

REPORT TO: Council

20 February 2020

LEAD CABINET MEMBER: Councillor John Williams,
Lead Cabinet Member for Finance

LEAD OFFICER: Trevor Roff, Interim Director of Finance

Capital Programme 2020/2021 to 2024/2025

Executive Summary

1. To consider the Council's Capital Programme for financial years 2020/2021 to 2024/2025 following detailed review of the rolling programme by Cabinet at its meeting on 5 February 2020.
2. This is a key decision because the capital programme results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budgets.

Recommendation

3. **That Council is requested to consider the report and, if satisfied, to approve the revised Capital Programme outlined at Appendix A.**

Reason for Recommendation

4. To enable Council to consider variations to the Capital Programme 2019/2020 to 2024/2025 that was approved by Council at its meeting on 28 November 2019.

Details

5. The Capital Programme is prepared on a five year rolling programme in accordance with the Capital Strategy. The Cabinet has considered the programme for 2019/2020 (being the current year), 2020/2021, 2021/2022, 2022/2023, 2023/2024 and 2024/2025 financial years and, following review, recommends Council the approve the revised capital programme identified at Appendix A.
6. 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.

7. Consequently, the number of new priority capital schemes which can be approved at each annual review of the programme, and during the financial year, will be limited by these affordability factors. The corporate focus of capital investment will need to accord with the Business Plan and the requirements of the updated Capital Strategy (see separate report on the agenda).
8. To enter into excessive long term borrowing would only exacerbate the financial position and, on this basis, it is strongly recommended that the Council only agrees a level of capital investment that is affordable in the long term.
9. The proposed changes to the capital programme since it was approved by Full Council on 28 November 2019 are identified in **Appendix A**. These changes include the re-profiling of existing schemes based on the latest estimates of project completion dates and cash flows.

New Capital Schemes

10. The revised capital programme includes three schemes arising from planning obligations as part of the various phases of the Northstowe development. A separate report is being prepared and will be submitted to Cabinet in due course on the project management role of the Council in relation to the design and build of community based projects in Northstowe comprising (i) a landmark Civic Hub building, (ii) a Sports Pavilion and (iii) a Community Building.
11. The following projects are, therefore, included in the forward capital programme:
 - Northstowe Civic Hub, at an estimated cost of £ £14,548,505 (indexation to be applied), funded from S106 contributions;
 - Northstowe Sports Pavilion, at an estimated cost of £1.1 million (indexation to be applied), funded from S106 contributions;
 - Northstowe Community Building, at an estimated cost of £1.5 million (indexation to be applied), funded from S106 contributions.

Revised Schemes

12. Since the Full Council meeting, held on 28 November 2019, further changes to the capital programme have emerged to reflect recent developments and expectation of the timing of expenditure as summarised below:
 - (a) ICT Development – There have previously been a number of small budgets which in reality fall below the de-minimus level for Capital expenditure. It is proposed that these will in future be treated as Revenue expenditure.
 - (b) South Cambridgeshire Hall: Energy Efficiency Measures – A detailed report regarding the proposed energy efficiency and green energy measures is included elsewhere on the agenda. Detailed costings have now been provided and a further £620,000 is required to carry out all the work identified (compared to the original capital allocation of £1.3 million). The intention is to fund this entirely from the Renewables Reserve, with an increase in the annual payback from the investment from £79,700 to £116,500.

- (c) Office Adaptations and Enhancements – These works are now expected to take place during 2020/2021 (rather than 2019/2020 as currently scheduled).
- (d) The Capital programme previously allowed for a £5 million contribution toward the A14 upgrade to be made in 2020/2021. It now appears that this is payable over 25 years and it has, therefore, been reprofiled in the revised capital programme. Whilst the expenditure to which the contribution is made is of a capital nature, because the related asset does not belong to the Council, this is treated as Revenue Expenditure Funded from Capital Under Statute (REFCUS). In any event a reserve has been set up to fund this expenditure.
- (e) The streetlighting LED upgrade programme is now expected to commence in 2020/2021 and, as such, the expenditure has been reprofiled (this was originally allocated £750,000 in 2019/2020 and £545,000 in 2020/2021).
- (f) The more realistic spend profile in relation to Investment Strategy acquisitions.

Scheme Re-profiling

13. The review of the capital programme has identified several schemes requiring a re-profiling of budget and these are outlined above. This has reduced the gross budget for 2019/2020 by £24.465 million and increased the budget for 2020/2021 by £20.715 million (primarily related to the reprofiling of the Investment Strategy spend) and the revised spend profile is set out in detail in **Appendix A**.

Revised Capital Programme: 2020/2021 – 2024/2025

14. The consequent rolling programme, taking into account the variations outlined in the report, is detailed in **Appendix A**.

Capital Programme Financing

15. The Council utilises borrowing to fund capital investment where there is no other source of funding and this has a direct impact on the revenue budget. The level of borrowing is a factor that needs to be considered by the Council as increased borrowing will lead to increased revenue costs associated with the financing of borrowing and as such would fall on Council Tax.
16. The use of Capital Receipts is prescribed by Regulations made under the Local Government Act 2003. Where excess Capital Receipts are held, i.e. not needed to finance capital expenditure in year, then the Council can either (i) carry any unapplied balance forward into subsequent years or (ii) reduce the Capital Financing Requirement and, as a consequence, reduce MRP (i.e. generate a revenue saving with effect from the following year).
17. The table below sets out the forecast capital receipts received and applied for each year of the programme:

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Receipts Applied	1031	702	713	713	787

18. The table below sets out a summary of the revised Capital Programme based on the changes set out above. Details of the full Capital Programme from 2019/2020 (current year) to 2024/2025 are shown at **Appendix A**.

Summary Capital Programme	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Gross Directorate Budgets:					
• Corporate Services	98,632	72,799	72,814	72,804	304
• Health & Environmental	2,206	1,389	1,051	1,188	650
• Housing (General Fund)	1,829	3,905	5,305	11,305	1,305
Advances to Housing Company	16,603	0	0	0	0
Gross Total	119,270	78,093	79,170	85,297	2,259
Financed By:					
• Grants/Contributions	1,319	4,031	5,191	10,855	1,054
• Revenue	4,133	860	766	1,044	418
• Capital Receipts	1,031	702	713	713	787
• Borrowing	112,787	72,500	72,500	72,685	0
Total Financing	119,270	78,093	79,170	85,297	2,259

There may be rounding differences within the table

Scheme Commitments

- To help safeguard the Council capital resources, the revised Capital Strategy only allows schemes to be actually committed when sufficient capital finance has been identified to cover the full forecast cost and where the estimated ongoing revenue consequences have been taken into account and approved by Council as affordable.

Options

- The option exists to vary the capital programme, but the allocations included reflect Business Plan priorities and decisions previously made by the Council, including the last update to the capital programme on 28 November 2019.

Implications

- 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

- 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. The MTFS provides the framework for the financing of capital schemes in the rolling 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.
- The approved Business Plan 2019-2024 outlines the key goals for the Council – the capital programme will support these objectives.

Legal

24. The Local Government Act 2003 provides the legal basis for capital finance, namely a general power to borrow and a duty to set an affordable borrowing limit. The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits.
25. In respect of individual capital schemes, some are legally unavoidable whereas others are discretionary but undertaken within the powers available to the Council.

Financial

26. The Capital Programme is financed from a number of sources including specific grants/external funding, capital receipts, direct revenue financing, Section 106 and borrowing. Borrowing defrays the cost of the capital spending over a predetermined period of time and gives rise to the Minimum Revenue Provision (MRP) being the setting aside of Revenue Budget for the repayment of debt. The overall programme must be assessed in terms of estimated revenue implications of each scheme including their impact on Council Tax in terms of affordability.
27. In determining its Capital Programme, the Council must have regard to the Prudential Framework i.e. is it prudent, affordable (in Council Tax terms) and sustainable (in the Medium Term). The Capital Strategy, therefore, requires the Council to consider the proposed capital programme having regard to the CIPFA prudential indicators and the Council will consider the extent of borrowing based upon these.
28. Full Council, at its meeting on 28 November 2019, approved new schemes for inclusion in the General Fund capital programme for the period 2020/2021 to 2023/2024 and also the re-profiling of the existing programme. The full programme, approved by Council at that time, is summarised in the table below:

Capital Programme: General Fund	2019/2020 £'000	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000
Expenditure					
Corporate Services	52,458	79,295	72,642	72,653	72,653
Health & Environmental Services	1,249	1,362	1,399	1,088	1,188
Housing Services	1,487	1,295	1,295	1,295	1,295
Advances to Housing Company	13,500	16,603	0	0	0
Total	68,694	98,555	75,336	75,036	75,136
Funding					
Capital Receipts	1,646	1,155	766	777	850
Grants/Contributions	992	630	1,162	1,002	786
Revenue	1,344	7,482	908	757	815
Borrowing	64,712	89,288	72,500	72,500	72,685
Total	68,694	98,555	75,366	75,036	75,136

29. This report details the amendments to the programme, including re-phasing of work, since the last update in November 2019.
30. 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.

Risk

31. In relation to Capital resources, the following risks should be taken into account when considering this report:
 - (i) New capital schemes can emerge at any time based on newly identified needs or changes in legislation which require funding;
 - (ii) The forecast cost/timing of existing schemes and the ability to undertake schemes may vary as implementation is undertaken;
 - (iii) Forecast capital receipts may not be achieved which will result in some schemes not proceeding until other sources of capital finance become available or unless further recourse is made to borrowing;
 - (iv) There is a risk that external contributions may not fully materialise and, as such, there is a risk that schemes relying on external funding may require alternative sources of funding to be identified.

Environmental

32. There are no environmental implications arising directly from the report. The environmental impacts of each capital scheme will be considered as part of the implementation.

Equality Analysis

33. In preparing this report, due consideration has been given to the Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.
34. The relevance test for equality has determined that the content of the report has no relevance to the Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed. Individual capital bids may, however, have specific equality impacts that need to be considered and evaluated.

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:

- Budget Report – Report to Cabinet: 6 February 2019/Council: 21 January 2019
- General Fund Capital Programme Update and New Bids – Report to Cabinet: 6 November 2019
- Medium Term Financial Strategy and General Fund Budget – Report to Cabinet: 4 December 2019
- Capital Programme 2020/2021 to 2024/2025 – Report to Cabinet: 5 February 2020

Appendices

A Revised Capital Programme

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