Agenda Item No:7

Service committee review of the draft 2022-23 capital programme

To:	Strategy & Resources Committee
Meeting Date:	2 November 2021
From:	Chief Finance Officer
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
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 Corporate Services and providing Members with the opportunity to comment on the draft proposals and endorse their development.
Recommendation:	The Committee is asked to:

a) agree that the advisory limit on the level of debt charges (and therefore prudential borrowing) should be kept at the levels set out in section 3.4.;

b) note the overview and context provided for the 2022-23 Capital Programme for Corporate Services; and

c) Comment on the draft proposals for Corporate Services' 2022-23 Capital Programme and endorse their development.

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1. Capital Strategy

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

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

1.3 The Council's Capital Strategy is revised each year to ensure it is up to date, fully comprehensive and considers any new statutory or recommended guidance. The Chartered Institute for Public Finance and Accountancy (CIPFA) have issued a new publication this year; Capital Strategy Guidance 2021 – a whole organisation approach. As such, the Capital Strategy will be significantly re-written, taking on board this new guidance and aligning itself with the priorities and direction of the Council and will be reviewed by Strategy and Resources (S&R) Committee in December.

1.4 As all capital schemes have the potential to impact on the revenue position, in order to ensure that resources are allocated optimally, capital programme planning needs to be determined in parallel with the revenue budget planning process. This report therefore also forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes have been developed by Services and all existing schemes have been reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees for further review and development.

2. Development of the 2022-23 capital programme

2.1 The Council continues to follow the approach utilised in previous years. Any Invest to Save/Earn schemes generated through work in order to deliver revenue savings or ongoing income streams are reviewed and assessed through the existing approach for developing and prioritising capital schemes.

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

2.3 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 S&R Committee in December, after firm spending plans are considered again by Service Committees. S&R Committee 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.

2.4 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 - the expansion of this programme is moving through the committee process and has not yet been included within the plan.

2.5 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 costs; 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 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 Committee is to review and recommend an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan to ensure that the level of borrowing arising from the capital programmes proposed by Service committees is prudential. 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. Ultimately, if S&R Committee does not consider borrowing levels to be affordable and sustainable it has the option not to recommend the Business Plan to Council.

3.3 Acknowledging the Council’s strategic role in stimulating economic growth across the County, e.g. through infrastructure investment, it is recommended that any new, or changes to existing, capital proposals that are able to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme’s borrowing requirement continue to be excluded from contributing towards the advisory limit. Any capital proposals generated through transformation work will be on an Invest to Save/Earn basis and therefore meet this criterion. In line with the approach set out in the Capital Strategy, S&R Committee will still need to review the timing of the repayment, in conjunction with the overall total level of debt charges when determining affordability.

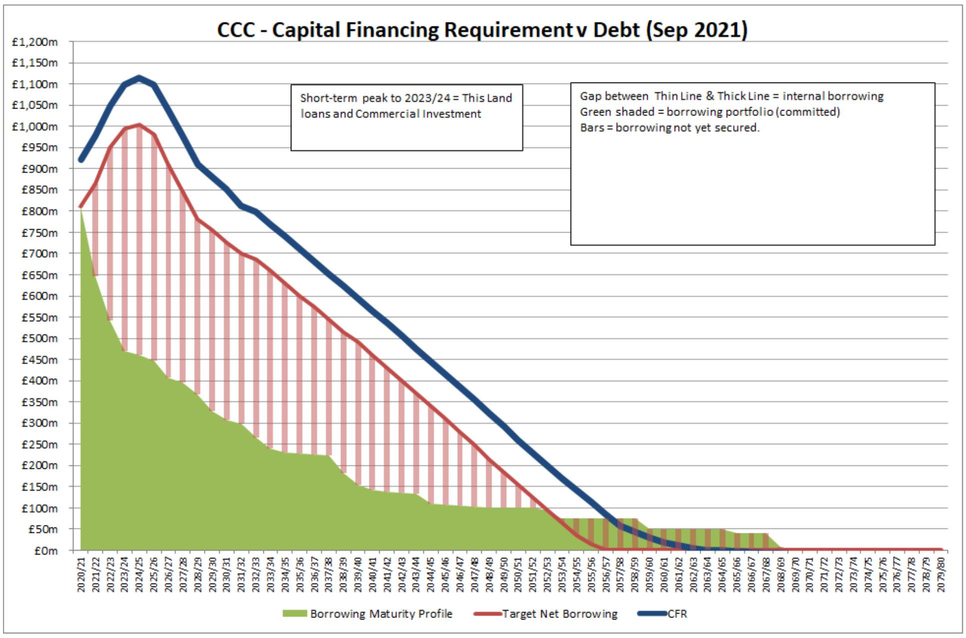
3.4 The table below sets out the current advisory limit on debt charges (restated for the change in Minimum Revenue Provision (MRP) policy agreed by General Purposes Committee (GPC) in January 2016) that S&R Committee is asked to review and confirm whether it is still appropriate. The limit was originally set several years ago and has been increased by around 2% each year since. It is compared against the draft debt charges budget based on the capital programme being discussed by committees in October and November. As this work is ongoing with further revision to tables to be discussed in December, these figures are likely to change. Capital Programme Board is actively supporting services in its review of the programme through consideration and challenge of updated Business Cases, with a view to reducing the revenue impact of the programme wherever possible. The debt charges budget is also currently undergoing a thorough review of interest rates, internal cash balances and Minimum Revenue Provision charges.

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)	30.5	33.0	37.7	41.5	40.1	42.3
Recommend limit	39.7	40.5	41.3	42.2	43.0	43.9
HEADROOM	**-9.3**	**-7.6**	**-3.6**	**-0.7**	**-2.9**	**-1.5**
Recommend limit (3 years)	121.5			129.1		
HEADROOM (3 years)	**-20.5**			**-5.1**		

3.5 The revenue cost of financing capital for commercial activity schemes are recharged from the debt charges budget to individual schemes in order to be able to easily report the net revenue benefit of this activity. As such, the debt charge figures above exclude the impact of the Invest to Save/Earn schemes.

3.6 Whilst noting that the impact of the Invest to Save/Earn schemes is not included above, even though the debt charges limit is not breached, S&R Committee still has an obligation to ensure that the overall total level of debt remains affordable. The following table and chart show the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, and the estimated increase in borrowing levels over the period of the 2022-23 plan. Maintaining the proportion of budget spent on debt charges at 2022/23's level (9.7%) would reduce the revenue cost of capital schemes but would require a reduction or rephasing of the draft capital programme.

	2022-23	2023-24	2024-25	2025-26	2025-26
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	9.7%	10.1%	10.6%	10.0%	10.1%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	6.3%	6.2%	6.8%	7.6%	8.1%



4. Capital Prioritisation

4.1 An Investment Appraisal of each capital scheme (excluding schemes with 100% ring-fenced funding) is undertaken / revised as part of the Investment Proposal, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use. Schemes that are already committed (i.e., where the asset is already part constructed, or we have entered into a commitment to incur expenditure) are not subsequently scored; nor are schemes that are fully funded by non-borrowing resources.

4.2 This process allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its targeted outcomes. However, it should be noted that it is difficult to score many of the school schemes for use of non-borrowing funding, as the allocation of Basic Need / Capital Maintenance grants and prudential borrowing is often arbitrary and could in theory be moved around. A summary of results for all scored schemes will be provided to S&R Committee in December.

4.3 The process and criteria used for prioritising schemes is due to be reconsidered over the coming months to bring it in line with the updated Strategic Framework and key priorities of the new administration, with the intention to have the new system fully operational for the next round of planning.

5. Summary of the draft capital programme

5.1 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	73,956	24,013	22,414	11,973	11,997	23,182
Corporate Services	12,245	2,510	2,426	1,080	800	12,800
Total	**175,514**	**166,901**	**98,920**	**49,471**	**29,093**	**59,670**

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	50,373	22,459	25,241	23,996	19,047	21,437
Contributions	32,582	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	76,495	77,484	50,010	11,206	2,147	14,244
Borrowing (Repayable)*	14,716	-5,231	-6,998	-151	-33,850	-66,001
Total	**175,514**	**166,901**	**98,920**	**49,471**	**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 offset 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.

5.3 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	-2,279	12,051	-1,467	2,661	-7	-8	-1,802
Corporate Services	294	11,672	511	-1,841	-180	-129	6,188
Corporate and Managed Services – relating to general capital receipts	-	-	-	-	-	-	-
Total	**-5,930**	**-3,260**	**26,125**	**24,321**	**7,817**	**1,392**	**811**

5.4 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	20,284	-1,802	-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	-14,935	3,376	-10,470	-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**	**-3,260**	**26,125**	**24,321**	**7,817**	**1,392**	**811**

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

6. Overview of Corporate Services draft capital programme

6.1 The revised draft capital programme for the Corporate Services is as follows:

	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000	Later Years £'000
Corporate Services & Transformation	5,287	1,788	1,682	-	-	-
Investments	6,450	350	350	350	-	-
Property Services	2,441	600	600	600	600	1,800
Strategic Assets	1,012	400	400	400	400	1,200
Capital Programme Variation	-2,945	-628	-606	-270	-200	-3,200
Total	**12,245**	**2,510**	**2,426**	**1,080**	**800**	**12,800**

The full list of Corporate Services capital schemes are shown in the draft capital programme at Appendix A.

6.2 It 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 Years £'000
General Capital Receipts	-	2,000	2,000	2,000	2,000	8,000
Prudential Borrowing	6,012	-833	-923	-920	-1,200	-5,596
Prudential Borrowing (Repayable)*	4,885	-	-	-	-34,329	-75,972
Ring Fenced Capital Receipts	1,348	1,343	1,349	-	-	-
Other Contributions					34,329	86,368
Total	**12,245**	**2,510**	**2,426**	**1,080**	**800**	**12,800**

**The large negative figures in later years relate to This Land loans being repaid.*

6.3 The following changes have been made to existing schemes from the 2021- 22 Business Plan:

- IT Strategy: The budget for this scheme has been rephased to reflect the timing of the work. As project resources have been required to work on the resolution of the data centre's air-conditioning issue, projects within the current financial year have been delayed and will be finalised in 2022-23. This scheme is to be funded from prudential borrowing.

- Data Centre Relocation: The budget for this scheme has been rephased to reflect the timing of the work. The move of Cambridgeshire's data centre was scheduled to take place in April 2021 however was delayed due to problems with the air-conditioning units within the Sand Martin House building. Budget will now be required in 2022-23. This scheme is to be funded from prudential borrowing.

- Housing Schemes: The budget for this scheme has been reprofiled to reflect the revised loan schedule included within the new Business Plan of This Land, the Council's solely owned housing company.

6.4 The following new schemes are proposed for 2022-23:

- Condition Survey Works – Condition surveys have reviewed the structural, M&E and internal finishes of corporate buildings. The surveys are reviewed by the Property Services team to determine priority and criticality. Indicative costs are applied to each element of work. The scheme intends to make the necessary repairs to bring buildings back to a decent standard, considering statutory requirements, property H&S and compliance. The business case is for a total budget of £1,841m in 2022-23. This scheme is to be funded from prudential borrowing.

- Mill Farmhouse, Somersham - The scheme proposal is to demolish the existing house which has been deemed structurally beyond economical repair and to replace it with a new dwelling. The £58k 2021-22 element of the scheme is being considered at this meeting as part of the Integrated Finance Monitoring Report; the remaining £392k 22-23 is yet to be approved. The full business case is for a total budget of £450k across 2021-22 and 2022-23 and will be funded by borrowing.

7. Alignment with corporate priorities

The purpose of the Business Plan is to consider and deliver the Council's vision and priorities and 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 the proposals are developed, they will consider the corporate priorities:

7.1 Communities at the heart of everything we do

7.2 A good quality of life for everyone

7.3 Helping our children learn, develop and live life to the full

7.4 Cambridgeshire: a well-connected, safe, clean, green environment

7.5 Protecting and caring for those who need us

8. Significant Implications

8.1 Resource Implications

The resource implications have been noted within the main body of the report.

8.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for this priority.

8.3 Statutory, Legal and Risk Implications

There is a risk that capital schemes which are expected to result in revenue income do not deliver the level of income expected.

8.4 Equality and Diversity Implications

There are no significant implications for this priority.

8.5 Engagement and Communications Implications

There are no significant implications for this priority.

8.6 Localism and Local Member Involvement

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

8.7 Public Health Implications

There are no significant implications for this priority.

Have the resource implications been cleared by Finance? Yes
Name of Financial Officer: Tom Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? Not applicable
Name of Officer:

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? Not applicable
Name of Legal Officer:

Have the equality and diversity implications been cleared by your Service Contact?
Not applicable
Name of Officer:

Have any engagement and communication implications been cleared by Communications?
Not applicable
Name of Officer:

Have any localism and Local Member involvement issues been cleared by your Service Contact? Not applicable
Name of Officer:

Have any Public Health implications been cleared by Public Health?
Not applicable
Name of Officer:

9. Source documents

9.1 The 2021-22 Business Plan, including the Capital Strategy, Capital Planning and Forecast

9.2 Business plan 2021 to 2022 - Cambridgeshire County Council