

Subject:	Capital Resources & Capital Programme 2014/15		Status:	For Publication	
Report to:	Full Council		Date:	26 th February 2014	
Report of:	Finance Manager		Portfolio Holder:	Finance and Resources	
Key Decision:	<input 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:	No	Attached:	No	
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1.	RECOMMENDATION(S)
1.1	Members consider the potential resources for 2014/15 and the medium term.
1.2	Members approve the affordable capital programme for 2014/15 as set out in Appendix 1.
1.3	Members delegate the allocation of any additional resources, up to £400k, during 2014/15 to the Head of Finance and the Portfolio Holder, having regard to the capital receipts available. Any additional allocations to be reported to Members via the Council's regular financial reporting framework.

2. PURPOSE OF REPORT

- 2.1
- To provide Members with projections for the capital resources available for 2014/15 and seek member approval of the capital expenditure programme 2014/15.
 - To advise Members of the proposed capital expenditure and resources for the medium term 2015/16 & 2016/17 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 sustainable 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.

Strong financial control ensures the effective management of the Council's resources, which then enables the provision and delivery of value for money services.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendation(s) 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 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. With this in mind an affordable capital programme is shown within this report alongside a desirable programme should the resources become available. Regular reporting will continue be made to Members to account for any additional resources allocated to this recommended programme as and when they become available.
- Members should be aware that the affordable capital programme for 2014/15 to 2016/17 provides for minimal capital repair works and very little new investment, for example for matched funding community projects etc. 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. In this regard further consideration will be made as to the required level of the Council's general reserves. At the time of drafting this report there is an uncommitted balance of £68k for the emergency works. If this is not required by year-end this resource will be carried forward into 2014/15 in addition to the resources shown below.
- 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 asset.

5. BACKGROUND AND OPTIONS

The details of the capital programme estimates for the medium term are attached at Appendix 1.

5.1 Capital Resources

Any expenditure budget is limited to the resources available. Our assumptions for capital resources over the next three years are as follows:

5.1.1 Resources brought forward

The capital receipts reserve is reported each quarter in the Financial Monitoring Report and the expected balance at the year end is split into a general fund element of around £227k and housing services of £382k. The latter is already ear-marked to finance compulsory purchase schemes to get empty properties back into use and to help fund Disabled Facilities Grants if central government funding does not continue beyond .2015/16.

The capital grant balances unapplied at the year-end of 2013/14 will relate to the former Housing Capital Pot and the former Housing Market Renewal scheme. Both schemes are no longer in operation but the available balance is planned to be used to top up central government grants for Disabled Facility adaptations in order to tackle the waiting list.

5.1.2 Receipts from Sales

The Council's ability to raise capital receipts from land sales has been affected by the current economic climate impact on the property market. During 2012/13 and 2013/14 receipts from sales were originally forecast at £100k per annum, but a very small number of medium sized sales have created a favourable variance, hence the balance of £227k expected for general fund services at the end of March 2014 as noted above. No similar sales are anticipated at present, therefore future disposal income has again been kept to a prudent level of £100k per annum. Should any additional receipts arise they will be reported to Members through the quarterly monitoring process.

5.1.3 Capital Grants

The only ongoing capital grant scheme is for Disabled Facilities Grants. The Council has received written assurances that this will be maintained at current levels until at least 2015/16. Beyond this there are no guarantees, so a prudent estimate of zero has been anticipated. Should the grant be extended it will mean that the assistance programme can be maintained longer than currently anticipated, given that demand continues to exceed the resources available.

In recent years Green Vale Homes have provided an additional contribution of £200k per annum to fund disabled adaptations in ex-council house properties. However, no assurances have been received to date that similar amounts would be available for 2014/15 or beyond.

In recent years 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 some matched funding where absolutely necessary. No such schemes have been anticipated at present for 2014/15.

Members should note that this list of capital resources does not include the Homes and Communities Agency Grant for East Lancashire because the grant covers more than one authority and is not used to finance works to council-owned properties.

5.1.4 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 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 a cost pressure of £100k per annum in terms of RCCO.

In 2015/16 the repayments of MRP for the current vehicle fleet draw to an end. At present it is anticipated that a new fleet will be required, funded again from internal borrowing, thus maintaining the annual MRP levels built into the revenue budgets. Vehicle requirements and funding options will be investigated by officers during 2014/15 in order to provide a clearer picture for the 2015/16 capital programme decisions in February 2015.

5.1.5 Total Capital Resources

In summary, the estimate of available resources for 2014/15 and future years is as follows:

Capital Resources	Balance Bfwd April 2014	Prudent estimates			Total Resources £000
		2014/15 £000	2015/16 £000	2016/17 £000	
General Services					
General surplus asset disposals	227	100	100	100	527
Funded by Revenue Contributions built into MRP	-	-	1,875	-	1,875
Application of S106 monies	-	-	-	-	-
MTFS Additional Capital Contribution (subject to member approval)	-	100	100	100	300
	227	200	2,075	200	2,702
Housing Services					
Useable Capital Receipts	382	-	130	-	512
Disabled Facilities Grant (certain up to 2015/16 only)	-	366	366	-	732
Other Capital Grants	153	-	-	-	153
	535	366	496	-	1,397
Total Capital Resources	762	566	2,571	200	4,099

5.2 Stock Condition Survey

Every five years the Council commissions a professional survey of all its primary and secondary buildings. The objective of the survey is to assess the general condition of the property and to make an estimate of the necessary refurbishment and upkeep costs over the next five years. The effectively gives a maintenance plan over the medium term.

In the latest Stock Condition Survey, completed during 2012/13, the headline investment requirements were initially estimated to be £2.9m over the medium term, well in excess of our forecast resources. The annual breakdown was as follows:

Required Investments	2012/13 £000s	2013/14 £000s	2014/15 £000s	2014/15 £000s	2015/16 £000s	Total £000s
Primary sites	204.5	726.0	630.1	353.4	664.6	2,578.6
Secondary sites	145.0	139.6	127.3	11.7	105.4	529.0
Other Projects	36.5	76.5	62.3	11.4	12.1	198.7
Total	386.0	942.2	819.7	376.4	782.1	3,306.4
Full Repairing Leases	29.1	104.5	63.4	22.9	169.3	389.2
RBC Requirement	356.9	837.7	756.3	353.5	612.8	2,917.2

The reference to “Full Repairing Lease” refers to those assets leased to community groups at £Nil rentals but with the condition that the community group provides appropriate maintenance and upkeep. Members should recognise that this expenditure requirement is not without risk.

In total the Council could be facing a capital investment requirement for its buildings of £3.3m over the medium term, which is excess of its immediate identifiable resources.

In the capital expenditure section below the affordable programme for 2014/15 has been calculated as the balance of priority 1 and 2 projects only up to the end of March 2015.

5.3 Capital Expenditure

Appendix 1 outlines the capital programme and the funding sources available for the next three years.

The capital expenditure programme builds on schemes established in previous years, concentrating on key risk issues identified through ongoing business planning, service review processes together with the results of the latest stock condition survey. The programme for 2014/15 is split between the level of investment recommended by officers if resources are available, and an affordable programme commensurate with prudent estimates of the resources expected, as shown at 5.1.5 above.

The shortfall on resources for a desirable 2014/15 capital programme is estimated at £820k.

5.3.1 The Desired General Fund programme

The desired programme recommended by officers for 2014/15 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 £25k pa commonly used as matched funding for grant bids by community groups
- Cemeteries £20k pa
- Sports Fields £20k pa
- Car Parks £30k pa
- Property Maintenance £1,493k pa

In order to reduce the Council's risk of insurance claims and increased premium costs officers recommend adding £20k per annum to this above list for the maintenance of pathways in parks and open spaces.

Following experience in recent years with liabilities arising for works to items such as culverts, bridges and retaining walls, it remains prudent to include a budget for emergency works to cover unforeseen costs. The recommended amount is at least £40k per annum.

Appendix 1 includes some predicted expenditure on the replacement of Operational Vehicles in 2015/16 to be funded specifically from internal borrowing and repaid through MRP as explained above.

5.3.2 Affordable General Fund Programme

The affordable programme would be around 20% of that recommended above, with some projects affected more than others. It has been proposed by officers that investment in pathways, cemeteries and sports fields could be targeted on a rolling basis of one per year if funds are not available for an annual programme.

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

5.3.3 Housing General Fund Programme

Housing General Fund 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 2014/15 and beyond - Disabled Facilities Grants (DFG) and the use of Compulsory Purchase (CPO) powers to bring problem empty properties back

into use.

Capital receipts carried forward at the end of March 2014 will include £130k to finance CPO projects in 2014/15 on the understanding that any income received from the eventual sale of those properties is recycled into similar future schemes.

Officers recommend that the balance of the housing resources carried forward (£415k) are used to top-up the DFG central government grant income given the level of demand. At a maximum programme of £450k per annum the funds would be exhausted in 2016/17 unless the DFG grants continue beyond 2015/16 as noted in 5.1.3 above.

5.4 **Net position**

The affordable capital programme for 2014/15 is set within a medium term approach which would leave a total £199k of available capital resources at the end of March 2017.

Should additional capital resources become available they would be directed pro rate towards the desired programme. The position will be kept under review during 2014/15 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 2012/13 the CFR balance was £6,835k. During 2013/14 new projects are expected to add £240k but MRP repayments of £641k will reduce the net CFR to £6,394k. The MRP built into the 2014/15 revenue budgets will reduce this by a further £692k to £5,702k.

As long as the Council's reserves continue to exceed this total, there is no increase envisioned in the need for external borrowing. However, the use of cash reserves to meet the MTFs will have an impact upon the net cash position for the Council. Members should be aware that internal borrowing is not an infinite resource and external borrowing 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 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no HR implications for consideration.

8.2 Consultation carried out with Directors, Heads of Services and Budget Holders.

9. CONCLUSION

9.1 Resources are available to meet the currently proposed affordable capital programme for 2014/15 and up to 2016/17. There would need to be a continued and sustained effort to realise major capital receipts in order to finance the additional spending recommended by officers.

- 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 borrowing, which will have a negative impact future revenue costs.
- 9.3 Members views are sought on the priority of expenditure items should additional resources become available in 2014/15.

Background Papers	
Document	Place of Inspection
Monthly detailed financial monitoring statements for each service area	Financial Services
Final Accounts working papers	Financial Services

Capital Programme 2014/15 - 2016/17

Capital Resources	Balance Bfwd April 2014	Prudent estimates			Total Resources £000
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Capital Programme 2014/15 - 2016/17

Capital Programme	Desired Programme	Affordable Programme			
	2014/15 £000	2014/15 £000	2015/16 £000	2016/17 £000	Total £000
Operations & Communities					
Vehicle replacement Programme	-	-	1,875	-	1,875
Playgrounds	25	10	10	10	30
Pathways	20	20	-	-	20
Cemeteries	20	-	20	-	20
Sports playing Fields	20	-	-	20	20
	85	30	1,905	30	1,965
Corporate					
Car Park upgrading	30	10	10	10	30
Building Maintenance (as per condition survey)	1,493	250	100	100	450
Emergency Works	40	40	40	40	120
	1,563	300	150	150	600
General Fund Total	1,648	330	2,055	180	2,565
Housing					
Disabled Facilities Grants (DFGs)	500	450	450	305	1,205
Compulsory Purchase Order Schemes	-	130	-	-	130
Housing Services Total	500	580	450	305	1,335
Expenditure Grand Total	2,148	910	2,505	485	3,900
General Fund Services		97	117	137	137
Housing Services		321	367	62	62
Total Usable Capital Receipts balance cfwd		418	484	199	199