CAPITAL STRATEGY

To:	**General Purposes Committee**
Meeting Date:	**26th July 2016**
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 2017-18 business planning process, with respect to the Transformation Delivery Model.**
Recommendation:	**General Purposes Committee are asked to review and recommend to Council:**

a) Revisions to the Capital Strategy to align it with the Transformation Delivery Model and reflect the introduction of a Capital Programme Board.

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 2016-21 Business Plan.

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

	Officer contact:
Name:	Chris Malyon
Post:	Chief Finance Officer
Email:	Chris.Malyon@cambridgeshire.gov.uk
Tel:	01223 699796

1. BACKGROUND

1.1 The Council's Capital Strategy is revised each year to ensure it is up to date and fully comprehensive. This year, it is recommended that some amendments are made in order to align the existing capital process with the new Transformation Delivery Model.

1.2 For the 2017-22 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 Transformation Delivery Model has been established as a different way to approach the challenges the organisation faces by developing transformational and innovative proposals to manage demand for Council budgets, in the context of a significant reduction in available resource.

2. APPROACH TO CAPITAL

2.1 The Council will continue to follow the approach utilised in previous years. Any Invest to Save schemes generated through the transformational work in order to deliver revenue savings will continue to be reviewed and assessed through the existing approach for developing and prioritising capital schemes.

2.2 There has been a significant change during the last year regarding the governance of the Capital Programme through the creation of an officer-led Capital Programme Board. This board has the remit to scrutinise all aspects of the Capital Programme from initial development of proposals as part of the Business Planning process, through monitoring of schemes once in progress to post implementation reviews of significant schemes. The Capital Strategy (**Appendix A**) has been updated to reflect these improved governance arrangements, as well as the introduction of the new Assets and Investment Committee.

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 GPC does not consider borrowing levels to be affordable and sustainable it has the option not to recommend the Business Plan to Council.

3.2 In 2014 GPC recommended the introduction of an 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 In January 2016 GPC agreed to amend the way that Council defrays the cost of financing capital expenditure. This has had the impact of reducing the amount of debt charges expenditure required in order to borrow the same amount of money. Therefore, the advisory limit has been restated in order to take this change into account as shown in the table below:

Advisory debt charges limit	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Original advisory limit	40.2	44.6	45.4	45.9	46.0	46.0
Restated advisory limit	36.5	41.1	42.0	42.1	41.3	41.3

3.4 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. Any capital proposals generated through the Transformation Delivery Model work will 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, GPC will still need to review the timing of the repayment, in conjunction with the overall total level of debt charges when determining affordability.

3.5 In reviewing the current advisory limit on debt charges, GPC is asked to consider whether to keep the limit at the level previously set (restated for the change in Minimum Revenue Provision (MRP) policy). This level is higher than the level of debt charges approved for the 2016-17 Business Plan (restated for change in MRP policy), allowing scope for additional schemes to be added if they are required and can justify their inclusion via the capital prioritisation process.

	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
Restated advisory limit	35.3	36.8	37.9	38.6	39.2	39.7
2016-17 Business Plan debt charges*	23.5	29.3	32.4	34.6	35.3	-

* Restated for change in MRP policy

3.6 The corresponding levels of prudential borrowing available as a result of this advisory limit was originally set as follows. 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. Therefore, the Capital Strategy sets borrowing limits in three-year blocks, to provide flexibility with funding. However, the actual level of borrowing available over time does vary due to changes in factors such as internal cash flow, long-term interest rates and in particular, previous levels of 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
Prudential borrowing	100.6	56.1	20.0	**176.7**	20.0	20.0	20.0	**60.0**

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 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 would inevitably have an impact on the Council's ability to drive forward investment in the local economy. However, 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.

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

5.1 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.

5.2 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.

5.3 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.

5.4 Engagement and Consultation Implications

There are no significant implications within this category.

5.5 Localism and Local Member Involvement

There are no significant implications within this category.

5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Draft Capital Strategy 2017-18	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2016-21	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2016_to_2017