Appendix 1

Capital Strategy 2019/20 - 2021/22

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Rossendale
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Capital Strategy 2019-2020

Introduction and background

This Capital Strategy has been drafted in response to the latest requirements of the Prudential Code 2017, and is designed to form a key part of the Council's overall corporate planning policy aligned to the Council Plan. As such it follows on from the first Capital Strategy presented to members as part of the budget-setting exercise in February 2018.

The Corporate Strategy 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.

Objectives and the Strategic Approach

The key aims of the Capital Strategy are to:

- provide a clear vision of the Council's capital investment blueprint for the present-day and future
- to discharge the Council's duty in regards to the CIPFA Prudential and Treasury Management Codes and statutory legislation. This will be demonstrated through requisite Prudential Indicators of *prudence* and *affordability*, whilst also paying close attention to local factors such as risk appetite and knowledge and skills.

The main body of this document focuses upon how the Council intends to achieve its desired outcomes from its capital investment, whilst Annex A records the requisite Prudential Indicators as they pertain to the expected Council capital investment programme over the forecast period.

Capital Expenditure

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

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 budget proposals include £100k for RCCO and a total ongoing MRP budget of £576k. Where MRP relates to short-live assets, such as vehicles, when the CFR is fully repaid the annual MRP cost is maintained within the operational budgets to support the next round of the asset replacement programme.

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.

Capital Projects

During 2018/19 the Council had two major ongoing schemes in the borough; the Spinning Point development in Rawtenstall and the Bacup Town Centre Heritage Scheme, both of which tackle the regeneration plans within the Corporate Strategy.

Efforts to promote sustainability across the Council's partners and the community also included projects with the Whitaker, Ski Rossendale and Rossendale Leisure Trust.

The Council has also been working closely with its partners across the community to focus on our clean and green borough, improving play areas and public spaces including schemes at Stubbylee Park, Healy Dell and Waterfoot Town Centre.

In addition, the Council continues to make every possible effort to keep up the maintenance on key assets across the borough and manage the fleet of operational vehicles in the most economic and efficient way possible to ensure that public services continue to meet the standards expected.

Spinning Point

The 2010 Rawtenstall Town Centre Vision identified the Valley Centre as a Priority Investment Area, with the redevelopment of the Valley Centre, Police Station, One Stop Shop and former Town Hall to create a new, high quality mixed use development with open spaces. The vision of Spinning Point is based on preserving the heritage of the existing space while creating improved facilities for local residents, a vibrant town centre as a destination of choice for leisure, retail and housing; increasing footfall and support the visitor economy. As such it contributes directly to all three of this Council's corporate priorities.

Spinning Point Phase 1 is a £5.3m project in the centre of Rawtenstall designed to provide a new bus station with retail units, redevelopment of the former Town Hall into offices and provide car parking on the former Police Station and former bus station sites. Funded through grants from Lancashire County Council, the Local Growth Fund and Rossendale Council, physical works got under way in March 2017. The demolition of the former One Stop Shop and the old police station were the first elements of the project in 2017/18. The focus of the 2018/19 activity has been the redevelopment of the old town hall, which is now complete and the tenant, Together Housing, have moved in. Following negotiations with regard to the stopping up of some roads at the site, work on the construction of the new bus station has now commenced.

During 2018/19 officers and members have undergone a thorough due diligence process on the options for a Spinning Point Phase 2, through a cross-party Working Group, which culminated in a presentation to Full Council in December 2018. At that meeting members agreed to go ahead with the preferred scheme, comprising a Spa plus, a residential offer and 7 retail & beverage units.

The gross value of the Phase 2 development is £9.4m, of which development costs are expected to be £7.8m and the Spa fit-out £1m. Members agreed to finance the development through a 3-year PWLB loan of £7.8m, repaid from the sale of the residential units and other capital receipts, followed by a 30-year PWLB loan of £1.8m and a further PWLB loan of £1m to finance the Spa fit-out.

Bacup Town Centre Heritage Scheme (THI)

This has been a £2.2m project to improve the appearance and public realm in Bacup town centre. Funded by the Council, the Heritage Lottery Fund, Lancashire County Council and local commercial/retail property owners, the scheme began in 2015 and was expected to conclude during the 2018/19 financial year with the public realm works being the main focus in 2018/19. At the time of writing this report it is expected that a small element of the public realm works, around £30k, might slip over into 2019/20.

Commercial investment properties

At the time of writing this report the Council has only one investment site, in Bacup, where the 2015 Morrisons supermarket development is now bringing in an annual rental stream of £25k.

In July 2018 Full Council approved plans, subject to completion of further due diligence work and legal contracts, to acquire an economic growth and investment unit with additional land in the west of the borough in order to support the wider economy, create jobs locally and support the short to medium term sustainability of the Council. The estimated purchase price of this property at the time was £1.3m with approval to close the acquisition delegated to the Chief Executive, Leader and Portfolio holder for Resources

Working with our partners on sustainability

At the Whitaker a £100,000 grant has been secured to enable the development of full RIBA stage D drawings as well as the development of activities and coordination plans. It is anticipated that this will lead to a full £2 million Heritage Lottery Fund application for the extension of the Council's Whitaker Museum into the adjacent barn and stables. This would represent a major enhancement of the site and will greatly expand the number of events and activities that can take place, with the potential to boost visitor numbers.

At Ski Rossendale the Council is working closely with the Board of Directors to support the enhancement of this Council-owned facility. Sports Lottery funding has been secured and work is well under way to improve the existing buildings and the café as part of wider a holistic approach to ensure the long-term sustainability of this key leisure & tourism facility in the borough.

Officers have been working on a playing pitch strategy for the borough over the last couple of years, in close cooperation with Rossendale Leisure Trust. Capital Receipts have been set aside in previous years to support the outcome of the strategy, including potential works to the playing pitches at Haslingden Sports Centre and Marl Pits. In an effort to ensure a joined-up, sustainable approach to playing pitches which meets the needs of the whole borough, control of lettings across all pitches has now transferred to the Trust.

Working with our communities

Over the last few years many environmental grants for capital works have been directed towards community groups, as a way to encourage interest and participation in the local surroundings. In line with the Council's priority to encourage proud, healthy and vibrant communities, schemes led by community groups have been encouraged.

Stubbylee Park Masterplan has been an ongoing project with the Friends of Stubbylee Park which has seen over £84k invested in a new pump track and improvements to the duck pond. The re-landscaping of the Dell has been a 2018/19 project with a further £20k of external funds brought in by the community groups involved.

Maintaining the Council's own operational assets

The Council must also continue to provide the quality services which the public deserve and in order to do this it has to maintain the assets which it uses in good condition, to ensure efficient operations and effective services.

The Council's Operations team have over 100 vehicles or major pieces of plant and equipment which have varying useful lives from 3 years up to 12 years. When any item reaches the end of its economic life officers review the needs of the team, the options for purchase/lease/rent, potential sources of replacement (including the use of local government purchasing frameworks) and the potential sources of funding.

At the moment, all vehicles, plant & equipment purchases have been funded through internal borrowing, with the MRP levels built into the revenue budget.

The Council's fixed assets on the Balance Sheet as at 31st March 2018 were as follows.

BALANCE SHEET	31st March 2017 £000s	31st March 2018 £000s
Property, Plant & Equipment		
Other Land and Buildings	22,027	21,173
Vehicles, Plant, Furniture & Equipment	1,910	1,410
Infrastructure	122	113
Community Assets	885	674
Assets under construction	960	4,075
Surplus Assets	390	390
	26,294	**27,835**
Heritage Assets	2,155	2,154
Investment Property	539	539
Total Fixed Assets	**28,988**	**30,528**

Since the last full stock condition survey in 2013, the Council has invested between £100k and £125k per annum in the highest priority repairs and maintenance works. Pressures on the MTFS mean that the level of RCCO in future years may have to fall, so the Council does not plan to increase that level of expenditure, unless additional external resources can be achieved.

Maintaining the borough's domestic housing stock

As part of its commitment towards achieving a proud, healthy and vibrant community, the Council is also focusing on the domestic housing stock across the borough.

The council receives grant from the Better Care Fund each year to provide Disabled Facilities Grants (DFGs) to help people to stay in their own homes, rather than having to enter the social care system. The Council received £947k in early 2018/19, followed by a further £116k in January 2019, to add to the £705k left from the 2017/18 grant. In recent years there have been delays in getting occupational health referrals through from Lancashire County Council, but this bottle-neck has been cleared now. In summer 2018 members also reviewed the DFG policy, widening the projects which can be funded from these resources and increasing the individual grant values available..

The Council is also raising the profile of the high volumes of long-term empty houses in the borough. Members took the decision to levy a Council Tax premium of 50% on these properties in an effort to prompt action by owners. Officers have also undergone an exercise to identify the worst properties, resulting in a list of 11 properties which officers are now working to tackle each one in turn. A capital expenditure budget of £120k has been set aside to support Compulsory Purchase Orders (CPOs), with the intention that subsequent auction sale proceeds would go back into the fund and be recycled into the next case.

Back in 2017/18 the first "assisted sale" case was been dealt with in a way which has not required the same up-front costs for the Council, but still achieves the same ultimate outcome as the CPO process.

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.

As part of the sale of its 100% shares in Rossendale Transport Ltd in 2017/18, the Council acquired 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. The Council is also

There is around £554k of operational fleet which will need replacing in 2019/20. These vehicles have residual values as obsolete stock and if sold at auction for the best price possible officers estimate an income of around £81k in excess of their book values, to help meet the costs of the replacements, leaving c£473k to fund by internal borrowing which will in turn require an MRP of just under £100k per annum. This annual cost to revenue is built within the budget being proposed for 2019/20.

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 which 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.

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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

Capital Programme 2019/20- 2021/22

Capital Programme	2019/20		Funding Profile for 2019/20 Projects					Future plans	
	Ongoing Projects £000	New Projects £000	Capital Grants £000	Capital Receipts £000	Revenue Contrib £000	External Borrowing £000	Internal Borrowing £000	New in 2020/21 £000	New in 2021/22 £000
Operations & Communities									
Parks Vehicle Replacement Programme	358	196	-	81	-	-	473	511	755
Playgrounds		10	-	10	-	-	-	10	10
Pathways		20	-	20	-	-	-	-	20
Cemeteries	55	-	-	55	-	-	-	20	-
Sports Playing Fields	192	-	-	192	-	-	-	-	-
	605	226	-	358	-	-	473	541	785
Regeneration									
Bacup THI Scheme	30	-	23	-	8	-	-	-	-
Spinning Point - Phase 1	2,400	-	2,400	-	-	-	-	-	-
Spinning Point - Phase 2		7,800	-	-	-	7,800	-	-	-
Spinning Point - Phase 2 Spa fit-out		-	-	-	-	-	-	-	1,000
Investment Acquisition (Council July 2018)		1,300	-	-	-	-	1,300	-	-
	2,430	9,100	2,423	-	8	7,800	1,300	-	1,000
Corporate									
Building Maintenance	-	100	-	-	100	-	-	70	50
Emergency Works	95	-	-	95	-	-	-	-	-
	95	100	-	95	100	-	-	70	50
General Fund Total	**3,130**	**9,426**	**2,423**	**453**	**108**	**7,800**	**1,773**	**611**	**1,835**
Housing									
Disabled Facilities Grants (DFGs)	750	947	1,697	-	-	-	-	947	947
Compulsory Purchase Order Schemes	120	-	-	120	-	-	-	-	-
Housing Services Total	**870**	**947**	**1,697**	**120**	**-**	**-**	**-**	**947**	**947**
Expenditure Grand Total	**4,000**	**10,373**	**4,120**	**573**	**108**	**7,800**	**1,773**	**1,558**	**2,782**

Capital Resources	Funding Profile for 2019/20 Projects					Future plans	
	Capital Grants £000	Capital Receipts £000	Revenue Contrib £000	External Borrowing £000	Internal Borrowing £000	New in 2020/21 £000	New in 2021/22 £000
Balances Brought Forward *(estimates)*							
General Fund Capital Receipts Reserve	1,923	919	-	-	-	-	-
Housing Capital Receipts Reserve	-	381	-	-	-	-	-
Better Care Funding for DFGs	750	-	-	-	-	-	-
Earmarked Reserves specifically identified for Bacup THI	-	-	8	-	-	-	-
	2,673	1,300	8	-	-	-	-
General Services							
Re Bacup THI - Heritage Lottery Grant	-	-	-	-	-	-	-
Re Spinning Point Ph1 - Local Growth Fund	500	-	-	-	-	-	-
Re Spinning Point Ph 2	-	-	-	7,800	-	-	-
Re Spinning Point Ph 2 - Spa Fitout	-	-	-	-	-	-	1,000
Investment Acquisition	-	-	-	-	1,300	-	-
General Fund Capital Receipts - from sale of assets	-	50	-	-	-	50	50
General Fund Capital Receipts - from sale of obsolete vehicles	-	81	-	-	-	114	60
MRP built into current budgets to cover fleet replacement	-	-	-	-	473	397	695
General Fund Revenue Contribution to Capital - reducing per MTFS	-	-	100	-	-	75	50
	500	131	100	7,800	1,773	636	1,855
Housing Services							
Better Care Fund DFG Grant	947	-	-	-	-	947	947
Housing Capital Receipts - from sale of CPO properties	-	120	-	-	-	-	-
	947	120	-	-	-	947	947
Total Capital Resources	**4,120**	**1,551**	**108**	**7,800**	**1,773**	**1,583**	**2,802**
General Fund Services	-	597	-	-	-	622	642
Housing Services	-	381	-	-	-	381	381
Balance of Usable Capital Resources cfwd	**-**	**978**	**-**	**-**	**-**	**1,003**	**1,023**

Ongoing projects will cost around £4,000k for which the funding streams have already been identified, most of which relate to Spinning Point Ph1 and the DFGs.

This programme also includes the Spinning Point Phase 2 and Commercial Property Acquisition which have both already receive member approval during 2018/19.

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

- Vehicle replacement programme - in the 2018/19 Capital Programme officers had planned to replace £693k of vehicles and equipment. However, early in 2018/19 officers developed a comprehensive fleet replacement plan for the life of the MTFS. As a result of this delay, and some very long lead-in times on specialist vehicle procurements, around £258k is expected to slip over into 2019/20 to give an expected procurement plan of £554k in 2019/20. The obsolete stock should fetch around £81k surplus at auction, therefore the internal borrowing requirement will be £473k. The remaining years of the Vehicle Replacement Plan predict that In 2020/21 and 2021/22 a further £511k and £765k respectively 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 annual building maintenance budget of £100k has been set for 2019/20, reducing to £70k and £50k in the following 2 years. This is the absolute minimum required to maintain the fabric of the Council's existing assets. In addition to this, officers have an Emergency Works capital allocation of £95k set aside to cover any urgent unforeseen items should the need arise.
- Allowances in 2018/19 for Disabled Facilities Grants from the Better Care Fund were £947k, with an additional £116k being received in January 2019. The ability to spend these funds depends upon the level of occupational health referrals from Lancashire County Council, which has only recently improved. As a result of the delays in referrals, £705k of grant was brought forward into 2018/19 giving a total grant available of £1,768k. Officers expect to carry forward £750k at the end of 2018/19 and to receive a further allocation of at least £947k in 2019/20, giving a combined grant available in 2019/20 of £1,697k. Now that the delays have been cleared, the volume of grants being processed should continue to improve.
- Compulsory Purchase Orders - the funds of £120k are still ring-fenced for tackling long-term empty properties in the borough. In any cases where the new "assisted sale" approach does not work, then these funds will be available to purchase properties and the subsequent auction receipts will be recycled into the fund for future years.

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.

Capital Resources in 2019/20	Slippage from 2018/19	New in 2019/20	Total Available 2019/20
Capital Receipts from asset sales	1,300	251	1,551
Capital Grants & Contributions	2,673	1,447	4,120
Revenue Contributions	8	100	108
	3,981	1,798	5,779

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. In the past the bulk of capital receipts have come from a very small number of medium sized sales and officers have seen reductions in this income since 2015/16. In 2018/19 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. Should any additional receipts arise they will be reported to Members through the quarterly financial monitoring process.

Housing capital receipts balances are only expected from the sale of CPO properties and these are dependent upon, and directly related to, any CPO costs (see paragraph 5.5 above).

Any receipts from the sale of obsolete vehicles and equipment must first be used to settle the balance of the CFR for that particular asset (i.e. to complete the MRP repayments). After that, the balance of any receipts can then be used to resource replacement assets, thereby reducing the financing requirement and the MRP charge in future years.

Capital Grants

The Council looks set to start 2019/20 with a balance of £750k for DFGs from the 2018/19 Better Care Funds. Officers anticipate that at least £947k will be received in 2019/20 giving potential DFG resources of £1,697k.

Bacup THI activity remaining from 2018/19 will be funded from the balance of the HLF grant, and matched funding from the Council's Earmarked Reserves.

The grants from LCC and the Lancashire Growth Fund will fund the remaining costs of Spinning Point Phase 1 costs during 2019/20,

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. At the time of writing this report there is only one such scheme, to upgrade the play area at Staghills, in the initial phase of seek external grant funding. This has not been included in this capital programme as it would not proceed until all the resources have been confirmed.

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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 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. In addition there is an estimated requirement for one-off £8k from the Council's Earmarked Reserves to support the final THI works in Bacup.

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.

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 end of 2018/19 with an annual principal repayment of £184k.

By the end of 2018/19, with an estimated closing CFR of £8,992k and external borrowing of £2,944k, the Council will be under-borrowed by £6,048k. This is being supported through the use of internal borrowing against the Council's cash-backed Reserves - i.e. the General Fund Reserve, Earmarked Reserves, Capital Receipts Reserve and Government Grants Unapplied.

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**

As the Council uses its cash-backed reserves to balance the revenue budgets, as is planned over the life of the current MTFS, the consequence will be that the Council will have insufficient cash resources to meet the needs of the CFR. At that point the Council will have to borrow externally, with the interest payable, being an additional revenue burden. This matter is explored further in the Treasury Management Strategy. Given the current low interest rates it may be more beneficial to increase borrowing sooner than later.

Future investment in additional capital assets will require the Council to either generate additional capital receipts or build into any business case the costs of external interest payments and repayment of principle (effectively equivalent to additional MRP costs). The new debt shown in the table above represents the investment in Spinning Point Phase 2 and the pending Commercial Property Acquisition.

The legislative requirement that dictates that local authorities are required to set a level of external debt is embedded in the Local Government Act 2003, and enforced through the requirement of the Authorised Limit PI. In practicality the Authorised Limit reflects emergency headroom on the operationally set Operational Boundary, which in itself is set with reference to the CFR.

Levels of External Debt	**2017/18 Actual £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Capital Financing Requirement (CFR)	9,588	8,992	16,357	16,178	17,277
Services Debt	4,500	9,500	11,200	11,200	11,200
Commercial Debt	-	-	1,300	1,300	1,300
Total External Debt - Operational Boundary	4,500	9,500	12,500	12,500	12,500
Services Debt	7,500	10,500	12,200	12,200	12,200
Commercial Debt	-	-	1,300	1,300	1,300
Total External Debt - Authorised Limit	7,500	10,500	13,500	13,500	13,500

Actual levels of external debt do not by necessity correlate to the Council CFR, as often treasury management decisions will dictate how much external borrowing is undertaken. One key comparator that can be employed between the CFR and Debt PIs is to monitor that Debt never exceeds CFR. Total external debt of the Council will not distinguish between use for capital and revenue purposes; daily cash management does not differentiate between use for capital or revenue, however in the event that external debt consistently outstrips the CFR this is a clear indication that borrowing is being employed for short term purposes, with the most likely explanation being the use of borrowing to shore up a revenue budget shortfall. In the unlikely event of this occurring it is obviously a clear sign-post to a need to review spending activity across the Council; in certain circumstances this could be seen as an early warning that whilst from a piecemeal point services are only marginally overspending against budget, when viewed as a whole it could indicate unsustainable levels of activity.

As Prudential Indicators of affordability of capital expenditure, the CFR and the authorised borrowing limit are far more effective tools if referenced in conjunction with each other rather than in isolation. Setting a level for the Authorised Limit is a key exercise to ensure that it is an effective tool, alongside the Operational Boundary. If set too low this could lead to frequent breaches which in reality merely point to poorly set indicators, and are of no assistance in managing affordable levels of borrowing; set too high and any trigger or sign-posting could potentially occur at a point when the Council is already over exposed in regards to it external borrowing.

In practice at Rossendale Borough Council the Authorised Limit has been set £1m above the Operational Boundary, thereby allowing for a temporary £1m borrowing to support short-term cash flow if absolutely required. Officers would report any such requirement to members in the regular Financial Monitoring reports, but so far this has not been required in 2018/19 (or in 2017/18).

Affordability

Although by definition capital expenditure is not charged directly to the revenue budget, interest payable on loans and an annual Minimum Revenue Provision (MRP) are charged to revenue, off-set by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from council tax, business rates and government grant.

Ratio of financing costs to net revenue stream	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Interest Payable - Services	149	140	255	247	238
Interest Payable - Commercial Activities	-	-	32	32	32
Interest Receivable	(72)	(51)	(51)	(51)	(51)
Net cost of capital	**77**	**89**	**236**	**228**	**219**
Net Revenue Stream	9,241	9,182	10,070	9,595	10,287
Ratio of financing costs to net revenue stream	**0.83%**	**0.97%**	**2.35%**	**2.38%**	**2.13%**

Although the Code highlights this PI as a key measure of affordability, it also stresses that it is in essence a local indicator and the resulting levels of the calculation are not a suitable comparator of performance between Councils.

In the case of the Commercial Activity is essential that the net revenue stream from the rental of the property covers the interest payable on the external borrowing and the repayment (MRP element) before the net revenue stream to the Council is calculated.