



Report to:	Cabinet	06 December 2021
Lead Cabinet Member:	John Williams - Lead Cabinet Member for Finance	
Lead Officer:	Peter Maddock - Head of Finance	

Capital Programme Update & New Bids

Executive Summary

1. To report to the Cabinet on the performance of the Council's Capital Programme during 2020/2021 and to consider the new Capital Programme bids from 2022/2023.

Key Decision

2. No

Recommendations

3. It is recommended that Cabinet consider the report and, if satisfied, to:
 - (a) **Acknowledge the performance achieved in relation to the Capital Programme schemes substantially completed in 2020/2021, summarised at Appendix A in the report.**
 - (b) **Consider the capital programme bids for new projects outline at Appendix B and to determine whether to approve the new capital schemes.**
 - (c) **Recommend to Full Council the revised capital programme for the period 2021/2022 to 2026/2027, at Appendix C for the General Fund and at Appendix D for the Housing Revenue Account, to reflect the new scheme bids, amendments to the programme and the reprofiling of expenditure identified in the report.**

Reasons for Recommendations

4. To enable the Cabinet to consider the outturn performance of the Council's Capital Programme in 2020/2021, new capital project bids for 2022/2023 and the updated capital programme incorporating new items and reprofiling of expenditure.

Details

Capital Programme – Performance Monitoring

5. The Council's approved Capital Strategy and good practice requires that:
 - (i) Effective arrangements are established for the management of capital expenditure, including the assessment of project outcomes, budget profiling, deliverability, and the achievement of value for money.
 - (ii) It is appropriate that, in terms of project outcomes and deliverability, the Cabinet receive an annual report covering:
 - the details of schemes commenced on time.
 - the details of schemes completed on time.
 - how many schemes were completed within budget?

Capital Programme – Performance 2020/2021

6. A summary of the performance achieved in relation to the Capital Programme schemes (excluding rolling programmes) substantially completed in 2020/2021 is detailed in **Appendix A**.
7. In summary, the Cabinet will note that there was an expenditure under-spend of £5.369 million and equivalent financing underspend in relation to the approved 2020/2021 Capital Programme, with outturn expenditure of only £43.252 million compared to the original funding allocation of £48.621 million.
8. A more detailed post implementation review of key capital projects has been undertaken by relevant Officers in accordance with the Capital Strategy and a summary of the scheme progress is also identified in **Appendix A**.

New Scheme Bids

9. It is appropriate for Cabinet to consider, in line with the Capital Strategy, all new bids for capital investment before making recommendations to Council.
10. It should be recognised that the Council has finite resources and there are competing pressures and affordability issues that need to be taken into account. The corporate focus of capital investment should align with the expectations of the approved Capital Strategy and accordingly there will be a need to:

- (a) invest where the Council has a statutory, contractual or safety obligation including unavoidable requirements emanating from the Council's approved Corporate Asset Plan.
 - (b) invest in discretionary schemes which meet Business Plan priorities.
 - (c) invest in schemes which provide value for money (i.e. invest to save) provided they are consistent with Business Plan priorities.
11. The schedule of capital programme bids for new projects (i.e. over and above those needed for continued operational purposes, or that form part of a rolling programme) is attached at **Appendix B**. The bids have been subject to the completion of a business case in accordance with the Capital Strategy. This covers, amongst other things, project risks, resource implications and compliance with the key priorities of the Council. The bids are considered to fall into the following categories:
- (1) Legally/contractually unavoidable.
 - (2) Essential for health and safety reasons.
 - (3) Support Business Plan objectives.
 - (4) Benefit from external funding opportunities; and
 - (5) "Invest to Save" projects (for which regard should be given to the length of the investment payback period).

Capital Programme Financing

12. The Council will need to rely on borrowing to fund capital investment going forward and this has a direct impact on the revenue budget. The level of borrowing is clearly a factor that needs to be considered by the Council, but excessive borrowing must be considered with caution as repayment of any loans would fall on Council Tax, at a time when significant budgetary savings must be made to avoid an unacceptable increase in Council Tax or reductions in key services.
13. The ability to generate capital receipts to contribute to the capital programme funding is limited and relates in part to new build shared ownership but more significantly to HRA right to buy sales, currently the forecast is for 2021/2022 £3m right to buy receipts with £2m retained for investment in new build. It would not be prudent, given uncertainty in terms of timing and the planning framework, to include them in projections at this time.
14. In determining its Capital Programme, the Council must comply with the regulations relating to the Prudential Framework for Capital Finance in local authorities and related prudential indicators, i.e., is it prudent, affordable (in Council Tax terms) and sustainable (in the Medium Term). Due regard should, therefore, be given to:
- (i) The estimate of available capital finance (from borrowing and capital receipts if any) needed to cover existing committed schemes and any residual sum available for uncommitted and future priority schemes.

(ii) The estimate of capital finance resource becoming available in the ensuing four years for uncommitted schemes and new priority schemes (e.g. from external borrowing, forecast new capital receipts (if any) or external funding).

(iii) The estimated revenue implications (estimated at £62,000 per year per £1 million borrowed over 25 years) of the proposed total programme and impact on Council Tax in terms of affordability.

15. Consequently, the number of new priority capital schemes which can be approved at each annual review of the programme will be limited by these affordability factors.
16. To enter into excessive long-term borrowing would only exacerbate the position and, on this basis, it is strongly recommended that the Council carefully considers the level of capital investment.
17. The Capital Programme is prepared on a five-year rolling programme. As such Cabinet/Council in February 2022 will be considering the programme for the financial years 2022/2023 through to 2026/2027.
18. In the event that all new bids in **Appendix B** are eventually approved, and new borrowing is required for those schemes not financed from Earmarked Reserves (totalling £240,000), the additional cost of the capital programme in 2022/2023 will be **£52,000** (reflecting the relatively short-term life of the assets). This is in addition to the borrowing required for the existing capital scheme approvals for 2022/2023 (i.e. £29.7 million) at an estimated revenue cost of **£1.633 million**. This is based on an interest rate of 1.5% but the Council is currently able to borrow at significantly lower rates.
19. The total additional cost to revenue for the borrowing costs of the full capital programme (including existing approvals plus the above new bids) is **£1.686 million** in 2022/2023.

Capital Programme Monitoring

20. Full Council, at its meeting on 23 February 2021, approved new schemes for inclusion in the General Fund and HRA capital programme for the period 2021/22 to 2025/26 and also the re-profiling of the existing programme.

The full General Fund capital programme, approved by Council in February 2021, is summarised in the table below:

General Fund Capital Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
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Gross Directorate Budgets:					
Transformation	307	104	104	104	104
Human Resources/Organisation	2,892	275	34	68	1,060
Corporate Services	60,269	48,220	52,200	52,200	51,800
Waste & Environment	2,415	1,835	2,053	1,490	8,740
Housing (General Fund)	4,596	5,425	11,325	1,325	1,325
Advances to Housing Company	3,288	-	-	-	-
Gross Total	73,767	55,859	65,716	55,187	63,029
Financed By:					
Grants/Contributions	5,201	5,635	11,160	1,710	4,120
Revenue	2,952	1,226	1,746	632	5,546
Capital Receipts	966	498	310	345	263
Borrowing	64,648	48,500	52,500	52,500	53,100
Total Financing	73,767	55,859	65,716	55,187	63,029

21. The full HRA capital programme, approved by Council in February 2021, is summarised in the table below:

HRA Capital Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Gross Directorate Budgets:					
Existing Stock Improvements	7,293	7,122	7,265	7,410	7,558
Other Improvements	70	70	70	70	70
New Build	21,923	15,173	10,200	10,200	10,200
Other	250	250	250	250	250
Gross Total	29,536	22,615	17,785	17,930	18,078
Financed By:					
Grants/Contributions	450	400	400	350	345
Direct Revenue Financing	13,788	6,099	5,256	6,307	6,229
Capital Receipts	7,499	7,084	4,880	3,800	3,800
Major Repairs Reserve	6,799	7,032	7,249	7,473	7,704
Borrowing	1,000	2,000	-	-	-
Total Financing	29,536	22,615	17,785	17,930	18,078

22. There is a need to update the capital programme to consider amendments to and the re-phasing of the 2021/2022 and future year schemes following ongoing monitoring of project progress and factors influencing the timing of deliverability.

23. The table below sets out a summary of the revised General Fund Capital Programme with an explanation of the key variations.

General Fund Capital Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Gross Directorate Budgets:					
Chief Executive	23,000	30,000	30,000	30,000	30,000
Director of Greater Cambridge Shared Planning	15	-	-	-	-
Head of Climate, Waste & Environment	1,595	3,395	1,833	1,784	9,660
Head of Finance	230	259	200	200	200
Head of Housing	2,206	8,772	11,405	1,405	1,405
Head of Transformation, HR & Corporate Services	2,884	1,382	49	83	1,075
Advances to Housing Company	10,000	-	-	-	-
Gross Total	39,930	43,808	43,487	33,472	42,340
Financed By:					
Grants / Contributions	2,166	9,952	11,280	2,040	4,560
Revenue	3,128	2,053	3,114	654	6,084
Capital Receipts	19,836	2,103	743	778	1,696
Borrowing	14,800	29,700	28,350	30,000	30,000
Total Financing	39,930	43,808	43,487	33,472	42,340

Key variations can be summarised as follows:

- (a) The amount allocated in 2021/22 for lending to Ermine Street Housing has been revised from £3.28 to £10m due to the loans requirement for house purchases in order to reach the 500 property purchase target. A recommendation was made to Full Council in September to increase the allocation in 2021/22 by an additional £5.237m.
- (b) When the investment strategy was originally agreed £340m was proposed for investment in the period 1st April 2019 to 31st March 2024. This has since been revised considering the consultation response from the Public Works Loans Board which means that the Council are unable

to invest in assets that are purchased purely for income yield. The proposed update to the capital programme allocates £173m to be spent between 1st April 2021 and 31st March 2027 bringing the total investment to £225m since the start of the programme in April 2019. A revised investment strategy is to be submitted to Cabinet in December.

- (c) Some of the allocation made in 2021/2022 for the Northstowe Civic Hub and Community Centre has been rolled forward to be spent in 2022/2023 in recognition of delays to the programme. A planning application for the Sports Pavillion has been submitted and £0.23m has been allocated to cover expenditure which is likely to be incurred in quarter four of 2021/22
- (d) The greening project of South Cambs Hall has been significantly delayed from its original timeline mainly due to the pandemic. In recognition of the delays the allocated budget has been rephased in 2021/2022 and 2022/2023.
- (e) The purchase of the street cleansing truck replacement and air quality monitoring equipment purchase will now occur in 2021/22, allocated budgets have been increased to reflect expenditure likely to occur.
- (f) Inclusion of the new bids listed at **Appendix B.**
- (g) On the financing side borrowing is required to finance the lending to Ermine Street and the Investment Strategy.

24. Details of the full General Fund Capital Programme from 2021/2022 (current year) to 2025/2026, incorporating new scheme bids, is shown at **Appendix C.**

25. The table below sets out a summary of the revised HRA Fund Capital Programme with an explanation of the key variations.

HRA Capital Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Gross Directorate Budgets:					
Existing Stock Improvements	8,257	7,122	7,265	7,410	7,558
Other Improvements	70	70	70	70	70
New Build	11,429	20,934	16,145	10,200	10,200
Other	414	211	201	201	201
Gross Total	20,170	28,337	23,681	17,881	18,029
Financed By:					
Grants / Contributions	575	325	550	550	550
Direct Revenue Financing	6,848	12,639	5,256	6,351	6,351

Capital Receipts	4,420	8,181	6,540	3,500	3,500
Major Repairs Reserve	8,327	7,192	7,835	7,480	7,628
Borrowing	-	-	3,500	-	-
Total Financing	20,170	28,337	23,681	17,881	18,029

Key variations can be summarised as follows:

- (a) Budgets for improvements to existing stock are reprofiled each year in line with requirements. The allocation is higher in 2021/2022 revised as result of the impact of Covid and issues with sourcing materials. The budgeted allocation allows for the service to seek catch up on slippage from the previous year.
- (b) The Housebuilding programme allocations are reprofiled regularly. The previously unallocated amount in 2021/2022 has now been allocated or reprofiled into 2022/2023 where amounts are not expected to be spent in this financial year.
- (c) On the financing side borrowing was originally expected to be required in 2021/2022 for HRA schemes but due to slippage this is now not expected until 2023/2024.

26. Details of the full HRA Capital Programme from 2021/2022 (current year) to 2025/2026, incorporating new scheme bids, is shown at **Appendix D**.

Options

27. The option exists of not approving new capital funding bids.

Implications

28. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered: -

Financial

29. The Council has two policies which underpin the Capital Programme, namely the Capital Investment Strategy and the Medium-Term Financial Strategy (MTFS). The former provides the framework for the evaluation, approval and monitoring of capital schemes and this includes a requirement for an annual report each September relating to schemes completed in the previous financial year. The MTFS provides the framework for funding the Capital Programme and, in line with

good practice, no capital scheme can be authorised, and no commitment made until:

Capital finance is in place to cover the full capital costs; and
It has been determined by Council that the ongoing revenue cost consequences are affordable in the light of forward three-year Revenue Budget forecasts and related Council Tax consequences.

30. The Capital Strategy was approved by Council at its meeting on 23 February 2021 and provides the framework for submitting and considering new bids and for reviewing the performance of schemes in the approved programme.
31. Specifically, it is appropriate to submit an annual report (as part of performance monitoring arrangements) in respect of capital schemes that have reached practical/substantial completion in terms of whether or not the scheme has met the objectives and, where appropriate, relevant performance measures.
32. There are additional resources required to fund the further loans to Ermine Street though interest on lending the Council takes out to fund this will be at a lower rate than the interest income the council receives from Ermine Street.

Risks / Opportunities

33. The main risks associated with the capital programme are that budgets are not adequate, leading to overspend and the financial implications arising from this or that the schemes will not meet the desired objectives.
34. The future aspirations for capital schemes must be affordable (i.e. there is identified capital resource to fund schemes) and capital budgets must be adequate to avoid overspending with consequent financial implications.

Consultation responses

35. None, except budget holders.

Alignment with Council Priority Areas Housing that is truly affordable for everyone to live in

36. The Council is committed to providing new homes for tenants through the New Build programme which has been built into the Capital Programme for 2021/2022 and subsequent years. This report supports the Council's business plan by recommending rephasing budgets in relation to HRA housebuilding.

Being green to our core

37. The Capital Programme provides an update on a number of schemes which relate to the green to our core element of the Councils business plan.

Background Papers

- General Fund Medium Term Financial Strategy – Council: 23 February 2021
- Budget Reports – Report to Cabinet: 3 February 2021
- Budget Reports – Report to Council: 23 February 2021
- General Fund Revenue & Capital Budget Provisional Outturn – Report to Cabinet: 6 September 2021
- Housing Revenue Account Revenue & Capital Budget Provisional Outturn – Report to Cabinet: 6 September 2021

Appendices

Appendix A: Completed Capital Projects 2021/2022: Performance

Appendix B: Capital Programme General Fund – New Bids

Appendix C: Updated General Fund Capital Programme 2021/2022 – 2026/2027

Appendix D: Updated HRA Capital Programme 2021/2022 – 2026/2027

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