**Money Matters -**

**Capital Monitoring and Financing Position as at 30th September 2016**

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Money Matters – Capital Monitoring and Financing Position as at 30th September 2016

**1. Executive Summary**

This report sets out the Quarter 2 capital monitoring position for 2016/17 against the re-profiled capital programme 2016/17 budget approved by Cabinet on 6th October 2016.

It also compares the 2016/17 Q2 monitoring position with the equivalent position in 2015/16 in order to give an understanding of the progress being made to date with regard to the overall spend level (Table 1).

In addition, it contains an analysis of spend in Q2 between spend on actual in-year project delivery, as distinguished from spend on purely financial matters e.g. passporting of a grant or payment of a final invoice. (Table 2)

Details of progress on some of the larger projects within the programme are provided (Table 3). The full delivery schedule of projects was presented within the 6th October Cabinet report appendices.

An outline is provided of the financing of the full multi-year re-profiled capital programme and the expected associated capital charges. (Tables 4 and 5).

**2. Quarter 2 Monitoring**

Table 1 below shows capital expenditure up to the end of September 2016 on the major blocks of the capital programme, with the equivalent 2015/16 figures for comparison.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **2015/16 Q2 ACTUALS** | | **2016/17 Q2 ACTUALS** | |
| **Table 1** | **2016/17 full year re-profiled approved budget** | **2016/17 full year Forecast out turn** | **Forecast Variance**  **(under budget)/ over budget** | **Forecast Variance as a percentage of budget** | **2015/16 spend to end Q2** | **% of budget spent at Q2** | **2016/17 spend to end Q2** | **% of budget spent at Q2** |
| **£m** | **£m** | **£m** |  | **£m** | **%** | **£m** |  |
| Schools (excluding Devolved Formula Capital DFC) | 27.318 | 27.407 | 0.089 | 0.33% | 10.363 | 50.7% | 14.676 | 53.7% |
| Schools DFC | 2.545 | 2.545 | 0.000 | 0.00% | 0.065 | 2.0% | 0.562 | 22.1% |
| Children and Young People | 1.491 | 1.491 | 0.000 | 0.0% | 2.986 | 65.4% | 0.198 | 13.3% |
| Waste and Other | 6.091 | 6.091 | 0.000 | 0.00% | 0.388 | 44.1% | 0.723 | 11.9% |
| Adult Social Care | 12.537 | 12.537 | 0.000 | 0.00% | 0.646 | 8.1% | 11.523 | 91.9% |
| Corporate | 13.251 | 13.091 | -0.160 | -1.21% | 5.733 | 31.1% | 3.904 | 29.0% |
| Vehicle Replacement | 1.934 | 1.884 | -0.050 | -2.59% | 0.363 | 8.2% | 0.022 | 1.0% |
| Transport | 35.280 | 35.125 | -0.155 | -0.44% | 30.133 | 59.6% | 20.049 | 57.0% |
| Highways | 51.063 | 50.093 | -0.970 | -1.89% | 11.484 | 28.4% | 14.441 | 28.0% |
| **Total** | **151.510** | **150.264** | **-1.246** | **-0.82%** | **62.161** | **41.2%** | **66.098** | **43.6%** |

Direct comparison between one year and another is difficult given that capital projects and their profiles of expenditure will vary to some degree from year to year. However, spend in the year to date is greater than at the same point last year and 2015/16 outturn was very similar in scale to the size of the 2016/17 programme.

The above table shows that it is currently anticipated that 99% of the £151.510m budget for 2016/17 will be spent.

Forecast variances in excess of £0.100m are analysed below:

* Corporate block forecast spend is less than budget by £0.160m due to delay in Tulketh High School demolition project caused by issues with asbestos, ecology and relocation of telecoms mast.
* Transport block forecast spend is less than budget by £0.155m mainly due to delay in Ormskirk Town Centre scheme now to be slipped into 2017/18.
* Highways block forecast spend is less than budget by £0.970m due to three schemes forecasting to underspend, two schemes with retention monies being re-profiled, two schemes with forecast slippage due to bad weather, five s106 schemes with forecast slippage as a result of resource issues and one scheme delayed due to ongoing cost negotiations.

**3. Analysis of Quarter 2 spend total between project delivery and financial transactions only**

Table 2 below shows the analysis of Quarter 2 spend in each block between project delivery and financial transactions such as grants passported to third parties, or payment of final invoices.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 2** | **2016/17 spend to end Q2** | **Passported grant** | **Non –delivery costs eg. final invoice payments** | **Project delivery in Q2** |
| **£m** | **£m** | **£m** | **£m** |
| Schools (excluding Devolved Formula Capital DFC) | 14.676 | 0.000 | 0.000 | 14.676 |
| Schools DFC (Bank account schools only-other schools reimbursed at year end) | 0.562 | 0.562 | 0.000 | 0.000 |
| Children and Young People | 0.198 | 0.000 | 0.000 | 0.198 |
| Waste and Other | 0.723 | 0.000 | 0.000 | 0.723 |
| Adult Social Care | 11.523 | 11.477 | 0.000 | 0.046 |
| Corporate | 3.904 | 0.000 | 0.000 | 3.904 |
| Vehicle Replacement | 0.022 | 0.000 | 0.000 | 0.022 |
| Transport | 20.049 | 0.000 | 0.610 | 19.439 |
| Highways | 14.441 | 0.000 | 1.662 | 12.779 |
| **Total** | **66.098** | **12.039** | **2.272** | **51.787** |

At Q2 the percentage of spend comprised of project delivery was 78.3%. For 2015/16 the comparable figure was 89.7%. This is mostly due to the doubling in value of the Disabled Facilities Grant passported in this period.

**4. Delivery of Outputs on larger projects**

Table 3 below illustrates progress on some of the larger projects within the re-profiled 2016/17 capital programme.

\*Figures for the half year budget are simply 50% of the full year budget, which in some cases may not be a relevant comparator.

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| --- | --- | --- | --- | --- | --- |
| **Table 3** | **Projects** | **Full Year Budget 2016/17** | **Half year Budget 2016/17\*** | **Spend Half Year**  **2016/17** | **Actual physical delivery** |
| **£m** | **£m** | **£m** |
| Schools (excluding DFC) | 15/16 Condition  15/16 Basic Need  Pre-15/16 Basic Need | 8.297  9.981  9.486 | 4.148  4.990  4.743 | 2.838  2.570  2.026 | 22 projects of which half are operationally complete. |
| Schools DFC | 15/16 DFC | 2.545 | 1.272 | 0.560 |  |
| Children and Young People | Chorley Youth Zone | 1.000 | N/A | 0.000 | Contribution agreed but not paid by end of Q2. |
| Waste and Other | Fire suppression upgrade  Asset preservation | 2.268  3.492 | 1.134  1.746 | 0.000  0.000 | Works due to commence late November 2016.  £0.670m spend to Q2 in Waste company to be invoiced to LCC in Q3. Waste company has profiled full budget to be spent by 31.3.17. |
| Adult Social Care | 16/17 Disabled Facilities Grant  Chorley Extra Care | 11.477  1.000 | N/A  N/A | 11.477  0.000 | Passported to Districts in full April 2016.  Contribution agreed but not paid by end of Q2. |
| Corporate | Superfast Broadband  Brierfield Mill /(Northlight)  Core Systems  Customer Access Core Systems    County Hall refurb | 3.470  1.280  2.078  1.419  3.000 | 1.735  0.640  1.039  0.710  1.500 | 0.469  0.000  0.719  0.000  1.552 | Delivery on track but some delays in evidencing claims for payment.  New programme.  Delay in Highways Asset Management system implementation  £0.6m spent coded to revenue will be journaled in October. |
| Vehicle Replacement | Ongoing vehicle replacement | 1.934 | 0.967 | 0.022 | A new procurement framework has resulted in vehicle orders being placed in the latter part of the year. Projected 16/17 spend is £1.884m. |
| Transport | Heysham to M6 Link  Blackpool Tramway  Burnley Pendle Growth Corridor  Pennine Reach  Burnley Town Centre  East Lancs Strategic Cycle Network  Contribution to City Deal | 20.800  2.681  3.166  1.327  1.522  2.668  2.500 | 10.400  1.340  1.583  0.663  0.761  1.334  0.000 | 15.200  0.610  1.690  0.751  0.770  0.142  0.000 | Road opening took place on 31 October 2016, with outstanding work on landscaping and motorway communications scheduled for completion by Mar 17.  Final Invoice expected in 16/17.  Substantive programme to be completed by Mar 2018, but one project has been delayed due land acquisition issues, so this may not complete until Mar 2019.  Majority of work completed. A bus lane, off road parking and Statutory Quality Bus Partnership to be completed.  Scheme delivery on programme. Manchester Road complete. The Mall and Curzon Street south substantially complete and St James's Street started. Advanced preparation work ahead of programme.  Delivery has been delayed due to five factors   * Objection to tarmac surfacing * Negotiations with land owners * Objections to upgrade from PROW to Bridleways * Resolution of issues raised by flooding last December * Awaiting decision re Highways England potential delivery of 4 sections   Annual contribution at year end. |
| Highways | Asset maintenance several years starts **excluding** Bridges and Local Priorities Response Fund (LPRF)  LPRF  Bridges  Rawtenstall Bus Station  DfT grant funded Flood projects  DfT Street Lighting Challenge Fund | 23.574  2.500  2.000  3.910  3.796  6.750 | 11.787  1.250  1.000  1.955  1.898  3.375 | 8.722  0.187  1.037  0.000  1.280  2.774 | Delivery on target as spend to date excludes work in progress of c£4.5m not yet reflected in Oracle.  Planning permission secured. Commuted sum approved to fund future maintenance. A legal agreement is being drawn up which will enable a transfer of monies to Rossendale Borough Council in 16/17.  The total DfT grant received in 15/16 was £5m, of which £0.293m was spent in 15/16, £3.796m is forecast to be spent in 16/17 and £0.911 is phased to be spent in 17/18. 65 projects have been completed to date and 27 are due to be completed in 17/18 due to issues re site investigation, land access and underwater surveys.    To ensure the optimum balance between reduction in revenue energy cost and minimum contractor price, procurement was delayed in order to secure a 25% procurement saving |

**5. Financing of the Re-profiled Approved Programme**

Table 4 below sets out the sources of finance available over the life of the programme, and compares their profiling to the re-profiled expenditure, in order to present the resulting expected borrowing requirement in each year of the re-profiled programme.

The total borrowing requirement over the life of the programme is expected to be £157.518m, and for 2016/17 it is expected to be £52.359m. These figures exclude cashflow support to City Deal.

It should be noted however that the mix of borrowing and external funding in each individual year is subject to change in line with factors such as changes in awards from funding bodies, changes in timing of external funding, and changes to programmed spend.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 4** | **2016/17** | **2017/18** | **2018/19** | **2019/20 and 2020/21** | **Total** |
| **£m** | **£m** | **£m** | **£m** | **£m** |
| Total re-profiled programme | 151.510 | 118.383 | 94.993 | 26.081 | 390.967 |
| Funding per Table 5 | **-99.151** | **-95.949** | **-35.870** | **-2.479** | **-233.449** |
| Borrowing requirement | **52.359** | **22.434** | **59.123** | **23.602** | **157.518** |

Table 5 below shows the various sources of funding totalling £233.449m.

The grants receivable section includes both confirmed and indicative amounts in the year for which they are allocated and paid to the authority by national government. There is currently no indication from the Education Funding Authority (EFA) of any allocation for 2018/19, hence for prudence, no estimate for this year is included in the funding table below, and no expenditure for this allocation is included in the Schools profiled spend.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 5 – Capital Programme Funding** | | **2016/17**  **£m** | **2017/18**  **£m** | **2018/19**  **£m** | **Later Years**  **£m** | **Total**  **£m** |
|  | **Grants Receivable** | | | | | |
| DfT Street Lighting Challenge Fund | | -5.000 | -4.800 |  |  | -9.800 |
| DfT Annual Highways Maintenance Grant | | -21.154 | -20.514 | -18.567 |  | -60.235 |
| DfT Highways Maintenance Incentive Funding 2016/17 | | -1.293 |  |  |  | -1.293 |
| DfT Pothole Action Fund | | -1.241 |  |  |  | -1.241 |
| DfT LTP/Integrated Transport Block annual grant | | -6.054 | -6.054 | -6.054 |  | -18.162 |
| DfE School Basic Need | | -8.891 | -29.006 | -2.580 |  | -40.477 |
| DfE Schools Condition annual grant | | -11.209 | -11.209 |  |  | -22.418 |
| Disabled Facilities Grant | | -11.477 |  |  |  | -11.477 |
| Schools Devolved Formula Capital | | -2.545 | -2.634 | -2.634 |  | -7.813 |
| Growing Places | |  |  |  | -2.479 | -2.479 |
| DEFRA re Preesall Flood Alleviation Scheme | | -0.070 |  |  |  | -0.070 |
| **Sub Total** | | **-68.934** | **-74.217** | **-29.835** | **-2.479** | **-175.465** |
|  | **Contributions from Developers** | | | | | |
| Highways s278 Schemes Q1 additions | | -0.901 |  |  |  | -0.901 |
| Highways s106 schemes Q1 additions | | -0.425 |  |  |  | -0.425 |
| **Sub Total** | | **-1.326** |  |  |  | **-1.326** |
|  | **Grants unapplied Balances as at 31st March 2016** | | | | | |
| DfT Heysham grant received in advance | | -2.348 |  |  |  | -2.348 |
| DfT Flood Damage Funding received in 2015/16 | | -3.796 | -0.911 |  |  | -4.707 |
| DEFRA funding to be applied to ongoing projects | | -0.372 |  |  |  | -0.372 |
| Schools specific funding | | -0.036 |  |  |  | -0.036 |
| Highways and Transport specific funding | | -2.111 |  |  |  | -2.111 |
| CYP specific funding | | -0.211 |  |  |  | -0.211 |
| Waste specific funding | | -0.120 |  |  |  | -0.120 |
| non specific funding | | -3.617 |  |  |  | -3.617 |
| Adult Social Care grant | | -0.187 | -2.386 |  |  | -2.573 |
| Short Breaks for Disabled Children | | -1.449 |  |  |  | -1.449 |
| School DfE grants brought forward | | -10.557 | -11.690 |  |  | -22.247 |
| **Sub Total** | | **-24.804** | **-14.987** |  |  | **-39.791** |
|  | **Growth Deal Funding** | | | | | |
| Burnley Pendle Growth Corridor | |  | -4.000 | -4.000 |  | -8.000 |
| East Lancs Cycle Network | |  |  | -1.550 |  | -1.550 |
| **Sub Total** | |  | **-4.000** | **-5.550** |  | **-9.550** |
|  | **District Contributions** | | | | | |
| Burnley Town Centre | | -0.700 | -0.550 |  |  | -1.250 |
| Burnley Pendle Growth Corridor | | -0.832 |  | -0.485 |  | -1.317 |
| Blackpool Borough Council contribution to Waste projects (held in designated reserve) | | -0.720 | -0.194 |  |  | -0.914 |
| **Sub Total** | | **-2.252** | **-0.744** | **-0.485** |  | **-3.481** |
|  | **Contributions from Other External Bodies** | | | | | |
| Nelson and Colne College (Northlight) | | -0.100 |  |  |  | -0.100 |
| BDUK re SFBB Phase 2 | | -1.735 | -0.965 |  |  | -2.700 |
| **Sub Total** | | **-1.835** | **-0.965** |  |  | **-2.800** |
| **Capital Receipts** | | | | | | |
| Funding for School Playing Field programme from sale of school approved via Cabinet report | |  | -1.036 |  |  | -1.036 |
| **Sub Total** | |  | **-1.036** |  |  | **-1.036** |
|  | |  |  |  |  |  |
| **Total Funding** | | **-99.151** | **-95.949** | **-35.870** | **-2.479** | **-233.449** |

**6. Capital Finance Charges**

The County Council has a current debt level of approximately £1bn which has been incurred over a number of years and consists of debt incurred under the current Prudential System as well as under the previous credit control system. Prior to the introduction of the Prudential Code in April 2004 the County Council were given credit approvals from central government. This was a limit on the amount the County Council could borrow and the government included provision for the financing of the debt within the RSG settlements. Traditionally the County Council borrowed up to the maximum permitted. The introduction of the Prudential Code removed these limits enabling authorities to borrow at a level they deem as affordable. It is accepted that all authorities would have a different basis on the concept of affordability based on their differing priorities and the need for capital expenditure.

As at the 31/3/2016 since the inception of the Prudential Code the County Council has incurred £135m of capital expenditure funded from borrowing to meet its capital priorities These prior decisions mean that there is a long term budget commitment in terms of both Minimum Revenue Provision (MRP), which is effectively a charge for the principal repayment, and interest charges. Under the current MRP policy the charge for the debt prior to the introduction of the Prudential Code is £8.887m per annum. In addition, the MRP to cover since the implementation of the Prudential Code is in the region of £10.5m. This is forecasted to rise to £10.9m by 2020/21.

The loans, and therefore interest charges, are not tied to specific expenditure but are managed as a pool. To fund the outstanding debt the interest charges are in the region of £18m per annum although this will vary as interest rates and MRP payments change. Therefore without any additional borrowing being incurred there is a commitment in future years' budgets of some £37m by 2020/21. In addition the current Capital Programme includes borrowing of c£158m over the period of the Programme. By 2020/21 estimated increases in borrowing on the capital financing charges equates to an additional MRP charge of £6.3m per annum and interest of £2.4m. This would give a total capital financing requirement of £45.6m. The current MTFS has built in sufficient resources to cover the impact of the Programme.

Table 6 below shows the borrowing costs for the existing programme and new re-profiled programme, totalling £45.6m.



Under the CIPFA Prudential Code consideration must be given as to the affordability of the Capital Programme. A budget of £45.7m represents approximately 6.5% of the estimated resources available to the County Council in 2020/21 (excluding potential Council Tax increases); although once investment income is taken into account the net budget represents 5.6% of revenue. There is no guidance on what is considered to be a reasonable proportion of the revenue budget is used for capital financing purposes. This is a matter for individual authorities and reflects their different aims. It should be noted that financing capital expenditure from borrowing does represent a long term commitment in the revenue budget. If the revenue budgets were to fall then the percentage committed to capital financing would increase.

The National Audit Office produced a report in June 2016 which expressed concern about the levels of debt currently serviced by local authorities. The NAO said: “If authorities cannot reduce their debt servicing costs, this will place further pressure on revenue spending.” It added that minimising the revenue cost of capital programmes is the “primary challenge facing authorities.” The NAO report does not refer to individual authorities' data however the DCLG has recently published information on borrowing at 31/3/16 which shows that Lancashire has the second highest level of borrowing of all the shire Counties. By head of population Lancashire has the highest level of borrowing. There is currently little information on the financing costs. The CIPFA 2014/15 actuals show that the principal repayment and interest charges represent on an average of 8.5% of the budget requirement. Lancashire's figure was shown as 9.8%, which was the 8th highest.

It should be noted that the figures quoted for 2019/20 show that capital financing budget represents a lower proportion of the budget than shown by the CIPFA statistics. This is the result of the change in MRP policy in 2015/16 which has seen significantly lower MRP charges. Excluding any potential Council Tax increases it is estimated that the net capital financing charges will increase to 5.6% of the budget in 2020/21 from 4.33% in 2016/17. Therefore the available statistics suggest that the County Council is facing an increase in financing and that it is starting from a relatively high debt base. It is therefore potentially one of those authorities who face the problem identified by the National Audit Office and future borrowing requests should be subject to detailed scrutiny and appraisal of costs and benefits.