CAPITAL STRATEGY

To:	**General Purposes Committee**
Meeting Date:	**20th September 2018**
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 recommend to Council:**

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

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

And to:

c) Note the areas for potential reduction in cost as set out in section 4 and for further consideration by service committees.

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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 schemes generated through 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. General Purpose Committee will see the detailed results of this prioritisation process in later in the process.

2.2 In light of the Council's increasingly challenging financial position, the programme is being reviewed more thoroughly as part of the 2019-20 planning process to ensure that the programme is not placing undue pressure on the tightly controlled revenue position.

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, 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 level of debt charges approved for the 2018-19 Business Plan.

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Restated advisory limit	37.9	38.6	39.2	39.7	40.3	40.8
2018-19 Business Plan debt charges (including Invest to Save schemes)	26.0	29.0	34.7	36.7	38.5	N/A
Headroom between advisory limit and 2018-19 debt charges	**11.9**	**9.6**	**4.5**	**3.0**	**1.8**	**N/A**

4. REVIEWING THE STRUCTURE AND TIMING OF THE CAPITAL PROGRAMME

4.1 As part of the ongoing transformational activity being undertaken in order to narrow the revenue budget gap in the 2019-20 Business Plan, the Capital Programme has undergone a fundamental review to determine if schemes can be reduced, amended, removed or delayed in order to help deliver revenue savings through reduced costs of borrowing.

4.2 The results of this review can be summarised as follows:

- Where schemes have already been let to contractors, there is very little opportunity (in addition to the work services already do as part of ongoing contract management) to reduce costs further. In addition, it would actually cost the Council more to remove or postpone these schemes due to contract and inflation costs.

- There are a significant number of schemes that are either being delivered in partnership, with the use of grant funding, or as a result of developer contributions. As such, there is little that can be done to amend these schemes.

- Where schemes are being delivered in response to a statutory requirement, it is unlikely that a scheme can be removed but it is possible that the scheme can be delivered in an alternative way, the cost can be reduced or the scheme can be delayed, all of which would provide either temporary (in the case of delay) or long-term revenue benefit to the Council.

- The schemes that are therefore sensible to delay are those that have not yet been let to contractors. These tend to have start dates of at least 2019-20, if not later, and as such provide no immediate benefit to the revenue position. In addition, the Council's current accounting policies mean that neither Minimum Revenue Provision (MRP) – the cost of repaying borrowing – nor interest costs on borrowing are charged to revenue whilst a scheme is in progress. As such, due to these schemes generally taking at least one year to complete, the revenue benefit of removing, delaying or reducing the cost of these schemes would not be realised until at least 2020-21.

- As part of a longer-term strategy to reduce costs, there are several areas that have been identified in relation to the Education Capital Programme in particular, where work could be undertaken to reduce scheme costs in the future if there is appetite to do so. These include SuDS (Sustainable Drainage Systems), highways improvements, public art, cycle storage and BREEAM (Building Research Establishment Environmental Assessment Method).

4.3 As a result of this review, two schemes have been removed from the programme:

- One school scheme involving replacement of (newly acquired) mobile accommodation with permanent accommodation – revenue benefit of around £414k from 2021-22
- Soham Station (to be delivered by the Cambridgeshire and Peterborough Combined Authority) – revenue benefit of around £310k from 2024-25

4.4 There is potential for the following scheme to be removed, but this is pending review of the waste revenue savings proposals:

- Waste schemes – revenue benefit of around £300k from 2020-21

4.5 There are several Education schemes in the programme which relate to replacement of temporary accommodation with permanent accommodation which could be delayed if it is felt beneficial to the revenue position (however this would be contingent on securing further planning permission). The earliest revenue benefit for doing so would not be realised until 2023-24 and each scheme would save between £35k and £170k per annum. In all cases there would be a temporary benefit for each year that the scheme is delayed, but this would be partially off-set by additional costs in later years due to the impact of higher inflation.

4.6 There is one significant Education scheme that could be delayed by one year depending on updated pupil forecasts, which would generate a one-off revenue benefit of around £1.5m in 2020-21. Again, this would be partially off-set by additional costs in later years due to the impact of higher inflation.

4.7 It is anticipated that service committees will consider these and any further proposals emerging to reduce or delay capital costs in October 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 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.

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 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.

6.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

6.3 Statutory, Risk and Legal Implications

There are no significant implications within this category.

6.4 Equality and Diversity Implications

There are no significant implications within this category.

6.5 Engagement and Consultation Implications

There are no significant implications within this category.

6.6 Localism and Local Member Involvement

There are no significant implications within this category.

6.7 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Tom Kelly
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 2019-120	Octagon First Floor Shire Hall Cambridge
Council Business Plan 2018-23	https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/