

<b>Subject:</b>	Capital Strategy and Capital Programme 2020/21 to 2022/23		<b>Status:</b>	For Publication	
<b>Report to:</b>	Council		<b>Date:</b>	26 <sup>th</sup> February 2020	
<b>Report of:</b>	Interim Chief Finance Officer		<b>Portfolio Holder:</b>	Resources	
<b>Key Decision:</b>	<input checked="" type="checkbox"/>	Forward Plan	<input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/>
				Special Urgency	<input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	No	Attached:	No	
<b>Biodiversity Impact Assessment</b>	Required:	No	Attached:	No	
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<b>1.</b>	<b>RECOMMENDATIONS</b>
1.1	Members approve the affordable capital programme for 2020/21, as set out in Appendix 3 of the Budget Report, and the new capital expenditure projects totalling £1,526k.
1.2	Council agree to delegate any minor amendments to the capital programme throughout the 2020/21 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 propose a capital expenditure programme for 2020/21 and the medium term, including new capital projects approved during 2019/20 subject to further due diligence and legal contracts.
- 2.2 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:

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- 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 to 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 also be aware of the potential for unforeseen events and in particular emergency works, such as culvert works.
- 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**

### **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.

5.1.3 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 internal 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 resources 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

5.1.4 The current 2020/21 proposed budget includes £100k of RCCO and an ongoing MRP budget of £836k.

5.1.5 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 A strategic approach**

5.2.1 This report 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.

- 5.2.2 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.
- 5.2.3 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.
- 5.2.4 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 £100k per annum. That said, the Facilities Management Team is confident that all the Council's assets are being adequately maintained.
- 5.2.5 A revised 2020/21 capital strategy will be presented to Members during the coming financial year once the new and permanent s.151 officer is in place

### 5.3 **Current and ongoing projects/schemes**

- 5.3.1 The Council has three major on-going projects, at various stages. Including: Spinning Point Phase 2 project which was approved by members in December 2018. Also approved in 2018, is the Phase 2 to the Whitaker Park Museum. More recently, in 2019, the development of Plot 5 at Futures park was approved and building works have commenced.

This 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 2019, officers will seek to ensure that the slippage of recent years will not be repeated beyond 2019/20.

- 5.3.2 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 2019/20, it allowed a full assessment of needs and resulted in some savings by the introduction of some second-hand vehicle purchases where appropriate.
- 5.3.3 There are a number of smaller projects ongoing including the transition of the operations depot from Whitaker Park to Marl Pits and the Tup Bridge depot (rear of Rawtenstall market), and the development of Henrietta street to improve access and incorporate a waste

transfer facility.

#### 5.3.4

The Council have recently procured the services of consultancy firm KKP to complete a playing pitch strategy, open spaces audit and leisure facilities audit which will assist the Council in the finalisation of the Local Plan, and the development of a leisure facilities strategy in 2020/21.

### 5.4 Future project ambitions

5.4.1 The Whitaker Phase 2 is ongoing and building works funded through the Heritage Lottery grant of £2m will begin in the 2020/21.

5.4.2 The sale of Rossendale Transport Ltd during 2017/18 has left the Council with the ownership of the Knowsley Road depot site. A sale of the site has been agreed for £2.5m and is progressing through the legal process. It is anticipated that the sale will be completed by 31<sup>st</sup> March 2020.

5.4.3 At the time of writing officers are completing a business case for Spinning Point Phase 2 to be assessed by Members.

5.4.4 The Council has secured Growth Deal funding towards the development of plans for plots 1, 5 and the junction infrastructure at Futures Park site. Work is on-going to assess the viability of proposals.

5.4.5 Work is on-going in the development of a 2040 vision's for Bacup and Haslingden and funding bids have been submitted to support regeneration work. Potential funding streams include the Heritage Action Zone and Future High Streets fund.

### 5.5 An affordable Capital Programme

5.5.1 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 Appendix 3 of the Budget Report.

5.5.2 Slippage from 2019/20 is expected to be around £11.8m, most of which relates to Spinning Point Phase 2 and the DFGs.

5.5.3 Members are now asked to approve the following new projects for 2020/21:-

- Vehicle replacement programme - in addition to the expected slippage of £126k a cost of a £352k will be required to replace the fleet currently reaching the end of its economic useful life in 2019/20. The obsolete stock should fetch around £39k surplus at auction, therefore the internal borrowing requirement will be £439k. In 2021/22 and 2022/23 a further £1.5m is 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 2020/21. Given revenue constraints in future years, officers propose that this reduce to £75k by 2021/22 in order to support the MTFS.
- Allowances in 2020/21 for Disabled Facilities Grants from the Better Care Fund have not been announced, but officers are anticipating that the 2019/20 grant level of £1m

should be continued - announcements are not expected until early May 2020. The slippage from the 2019/20 year is expected to be around £1,000k, so the combined grant available in 2020/21 is likely to be around £2,000k.

- The total value of new capital projects in 2020/21 is therefore £1.526m.

## 5.6 Capital Resources

### 5.6.1 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.

### 5.6.2 Receipts from Sales

The opening value of capital receipts from sale of assets is forecast to be £1,697k

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 £39k 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.

### 5.6.3 Capital Grants

The Council looks set to start 2020/21 with a balance of £2,000k for DFGs.

The grants expected during 2020/21 relate to the balance of the Whitaker enhancement phase 2, and the 2020/21 Better Care Funding allocation for DFGs.

### 5.6.4 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.

5.6.5 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 2020/21 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.

## **COMMENTS FROM STATUTORY OFFICERS:**

### **6. SECTION 151 OFFICER**

6.1 Financial matters are dealt with in the report and at Appendix 3 of the Budget 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 and a cross-party Working Group of members in relation to Spinning Point Phase 2, as reported to Full Council in December 2018, albeit the final scheme is yet to be approved.

## 9. CONCLUSION

9.1 The currently proposed capital programme for 2020/21 and up to 2022/23 represents an affordable plan, as indicated by the Prudential Borrowing performance indicators in Appendix 3 of the Budget Report.

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 are asked to approve and delegate the consideration, prioritisation and approval of any future capital projects, should additional resources become available during 2020/21, 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 Cabinet in February 2019	Rossendale Borough Council website and Financial Services working papers
Revenue Budget 2020/21 and the MTFS update being reported to this committee and Cabinet in Feb 2020	Financial Services working papers