Rossendale BOROUGH COUNCIL

ITEM NO. E3

Subject:	Capital Strategy and Capital Programme 2019/20 to 2021/22 *(formerly Capital Resources and Capital Programme 2019/20)*	**Status:**	For Publication
Report to:	Cabinet	**Date:**	13th February 2019
Report of:	Head of Finance & Property Services	**Portfolio Holder:**	Resources
Key Decision:	☒ Forward Plan ☒	General Exception ☐	Special Urgency ☐
Equality Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: ~~Yes~~/No	Attached:	~~Yes~~/No
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1.	**RECOMMENDATIONS**
1.1	Members consider the Capital Strategy for 2019/20 and the medium term, as set out in Appendix 1.
1.2	Members consider the affordable capital programme for 2019/20, as set out on page 9 of Appendix 1, and recommend the new capital expenditure projects totalling £1,273k to Full Council for approval.
1.3	Members agree to delegate any minor amendments to the capital programme throughout the 2019/20 financial year as a result of new grant-funded community projects, to the Head of Finance in consultation with the Portfolio Holder for Resources. Amendments will then be reported to Cabinet through the regular Financial Monitoring Reports.

2. PURPOSE OF REPORT

2.1 To provide members with a Capital Strategy for the coming three years, taking into account progress of current projects and plans for future developments.

2.2 To propose a capital expenditure programme for 2019/20 and the medium term, including two new capital projects approved during 2018/19 subject to further due diligence and legal contracts.

2.3 To advise members on the various sources of capital funding available to support the proposed expenditure and their impacts upon the Medium Term Financial Strategy.

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating

and maintaining a healthy and vibrant place for people to live and visit.

In setting the Capital Programme, officers and members must consider projects which support the Council's Corporate Priorities within the constraints of the MTFS.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendations in this report involve risk considerations as 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 issues, 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 Capital Strategy for 2019 to 2022 provides for minimal capital repair works and two new investments, at Spinning Point Phase 2 and the Commercial Acquisition of a property in the west of the borough, which have already received member approval subject to the conclusion of further due diligence work and legal contracts. Given the outcome of the 2012/13 Stock Condition Survey there may be some risk of not providing the required investment in current assets.
- As part of the Empty Homes Project the Council does have full repairing responsibilities on c.12 properties.
- 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 £95k for emergency works, following the use of £27k for emergency culvert works during the spring of 2018. Any balance will be carried forward into 2019/20 and officers would seek any opportunity to bring the provision set aside back up to £100k level.
- 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 The link between Capital and Revenue

5.1.1 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.

5.1.2 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 outlay/purchase (known as RCCO) or through initial borrowing which is then repaid from revenue resources over the life of the asset. The level of borrowing is known as the Capital Financing Requirement (CFR) and this can be funded from internal cash reserves which are repaid by Minimum Revenue Payments (MRP), being a charge against Council Tax, or from external borrowing, in which case the revenue impact is increased by the cost of interest payments

The current 2019/20 proposed budget includes £100k of RCCO and an ongoing MRP budget of £576k. The latter has been reduced by c£150k through an additional Voluntary Revenue Provision (VRP) of £657k during 2018/19.

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. Amounts relating to General Fund properties are kept separate from Housing, though they are combined in the Capital Receipts Reserve on the authority's official Balance Sheet.

5.2 What is a Capital Strategy?

The Corporate Strategy at Appendix 1 sets out the strategic direction of the Council, providing a focus to ensure that the services the Council delivers meet the needs of its communities. It is one of the Council's most important documents setting out those areas identified for focused improvement over future years.

The Prudential Code plays a key role in capital finance in local authorities. Councils determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support councils in making their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, which means that each council must make a reasonable estimate of the total capital expenditure that it intends to incur during the forthcoming financial year and at least the following two financial years.

A sound capital programme must be driven by the Corporate Priorities and capital decisions must balance the long-term gains with the initial capital costs and the ongoing revenue implications in terms of running costs and potential income generation opportunities. The Prudential Code recognises that in making its capital investment decisions the council must have explicit regard to option appraisal, asset management planning, strategic planning for the council and achievability of the capital programme.

As well as future investments, Members must also consider the costs of holding onto some assets compared with their contribution towards the Corporate Priorities. Holding costs include revenue running costs and general maintenance, but often capital maintenance costs are overlooked and these can mount up over time if not addressed. The last comprehensive stock condition survey was undertaken in 2013 and since then the Council has only had the resources to deal with the highest priority capital maintenance works in a rolling programme of around £125k per annum. That said, the Facilities Management Team is confident that all the Council's assets are being adequately maintained.

5.3 Current and ongoing projects/schemes

The report at Appendix 1 provides detail on the ongoing Spinning Point Phase 1 project as well as Phase 2 which was approved by members in December 2018. The other new project approved in 2018, subject to further due diligence and legal contracts, is the commercial acquisition of a property in the west of the borough.

The report also examines the Council's Disabled Facilities Grants programme, for which the Better Care Funding grant has been increasing over recent years and indications from central government are that the future grant will continue at least at the current level. Now that occupational health referrals appear to be flowing through more regularly and the DFG policy has been reviewed by members during 2018, officers hope that the slippage of recent years will not be repeated beyond 2018/19.

Officers have developed a comprehensive replacement plan for the operational fleet over the life of the MTFS. Whilst this delayed the procurement of some vehicles in 2018/19, it allowed a full assessment of needs and resulted in some savings by the introduction of some second-hand vehicle purchases where appropriate.

5.4 **Future project ambitions**

The Whitaker is currently working up a potential Heritage Lottery bid of around £2m, but again, only the development stage has so far been approved.

The sale of Rossendale Transport Ltd during 2017/18, has left the Council with the ownership of the Knowsley Road depot site. The contribution which that site can make towards the Council's economic regeneration and development plans has yet to be fully determined. There is currently a preference for a lease arrangement, but disposal may be considered.

The Council has prioritised the development and delivery of a Trail Head Centre at the Futures Park site, with further themed developments on the other 3 remaining plots. Council officers and Members are in ongoing discussions with Lancashire CC, businesses and community groups, including the Pennine Mountain Bike Association to analyse options for alternative delivery and management vehicles to achieve a site of national importance in the field of adrenaline sports.

Rossendale Borough Council is a member of the East Lancs Railway Trust and as such continues to work closely with them on plans to improve and extend the station at Rawtenstall. More will be known in the coming year once the ELR Trust's 10-year strategy is complete.

Rossendale Borough Council is also taking part in a joint bid to develop a commuter rail link from Rawtenstall to Manchester. The Centre for Economic Business Research (CEBR) report was presented to Full Council in December 2018 and emphasised the strong economic demand for a rail link with five possible options. Members agreed to commit further resources to develop a stakeholder lobby group and thereafter campaign for the delivery of this project.

5.5 **An affordable Capital Programme**

In order to meet the above strategic plans and operational requirements officers have drawn up the following affordable Capital Programme for the next three years which can be found at page 9 of Appendix 1

Slippage from 2018/19 is expected to be around £4m, most of which relates to Spinning Point Phase 1 and the DFGs.

Of the new projects listed for 2019/20 members have already approved the £9.1m regeneration projects of Spinning Point Phase 2 and the commercial property acquisition.

Members are now asked to approve the following new projects for 2019/20:-

- Vehicle replacement programme - in additional to the expected slippage of £358k a cost of a £196k will be required to replace the fleet currently reaching the end of its economically useful life in 2018/19. The obsolete stock should fetch around £81k surplus at auction, therefore the internal borrowing requirement will be £473k. In 2020/21 and 201/22 a further £1,266k are likely to need to be replaced.
- Playgrounds & Pathways - budgets of £10k and £20k respectively have been set aside in recent years from the capital receipts to provide minimum works or seed-corn funding for community group grant-funding projects and it is proposed that this continues.
- An asset maintenance programme of £100k has been included, funded from RCCO built into the proposed revenue budget for 2019/20. Given revenue constraints in future

years, officers propose that this reduce to £70k and then £50k by 2021/22.

- Allowances in 2018/19 for Disabled Facilities Grants from the Better Care Fund have not been announced, but officers are confident that the 2018/19 grant of £947k should be continued - announcements are not expected until early April. The slippage from the 2018/19 year is expected to be around £750k, so the combined grant available in 2019/20 is likely to be around £1,697k.
- The total value of new capital projects in 2019/20 it therefore £1,272k

5.6 **Capital Resources**

Capital resources come from three places

- Capital receipts from sales of land or other assets
- Capital grants or contributions from outside agencies, organisations or community groups
- Revenue Contributions (RCCO) from either the Council's own budgets, or from property developers through S106 agreements.

5.6.1 <u>Receipts from Sales</u>

The opening value of capital receipts from sale of assets is forecast to be £1,300k, of which £381k is ring-fenced for housing works.

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, hence a forecast of £50k per annum, plus an expectation of around £81k from the sale of obsolete vehicles.

Housing capital receipts in the future are only expected from the sale of CPO properties and these are dependent upon, and directly related to, any CPO costs.

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

5.6.2 <u>Capital Grants</u>

The Council looks set to start 2019/20 with a balance of £750k for DFGs and £1,923k from LCC for the ongoing works on Spinning Point Phase 1.

The grants expected during 2019/20 relate to the balance of the Lancashire Growth Fund grant for Spinning Point Phase 1and the 2019/20 Better Care Funding allocation for DFGs.

5.6.3 <u>Council revenue resources</u>

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 different ways - direct revenue contributions in the year and internal borrowing, which spreads the revenue impact over the life of the associated asset.

There is only one planned budget for a revenue contribution expected in the coming years, and this is for the maintenance of Council buildings. The figure included in the 2019/20 revenue budget is £100k, but the MTFS pressures have led officers to recommend that this reduces in the future years, as noted at 5.5 above.

5.7 **Capital Financing Requirement and Prudential Borrowing**

The Council's historical need to borrow, to finance its former capital projects is, known as the Capital Financing Requirement [CFR] and the borrowing can be from external sources, such as the Public Works Loans Board (PWLB), or internal, from other cash-backed reserves.

At the end of 2018/19 the CFR balance is expected to be £8,992k as shown on page 12 of Appendix 1.

During 2019/20 the new projects mentioned above are expected to have a net CFR of £9,241k.

The MRP in 2019/20 of £576k will then result in a closing CFR of £16,357k.

Capital Financing Requirement (CFR)	**2017/18 Actual £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Opening CFR	9,379	9,588	8,992	16,357	16,178
Movement in CFR - Services (see below)	209	(596)	7,365	(179)	1,099
Movement in CFR - Commercial Activities	-	-	1,300	-	-
Closing CFR	**9,588**	**8,992**	**16,357**	**16,178**	**17,277**
Movement in CFR is represented by					
Net financing need for the year (see above)	1,018	898	9,241	397	1,675
Less MRP repayments	(809)	(1,494)	(576)	(576)	(576)
Movement in CFR	209	(596)	8,665	(179)	1,099

The term "Prudential Borrowing" refers to any external borrowing undertaken by the Council to meet the above CFR. At the moment the Council only has one PWLB loan which will have a balance of £2,944k at the beginning of 2019/20 with an annual principal repayment of £184k.

While the replacement of the operational fleet is expected to be funded from internal borrowing, the two major new projects discussed above are planned to be financed by two new PWLB loans:

- Spinning Point Phase 2 by a 3-year loan with the principal being replaced at the end of the term, and
- the Commercial Acquisition by a 25-year loan on the basis of equal instalments of principal & interest over the life of the asset

Crucially, these financing proposals will still leave the Council in a position of being under-borrowed by around £4.5m compared to the CFR, i.e. the Council is still funding it's capital spending from its cash-backed reserves.

Borrowing Position	**2017/18 Actual £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt at 1st April	3,312	3,128	2,944	11,860	11,676
Debt Repayments	(184)	(184)	(184)	(184)	(184)
New Debt	-	-	9,100	-	1,000
Debt at 31st March	**3,128**	**2,944**	**11,860**	**11,676**	**12,492**
Commercial Activities included above					
Debt at 31st March	-	-	1,300	-	-
Percentage of Total External Debt	0.00%	0.00%	10.96%	0.00%	0.00%
Capital Financing Requirement (CFR)	9,588	8,992	16,357	16,178	17,277
Under / (over) borrowing	**6,460**	**6,048**	**4,497**	**4,502**	**4,785**

COMMENTS FROM STATUTORY OFFICERS:

6 SECTION 151 OFFICER

6.1 Financial matters are dealt with in the report at Appendix 1.

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 and a cross-party Working Group of members in relation to the Spinning Point Phase 2 development, as reported to Full Council in December 2018

9. CONCLUSION

9.1 The currently proposed capital programme for 2019/20 and up to 2021/22 represents an affordable plan, as indicated by the Prudential Borrowing performance indicators in the report at Appendix 1.

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 likely than ever that the Council will need to take out further external borrowing, leading to interest costs which will need to be included within the business case for each investment.

9.3 Members delegate the consideration, prioritisation and approval of any future capital projects, should additional resources become available during 2019/20, to the Head of Finance in consultation with the Portfolio Holder for Resources.

Background Papers	
Document	Place of Inspection
Commercial Property Acquisition report to Full Council July 2018	Rossendale Borough Council website
Spinning Point Phase 2 report to Full Council December 2018	Rossendale Borough Council website
Financial Monitoring Report to Cabinet in November 2018 and the Q3 update being reported to this Cabinet meeting	Rossendale Borough Council website and Financial Services working papers
Revenue Budget 2019/20 and the MTFS update being reported to this Cabinet meeting	Financial Services working papers