

Subject:	Capital Resources and Capital Programme 2015/16	Status:	For Publication
Report to:	Overview & Scrutiny Cabinet	Date:	9 th February 2015 11 th February 2015
Report of:	Head of Finance & Property Services	Portfolio Holder:	Portfolio Holder for Finance and Resources
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: Yes /No	Attached:	Yes /No
Contact Officer:	Philip Seddon	Telephone:	01706 252465
Email:	philseddon@rossendalebc.gov.uk		

1.	RECOMMENDATION(S)
1.1	Members consider the potential resources for 2015/16 and the medium term.
1.2	Members consider the affordable capital programme for 2015/16, as set out in Appendix 1, and recommend them to Full Council for approval.
1.3	Members consider the additional capital programme requirements, especially the results of the 2012/13 Stock Condition Survey, in order to provide any additional recommendations during 2015/16 to Council members on the prioritisation of further investment should additional resources materialise during 2015/16.

2. PURPOSE OF REPORT

- 2.1 To provide Members with projections for the capital resources available for 2015/16 and seek member views on the capital expenditure programme 2015/16 which is to be placed before the Full Council Budget Setting meeting on 25th February.
- 2.2 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 investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

The primary focus of the Council's budget setting is to support its Corporate priorities.

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 2015/16 to 2017/18 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 £110k for emergency works. If this is not required by year-end this resource will be carried forward into 2015/16 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 assets.

5. BACKGROUND AND OPTIONS

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

In the same way, 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.

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

5.2 Capital Resources

There are several sources of capital funds

5.2.1 Receipts from Sales

The Council's ability to raise capital receipts from land sales is dependent upon the current property market and its appetite to dispose of non-operational assets. In recent years officers have maintained a prudent view of the level of income achievable with an original budget of £100k per annum. Given that the bulk of actual capital receipts has come from a very small number of medium sized sales, officers are anticipating income will continue to fall in the medium term by £25k over the following two years.

By the end of 2014/15 officers anticipate an unallocated balance of £178k from the sale of General Fund assets.

Housing capital receipts balances have come principally from recovered discount on the sale of former council houses. Cabinet recently approved the pursuit of Compulsory Purchase Orders on a list of empty houses (CPOs) and the costs of purchasing the initial tranche has been included within the revised 2014/15 capital programme. This has been funded from £130k of current housing capital receipts, leaving a forecast balance of £240k at the end of March 2015. When those houses are sold in 2015/16 the funds will be recycled to allow further CPO purchases.

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

5.2.2 Capital Grants

The council looks set to start 2015/16 with a balance of £212k from the former Housing Capital Pot grant scheme and this is ring-fenced to support housing projects such as Disabled Facilities Grants (DFGs) over the next few years.

The only ongoing capital grant scheme is for DFGs. From 2015/16 this funding will come via Lancashire County Council through the Better Care Funding programme. The Council has received written assurances that the 2015/16 figure will be £424k, but beyond this there are no guarantees of the level of resources available.

Since 2009/10 Green Vale Homes have provided an additional contribution of £200k per annum to fund disabled adaptations in ex-council house properties. However, their funding is only ever approved on an annual basis and no assurances have been received to date that similar amounts would be available for 2015/16 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 new schemes have been anticipated at present for 2015/16.

5.2.3 Council revenue resources

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

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

The Medium Term Financial Strategy includes £100k per annum in terms of RCCO as

agreed by members in February 2014.

By 2015/16 the repayments of MRP for the current parks vehicle fleet will have come to an end and the £140k MRP built into the revenue budgets can be used to finance the costs of replacement vehicles.

5.2.4 Total Capital Resources

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

Capital Resources	Balance Bfwd April 2015	Prudent estimates			Total Resources £000
		2015/16 £000	2016/17 £000	2017/18 £000	
General Services					
General Fund Capital Receipts Reserve - income from sales	178	75	50	50	353
Funded by Revenue Contributions built into MRP	-	140	100	-	240
Application of S106 monies	-	-	-	-	-
MTFS Capital Contribution	-	100	100	100	300
	178	315	250	150	893
Housing Services					
Housing Capital Receipts Reserve - income from sales	240	130	-	-	370
Capital Grants for Disabled Facilities Grants	212	424	424	424	1,484
	452	554	424	424	1,854
Total Capital Resources	630	869	674	574	2,747

5.3 **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. This 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 desired programme for 2015/16 has been calculated as the remaining priority 1 and 2 projects only following investment in recent years. However, the affordable programme is much lower.

5.4 Capital Expenditure

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

The capital expenditure programme builds on schemes established in previous years, concentrating on key risk issues identified through ongoing business planning and service review processes, together with the results of the latest stock condition survey. The programme for 2015/16 is split between the desired level of investment recommended by officers if resources are available totalling £1,898k, and an affordable programme of £825k commensurate with prudent estimates of the resources expected, as shown at 5.2.4 above.

The shortfall on resources for a desirable 2015/16 capital programme is therefore estimated at £1,073k.

5.4.1 The Desired General Fund programme

The desired programme recommended by officers for 2015/16 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
- Pathways £20k pa
- Cemeteries £20k pa
- Sports Fields £20k pa
- Car Parks £30k pa
- Property Maintenance £1,243k

Although experience with liabilities arising for works to items such as culverts, bridges and retaining walls, might suggest that it would be prudent to include a budget for emergency works to cover unforeseen costs every year, the current balance should suffice for 2015/16. Thereafter, officers recommend that the programme reverts to £40k per annum.

The Capital Programme also includes some predicted expenditure on the replacement of Parks Vehicles in 2015/16 and 2016/17, to be funded specifically from internal borrowing and repaid through MRP as explained in 5.2.3 above.

At the time of writing this report no account has been taken of any capital requirement for the Council to support Rossendale Leisure Trust's Vertical Playground project.

5.4.2 Affordable General Fund Programme

The affordable programme would be around 26% 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.

5.4.3 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 2015/16 and beyond - Disabled Facilities Grants (DFG) and the use of Compulsory Purchase (CPO) powers to bring problem empty properties back into use.

As noted at 5.2.1 above, Cabinet in October 2014 approved a list of long-term empty properties to be targeted for CPO and housing capital receipts of £130k have been set aside in 2014/15 for the initial acquisition costs on the understanding that any income

received from the eventual sale of those properties is recycled into similar future schemes. Hence, there is no figure included here for the ongoing costs of the CPO programme as this should be self-funding over time.

Officers recommend that the housing capital grant balance of £240k is used to top-up the DFG Better Care Fund income over the next three years, allowing an annual programme of around £500k. This should enable officers to tackle the waiting list for adaptations. At the same time the balance of housing capital receipts can be applied in future years if the level of grant funding drops.

5.5 Net position

The affordable capital programme for 2015/16 is set within a medium term approach which would leave a total £367k of available capital resources at the end of March 2018. Of this £354k is earmarked for housing projects and £13k would be for general fund requirements.

Should additional capital resources become available they would be directed pro rate towards the desired programme. The position will be kept under review during 2015/16 and reported to Members through the quarterly Cabinet Financial Monitoring Reports.

5.6 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 2013/14 the CFR balance was £6,149k, of which a breakdown is provided below. During 2014/15 new projects are expected to add £1,726k, the bulk being the replacement vehicle fleet. MRP repayments of £679k are built into the revenue budgets which will leave a net CFR of £7,196k at the end of March 2015.

CFR Analysis at 31st March 2014	£000s
Whitworth Civic Hall	1,023
Leisure building investment	2,486
Rawtenstall Town Centre	943
Other buildings	952
Operations vehicles	438
Operations other assets	61
IT infrastructure	59
IT software	56
Renewable Energy Projects	98
Other assets	34
	6,149

Whilst the MRP built into the 2015/16 revenue budgets will reduce this by a further £680k, the Capital Programme at Appendix 1 includes £140k of replacement parks vehicles which are funded from internal borrowing. Therefore, the anticipated CFR at March 2016 will be £6,656k.

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 No comments required for this report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Consultation with Directors, Heads of Services and Budget Holders.

9. CONCLUSION

9.1 Resources are available to meet the currently proposed affordable capital programme for 2015/16 and up to 2017/18. 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 of future revenue costs.

9.3 Members further recommendations will be sought on the priority of expenditure items should additional resources become available during 2015/16.

Background Papers	
Document	Place of Inspection
Previous update to the MTFS (Budget Reports Feb' 2014, June & Nov' 2014)	Rossendale Borough Council website

Capital Programme 2015/16 - 2017/18

Capital Resources	Balance Bfwd April 2015	Prudent estimates			Total Resources £000
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General Services					
General Fund Capital Receipts Reserve - income from sales	178	75	50	50	353
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	452	554	424	424	1,854
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Capital Programme	Desired Programme	Affordable Programme			
	2015/16 £000	2015/16 £000	2016/17 £000	2017/18 £000	Total £000
Operations & Communities					
Parks Vehicle Replacement Programme	-	140	100	-	240
Playgrounds	25	10	10	10	30
Pathways	20	20	20	20	60
Cemeteries	20	20	-	-	20
Sports Playing Fields	20	-	20	-	20
	85	190	150	30	370
Corporate					
Car Park upgrading	30	10	10	10	30
Building Maintenance (as per condition survey)	1,243	125	125	125	375
Emergency Works	40	-	40	40	80
	1,313	135	175	175	485
General Fund Total	1,398	325	325	205	855
Housing					
Disabled Facilities Grants (DFGs)	500	500	500	500	1,500
Compulsory Purchase Order Schemes	-	-	-	-	-
Housing Services Total	500	500	500	500	1,500
Expenditure Grand Total	1,898	825	825	705	2,355
General Fund Services		168	93	38	38
Housing Services		506	430	354	354
Total Usable Capital Receipts balance cfwd		674	523	392	392