

Cabinet

12 November 2020

Capital Investment Fund 2020/21 – Quarter 3

Recommendations

Cabinet is recommended to:

- 1) Approve £0.238 million from the Capital Investment Fund for the purchase of Waste Containers at the Household Waste Recycling Centres and add to the Capital Programme;
- 2) Approve £0.810 million from the Capital Investment Fund for the replacement of 15 Bus Fleet vehicles (Home to School Transport) and add to the Capital Programme at a cost of £0.885 million, with the remainder funded from capital receipts generated from the disposal of existing vehicles;
- 3) Approve £0.660 million from the Capital Investment Fund to redevelop and upgrade three WCC owned Gypsy and Traveller sites at Griff Hollows, Pathlow and Alvecote, and add to the Capital Programme;
- 4) Approve £0.512 million from the Capital Investment Fund to create office space at Holly Walk, Leamington at a cost of £1.012 million, with £0.500 million funded from CWLEP grant and add to the Capital Programme; and
- 5) Authorise the Strategic Director for Communities to procure and enter into any agreements to give effect to the proposals on terms and conditions acceptable to the Strategic Director for Resources.

1. Purpose of this report and context

Capital Investment Fund (CIF) Overview

- 1.1. Under existing capital approval rules agreed by Members, all CIF allocations and subsequent additions to the capital programme require approval by Cabinet (and Council if the cost of the scheme exceeds £2 million), unless an urgent decision is required which can be taken by the Leader under delegated powers.

- 1.2. Services were invited to submit detailed bids to the CIF for evaluation by the Fund's Technical Panel. The Panel, consisting of experts from Finance, Legal, Property, Project Management Office and Directorate Service Teams evaluate and score each individual bid out of 100 based on the bid's strengths in each of the following key areas:
- Delivery of the Council's Strategic Objectives;
 - Alignment with the investment criteria of the capital strategy;
 - Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk; and
 - Sustainability, climate change and environmental impact.
- 1.3. £24.900 million per annum has been added to the 2020-25 Medium Term Financial Strategy for the CIF. The estimated drawdown from the CIF for these proposals can be accommodated within this CIF budget allocation. Detailed expenditure profiles will be spread over multiple years and does not exhaust the available CIF funding in any given year.

2. Description of the Schemes and Analysis

2.1. Purchase of Waste Containers at Household Waste Recycling Centres (HWRCs)

Description

The HWRCs require robust containers for the storage and transport of waste. The containers are essential to the safe and efficient operation of the HWRCs. Currently the Council hires the containers as part of the HWRC haulage contract which was a 10-year agreement due to end in 2021/22.

The proposal is to purchase 60 new containers at a cost of £0.238 million. This would be a similar model to other HWRC operations nationally whereby the operator (in this case the Council's in-house HWRC operation) supplies the containers as part of the HWRC operation.

Buying our own containers would save revenue costs of hiring, give better value for money and mean we hold and control our own asset.

The current hire contract ends in Autumn 2021. However, the Council can now reduce its usage of hired containers, and save the hire fee, earlier than the end date at no cost.

The investment will also help the service to be more flexible in terms of haulage provision, supporting the Councils commercial strategy.

Technical Panel Findings

The Panel scored the bid as follows:

Delivery of the Strategic Objective (out of 10)	8.0
Alignment with the investment criteria of the capital strategy (out of 40)	22.4
Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk (out of 40)	29.0
Sustainability, climate change and environmental impact (out of 10)	8.0
Total Score	67.4

The following key points were raised by the Panel:

- The investment will generate recurring savings of £38,000 per annum that should be incorporated into the Medium Term Financial Strategy;
- The evaluation concluded that the bid delivers well on the savings objective whilst also contributing toward the recycling objective. As long as the containers operate for over 7 years and the savings are delivered then this is considered to be a good investment;
- A warranty agreement should be explored in order to secure the savings; and
- Costs such as insurance, storage, cleaning, Council livery etc. that were not factored should be covered from existing budgets.

2.2. **Partial Replacement of Bus Fleet (Transport Delivery – Home to School Transport)**

Description

The Council has an extensive fleet of buses which enables us to meet our statutory requirement to ensure that children meeting the criteria for free home to school transport (H2ST) receive the necessary assistance.

H2ST is a complex mixture of services for SEND and mainstream children using our owned-fleet and contracted services with a wide range of assessed operators. It involves the use of service buses, coaches, specialist vehicles and taxis.

The current owned-fleet consists of 38 buses. A significant portion of the fleet is showing signs of fatigue, they are becoming un-reliable and it is increasingly difficult to source parts. Maintenance of the fleet will require annual expenditure of £420,000 to keep the buses running, as a result it is no longer cost effective to keep them in service. Furthermore, half of this is the cost of fuel, at this age the vehicles are both very fuel inefficient (around 8 mpg) and are too large with the wrong configuration of seating to meet the needs of the service.

The Service is looking to secure £0.810 million from the CIF to replace 15 vehicles at a total cost of £0.885 million, with the remaining cost to be financed via capital receipts from sale of the existing vehicles. The remaining fleet replacement will be addressed through a planned fleet replacement strategy that is currently being developed. The fleet replacement strategy will ensure that vehicles are replaced before they reach the point where they begin to incur additional expenditure and cause problems for service delivery.

Replacement of the 15 buses will help to modernise the fleet and to ensure resilience and flexibility for the academic year 2021/22. Failure to replace these vehicles will result in increased maintenance costs, increased fuel usage and longer downtime, which will put pressure on the service to meet statutory duties.

The delivery of the H2ST is sensitive. Not having vehicles that are reliable, efficient and flexible can mean that we fail to make the best and most efficient transport network that we can. This can potentially mean that children's' journeys are frequently interrupted and costs to hire further transport are procured at spot rates.

Technical Panel Findings

The Panel scored the bid as follows:

Delivery of the Strategic Objective (out of 10)	6.6
Alignment with the investment criteria of the capital strategy (out of 40)	32.0
Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk (out of 40)	27.0
Sustainability, climate change and environmental impact (out of 10)	6.4
Total Score	72.0

The following key points were raised by the Panel:

- The bid demonstrated that the investment is financially viable and will help reduce the current structural overspend in the service;
- The investment will also help mitigate further increasing revenue costs;
- Other service delivery options such as leasing vehicles have been considered, in this case owning our own fleet is beneficial from both an operational and cost effectiveness perspective;
- There is still a risk of new bus purchase costs increasing and no contingency to address this, this is further compounded through limited suppliers of the specialist equipment. This can be mitigated through a full procurement plan working within the financial envelope available;
- In response to a challenge about the environmental sustainability of the preferred option the evidence presented to the Panel showed that the current suitability of electric vehicles is not at a well enough developed

stage to convert to fully electric service delivery. The vehicles specified are diesel powered but represent a step forward within the green agenda from the current position through improved emissions and fuel consumption;

- The fleet should include an electric vehicle to assess its long-term suitability as part of the wider fleet management strategy; and
- The longer-term replacement strategy for the remainder of the fleet should aim to keep the fleet on a sustainable footing over the long term.

2.3. **Redevelopment of Gypsy and Traveller Estates (Griff Hollows, Pathlow and Alvecote)**

Description

The County Council is the landlord and operator of three Gypsy and Traveller sites across the county. Each site is used for daily living by members of the Gypsy and Traveller community who are our tenants. The three sites differ in size, quality and services. The Service is requesting £0.660 million to fund significant works within the communal and services areas to bring them back to an acceptable and maintainable standard. These proposals are aligned to the Gypsy, Roma and Traveller Strategic Framework 2020-25 approved by Cabinet on 8 October 2020.

A. Re-development of The Griff Hollows Gypsy and Traveller site

The Griff Hollows Caravan Gypsy and Traveller site in Nuneaton consists of 25 pitches with a static home. The static homes are nearing the end of their inhabitable life. The proposal is to replace them with smaller purpose-built day room facilities, as provided at the other two Council operated sites. Also, the boundary fencing at the Griff Hollows site needs to be reinstated to protect the Council's asset and reduce the risk of trespass and fly tipping on the adjacent land.

B. Reinstating the boundaries at Pathlow Gypsy and Traveller site

The legal boundaries of the Pathlow site need to be reinstated to mitigate against neighbouring landowners taking legal action against the Council.

C. Replacing the boundaries and pitch fences at Alvecote Gypsy and Traveller site

The legal boundaries of the Alvecote site need to be reinstated to prevent unauthorised encampments and associated activity i.e. fly tipping which can significantly impact on the tenants and the surrounding community in Alvecote. Due to a shared access, work is

required with several landowners to ensure an effective solution is designed and implemented.

Technical Panel Findings

The Panel scored the bid as follows:

Delivery of the Strategic Objective (Out of 10)	10.0
Alignment with the investment criteria of the capital strategy (Out of 40)	33.6
Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk (Out of 40)	29.0
Sustainability, climate change and environmental impact (Out of 10)	6.8
Total Score	79.4

The following key points were raised by the Panel:

- The content of the bid was extensive and shows the sensitive issues around this investment have been thoroughly explored and considered;
- There are numerous legal considerations around this investment given the nature of the service, but evidence has been provided that these have been addressed and experts in Legal are regularly involved in Gypsy and Traveller matters. The Panel noted that prioritisation should be given to address the legal matters first;
- There is a risk that costs could increase given the sensitivity and unique issues on these sites. The project contingency has been set at 30% to cover these unknowns;
- There is a significant risk of a securing a contractor at reasonable cost, a new procurement exercise rather than using an existing construction framework will be required to mitigate this; and
- The project contains several moveable aspects which require careful management. The Service has acknowledged this through the request for a fixed term project manager to be funded as part of the project, the costs of which can be capitalised.

2.4. **Digital Creative Office Space, Holly Walk, Leamington Spa**

Description

Leamington Spa is home to the largest cluster of gaming companies (by economic value) outside of London. This is a dynamic and growing sector, and through our Inward Investment Team, we are actively working with a number of gaming businesses that are looking for office space of this type.

Typically, these studios are looking for space between 6,000–10,000 sq. ft open plan in nature. Having undertaken many searches over the last few months the average space available is more in the region of 2,000-3,000 sq. ft

broken up into small offices throughout due to the age and architecture of the existing buildings within the town centre.

The County Council own the property called Holly Walk House and the proposal is to renovate the vacant office accommodation to create new employment space for the growing gaming and digital creative sector in Leamington. This project will provide much needed new office space, aimed more at the medium-sized businesses, to complement and support the smaller office/ incubation space that both exists and should be coming on stream in Leamington in the future.

Two external reports provide evidence of the demand for the type of space that would be created. The 'Coventry and Warwickshire Sub-Regional Employment Market Signals' from July 2019 report identifies a limited supply of suitable accommodation to support these sorts of uses, particularly "mid-spec" office development within town centre locations. A separate report from external property consultants commissioned to undertake a market appraisal and condition report of the Holly Walk property concludes: *"We anticipate that there would be good demand from occupiers, and developer/ investors for this property if it was placed on the open market. It is of a size and in a location within the central core that will appeal to end occupiers."*

Whilst the above analysis and predictions pre-dated the Covid pandemic, market signs suggest that there remains demand for space of this sort. The gaming sector has done well in the current environment with the larger companies still looking for space in the area, although detailed requirements may change (less desks, more collaboration and team working). Agents still report good demand for small office and light industrial space across the region, and particularly so in areas where the market is constrained by lack of space, a particular issue in Leamington.

A contribution of £0.513 million is being requested from the CIF to provide match funding for a grant of £0.500 million already allocated by CWLEP/ MHCLG to support the project as part of the new MHCLG Getting Building Fund. If agreed, the works for the project will be agreed and commissioned by the Council's Strategic Asset Management Service.

Technical Panel Findings

The Panel scored the bid as follows:

Delivery of the Strategic Objective (Out of 10)	8.8
Alignment with the investment criteria of the capital strategy (Out of 40)	35.2
Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk (Out of 40)	24.0
Sustainability, climate change and environmental impact (Out of 10)	6.0
Total Score	74.0

The following key points were raised by the Panel:

- The score seemed quite high when reflecting the discussion and evaluation - this is due to the weighting within the CIF criteria;
- The bid was light on its options appraisal – there was no comparison to the value of selling the site which had previously been estimated at £0.750 million;
- The bid will generate revenue savings, estimated at £90,000 a year that can be included as part of the Medium Term Financial Strategy;
- Tax advice is that it is highly recommended that the Council opt to tax the site, otherwise there is a risk we will breach our VAT partial exemption limit (at a cost of £1.5m to £2m). The impact of this is that VAT will be charged on the rental, which for smaller businesses that are not VAT registered, would increase their costs;
- Legal advice is that care needs to be taken about how the site is marketed to ensure state aid compliance, as there is a risk of State Aid issues. Key to this is that it is best if the space is not limited to one tenant at a time. Specific feedback will be provided to the Service, but this is not expected to have an impact on the viability of the site;
- There is a risk around the unknowns of how the digital sector will operate going forward and whether they will need permanent office accommodation post Covid-19, given the shift to home working. This can be mitigated if potential tenants are already identified for the site;
- The Service needs to factor in risk around creating Covid-19 secure office space; and
- There is a risk around rules in grant conditions limiting our options for use of the site, with limited evidence as to how this is to be mitigated. Experience of working with LEP is that complicated contract and evidence is required. There could also be problems around LEP's conditions around time limits on the spend.

3. Financial Implications

- 3.1. As part of the 2020/21 Budget Resolution approved by Council in February 2020, £24.900 million per annum was added to the 2020-25 Medium Term Financial Strategy for the CIF. The drawdown from the CIF for these schemes can be accommodated within the existing 2020/21 CIF budget allocation.
- 3.2. The available CIF balance available over the period of the 2020-25 Medium Term Financial Strategy currently sits at £91.6 million and is included in the current Capital Programme, the recommendations in this report result in a call on this pot of £2.2 million. Therefore, the remaining unallocated CIF balance is £89.4 million.
- 3.3. Two of the schemes recommended for approval will generate revenue savings totalling £128,000 a year that will be included in the 2021/22 refresh of the Medium Term Financial Strategy proposals to be brought to Cabinet in December 2020 and the H2ST scheme will contribute to reducing the overspend in the service.

4. Environmental Implications

- 4.1. Environmental implications of these recommendations are:
 - It is recognised that investment in diesel vehicles is not the most environmentally friendly option, but the modernisation of the H2ST fleet, is best we can at the moment and will have a positive impact on sustainability, climate change and the environment. Fuel consumption and hence CO2 production will be greatly improved by using the most modern diesel engines. The higher standard of Euro VI means fuel consumption increasing to c25 mpg, up from c8 mpg from the existing Euro II engines for a large portion of the fleet.
 - By purchasing its own containers for the HWRCs, the Council can also specify bespoke sized containers, which could mean greater payloads and therefore less transport. Greater payloads would have positive environmental benefits by reducing carbon emissions, reducing road congestion, reducing wear on roads and improving air quality.
 - Investment in improving the Council's Gypsy and Traveller sites is anticipated to provide a better environment at sites by reducing fly tipping and the accumulations of waste whilst also contributing to fewer

bonfires/burning of waste.

- The refurbishment of the Holly Walk site will take on board all of the new legislation in relation to the use of materials, where performance of such materials will improve the thermal capacity and efficiency of the buildings that will be completed.

5. Background Papers

None

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No members were consulted prior to publication of this report.