

Subject:	Capital Resources and Capital Programme 2017/18 to 2019/20		Status:	For Publication	
Report to:	Cabinet		Date:	15 th February 2017	
Report of:	Head of Finance & Property Services		Portfolio Holder:	Resources and Performance	
Key Decision:	<input checked="" type="checkbox"/>	Forward Plan	<input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/>
				Special Urgency	<input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached:	No	
Biodiversity Impact Assessment	Required:	Yes /No	Attached:	Yes /No	
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1.	RECOMMENDATION(S)
1.1	Members consider the potential resources for 2017/18 and the medium term.
1.2	Members consider the affordable capital programme for 2017/18, as set out in Appendix 1, and recommend the new capital expenditure projects totalling £885k to Full Council for approval.
1.3	Members agree to delegate any minor amendments to the capital programme throughout the 2017/18 financial year to the Head of Finance in consultation with the Portfolio Holder for Resources.

2. PURPOSE OF REPORT

- 2.1 To provide Members with projections for the capital resources available for 2017/18 and seek member approval for the capital expenditure programme 2017/18, including ongoing projects such as Bacup THI and the Spinning Point development.
- 2.2 To advise Members of the proposed capital expenditure and resources for the medium term 2018/19 & 2019/20 and the financing issues related to future capital expenditure.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition. The primary focus of the Council's budget setting is to support its Corporate priorities.

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4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as

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set out below:

- The Council needs to ensure that it is able to generate adequate sources of capital funding to support its capital commitments over the medium term and that it does not over stretch itself in terms of borrowing exposure.
- The Council can do this by prioritising both its capital expenditure and the assets it chooses to retain over the medium term. This requires focus, not just on the immediate issue, but on those emerging in the years ahead.
- In the current economic climate there is some uncertainty surrounding the Council's ability to generate resources from the disposal of its surplus assets. Regular reporting will continue be made to Members to explain any additional resources achieved and account for their allocation to the programme as and when they become available.
- Members should be aware that this affordable capital programme for 2017/18 to 2019/20 provides for minimal capital repair works and very little new investment, other than the Bacup THI and Spinning Point projects, which have already received member approval. There is only £10k per annum included for matched funding community projects within the Communities Team. Given the outcome of the 2012/13 Stock Condition Survey there are risks of not providing the required investment (see below).
- Members should also be aware of the potential for unforeseen events and in particular emergency works, such as culvert works. At the time of drafting this report there is an uncommitted balance of £90k for emergency works. If this is not required by year-end this resource will be carried forward into 2017/18 and brought back up to the general £100k provision.
- Due consideration should be given to financial resources available to community partners occupying Council assets on terms below commercial rates on the expectation, amongst other things, that partners are liable for the regular upkeep and maintenance of the assets.

5. BACKGROUND AND OPTIONS

5.1 Capital expenditure refers to larger projects, typically over £10k in value, and those where the benefit will last for more than one year, such as vehicles and buildings. Revenue expenditure is annual costs of providing services, such as employees, running costs and supplies.

Capital resources are those which either come from the sale of capital assets (and they are therefore one-off in nature) or from external capital grants. In contrast, revenue resources are those annual incomes from council tax, business rates and the provision of services. To maintain a sustainable revenue position authorities are not allowed to fund annual revenue expenditure from one-off capital receipts, but they are allowed to fund long-term capital plans over several years from revenue resources. This is done in one of two ways: a revenue contribution to the capital purchase/works costs or through initial internal borrowing which is then repaid from revenue resources over the life of the asset, known as Minimum Revenue Payments (MRP).

Capital resources are kept separate from revenue and any funds not used at the end of a financial year can be carried forward to future years, held in the Capital Receipts Reserve. Amounts relating to General Fund properties are kept separate from Housing, though they are combined on the authority's official Balance Sheet.

5.2 Capital Resources

There are several sources of capital funds

5.2.1 Receipts from Sales

The Council's ability to raise capital receipts from land sales is dependent upon the current property market and its appetite to dispose of non-operational assets. In recent years officers have maintained a prudent view of the level of income achievable. Given that the bulk of actual capital receipts come from a very small number of medium sized sales, officers have seen reductions in this income since 2015/16. In 2016/17 only one such medium-sized sale has occurred, therefore officers predict that sales will continue to be slow in the medium term, hence a forecast of £50k per annum.

By the end of 2016/17 officers anticipate an unallocated balance of £705k from the sale of General Fund assets. However, only £26k of these funds have not already been allocated to ongoing projects.

Housing capital receipts balances have come principally from recovered discount on the re-sale of former council houses, though the time limit for this is coming to an end now, and from repaid Equity Release loans and the sale of CPO properties (see paragraph 5.4.3 below).

Should any additional receipts arise they will be reported to Members through the quarterly financial monitoring process.

5.2.2 Capital Grants

The council looks set to start 2017/18 with a balance of £338k from the former Housing Capital Pot grant scheme and this is ring-fenced to support housing projects such as Disabled Facilities Grants (DFGs) over the next few years.

The only ongoing capital grant scheme is for DFGs through the LCC Better Care Funding programme. The Council is awaiting news in February about the 2017/18 figure, but for now officers anticipate that it will be somewhere between the 2015/16 grant of £424k and the 2016/17 grant of £791k, and a conservative estimate of £500k has been used in this draft programme. (Note: the Green Vale Homes contribution of £200k per annum ended in 2015/16 as this was 10 years from the stock transfer).

Since the 2010 Spending Review capital grants for projects such as playgrounds have transferred to third sector bodies. Where such grant bids are successful, the Council usually provides support and a delivery mechanism as well as occasional matched funding where absolutely necessary. In 2016/17 two new capital projects were added to the capital programme during the year, at Fallbarn and Clod Lane, with a total cost of £197k yet only requiring a £3k contribution from the Council's resources. At the time of writing this report 3 further schemes are in the initial phases and they have had in-principal approval to go ahead and seek external grant funding. These have not been included in this capital programme as they would not proceed until the grant resources have been confirmed and they are only expected to require minimal Council support if they do go ahead.

5.2.3 Council revenue resources

Although capital resources cannot be used to fund revenue costs, the Council can, and does, fund some of its capital works and asset purchases from its revenue income. It can do this in two ways, either by

- making direct contributions towards capital works or asset purchases, known generally as a Revenue Contributions to Capital Outlay (RCCO), or
- through the use of internal borrowing, for which it must make annual repayments over the life of the specific asset, known as Minimum Revenue Provision (MRP) repayments.

The Medium Term Financial Strategy includes £100k per annum in terms of RCCO as agreed by members back in February 2014.

In 2016/17 and 2017/18 the repayments of MRP for many of the current parks vehicle fleet and the street sweeping vehicles will have come to an end and the total £160k annual MRP built into the revenue budgets over the next 5 years can be used to finance the costs of replacement vehicles. Officers are mindful that any replacements will need to be managed to work within these resources, and during 2016/17 officers began a review of the fleet requirements with a view to procuring the vehicles during 2017/18.

5.2.4 Total Capital Resources

In summary, our assumptions for capital resources over the next three years are as follows:

Capital Resources	Funding Profile for 2017/18 Projects				Future plans	
	Capital Grants	Capital Receipts	Revenue Contrib	Internal Borrowing	New in 2018/19	New in 2019/20
	£000	£000	£000	£000	£000	£000
Balances Brought Forward (est)						
General Fund Capital Receipts Reserve	-	705	-	-	-	-
Housing Capital Receipts Reserve	-	374	-	-	-	-
Housing Capital Pot (ringfenced old grant)	338	-	-	-	-	-
Better Care Funding for DFGs	140	-	-	-	-	-
Internal Borrowing MRP built into current budgets	-	-	-	240	-	-
	478	1,079	-	240	-	-
General Services						
Heritage Lottery Grant	1,033	-	-	-	-	-
Lancashire County Council	3,439	-	-	-	-	-
Local Growth Fund	915	-	-	-	-	-
Private Owner Contributions	-	200	-	-	-	-
General Fund Capital Receipts - from sale of assets	-	50	-	-	50	50
Contribution from Reserves	-	-	301	-	-	-
Additional MRP (over 30yrs=£30k p.a.)	-	-	-	900	-	-
MTFS General Fund Revenue Contribution	-	-	100	-	100	100
	5,387	250	401	900	150	150
Housing Services						
Better Care Fund DFG Grant	500	-	-	-	500	500
Housing Capital Receipts - from sale of CPO properties	-	120	-	-	60	60
	500	120	-	-	560	560
Total Capital Resources	6,365	1,449	401	1,140	710	710

5.3 **Capital Expenditure**

Appendix 1 outlines the capital programme and the capital resources available for the next three years, as noted in 5.2.4 above.

The capital expenditure programme builds on schemes established in previous years, concentrating on key risk issues identified through ongoing business planning and service review processes, together with the results of the latest stock condition survey. The programme for 2017/18 is split between the ongoing projects such as Bacup THI and the Spinning Point development, and new capital projects at a level commensurate with prudent estimates of the resources expected, as shown at 5.2.4 above.

Ongoing projects are expected to spend £7,697k during 2017/18, mostly the Bacup THI and the Spinning Point development.

New projects being recommended are expected to total £885k and the individual areas are discussed in more detail below.

This brings the total Capital Expenditure Programme for 2017/18 up to £8,582k.

Capital Programme	2017/18		
	Ongoing Projects* £000	New Projects £000	Total Programme £000
Operations & Communities			
Parks Vehicle Replacement Programme	140	100	240
Playgrounds		10	10
Pathways		20	20
Cemeteries	96	-	96
Sports Playing Fields	193	-	193
	429	130	559
Regeneration			
Bacup THI Scheme	1,534	-	1,534
HAPPI	100	-	100
Spinning Point	5,254	-	5,254
	6,888	-	6,888
Corporate			
Building Maintenance (as per condition survey)	150	125	275
Emergency Works	90	10	100
	240	135	375
General Fund Total	7,557	265	7,822
Housing			
Disabled Facilities Grants (DFGs)	140	500	640
Compulsory Purchase Order Schemes	-	120	120
Housing Services Total	140	620	760
Expenditure Grand Total	7,697	885	8,582

5.3.1 Operations & Communities

The desired programme recommended by officers for 2017/18 and future years includes the continuation of several maintenance and upgrade programmes which commenced some years ago. The ambition would be to continue funding these schemes, as long as resources are available:

- Playgrounds £10k pa annual spend as match for new projects
- Pathways £20k pa (suggest 2017/18)
- Cemeteries £20k pa (suggest defer until 2018/19)
- Sports Fields £20k pa (suggest defer until 2019/20)

It has been proposed by officers that the £20k investment in pathways, cemeteries and sports fields, shown above, could be targeted on a rolling basis of one per year if funds are not available for an annual programme. In the programme attached repairing and resurfacing pathways has been suggested within the 2017/18 capital programme, with cemeteries in 2018/19 and sports playing fields in 2019/20.

Should additional resources be made available they would be apportioned pro-rata to the desired level of funding shown above.

The capital programme for Operations and Communities also includes some predicted expenditure on the replacement of parks and street sweeping vehicles originally planned for 2016/17 and 2017/18, to be funded specifically from internal borrowing and repaid through MRP as explained in 5.2.3 above. There is an ongoing scoping exercise examining the need to replace all the old vehicles alongside a health and safety review of the types of vehicles

required. This should enable a more accurate and efficient procurement exercise during 2017/18. Therefore, the capital expenditure in 2017/18 is proposed as £140k carried forward from 2016/17 and £100k of further replacements.

5.3.2 Corporate

Officers recommend the continuance of the £125k per annum which has been set aside in recent years. The Asset Management Strategy in 2012 suggested a far higher level of expenditure, but given the limited resources available, officers maintain that the priority 1 maintenance issues can be tackled on a manageable basis with these resources.

Experience with liabilities arising for works to items such as culverts, bridges and retaining walls, suggests that it is prudent to maintain a capital budget for emergency works of £100k to cover unforeseen costs. It is currently estimated that the balance available for emergency works at the end of 2016/17 will be £90k. Therefore, officers recommend that a top-up of £10k is set aside in 2017/19 to bring the balance back up to the desired level of £100k.

5.3.3 Housing programme

Housing resources and expenditure generally operate within a ring-fence. Projects are included only as far as the anticipated resources will allow. Only two projects are expected to continue into 2017/18 and beyond - Disabled Facilities Grants (DFG) and the use of Compulsory Purchase (CPO) powers to bring problem empty properties back into use.

As noted at 5.2.1 above, Cabinet in October 2014 approved a list of long-term empty properties to be targeted for CPO and ring-fenced housing capital receipts of £130k were set aside for the initial acquisition costs on the understanding that any income received from the eventual sale of those properties is recycled into similar future schemes.

Officers recommend that the housing capital grant balance of £338k is used to top-up the DFG Better Care Fund income, ensuring that an annual programme of around £500k is still achievable, even if the Better Care Fund grant allocation drops.

5.4 **Net capital resources position in the medium term**

The affordable capital programme for 2017/18 is set within a medium term approach which would leave a balance of £763k of available capital resources at the end of March 2020. Of this £712k is earmarked for Housing projects and £51k would be for General Fund requirements.

Should additional capital resources become available they would be directed pro rate towards the desired programme. The position will be kept under review during 2017/18 and reported to Members through the quarterly Cabinet Financial Monitoring Reports.

5.5 Capital Financing Requirement and internal/external borrowing

The Council's historical need to borrow, from its own internal resources, to finance its former capital projects is, as previously noted, known as internal borrowing. This is referred in the statutory accounts as the Capital Financing Requirement [CFR].

At the end of 2015/16 the CFR balance had risen to £8,315k and during 2016/17 new projects are expected to add £1,146k, the bulk being the purchase of the Haslingden Sports Centre lease balance. Following 2016/17 MRP repayments of £673k this will leave an estimated net CFR of £8,787k at the end of March 2017, which can be split down as shown below.

Movements in the CFR	Added 2016/17	MRP 2016/17	CFR 2016/17
Whitworth Civic Hall	0	-32	929
Leisure building investment	0	-86	2,232
Rawtenstall Town Centre	0	-55	960
Other buildings	0	-50	911
Operations vehicles etc	9	-318	933
Leisure Grip & Go	0	-41	235
Leisure H'den Sports Centre	1,010	-25	985
IT infrastructure	0	-16	22
IT software	61	-15	94
Renewable Energy Projects	66	-22	114
Housing	0	-5	1,360
Other assets	0	-9	13
	1,146	-673	8,787

The Capital Programme for 2017/18, at Appendix 1, includes plans to fund £1,140k of capital expenditure through internal borrowing, £240k of which will be direct replacement for vehicles reaching the end of their MRP charge during 2016/17 and 2017/18 and the average life of these vehicles will be 5 years. The MRP charge on the revenue account will rise by £30k per annum for the Spinning point project, though this will be offset by revenue incomes from the bus station and the former Town Hall. Therefore, the MRP in the 2017/18 year will rise to £751k.

In the years ahead, as the Council's cash reserves are used to meet the challenges of the Medium Term Financial Strategy, the net cash position for the Council will reduce. Officers and members will need to be aware that internal borrowing is not an infinite resource and that future capital projects may lead to a need for external borrowing, which will bring with it interest charges.

COMMENTS FROM STATUTORY OFFICERS:

6 SECTION 151 OFFICER

6.1 Financial matters are dealt within the report.

7. MONITORING OFFICER

7.1 No comments required for this report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Consultation has been carried out with the officers managing the Council's capital projects, especially the Bacup THI, the Spinning Point development and the Council's property maintenance programme.

9. CONCLUSION

- 9.1 Resources are available to meet the currently proposed affordable capital programme for 2017/18 and up to 2019/20.
- 9.2 The deficit between capital resources and requirements over the future years looks set to continue. With severe pressures on the Council's revenue resources throughout the Medium Term Financial Strategy it is more important than ever to avoid longer term external borrowing, which will have a negative impact of future revenue costs.
- 9.3 Members delegate the consideration, prioritisation and approval of any future capital projects, should additional resources become available during 2017/18, to the Head of Finance in consultation with the Portfolio Holder for Resources.

Background Papers

Document	Place of Inspection
Previous update to the MTFS reported to Cabinet in October 2015	Rossendale Borough Council website
Financial Monitoring Report to Cabinet in September 2015, November 2015 and the Q3 update being reported to this Cabinet in February 2016.	Rossendale Borough Council website

Capital Programme 2017/18- 2019/20

Capital Programme	2017/18			Funding Profile for 2017/18 Projects				Future plans	
	Ongoing Projects* £000	New Projects £000	Total Programme £000	Capital Grants £000	Capital Receipts £000	Revenue Contrib £000	Internal Borrowing £000	New in 2018/19 £000	New in 2019/20 £000
Operations & Communities									
Parks Vehicle Replacement Programme	140	100	240				240	-	-
Playgrounds		10	10		10			10	10
Pathways		20	20		20			-	-
Cemeteries	96	-	96		96			20	-
Sports Playing Fields	193	-	193		193			-	20
	429	130	559	-	319	-	240	30	30
Regeneration									
Bacup THI Scheme	1,534	-	1,534	1,033	200	301		-	-
HAPPI	100	-	100		100			-	-
Spinning Point	5,254	-	5,254	4,354			900	-	-
	6,888	-	6,888	5,387	300	301	900	-	-
Corporate									
Building Maintenance (as per condition survey)	150	125	275		175	100		125	125
Emergency Works	90	10	100		100			-	-
	240	135	375	-	275	100	-	125	125
General Fund Total	7,557	265	7,822	5,387	894	401	1,140	155	155
Housing									
Disabled Facilities Grants (DFGs)	140	500	640	640				500	500
Compulsory Purchase Order Schemes	-	120	120		120			60	60
Housing Services Total	140	620	760	640	120	-	-	560	560
Expenditure Grand Total	7,697	885	8,582	6,027	1,014	401	1,140	715	715

Capital Resources	Funding Profile for 2017/18 Projects				Future plans	
	Capital Grants £000	Capital Receipts £000	Revenue Contrib £000	Internal Borrowing £000	New in 2018/19 £000	New in 2019/20 £000
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	500	120	-	-	560	560
Total Capital Resources	6,365	1,449	401	1,140	710	710
General Fund Services		61	-	-	56	51
Housing Services	338	374	-	-	712	712
Balance of Usable Capital Resources cfwd	338	435	-	-	768	763