

Subject:	Capital Resources and Capital Programme 2016/17	Status:	For Publication
Report to:	Full Council	Date:	24 th February 2016
Report of:	Head of Finance & Property Services	Portfolio Holder:	Resources and Performance
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:	No	Attached: No
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1.	RECOMMENDATION(S)
1.1	Members consider the potential resources for 2016/17 and the medium term.
1.2	Members approve the affordable capital programme for 2016/17, as set out in Appendix 1.

2. PURPOSE OF REPORT

- 2.1 To provide Members with projections for the capital resources available for 2016/17 and seek member approval for the capital expenditure programme 2016/17.
- 2.2 To advise Members of the proposed capital expenditure and resources for the medium term 2017/18 & 2018/19 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 2016/17 to 2018/19 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 2016/17 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 come from a very small number of medium sized sales, officers began to anticipate reductions in this income in 2015/16. Current monitoring shows that the £75k budget for 2015/16 has been achieved and

hence the 2016/17 income budget has been retained at that level, but officers predict that sales will continue to fall in the medium term by £25k over the following two years.

By the end of 2015/16 officers anticipate an unallocated balance of £529k from the sale of General Fund assets, boosted in the final quarter of 2014/15 by the value of the second hand refuse fleet at auction.

Housing capital receipts balances have come principally from recovered discount on the re-sale of former council houses, though the time limit for this is coming to an end now, and from repaid Equity Release loans and the sale of CPO properties (see paragraph 5.4.3 below).

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

5.2.2 Capital Grants

The council looks set to start 2016/17 with a balance of £338k 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 through the LCC Better Care Funding programme. The Council has received verbal confirmation that the 2016/17 figure will be at least the same as the 2015/16 grant of £424k, but may even be higher.

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 the organisation has suggested that this may be reducing in the years ahead.

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 some matched funding where absolutely necessary. In 2015/16 two new capital projects were added to the capital programme during the year with a total cost of £151k yet only requiring a £3k contribution from the Council's resources. At the time of writing this report 4 further schemes are in the initial phases, have had in-principal approval to go ahead and seek external grant funding. These have not been included in this capital programme as they would not proceed until the grant resources have been confirmed and they are only expected to require minimal Council support if they do go ahead.

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 2016/17 the repayments of MRP for many of the current parks vehicle fleet and the street sweeping vehicles will have come to an end and the £63k annual MRP built into the revenue budgets over the next 5 years can be used to finance the costs of replacement vehicles. Officers are mindful that any replacements will need to be managed to work within these resources, possibly spreading the replacements over the 2016/17 and 2017/18 financial years.

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 2016	Prudent estimates			Total Resources £000
		2016/17 £000	2017/18 £000	2018/19 £000	
General Services					
General Fund Capital Receipts Reserve - income from sales	529	75	50	50	704
Funded by Revenue Contributions built into MRP	-	140	100	-	240
Application of S106 monies	-	-	-	-	-
MTFS Capital Contribution	-	100	100	100	300
	529	315	250	150	1,244
Housing Services					
Housing Capital Receipts Reserve - income from sales	378	130	-	-	508
Capital Grants for Disabled Facilities Grants	338	424	424	424	1,610
	716	554	424	424	2,118
Total Capital Resources	1,245	869	674	574	3,362

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 2016/17 has been calculated as the remaining priority 1 and 2 projects only following investment in recent years. However, the affordable programme is much lower.

There are no plans to repeat an externally resourced Stock Condition survey during 2016/17. Instead the exercise will be undertaken internally.

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 2016/17 is split between the desired level of investment recommended by officers if resources are available totalling £1,898k, and an affordable programme of £955k commensurate with prudent estimates of the resources expected, as shown at 5.2.4 above.

The shortfall on resources for a desirable 2016/17 capital programme is therefore estimated at £943k.

5.4.1 The desired General Fund programme

The desired programme recommended by officers for 2016/17 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 (to include some community contributions)
- 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 2016/17. Thereafter, officers recommend that the programme reverts to £40k per annum.

The Capital Programme also includes some predicted expenditure on the replacement of parks and street sweeping vehicles in 2016/17 and 2017/18, to be funded specifically from internal borrowing and repaid through MRP as explained in 5.2.3 above.

5.4.2 Affordable General Fund programme

The affordable programme would be around 23% 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. In the programme attached repairing and resurfacing pathways has been retained as an annual expense to minimise risk of tripping incidents and hence keep insurance premiums down.

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

5.4.3 Housing 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 2016/17 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 2016/17 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 £338k 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.

The capital works to Empty Homes still requiring renovation has been added to the 2015/16 capital programme at an initial estimate of £2m, to be funded from internal borrowing. The Empty Homes Reserve will then fund the revenue MRP charge over the next 5 years (as shown in para 5.6 below). With the tenders for this work only going out in Q4 of 2015/16 it is expected that there will be some slippage into the 2016/17 year.

5.5 Net position

The affordable capital programme for 2016/17 is set within a medium term approach which would leave a total £857k of available capital resources at the end of March 2019. Of this £488k is earmarked for Housing projects and £369k 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 2016/17 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 2014/15 the CFR balance was £7,013k and during 2015/16 new projects are expected to add £2,582k, the bulk being the replacement vehicle fleet. Following 2015/16 MRP repayments of £630k this will leave an estimated net CFR of £9,062k at the end of March 2016, which can be split down as shown below.

CFR Analysis at 31/03/2016	£000s	MRP 2016/17
Whitworth Civic Hall	960	32
Leisure building investment	2,588	146
Rawtenstall Town Centre	1,015	55
Other buildings	927	44
Operations vehicles	1,258	339
Operations other assets	55	13
IT infrastructure	38	16
IT software	42	14
Renewable Energy Projects	70	14
Housing	2,000	400
Other assets	107	14
	9,062	1,086

In 2016/17 the annual MRP charge on the revenue account will rise by £519k for the projects added during 2015/16. The Capital Programme at Appendix 1 includes £140k of replacement parks vehicles funded from internal borrowing over a life of 5 years. Therefore, the anticipated CFR at March 2017 will be £7,029k and the MRP in the 2017/18 year will rise to £1,114k.

As long as the Council's cash reserves continue to exceed £7m, 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 No comments required for this report.

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 2016/17 and up to 2018/19. 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 2016/17.

Background Papers

Document	Place of Inspection
Previous update to the MTFS reported to Cabinet in October 2015	Rosendale Borough Council website
Financial Monitoring Report to Cabinet in September 2015, November 2015 and the Q3 update being reported to Cabinet in February 2016.	Rosendale Borough Council website

Capital Programme 2016/17 - 2018/19

Capital Resources	Balance Bfwd April 2016	Prudent estimates			Total Resources £000
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General Services					
General Fund Capital Receipts Reserve - income from sales	529	75	50	50	704
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Capital Grants for Disabled Facilities Grants	338	424	424	424	1,610
	716	554	424	424	2,118
Total Capital Resources	1,245	869	674	574	3,362

Capital Programme	Desired Programme	Affordable Programme			
	2016/17 £000	2016/17 £000	2017/18 £000	2018/19 £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	40
	85	190	150	50	390
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	225	875
Housing					
Disabled Facilities Grants (DFGs)	500	500	500	500	1,500
Compulsory Purchase Order Schemes	-	130	-	-	130
Housing Services Total	500	630	500	500	1,630
Expenditure Grand Total	1,898	955	825	725	2,505
General Fund Services		519	444	369	369
Housing Services		640	564	488	488
Total Usable Capital Receipts balance cfwd		1,159	1,008	857	857