



Report To: Cabinet 6 November 2019

Lead Cabinet Member(s): Councillor John Williams,
Lead Cabinet Member for Finance

Lead Officer: Peter Maddock, Head of Finance

SUBJECT: GENERAL FUND CAPITAL PROGRAMME UPDATE AND NEW BIDS

PURPOSE

1. To report to the Cabinet on the performance of the Council's Capital Programme during 2018/2019 and to consider the new Capital Programme bids from 2020/2021.
2. This is a key decision as there are resource implications directly arising from the report; the report provides monitoring information to ensure awareness of capital scheme progress and new capital bids for consideration and allocation.

RECOMMENDATIONS

3. That Cabinet is requested to consider the report and, if satisfied, to:
 - (a) Acknowledge the performance achieved in relation to the Capital Programme Schemes substantially completed in 2018/2019, summarised at Appendix A in the report;
 - (b) Consider the capital programme bids for new projects outlined in the report at Appendix B and to determine whether to approve the new capital schemes;
 - (c) Recommend to Full Council that additional funding of £545,000 is allocated from the Renewables Reserve to complete the footpath lighting upgrades given the environmental benefits, and that a full report be submitted to Cabinet for approval that outlines the programme of work, timescales, costs and payback period;
 - (d) Recommend to Full Council that funding of £1,300,000 is allocated from the Renewables Reserve for a range of energy efficiency and green energy measures at South Cambridgeshire Hall, and that a full report be submitted to Cabinet for approval that outlines the range of modifications and enhancements proposed, costs and payback period;
 - (e) Support, if resources permit, the establishment of a Renewal and Repairs Fund for vehicles, plant and equipment, as part of the 2020/2021 revenue determination process;
 - (f) Recommend to Full Council the revised General Fund capital programme for the period 2019/2020 to 2024/2025, at Appendix C, to reflect the new scheme bids, amendments to the programme and the reprofiling of expenditure identified in the report.

REASON FOR RECOMMENDATION

4. To enable the Cabinet to consider the outturn performance of the Council's Capital Programme in 2018/2019, new capital project bids for 2020/2021 and the updated capital programme incorporating new items and reprofiling of expenditure.

BACKGROUND INFORMATION

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 2018/2019

6. A summary of the performance achieved in relation to the Capital Programme schemes (excluding rolling programmes) substantially completed in 2018/2019 is detailed in **Appendix A**.
7. In summary, the Cabinet will note that, in many cases, schemes that commenced were completed on time and within budget. It is relevant, however, that there was an expenditure underspend of £7.316 million and equivalent financing underspend in relation to the approved 2018/2019 Capital Programme, with outturn expenditure of only £27.190 million compared to the original funding allocation of £34.506 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**.
12. The capital 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, summarised at **Appendix B**, 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).
13. The schedule of new bids includes additional funding for Business Plan priorities of (i) £545,000 in 2020/2021 for essential investment in footpath lighting upgrades given the level of need and energy consumption benefits (topping up an existing allocation of £750,000 from this source) and (ii) £1.3 million for a range of energy efficiency and green energy measures at South Cambridgeshire Hall. There is an uncommitted balance of **£3.425 million** in the established Renewables Reserve which could be used for these projects, subject to a detailed report to Cabinet on the scheme proposals, options, timescales and costings.

Investment Strategy

14. An updated Investment Strategy was considered by Cabinet, at its meeting on 2 October 2019, and has been recommended to Council for approval. The Strategy sets out how the Council determines its capital investment priorities and the updated version identifies the sum of £340 million in the period 2019/2020 to 2023/2024 for potential investment in the following streams:

Stream 1: Prime and close to prime commercial real estate investment let on long leases to good covenants which will provide a secure long-term income over and above their ability to pay back the purchase price debt;

Stream 2: Investment which can generate regeneration or economic development benefits as well as positive financial returns for the Council (e.g. energy storage projects or investments with regeneration benefits);

Stream 3: Investment partnerships with third party developers to deliver new homes (subject to completion of the Members Agreements).

15. The projection of likely investments in all three streams as follows:

Funding Allocation	2019/2020 £'000	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000
Stream 1	40,000	60,000	80,000	100,000	120,000
Stream 2	10,000	20,000	30,000	40,000	50,000
Stream 3	-	42,500	85,000	127,500	170,000
Totals	50,000	122,500	195,000	267,500	340,000

Vehicle, Plant and Equipment

16. The renewal of vehicles, plant and equipment, including IT equipment, has relied on capital programme bids and funding. As an alternative a Renewal and Repairs (R&R) Fund could be established for the purpose of defraying expenditure to be incurred from time to time in repairing, maintaining, replacing and renewing buildings, works, plant or equipment belonging to the Council. This would require annual revenue contributions to the R&R Fund to equalise costs over the life of the asset. A similar arrangement could apply to IT replacement systems by establishing a Software Fund with annual contributions set to meet the cost of replacement software systems.
17. It is proposed that, in preparing the 2020/2021 revenue budget, such Funds are established with revenue contributions built into the budget rather than recourse to borrowing and its associated costs. The extent to which this can be achieved will depend on the extent of savings achieved and other funding pressures that will impact on the delivery of a balanced budget.

Capital Programme Financing

18. 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.
19. The ability to generate capital receipts to contribute to the capital programme funding is very limited and relates entirely to HRA right to buy sales, with only £25,000 currently forecast for 2020/2021. It would not be prudent, given uncertainty in terms of timing and the planning framework, to include them in projections at this time.
20. 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 £55,000 per year per £1 million borrowed over 25 years) of the proposed total programme and impact on Council Tax in terms of affordability.
21. 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.

22. 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.
23. The Capital Programme is prepared on a five year rolling programme. As such Cabinet/Council in February 2020 will be considering the programme for the 2020/2021, 2021/2022, 2022/2023, 2023/2024 and 2024/2025 financial years.
24. 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 £731,100), the additional cost of the capital programme in 2020/2021 will be **£145,000** (reflecting the relatively short-term life of the assets). This is in addition to the borrowing required for the existing capital scheme approvals for 2020/2021 (i.e. £32.903 million) at an estimated revenue cost of **£1.085 million**.
25. The total additional cost to revenue for the borrowing costs of the full capital programme (including existing approvals plus the above new bids) is **£1.23 million** in 2020/2021. Additional borrowing for the purposes of the revised Investment Strategy (over and above the £20 million per annum in the approved capital programme) will have an estimated revenue cost of £2.72 million in 2021/2022 (if acceptable property investments are identified and commitments made), bringing the total borrowing costs to be met from revenue to £3.95 million for this period. This will be offset by the revenue returns from the property investment portfolio.

OPTIONS

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

IMPLICATIONS

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

Policy

28. 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.
29. The Capital Strategy was approved by Council at its meeting on 21 February 2019 and provides the framework for submitting and considering new bids and for reviewing the performance of schemes in the approved programme.

30. 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.

Legal

31. The Council is not legally required to have a Capital Programme but from time to time legally unavoidable schemes, such as those relating to Health and Safety, are required for which the Council has to identify an appropriate source of funding.
32. The Local Government Act 2003 introduced the Prudential Code which requires the Council to agree and comply with a number of Prudential Indicators that underpin the Council's capital investment demonstrating that the investment is prudent, sustainable and affordable.

Resource Implications

33. The net budget for the capital programme will need to be financed from the Council's resources (e.g. capital receipts), revenue financing or, primarily, by borrowing. The borrowing costs are approximately £55,000 per year for every £1 million borrowed and these borrowing costs will need to be factored into the revenue budget when preparing the Medium Term Financial Strategy.
34. Full Council, at its meeting on 21 February 2019, approved new schemes for inclusion in the General Fund capital programme for the period 2019/2020 to 2023/2024 and also the re-profiling of the existing programme. The full programme is summarised in the table below:

Capital Programme: General Fund	2019/2020 £million	2020/2021 £million	2021/2022 £million	2022/2023 £million	2023/2024 £million
Expenditure					
Housing Services	2.380	2.380	2.380	2.380	2.380
Health & Environmental Services	0.721	0.462	0.741	0.486	0.734
Corporate Services	20.753	25.053	20.142	20.153	20.153
Planning Services	-	-	-	-	-
Advances to Housing Company	12.507	12.689	-	-	-
Total	36.361	40.584	23.263	23.019	23.267
Funding					
Capital Receipts	1.698	1.284	1.373	1.384	1.384
Grants/Contributions	2.156	6.397	1.448	1.293	1.218
Borrowing	32.507	32.903	20.442	20.342	20.665
Total	36.361	40.584	23.263	23.019	23.267

35. The outturn in relation to the 2018/2019 Capital Programme, reported to Cabinet on 2 October 2019, identified an expenditure underspend of £7.316 million and equivalent financing underspend. This is shown in the table below:

	Revised Budget £ million	Outturn £ million	Variance £ million	C/F
Housing Services	2.212	1.063	(1.149)	0.030
Health & Environmental Services	0.921	0.976	0.055	0.052
Corporate Services	0.839	0.678	(0.161)	0.330
Planning Services	0.080	0.071	(0.009)	0
Advances to Housing Company	28.054	23.147	(4.907)	4.907
CLIC Investment	2.400	1.255	(1.145)	1.145
Expenditure	34.506	27.190	(7.316)	6.464
Capital Receipts	1.702	1.773	0.071	
Revenue (Inc. Reserves & HRA)	0.690	0.299	(0.391)	
Contributions (Inc. Section 106)	0.814	0.716	(0.098)	
Borrowing (Internal & External)	31.300	24.402	(6.898)	
Funding	34.506	27.190	(7.316)	

36. There is a need to update the capital programme to take into account the roll-over of funding from 2018/2019 to 2019/2020, the updated Investment Strategy, other amendments to the phasing of work and to include the proposed new bids. The revised programme is reproduced at **Appendix C**.

Risk Implications

37. The main risks associated with the capital programme are that budgets are not adequate, leading to over spend and the financial implications arising from this or that the schemes will not meet the desired objectives.
38. 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 over spending with consequent financial implications.

Environmental Implications

39. There are no environmental implications arising directly from the report. A number of the proposed bids would have environmental impacts that would be considered prior to implementation.

Equality Impact

40. The report is exclusively a support or administrative process and has no direct relevance to the Council's duty to promote equality of opportunity, promote good relations and eliminate unlawful discrimination. Individual bids may have specific equality impacts. For example, the highways bid would include improvements to street lighting and footways that would directly benefit people with restricted mobility.

BACKGROUND PAPERS

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- General Fund Medium Term Financial Strategy – Report to Cabinet: 7 November 2018
- Budget Report – Report to Cabinet: 6 February 2019
- Business Plan 2019 - 2014 – Report to Council: 21 February 2019
- Medium Term Financial Strategy and General Fund Budget – Report to Council: 21 February 2019
- General Fund Revenue & Capital Budget Provisional Outturn – Report to Cabinet: 2 October 2019
- Investment Strategy – Report to Cabinet: 2 October 2019

APPENDICES

- A Completed Capital Projects 2018/2019: Performance
- B Capital Programme – New Bids
- C Updated Capital Programme 2019/2020 – 2023/2024

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**South
Cambridgeshire
District Council**

APPENDIX A