,529 | -3,575 |
| Place and Economy | 27,914 | 16,530 | 7,758 | 5,170 | -7 | -8 | 7,610 |
| Corporate Services | -29,899 | -3,522 | -2,999 | -5,350 | -180 | -129 | -3,224 |
| Corporate and Managed Services – relating to general capital receipts | - | - | - | - | - | - | - |
| Total | -5,930 | -13,975 | 31,840 | 23,321 | 7,817 | 1,392 | 811 |

The significant change in P&C relates to the removal of one large secondary scheme with a £38.8m total budget – see below.

4.4 The table below categorises the reasons for these changes:

| Reasons for change in borrowing | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| New | 4,728 | 12,298 | 12,557 | 24,610 | 2,435 | 210 | 0 |
| Removed/Ended | -6,327 | -27,554 | -7,950 | -2,912 | -2,125 | -150 | -430 |
| Minor Changes/Rephasing* | -14,421 | 12,569 | 5,913 | -2,980 | 730 | -99 | 3,065 |
| Increased Cost (includes rephasing) | -5,737 | 11,515 | 26,207 | 19,295 | 8,909 | -4,525 | 0 |
| Reduced Cost (includes rephasing) | -152 | -893 | 0 | 0 | 0 | 0 | -4,525 |
| Change to other funding (includes rephasing) | -1,627 | -17,935 | 1,376 | -11,470 | -1,977 | 6,123 | 1,402 |
| Variation Budget | 19,779 | -4,207 | -5,851 | -3,753 | -263 | -310 | 1,407 |
| Capitalisation of Interest | -2,173 | 232 | -412 | 531 | 108 | 143 | -108 |
| Total | -5,930 | -13,975 | 31,840 | 23,321 | 7,817 | 1,392 | 811 |

*This does not off-set to zero across the years because the rephasing also relates to pre-2021-22.

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

4.6 The above tables have been amended following previous service committees to take into account recent updates.

5. Overview of Place & Economy's draft capital programme

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

| Capital Expenditure | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| Place & Economy | 73,566 | 36,057 | 26,743 | 16,302 | 11,997 | 23,182 |

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

| Funding Source | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 | 2026-27 £'000 | Later Yrs £'000 |
|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| Grants | 29,831 | 19,042 | 16,231 | 15,207 | 10,878 | - |
| Contributions | 13,791 | 6,968 | 3,982 | 963 | 963 | 5,500 |
| Borrowing | 29,944 | 10,047 | 6,530 | 132 | 156 | 17,682 |
| Total | 73,566 | 36,057 | 26,743 | 16,302 | 11,997 | 23,182 |

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

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

5.5 New Schemes and Changes to Existing Capital Schemes

5.5.1 Both new schemes and changes to existing schemes, such as rephasing, re-costing, and revised funding are highlighted below.

5.5.2 Waterbeach Waste Treatment Facilities

A new scheme has been placed into the capital programme to take account of amendments to the Waterbeach waste treatment facilities following changes to the Industrial Emissions Directive to reduce emissions to levels which are able to meet the sector specific Best Available Technique conclusions (BATc) and comply with new Environmental Permit conditions issued by the Environment Agency.

5.5.3 Connecting Cambridgeshire

A number of workstreams have been rephased into 2022/23 to continue the work of Connecting Cambridgeshire. Additional grant funding from the Combined Authority of £2.125m has also been included in the figures but this will not be finalised until January 2022.

5.5.4 Energy

Updates have been made to several capital business cases, to reflect the re-phasing of work into 23-24 and recent movements in energy and carbon values.

6. Alignment with corporate priorities

The purpose of the Business Plan is to consider and deliver the Council's vision and priorities and section 1 of this paper sets out how we aim to provide good public services and achieve better outcomes for communities, whilst also responding to the changing challenges of the pandemic. As proposals are developed, they will consider the corporate priorities:

- 6.1 Communities at the heart of everything we do
- 6.2 A good quality of life for everyone
- 6.3 Helping our children learn, develop and live life to the full
- 6.4 Cambridgeshire: a well-connected, safe, clean, green environment
- 6.5 Protecting and caring for those who need us

7. Significant Implications

7.1 Resource Implications

The full detail of the financial proposals and impact on budget will be described in the financial tables of the business plan. The proposals will seek to ensure that we make the most effective use of available resources and are delivering the best possible services given the reduced funding.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for the proposals set out in this report.

7.3 Statutory, Legal and Risk Implications

The proposals set out in this report respond to the statutory duty on the Local Authority to deliver a balanced budget. Cambridgeshire County Council will continue to meet the range of statutory duties for supporting our citizens.

7.4 Equality and Diversity Implications

As the proposals are developed ready for December service committees, they will include, where required, Equality Impact Assessments that will describe the impact of each proposal, in particular any disproportionate impact on vulnerable, minority and protected groups.

7.5 Engagement and Communications Implications

Our Business Planning proposals are informed by the CCC public consultation and will be discussed with a wide range of partners throughout the process. The feedback from consultation will continue to inform the refinement of proposals. Where this leads to significant amendments to the recommendations a report would be provided to Strategy and Resources Committee.

7.6 Localism and Local Member Involvement

As the proposals develop, we will have detailed conversations with Members about the impact of the proposals on their localities. We are working with members on materials which will help them have conversations with Parish Councils, local residents, the voluntary sector and other groups about where they can make an impact and support us to mitigate the impact of budget reductions.

7.7 Public Health Implications

We are working closely with Public Health colleagues as part of the operating model to ensure our emerging Business Planning proposals are aligned.

7.8 Environment and Climate Change Implications on Priority Areas

The climate and environment implications will vary depending on the detail of each of the proposals which will be coming to committee later for individual approvals (currently scheduled for November / December committees). The implications will be completed accordingly at that stage.

8. Source documents

8.1 Source documents

The 2021/22 Business Plan, including the Capital Strategy Capital Planning and Forecast: financial models.

8.2 Location

<https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans>