Appendix E

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

Lancashire County Council

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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.

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	20.800	10.400	15.200	Road opening took place on 31 October 2016, with outstanding work on landscaping and motorway communications scheduled for completion by Mar 17.

	Tramway	2.681	1.340	0.610	Final Invoice expected in 16/17.
	Burnley Pendle Growth Corridor	3.166	1.583	1.690	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.
	Pennine Reach	1.327	0.663	0.751	Majority of work completed. A bus lane, off road parking and Statutory Quality Bus Partnership to be completed.
	Burnley Town Centre	1.522	0.761	0.770	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.
	East Lancs Strategic Cycle Network	2.668	1.334	0.142	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
	Contribution to City Deal	2.500	0.000	0.000	Annual contribution at year end.
Highways	Asset maintenance several years starts **excluding** Bridges and Local Priorities Response Fund (LPRF)	23.574	11.787	8.722	Delivery on target as spend to date excludes work in progress of c£4.5m not yet reflected in Oracle.
	LPRF	2.500	1.250	0.187	
	Bridges	2.000	1.000	1.037	
	Rawtenstall Bus Station	3.910	1.955	0.000	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.
	DfT grant funded Flood projects	3.796	1.898	1.280	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.
	DfT Street Lighting Challenge Fund	6.750	3.375	2.774	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	-2.111				-2.111

specific funding					
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.

TABLE 6	2016/17	2017/18	2018/19	2019/20	2020/21
Borrowing costs of existing and new capital programmes	£m	£m	£m	£m	£m
MRP					
Current Debt	19.398	19.318	19.098	19.476	19.868
New Capital Programme	0.000	2.094	2.991	5.356	6.300
Interest					
Current Debt	18.442	18.135	17.809	17.458	17.076
New Capital Programme	0.393	0.953	1.565	2.186	2.363
Total					
Current Debt	37.840	37.453	36.907	36.934	36.944
New Capital Programme	0.393	3.047	4.556	7.542	8.663
Grand total borrowing costs old and new programmes	**38.233**	**40.500**	**41.463**	**44.476**	**45.607**

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.