**Money Matters -**

**Capital Programme 2017/18 – 2020/21**

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Money Matters – Capital Monitoring Programme 2017/18 – 2020/21

**1. Introduction**

Cabinet on 6th October 2016 approved a re-profiled programme for 2016/17 to 2018/19 and beyond, totalling £390.967m, of which £151.510m related to 2016/17. This report restates and updates the 2017/18 onwards element of that re-profiled programme

**2. Proposed Programme and Funding**

Table 1 below details the re-profiled capital programme for the period 2017/18 to 2019/20 and 20/21, as approved as part of the 2016/17 and beyond re-profiled programme at Cabinet on 6th October 2016, and the funding thereof including an addition to the programme totalling £1.428m added to the Corporate block of the programme. The addition of £1.428m will be spent partly on White Cross Education Centre-Mill 14, Lancaster, and partly on County Hall Old Building essential capital works.

City Deal is included only where LCC make a direct contribution to it or where the County Council is supporting the cash flow requirements of the project in the early years. City Deal and other Lancashire Economic Partnership activity is reported separately via the existing LEP reporting and performance framework. LCC is the accountable body for the LEP.

It should also be noted that the programme below does not include any estimate of spend carried forward from 2016/17, which will be quantified in the 2016/17 outturn report.

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| **TABLE 1** | **2017/18****(£m)** | **2018/19****(£m)** | **2019/20 & 2020/21****(£m)** | **Total****(£m)** |
| Schools (excluding Devolved Formula Capital) | 29.686 | 28.562 | 2.580 | 60.828 |
| Schools Devolved Formula Capital | 2.634 | 2.634 | 0.000 | 5.268 |
| Children and Young People | 3.014 | 4.560 | 3.586 | 11.160 |
| Waste and Other  | 2.023 | 0.100 | 1.665 | 3.788 |
| Adult Social Care | 0.562 | 7.808 | 6.061 | 14.431 |
| Corporate | 12.276 | 13.661 | 11.349 | 37.286 |
| Vehicle Replacement | 3.930 | 3.460 | 0.000 | 7.390 |
| Transport | 26.082 | 14.641 | 0.840 | 41.563 |
| Highways | 39.604 | 19.567 | 0.000 | 59.171 |
| **TOTAL** | **119.811** | **94.993** | **26.081** | **240.885** |

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| **FUNDED BY:** | **2017/18****(£m)** | **2018/19****(£m)** | **2019/20 & 2020/21****(£m)** | **Total****(£m)** |
| **GRANTS RECEIVABLE (shown in year to be received)** |  |  |  |  |
| DfT Street Lighting Challenge Fund | -4.800 | 0.000 | 0.000 | -4.800 |
| DfT Annual Highways Maintenance Grant | -20.514 | -18.567 | 0.000 | -39.081 |
| DfT Highways Maintenance Incentive Funding 2017/18 to be determined | TBC | TBC | TBC | TBC |
| DfT LTP/Integrated Transport Block annual grant | -6.054 | -6.054 | 0.000 | -12.108 |
| DfE School Basic Need annual grant | -29.006 | -2.580 | 0.000 | -31.586 |
| DfE Schools Condition annual grant | -11.209 | 0.000 | 0.000 | -11.209 |
| Schools Devolved Formula Capital | -2.634 | -2.634 | 0.000 | -5.268 |
| Growing Places | 0.000 | 0.000 | -2.479 | -2.479 |
| **Sub Total** | **-74.217** | **-29.835** | **-2.479** | **-106.531** |
|  |  |  |  |  |
| **GRANTS UNAPPLIED BALANCES as at 31st March 2016** |  |  |  |  |
| DfT Flood Damage Funding received in 2015/16 | -0.911 | 0.000 | 0.000 | -0.911 |
| Adult Social Care grant | -2.386 | 0.000 | 0.000 | -2.386 |
| School DfE grants brought forward | -11.690 | 0.000 | 0.000 | -11.690 |
| **Sub Total** | **-14.987** | **0.000** | **0.000** | **-14.987** |
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| **GROWTH DEAL FUNDING** |  |  |  |  |
| Burnley Pendle Growth Corridor | -4.000 | -4.000 | 0.000 | -8.000 |
| East Lancs Cycle Network | 0.000 | -1.550 | 0.000 | -1.550 |
| **Sub Total** | **-4.000** | **-5.550** | **0.000** | **-9.550** |
|  |  |  |  |  |
| **DISTRICT CONTRIBUTIONS** |  |  |  |  |
| Burnley Town Centre | -0.550 | 0.000 | 0.000 | -0.550 |
| Burnley Pendle Growth Corridor | 0.000 | -0.485 | 0.000 | -0.485 |
| Blackpool Borough Council contribution to Waste projects (held in designated reserve)  | -0.194 | 0.000 | 0.000 | -0.194 |
| **Sub Total** | **-0.744** | **-0.485** | **0.000** | **-1.229** |
| **CONTRIBUTIONS FROM OTHER EXTERNAL BODIES** |  |  |  |  |
| BDUK re SFBB Phase 2 | -0.965 | 0.000 | 0.000 | -0.965 |
| **Sub Total** | **-0.965** | **0.000** | **0.000** | **-0.965** |
|  |  |  |  |  |
| **USE OF RESERVES** |  |  |  |  |
| Asset maintenance earmarked reserve | -0.727 | 0.000 | 0.000 | -0.727 |
| **Sub Total** | **-0.727** | **0.000** | **0.000** | **-0.727** |
|  |  |  |  |  |
| **CAPITAL RECEIPTS** |  |  |  |  |
| Funding for School Playing Field programme from sale of school approved via Cabinet report | -1.036 | 0.000 | 0.000 | -1.036 |
| **Sub Total** | **-1.036** | **0.000** | **0.000** | **-0.965** |
|  |  |  |  |  |
| **TOTAL FUNDING** | **-96.676** | **-35.870** | **-2.479** | **-135.025** |
|  |  |  |  |  |
| **NET BORROWING REQUIREMENT** | **23.135** | **59.123** | **23.602** | **105.860** |

Table 1 above shows that the total borrowing requirement over the life of the programme is expected to be £105.860m. 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.

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.

**3. 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 £11m. This is forecast to rise to £11.7m 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 £37.7m by 2020/21. In addition the re-profiled Capital Programme for 2016/17 onwards approved at 6th October 2016 Cabinet included borrowing of £158m over the period of the Programme. By 2020/21 the additional borrowing cost will depend on the estimated economic life of the assets, and the timing of the borrowing. It is currently estimated that by 2020/21, the additional MRP charge will be £4.4m and interest charges £2.4m. The current MTFS includes the estimated impact of the Programme.

Table 2 below shows the borrowing costs for the existing programme and new re-profiled programme, totalling £44.5m.

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| **TABLE 2****Borrowing costs of existing and new re-profiled capital programme** | **2017/18****£m** | **2018/19****£m** | **2019/20****£m** | **20/21****£m** |
| **MRP** |  |  |  |  |
| Current Debt | 19.986 | 19.788 | 20.188 | 20.603 |
| New Capital Programme | 1.397 | 2.040 | 3.683 | 4.431 |
|  |  |  |  |  |
| **Interest** |  |  |  |  |
| Current Debt | 18.135 | 17.809 | 17.458 | 17.076 |
| New Capital Programme | 0.953 | 1.565 | 2.186 | 2.363 |
|  |  |  |  |  |
| **Total** |  |  |  |  |
| Current Debt | 38.121 | 37.597 | 37.646 | 37.679 |
| New Capital Programme | 2.350 | 3.605 | 5.869 | 6.794 |
| **Grand total borrowing costs old and new programmes** | **40.471** | **41.202** | **43.515** | **44.473** |

Under the CIPFA Prudential Code consideration must be given as to the affordability of the Capital Programme. A budget of £44.5m represents approximately 6.4% 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 requirements should be subject to scrutiny.