

REPORT TO: Council

23 February 2021

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

LEAD OFFICER: Peter Maddock, Head of Finance

Capital Programme 2021/2022 to 2025/2026

Executive Summary

1. To consider the Council's Capital Programme for financial years 2021/2022 to 2025/2026 following detailed review of the rolling programme by Cabinet at its meeting on 3 February 2021.

Key Decision

2. This is not a key decision as it is a decision by Council rather than the Cabinet.

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 2020/2021 to 2025/2026 that was approved by Council at its meeting on 7 December 2020.

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 2020/2021 (being the current year), 2021/2022, 2022/2023, 2023/2024, 2024/2025 and 2025/2026 financial years and, following review, recommends Council to approve the revised capital programme 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 Cabinet on 7 December 2020 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. New bids for capital expenditure were included in the previous update to the capital programme submitted to Cabinet on 7 December 2020. The programme presented has not changed in relation to those schemes.

Revised Schemes

- 11. Since the Cabinet meeting, held on 7 December 2020, further changes to the capital programme have emerged to reflect recent developments and expectation of the timing of expenditure as summarised below:
 - (a) Investment Strategy – The PWLB consultation response was published on 25 November 2020 and the key principle of this response is that if an authority wishes to pursue the purchase of commercial property purely for financial gain in the next three years it can no longer borrow from the PWLB for **any** capital projects in its Capital programme in the timeframe. Whilst further clarification is being sought, and no doubt the exact ramifications of the consultation response will become clearer over time, it does effectively but into serious doubt the continued investment in stream 1 investments.

The Capital Programme has been rephased significantly as the spending of the £340 million in the investment strategy is likely to take longer and probably be restricted to those investments that fall within stream 2 and 3.
 - (b) Greening of South Cambs Hall – There have been further delays to this project due to the pandemic. The budget was previously re-profiled moving £927,000 of the £1.92 million into 2021/2022 and it is now proposed that a further £600,000 of the 2020/2021 allocation be reprofiled into 2021/2022.
 - (c) Works to South Cambs Hall – The curtain window walling at either end of the building needs replacing and was originally expected to be undertaken during the current financial year. The budget of £675,000 will, however, now need to be moved into 2021/2022.
 - (d) Other Schemes – There have also been one or two other minor changes in terms of re-profiling.

Scheme Re-profiling

12. 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 2020/2021 by £22.296 million and for 2021/2022 by £35.822 million and the revised spend profile is set out in detail in **Appendix A**.

Revised Capital Programme: 2021/2022 – 2025/2026

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

Capital Programme Financing

14. 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.
15. 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).
16. The table below sets out the forecast capital receipts applied for each year of the programme:

| | 2021/2022 £'000 | 2022/2023 £'000 | 2023/2024 £'000 | 2024/2025 £'000 | 2025/2026 £'000 |
|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Receipts Applied | 966 | 498 | 310 | 345 | 263 |

17. 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 2020/2021 (current year) to 2025/2026 are shown at **Appendix A**.

| Summary Capital Programme | 2021/2022 £'000 | 2022/2023 £'000 | 2023/2024 £'000 | 2024/2025 £'000 | 2025/2026 £'000 |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Gross Directorate Budgets: | | | | | |
| • Transformation | 307 | 104 | 104 | 104 | 104 |
| • HR and Corporate | 2,892 | 275 | 34 | 68 | 1,060 |
| • Finance | 63,557 | 48,220 | 52,200 | 52,200 | 51,800 |
| • Waste & Environmental | 2,415 | 1,835 | 2,053 | 1,490 | 8,740 |
| • Housing (General Fund) | 4,596 | 5,425 | 11,325 | 1,325 | 1,325 |
| | | | | | |
| 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 |

Scheme Commitments

18. 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

19. 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 7 December 2020 and any further slippage identified since then.

Implications

20. 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

21. The Council has two policies which underpin the Capital Programme, namely the Capital 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.
22. The approved Business Plan 2020-2025 outlines the key goals for the Council – the capital programme will support these objectives.

Legal

23. 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.
24. In respect of individual capital schemes, some are legally unavoidable whereas others are discretionary but undertaken within the powers available to the Council.

Financial

25. 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.

26. 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.
27. Full Council, at its meeting on 7 December 2020, approved new schemes for inclusion in the General Fund capital programme for the period 2021/2022 to 2024/2025 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 | 2020/2021 £'000 | 2021/2022 £'000 | 2022/2023 £'000 | 2023/2024 £'000 | 2024/2025 £'000 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Expenditure | | | | | |
| Transformation | 180 | 307 | 104 | 104 | 104 |
| HR and Corporate Services | 2,024 | 1,714 | 275 | 34 | 68 |
| Finance | 65,024 | 100,557 | 68,220 | 69,200 | 29,800 |
| Waste & Environmental | 2,239 | 2,415 | 1,835 | 2,053 | 1,490 |
| Housing Services | 1,435 | 4,596 | 5,425 | 11,325 | 1,325 |
| Planning | 15 | | | | |
| Total | 70,917 | 109,589 | 75,859 | 82,716 | 32,787 |
| Funding | | | | | |
| Capital Receipts | 1,856 | 1,938 | 998 | 810 | 845 |
| Grants/Contributions | 717 | 5,201 | 5,635 | 11,160 | 1,710 |
| Revenue | 10,520 | 2,162 | 1,226 | 1,746 | 632 |
| Borrowing | 57,824 | 100,288 | 68,000 | 69,000 | 29,600 |
| Total | 70,917 | 109,589 | 75,859 | 82,716 | 32,787 |

28. This report details the amendments to the programme, including re-phasing of work, since the last update in December 2020.
29. 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

30. 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

31. 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

32. 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.
33. 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: 5 February 2020/Council: 20 February 2020
- Medium Term Financial Strategy – Report to Cabinet: 7 December 2020
- Capital Programme Update and New Bids – Report to Cabinet: 7 December 2020
- Capital Programme 2021/2022 to 2025/2026 – Report to Cabinet: 3 February 2021

Appendices

A Revised Capital Programme

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