Agenda Item No: 7

Capital Strategy and Capital Prioritisation Report

To:	General Purposes Committee
Meeting Date:	24 November 2020
From:	Chief Finance Officer
Electoral division(s):	All
Forward Plan ref:	Not applicable
Key decision:	No

Outcome:

The Council's Capital Strategy details all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding. However, all capital schemes can potentially also impact on revenue which needs to be considered.

This report also provides the Committee with an overview of the full draft 2021-22 Business Plan Capital Programme and results from the capital prioritisation process.

Recommendation:

General Purposes Committee are asked to review and comment on:

a) The revised Capital Strategy

b) That the advisory limit on the level of debt charges (and therefore prudential borrowing) should be kept at existing levels.

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

d) The overview and context provided for the 2020-21 Capital Programme and comment on the results of the capital prioritisation process, taking into consideration the most up to date estimations for financing costs and the overall revenue position.

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1. Background

1.1 The Council strives to achieve its vision through delivery of its Business Plan. To assist in delivering the Plan the Council needs to provide, maintain and update long-term assets (often referred to as ‘fixed assets’), which are defined as those that have an economic life of more than one year. Expenditure on these long-term assets is categorised as capital expenditure, and is detailed within the Capital Programme for the Council.

1.2 Each year the Council adopts a ten-year rolling capital programme as part of the Business Plan. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.

1.3 The Council’s Capital Strategy (see Appendix A) is revised each year to ensure it is up to date and fully comprehensive. As all capital schemes have the potential to impact on the revenue position, in order to ensure that resources are allocated optimally, capital programme planning needs to be determined in parallel with the revenue budget planning process. This report therefore forms part of the process set out in the Capital Strategy whereby the Council updates, alters and refines its capital planning over an extended planning period. New schemes have been developed by Services and all existing schemes have been reviewed and updated as required before being presented to the Capital Programme Board and subsequently Service Committees for further review and development.

1.4 An Investment Appraisal of each capital scheme (excluding committed schemes and schemes with 100% ring-fenced funding) has also been undertaken / revised in order to determine a prioritisation score. This score allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its outcomes.

2. Approach to Capital

2.1 The Council continues to follow the approach utilised in previous years. Any Invest to Save/Earn schemes generated through transformational work in order to deliver revenue savings or ongoing income streams are reviewed and assessed through the existing approach for developing and prioritising capital schemes. The detailed results of this prioritisation process is provided below.

2.2 Service Capital Programmes have been reviewed individually by Service Committees in October, alongside the addition, revision and update of schemes. Once the prioritisation of schemes across the whole programme has been reviewed by GPC as part of this report, firm capital and revenue spending plans will be considered by Service Committees in December. In January, GPC will review the overall levels of borrowing and financing costs as part of the full Business Plan, before recommending the programme as part of the overarching Business Plan for Full Council to consider in February.

2.3 All capital schemes are funded using capital resources or borrowing, as this is the most financially sensible option for the Council due to the ability to borrow money for capital schemes and defray the cost of that expenditure to the Council over the life of the asset. Therefore any Invest to Save or Earn schemes will continue to be funded over time by the revenue payback they produce via savings or increased income; this means the Transformation Fund can be prioritised towards revenue investment.

2.4 Where the Covid-19 pandemic is anticipated to have an impact on the costs of a capital scheme and this has been quantified, this has been worked into revised budgets based on the current situation. However, work is still ongoing in some areas to quantify impact, and as such there is the potential for budgets to continue to be revised over the next few months as the situation unfolds. Any further changes to Government guidelines in response to the pandemic, or local lockdowns, would also require further revision of costs/timescales, and therefore capital budgets.

3. Revenue Impact of Capital Schemes

3.1 All capital schemes can have a potential two-fold impact on the revenue position, relating to the cost of borrowing through interest payments and repayment of principal and the ongoing revenue costs or benefits of the scheme. Conversely, not undertaking schemes can also have an impact via needing to provide alternative solutions, such as Home to School Transport (e.g. transporting children to schools with capacity rather than investing in capacity in oversubscribed areas).

3.2 The Council is required by the Charted Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, the Capital Strategy states that GPC will review and recommend an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan to ensure that the level of borrowing arising from the capital programmes proposed by Service committees is prudential. In order to afford a degree of flexibility from year to year, changes to the phasing of the limit is allowed within any three-year block (the current block starts in 2021-22), so long as the aggregate limit remains unchanged. 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.

3.3 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 transformation 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, GPC will still need to review the timing of the repayment, in conjunction with the overall total level of debt charges when determining affordability.

3.4 The table below sets out the current advisory limit on debt charges (restated for the change in Minimum Revenue Provision (MRP) policy agreed by GPC in January 2016) that GPC is asked to review and confirm whether it is still appropriate. It is also worth noting that whilst the early years provide firm forecasts, later years are indicative and subject to ongoing review and refresh of the Council's Capital Programme.

Financing Costs	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
2021-22 draft BP (net figures excluding Invest to Save / Earn schemes)	32.2	33.2	36.7	40.4	41.8	42.9
Recommend limit	39.7	40.3	40.8	41.4	41.9	42.4
HEADROOM	**-7.5**	**-7.1**	**-4.1**	**-1.0**	**-0.1**	**0.5**
Recommend limit (3 years)	120.8			125.7		
HEADROOM (3 years)	**-18.7**			**-0.6**		

3.5 Commercial & Investment Committee and General Purpose Committee agreed in September 2019 that the revenue cost of financing capital for commercial activity schemes should be recharged from the debt charges budget to individual schemes in order to be able to easily report the net revenue benefit of this activity. As such, the debt charge figures above exclude the impact of the Invest to Save/Earn schemes.

3.6 Whilst noting that the impact of the Invest to Save/Earn schemes is not included above, and the limit hasn't been exceeded, GPC still has an obligation to ensure that the overall total level of debt remains affordable. The following table shows the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, and the estimated increase in borrowing levels over the period of the 2021-22 plan:

	2021-22	2022-23	2023-24	2024-25	2025-26
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	9.7%	9.4%	10.0%	10.5%	10.4%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	6.5%	7.1%	7.1%	7.6%	8.1%

4. Summary of the Draft Capital Programme

4.1 Following on from October service committees, the revised draft Capital Programme is as follows (please see Appendix B for the full programme):

Service Block	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	Later Yrs £'000
People and Communities	37,879	127,161	100,580	42,361	17,349	56,445
Place and Economy	40,858	21,666	15,206	15,185	15,185	15,200

Corporate and Managed Services	17,641	946	106	-	-	-
Commercial and Investment	73,915	11,943	2,514	6,095	960	10,783
Total	**170,293**	**161,716**	**118,406**	**63,641**	**33,494**	**82,428**

4.2 This is anticipated to be funded by the following resources:

Funding Source	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	Later Yrs £'000
Grants	28,236	26,925	27,429	29,704	27,238	46,252
Contributions	45,639	56,249	48,726	14,987	1,287	150,285
Capital Receipts	32,433	-	2,000	2,000	2,000	10,000
Borrowing	66,933	74,666	47,590	18,706	2,969	-937
Borrowing (Repayable)*	-2,948	3,876	-7,339	-1,756	-	-123,172
Total	**170,293**	**161,716**	**118,406**	**63,641**	**33,494**	**82,428**

* Repayable borrowing nets off to zero over the life of each scheme and is used to bridge timing gaps between delivery of a scheme and receiving other funding to pay for it.

All funding sources above are off-set by an amount included in the capital variation budget, which anticipates a degree of slippage across all programmes and then applies that slippage to individual funding sources.

4.3 The following table shows how each Service's borrowing position has changed since the 2020-21 Capital Programme was set:

Service Block	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
People and Communities	-4,872	-18,206	56,942	16,175	1,293	4,222
Place and Economy	-5,363	12,661	1,876	-	-	-
Corporate and Managed Services	1,776	9,641	834	-6	-	-
Commercial and Investment	-16,877	30,543	2,467	13,905	23,295	60
Corporate and Managed Services – relating to general capital receipts	2,004	-	500	-1,500	-1,500	-1,500
Total	**-23,332**	**34,639**	**62,619**	**28,574**	**23,088**	**2,782**

4.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
New	662	2,216	14,279	3,608	4,571	2,180
Removed/Ended	-3,507	-	-	-	-	-

Minor Changes/Rephasing*	-46,287	5,019	36,030	28,650	25,324	680
Increased Cost (includes rephasing)	-7,189	7,601	10,201	7,849	9,454	2,007
Reduced Cost (includes rephasing)	-1,265	4,760	7,620	-9,142	-14,562	-530
Change to other funding (includes rephasing)	10,028	15,610	-4,056	-2,715	-1,725	-1,670
Variation Budget	26,681	-1,659	-2,084	-743	-286	-195
Capitalisation of Interest	-2,455	1,092	629	1,067	312	310
Total	**-23,332**	**34,639**	**62,619**	**28,574**	**23,088**	**2,782**

**This does not off-set to zero across the years because the rephasing also relates to pre-2020-21 and post-2025-26.*

4.5 In addition to rephasing, the main changes to borrowing relate to (this includes any costs incurred pre-2021-22):

New schemes
- Ten school schemes, at a total borrowing cost of £25.5m, to respond to anticipated demand for new school places and adaptions of existing facilities
- A new Development Funding scheme (split from the existing Housing Scheme), at a total borrowing cost of £1m

Removed schemes
- One school scheme, at a total borrowing cost of £2m, to reflect where need is now required

Increased cost of schemes
- Increased borrowing costs of £15.6m for 10 school schemes
- Increased borrowing costs of £2m for school condition schemes
- Increased borrowing costs of £3.5m for King’s Dyke, in line with the GPC decision taken in Apr 2020
- Increased borrowing costs of £0.8m for Shire Hall Relocation and Cambs 2020

Decreased cost of schemes
- Decreased borrowing costs of £13.1m for 4 school schemes

Change in funding
- Additional S106 contributions for 6 school schemes of £5.7m, which reduces borrowing by the same amount
- A reduction in other contributions for 2 school schemes of £1.6m, which increases borrowing by the same amount
- A reduction in Basic Need funding, estimated at £13.9m, which increases borrowing by the same amount
- A reduction in the amount of top-sliced grant funding used to contribute towards the A14 scheme of £1m, which increases borrowing by the same amount

- An increase in the forecast for capital receipts expected of £11.0m, which reduces borrowing by the same amount

4.6 Since the October committees, there has been some movement regarding the levels of borrowing included within the above figures. The main changes are:
- Waterbeach New Town Primary, £0.9m increase due to scope of phase one increasing to include additional buildings
- Alconbury Secondary, £4.6m increase to meet nearly zero-energy buildings requirements/sustainability costs
- Duxford Primary, £1.5m increase based on discussion with project officers and brief issued to PM consultant
- Capitalisation of redundancies, £0.7m decrease to reflect latest projections
- Housing schemes, £5.8m decrease to reflect the latest forecast schedule of loans for the overall scheme
- Updated variation budgets and capitalisation of interest costs based on the revised programme
- Rephasing of various schemes, plus other minor adjustments

5. Capital Prioritisation

5.1 An Investment Appraisal of each capital scheme (excluding schemes with 100% ring-fenced funding) is undertaken / revised as part of the Investment Proposal, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use (see Appendix C for criteria). Schemes that are already committed (i.e. where the asset is already part constructed, or we have entered into a commitment to incur expenditure) are not subsequently scored; nor are schemes that are fully funded by non-borrowing resources.

5.2 This process allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its targeted outcomes. A summary of results for all scored schemes (excludes committed and fully funded schemes) is included in Appendix C.

5.3 It should be noted that it is difficult to score many of the school schemes for use of non-borrowing funding, as the allocation of Basic Need / Capital Maintenance grants and prudential borrowing is often arbitrary and could in theory be moved around.

5.4 Appendix D ranks the scored schemes (excludes committed and fully funded schemes) in order of priority, provides detail of cost and borrowing figures and detail on flexibility of timing of spend or alternative methods of delivery (which is particularly helpful with regard to assessing the school schemes).

6. Alignment with corporate priorities

6.1 A good quality of life for everyone
There are no significant implications for this priority.

6.2 Thriving places for people to live
There are no significant implications for this priority.

6.3 The best start for Cambridgeshire’s children
There are no significant implications for this priority.

6.4 Net zero carbon emissions for Cambridgeshire by 2050
There are no significant implications for this priority.

7. Significant Implications

7.1 Resource Implications
This report provides details of how amendments made as part of the process of planning for capital schemes has a direct impact on both capital and revenue (through debt charges). Reviewing both the advisory debt charges limit and the detail of schemes already included in the programme will ensure that resources are targeted efficiently, effectively and equitably, and will provide Value for Money.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications
There are no significant implications within this category.

7.3 Statutory, Legal and Risk Implications
There are no significant implications within this category.

7.4 Equality and Diversity Implications
There are no significant implications within this category.

7.5 Engagement and Communications Implications
There are no significant implications within this category.

7.6 Localism and Local Member Involvement
There are no significant implications within this category.

7.7 Public Health Implications
There are no significant implications within this category.

Have the resource implications been cleared by Finance? Yes
Name of Financial Officer: Eleanor Tod

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement? N/A

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? N/A

Have the equality and diversity implications been cleared by your Service Contact? N/A

Have any engagement and communication implications been cleared by Communications?N/A

Have any localism and Local Member involvement issues been cleared by your Service Contact? N/A

Have any Public Health implications been cleared by Public Health N/A

8. Source documents

8.1 Source documents

a) Draft Capital Strategy 2021-22

b) Council Business Plan 2020-25

8.2 Location

a) Octagon First Floor, Shire Hall, Cambridge
b) Council's website