Agenda Item No:9

BUSINESS PLANNING - CAPITAL STRATEGY

To:	**General Purposes Committee**
Meeting Date:	**28th July 2015**
From:	**Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**
Purpose:	**The Council's Capital Strategy details all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding. The Strategy has been revised as part of the 2016-17business planning process, with respect to the new outcome-based Operating Model approach to Business Planning.**

Recommendation: **General Purposes Committeeis asked to review and recommend to Council:**

a) Revisions to the Capital Strategy to align it with the Operating Model approach, including that prioritisation of capital proposals will be undertaken using an amended version of the Investment Appraisal process that reflects the new outcome-based focus of Business Planning.

b)Whether the advisory limit on the level of debt charges (and therefore prudential borrowing)should be:

- **kept at existing levels, which are higher than the level of debt charges approved in the 2015-20 Business Plan;**
- **reduced to the level of debt charges approved within the 2015-20 Business Plan (and fixed at the 2019-20 level from 2020-21 onwards); or**
- **reduced by 10% of the current long-term figure (£46.0m) to £41.4m in all years.**

c) That borrowing related to Invest to Save/Earn schemes should continue to be excluded from the advisorydebt charges limit.

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1. BACKGROUND

1.1 The Council's Capital Strategy is revised each year to ensure it is fully comprehensive. This year, it is recommended that some amendments are made in order to align the existing capital process with the new Operating Model approach to Business Planning.

1.2 For the 2016-21 business planning process, the Council has refocused its approach to strategic planning in order to find new ways of meeting the needs of Cambridgeshire's communities. The Council's Operating Model considers what the organisation needs to look like by 2020-21 in order to deliver the seven key outcomes that the Council has identified, in the context of a significant reduction in available resource.

2. INTEGRATION OF THE 'TRADITIONAL' APPROACH WITH THE OPERATING MODEL

2.1 The move towards an outcome-based methodology for planning is a significant change for the Council. As a result of this, it is expected to take time to embed the approach, and whilst there might be a reasonable level of output from the outcomes-based model for revenue, given the project lead in time, it is expected to take longer to phase in the change in approach for capital.

2.2 Therefore, it is expected that the traditional process that is utilised for developing the Capital Programme will continue to be necessary. As such, it is recommended within the Capital Strategy (**Appendix A**) that the two processes will run alongside each other, integrating where necessary. For example, any Invest to Save schemes generated through the outcomes work in order to deliver revenue savings, will feed back into the traditional process for developing and prioritising capital schemes.

2.3 In order to ensure that schemes are being prioritised in line with the outcome-based approach, it is proposed that the 'Investment Appraisal' is developed further to accommodate outcomes-based criteria (please see Appendix 4 of the Capital Strategy).

3. SETTING PRUDENTIAL BORROWING LEVELS

3.1 In its role of recommending the final budget to Council, General Purposes Committee (GPC) is responsible for ensuring that the level of borrowing arising from the capital programmes proposed by Service Committees is prudential. Ultimately, if General Purposes Committeedoes not consider borrowing levels to be affordable and sustainable it has the option not to recommend the Business Plan to Council.

3.2 Last year GPC recommended the introduction ofan advisory debt charges limit to effect greater control over the Council's borrowing costs. GPC agreed that it should be reviewed annually towards the beginning of the business planning process, along with the corresponding borrowing limits, and should be amended if required.

3.3 To determine the affordability of the advisory debt charges limit it should be viewed in the context of the rest of the Council's revenue budget so that a judgement can be made on the proportion of funding the Council wishes to spend on borrowing compared withother service priorities. The relative percentages of debt charges and non-debt charges spend, as per the current advisory limit, are outlined in the table below.

	2016-17	2017-18	2018-19	2019-20	2020-21
Debt charges	11.3%	11.4%	11.7%	11.6%	11.3%
Non-debt charges	88.7%	88.6%	88.3%	88.4%	88.7%

3.4 Although the proportion of budget available for spend on debt charges is fairly constant, the non-debt charges budget has to absorb the entirety of the Council's savings challenge. The Council is now in its fifth year of austerity and it is becoming increasingly difficult for Services to make savings, as evidenced by the significant amount of unidentified savings in the current Business Plan. Against this backdrop, it would seem neither affordable nor sustainable to increase the level of debt charges in the current Business Plan any further.

3.5 However, acknowledging the Council's strategic role in stimulating economic growth across the County, e.g., through infrastructure investment, it is recommended that any new, or changes to existing, capital proposals that are able to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement continue to be excluded from contributing towards the advisory limit. Capital proposals generated through the Operating Model approach to this year's business planning process are anticipated to be on an Invest to Save/Earn basis and therefore meet this criterion. In line with the approach set out in the Capital Strategy last year, General Purposes Committee (GPC) will still need to review the timing of the repayment, in conjunction with the overall total level of debt charges when determining affordability.

3.6 In reviewing thecurrent advisory limit on debt charges, GPC is asked to consider the following as potential options:

- Option 1: keep the advisory limit at existing levels, which are higher than the level of debt charges approved in the 2015-20 Business Plan, thereby retaining the current scope to increase debt charges from those agreed in the 2015-20 Business Plan;
- Option 2: reduce the advisory limit to the level of debt charges approved in the 2015-20 Business Plan, removing the option to increase debt charges above this level; or
- Option 3: reduce the advisory limit by 10% of the current long-term debt charges figure of £46m to £41.4m in all years, in order to reduce the existing pressure on Services to find savings.

3.7 The debt charges figures for the three options, and the corresponding levels of prudential borrowing, are set out in the tables on page 4.

Advisory debt charges limit	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Option 1: Current advisory limit	40.2	44.6	45.4	45.9	46.0	46.0
Option 2: 2015-20 Plan debt charges	36.5	41.1	42.0	42.1	41.3	41.3
Option 3: 10% less than current limit	41.4	41.4	41.4	41.4	41.4	41.4

Corresponding prudential borrowing	2015-16 £m	2016-17 £m	2017-18 £m	Block 1 TOTAL £m	2018-19 £m	2019-20 £m	2020-21 £m	Block 2 TOTAL £m
Option 1: Current advisory limit	100.6	56.1	20.0	**176.7**	20.0	20.0	20.0	**60.0**
Option 2: 2015-20 Plan debt charges	100.6	39.0	18.4	**158.0**	8.9	7.1	30.1	**46.1**
Option 3: 10% less than current limit	100.6	36.0	15.0	**151.6**	15.0	15.0	15.0	**45.0**

These are approximateborrowing figures that would result in the level of debt charges above. Borrowing levels can fluctuate across the years with little effect on the debt charges, as long as the total level of borrowing is not breached. This is why the Capital Strategy sets borrowing limits in three-year blocks, to provide flexibility with funding.

4. OTHER REVISIONS TO THE STRATEGY

4.1 TheInvestment Appraisal scoring mechanism has also been updated to incorporate a new area - adequacy of planning. The more developed and detailed plans are available, the more likely that the project will be delivered to specification, timetable and budget. Therefore this has been reflected in the scoring.

4.2 Given the level of capital slippage that occurs annually (40% in 2014/15), this new element of the appraisal process is deemed necessary. Whilst capital slippage does help the revenue budget, the scale of the slippage has reached levels that are not acceptable. This revision to is intended to bring greater rigor to the process and to help ensure that schemes are only put forward where it is clear that they are deliverable in accordance with the profiled forecasts.

4.3 The Strategy contains a section that summarises the 2015-16 Programme; this will be revised to reflect the 2016-17 Programme once the first set of capital tables have been prepared for the September Services Committees.

5. ALIGNMENT WITH CORPORATE PRIORITIES

5.1 Developing the local economy for the benefit of all

The following bullet points set out details of implications identified by officers:

- Reducing the advisory limit on debt charges will inevitably have an impact on the Council's ability to drive forward investment in the local economy. However, to minimise the impact it is recommended that any capital proposals that are able to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory limit.

- In addition, the Council is looking to stimulate economic growth through capital investment via other mechanisms, such as the Local Enterprise Partnership and the City Deal.

5.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

5.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

6. SIGNIFICANT IMPLICATIONS

6.1 Resource Implications

This report provides details minor amendments to the process of planning for capital schemes, which has a direct impact on both capital and revenue (through financing costs). Reviewing the advisory debt charges limit will ensure that resources are targeted efficiently, effectively and equitably, and will provide Value for Money.

6.2 Statutory, Risk and Legal Implications

The revised process will ensure that statutory obligations will be met and will help to minimise the risk of borrowing in an unaffordable and unsustainable manner.

6.3 Equality and Diversity Implications

Reviewing the advisory debt charges limit will help and controlling the level of borrowing will help reduce the intergenerational inequality that can be created through undertaking high levels of unsustainable borrowing.

6.4 Engagement and Consultation Implications

There are no significant implications within this category.

6.5 Localism and Local Member Involvement

There are no significant implications within this category.

6.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Draft Capital Strategy 2016-17	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2015-20	*http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2015_to_2016*