

CAPITAL STRATEGY

To: **General Purposes Committee**

Meeting Date: **22nd October 2019**

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. However, all capital schemes can potentially also impact on revenue.**

Recommendation: **General Purposes Committee is 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.**

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1. BACKGROUND

- 1.1 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.

2. APPROACH TO CAPITAL

- 2.1 The Council will continue 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 will continue to be reviewed and assessed through the existing approach for developing and prioritising capital schemes. General Purpose Committee (GPC) will see the detailed results of this prioritisation process in November.
- 2.2 In light of the Council's increasingly challenging financial position, the work started as part of the 19-20 planning process to review the programme more thoroughly has continued as part of the 20-21 process in order to ensure that the programme is not placing undue pressure on the tightly controlled revenue position. The results of this work will also be reported back to GPC in November as part of the Capital Prioritisation Report, following the first review of draft service programmes by committees in October.

3. SETTING CAPITAL FINANCING LEVELS

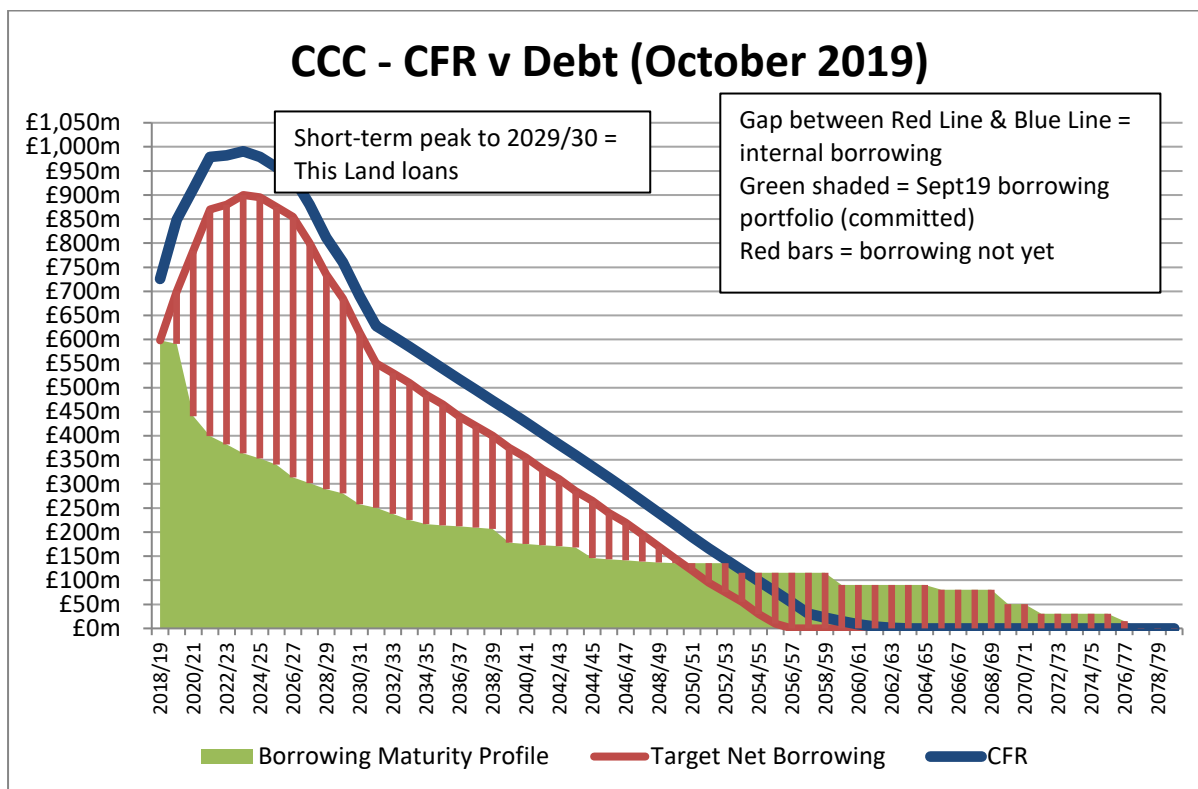
- 3.1 In its role of recommending the final budget to Council, GPC is responsible for ensuring that the level of borrowing arising from the capital programmes proposed by service committees is prudential. Ultimately, if GPC does not consider borrowing levels to be affordable and sustainable it has the 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, and should be amended if required.
- 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. This level is higher than the overall level of revised debt charges based on the draft 2020-21 Business Plan for the first four years, but slightly lower in the last two. However, these draft debt charges include Invest to Save/Earn schemes – if the impact of this was removed, it is anticipated that the forecast debt charges would be lower than the limit. 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.

	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Restated advisory limit	39.2	39.7	40.3	40.8	41.4
Draft 2020-21 debt charges (including Invest to Save/ Earn schemes)	29.1	34.0	36.6	39.2	42.1
Headroom between advisory limit and 2019-20 debt charges	10.0	5.7	3.7	1.6	-0.7

- 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. The Council is therefore in the process of undertaking an exercise to move budget between debt charges and commercial activity. As part of this work, the revenue impact of previous Invest to Save/Earn borrowing will also be split out, in order to be able to make a proper comparison of debt charges excluding Invest to Save/Earn schemes and the recommended debt charges limit. This work will be completed over the next month and will be fed back to committee in November as part of the Capital Prioritisation Report, however it is expected to bring the debt charge figures within the overall limits.
- 3.6 Whilst it is anticipated that debt charges will be brought within these limits as a result of this work, GPC still has an obligation to ensure that the overall total level of debt remains affordable. The following table and chart show 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 2019-20 plan:

	2020-21	2021-22	2022-23	2023-24	2024-25
Debt charges as a percentage of Net Service Expenditure	7.6%	8.0%	8.3%	8.6%	9.0%



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 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.

5.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

5.3 Statutory, Risk and Legal Implications

There are no significant implications within this category.

5.4 Equality and Diversity Implications

There are no significant implications within this category.

5.5 Engagement and Consultation Implications

There are no significant implications within this category.

5.6 Localism and Local Member Involvement

There are no significant implications within this category.

5.7 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Eleanor Tod
Have the procurement/contractual/Council Contract Procedure Rules implications been cleared by Finance?	N/A
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	N/A
Are there any Equality and Diversity implications?	N/A
Have any engagement and communication implications been cleared by Communications?	N/A
Are there any Localism and Local Member involvement issues?	N/A
Have any Public Health implications been cleared by Public Health	N/A

Source Documents	Location
Draft Capital Strategy 2020-21	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2019-24	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/