# EXECUTIVE BOARD DECISION

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| **REPORT OF:** | Executive Member for Resources |
| **LEAD OFFICERS:** | Director of Finance and Customer Services |
| **DATE:** | 5th July 2018 |

| | |
|---|---|
| **PORTFOLIO/S AFFECTED:** | All |
| **WARD/S AFFECTED:** | All |
| **KEY DECISION:** | **YES** ☒ **NO** ☐ |

**SUBJECT: CORPORATE CAPITAL BUDGET AND BALANCE SHEET MONITORING REPORT Quarter 4 2017/18 – as at 31st March 2018**

## 1. EXECUTIVE SUMMARY

To report the overall financial position of the Council in respect of the capital programme as at 31st March 2018, highlighting major issues and explaining variations at the year end with regard to portfolio under/overspends and slippage since the last report to the Executive Board in February 2018.

## 2. RECOMMENDATIONS

That the Executive Board:

a) Notes the final capital outturn for 2017/18 as per Appendix 1, together with the variations in Appendix 2
b) Agrees that the slippage of £4.186 million in the 2017/18 capital programme across all the portfolios, along with the net £12,000 in respect of Earmarked Schemes, can be carried forward into 2018/19, and that the 2017/18 capital programme is amended accordingly.

## 3. BACKGROUND

All portfolios are required to examine their capital budget position on a monthly basis.

## 4. KEY ISSUES & RISKS

a) The Council's capital investment for 2017/18 across the portfolios has decreased from the projection of £22.512 million, reported and approved by Executive Board on 8th February 2018, to an actual outturn spend of £18.656 million. The net variation (excluding earmarked schemes) of £3.856 million (detailed at Appendix 2), reflects requested variations to the programme of £330,000 and transfers from the 17/18 programme into future years of £4.186 million.

b) Capital receipts to the value of £0.75 million were received in 2017/18 and were used to support the Minimum Revenue Provision. This compares with the estimate reported to the February Executive Board of £674,000.

**5. POLICY IMPLICATIONS**

The information contained within the report accords with the capital strategy and the three year budget forecast within the Medium Term Financial Strategy 2017-20, as approved at Finance Council on 26th February 2017.

**6. FINANCIAL IMPLICATIONS**

**6.1 CAPITAL PROGRAMME**

The variations in projected spend and resource availability for 2017/18 are summarised by portfolio in Appendix 1. Variations in spending are set out in Appendix 2.

The total variation at outturn in the Capital Programme across the portfolios compared to the last report approved by Executive Board is £3.856 million, of which £2.168 million relates to slippage on the Schools capital programme. The major capital variations to note are as follows:

***6.1.1 Health & Adult Social Care***

Disabled Facilities Grant

As reported to Executive Board in February 2018, the volume of applications to access the Disabled Facilities Grant was unusually lower than in previous years. A request to slip £599,000 into 2018/19 is made so that these funds are available to cover costs in 2018/19.

***6.1.2 Children's Services***

Disabled Facilities Grant

A request to slip £112,000 of Disabled Facilities Grant is made to fund schemes in 2018/19. An underspend of £132,000 is also reported, which will reduce the amount of main programme borrowing required in the capital programme.

Longshaw Nursery School Early Years Capital Fund

As reported to the Executive Board in February 2018, discussions are ongoing with the DfE to approve an extension to the funding to 4th October 2018. Whilst these discussions are ongoing, a request is made to slip the £189,000 provision for the scheme in to 2018/19.

***6.1.2 Environment***

Old Bank Lane Car Park

Following a slight delay due to bad weather, the car park became fully operational on 21st May 2018. Approval is now sought to slip £269,000 to 2018/19 to cover the costs for the completion of this scheme in 2018/19.

***6.1.3 Leisure, Culture & Young People***

Blakeys Air Conditioning

As per the Executive Board decision dated 8th March 2018, approval was given to add the scheme to the capital programme for an upgrade to the air handling system, and other minor works (removal of bar and a new stud wall partition) at a cost of £72,000. Approval is required to add this to the capital programme and also to slip £71,000 into 2018/19 when the majority of the work will be completed.

***6.1.4 Regeneration***

Cathedral Quarter Development
Approval is sought to slip £100,000 of the project provision in to 2018/19 to meet the costs of the outstanding retention payments owed to the contractor.

Darwen 3 Day Market
Work on the public realm has progressed at a quicker pace than anticipated in 2017/18 and a request to bring forward budget of £96,000 from future years is made to cover the costs incurred in 2017/18.

Blakey Moor
Approval to transfer £680,000 from the Corporate Property Investment earmarked schemes is requested to cover the costs of a Compulsory Purchase Order, which was approved at Executive Board on 11th January 2018.

A further request is made to reprofile £75,000 of the unspent budget at 31st March 2018 into 2018/19; the scheme is due to run until the end of 2021/22.

Local Transport Plan
There has been a reduction in the Local Transport Plan budget comprising:

| **Details** | **Amount** |
|---|---|
| **Reductions** | |
| Reduction in S106 funding | (£168,000) |
| Reduction in contributions from third parties | (£12,000) |
| Virement to Darwen Public Realm (Darwen 3 Day Market scheme) | (£151,000) |
| Virement to Town Heritage Scheme | (£2,000) |
| **Increases** | |
| Additional Pot Hole Funding Grant | £89,000 |
| Virement from Street Lighting Investment | £50,000 |
| Additional late charges received in March | £22,000 |
| **Total Variation** | **(£172,000)** |

Granville Rd/Westland Ave Flood Study
Following the submission to the Environment Agency of the Flood Study at this site, a further grant has been awarded to carry out the required works identified in the study. Approval is now required to include this in the capital programme and for £183,000 to be transferred into 2018/19 when the works will commence.

Bank Top and Griffin Clearance
Approval is sought to slip £145,000 of the programme provision into 2018/19 as this funding will be used to purchase 3 properties that will complete the assembly of the Griffin clearance site.

Affordable Homes

Griffin Pub has been purchased as part of the Griffin Area Redevelopment. Approval is sought to bring forward programme provision of £200,000 and to vire fund from the Bank Top and Griffin

Clearance scheme to cover these costs.

Development Investment Fund

Slippage of £101,000 into 2018/19 is requested to support committed and programmed work on Council owned sites in the Growth Development pipeline.

### *6.1.5 Resources*

Corporate ICT Schemes

A request is made to slip the following elements of the individual programme budgets into 2018/19 when the respective project implementations will complete.

| Scheme | Slippage Requested |
|---|---|
| Monitoring & Management - service systems | £13,000 |
| Public Access | £39,000 |
| WAN Connectivity | £20,000 |
| Digitisation of planning service | £41,000 |
| Finance System | £38,000 |

Corporate ICT – Microsoft EA

As per the Executive Member Decision Paper dated 9th March 2018, approval was given to renew of the Microsoft SCE agreement for the provision of licences to cover the Council's database environment server and system centre estate. This will be a capital investment of approximately £318,000 over a 3 year period, with the first instalment due in 2017/18. This is to be funded from the Corporate ICT earmarked schemes.

Fishmoor Drive Demolition

The buildings on this site our now fully demolished and an underspend of £98,000 is reported on this scheme. The scheme was funded from the Corporate Investment Fund Earmarked schemes and a request is now made to transfer the underspend back to this earmarked scheme.

Digital Advertising Screen

The total value of this scheme is £125,000 profiled across the 2017/18 year end. A request is made to reprofile the programme provision in line with the timing of the actual spend and to approve the transfer of £43,000 from 2018/19 to fully cover the spend in 2017/18.

### *6.1.6 Schools and Education*

Slippage of programme provision is requested from 2017/18 into 2018/19 on the following schemes:

| Scheme | Slippage Requested |
|---|---|
| Audley Juniors | £9,000 |
| Audley Infant and Junior – New Heating System | £20,000 |
| Audley Junior – Roofing Works | £13,000 |
| Belmont | £8,000 |
| Lower Darwen | £13,000 |
| Shadsworth Juniors | £14,000 |

| | |
|---|---|
| St Thomas CE Primary School | £110,000 |
| Longshaw Junior | £64,000 |
| Roe Lee Class Room Works | £136,000 |

<u>Cedars Primary</u>
The single site rationalisation of Cedars School was completed in September 2017, and the scheme is now complete. In the Quarter 4 Executive Board Capital Budget Monitoring Report for 2016/17, the provision for this scheme was reduced by £300,000, however this has now proven to be an overstatement given the contracts in place to complete the work. As a result, in 2017/18 the reduction has led to an overspend of £132,000; this has been funded from the schools unallocated capital fund.

A review of the final costs has identified that there may be £4,000 still outstanding on survey fees a request to approve slippage to 2018/19 of this amount is made, until confirmation is received in this regard.

<u>St Barnabas and St Pauls</u>
Specification and survey fees of £101,000 have been incurred in 2017/18 against a programme provision of £32,000 in the year. A request is therefore made to transfer budget of £68,000 from 2018/19 to cover these costs.

<u>Newfield ASD Provision</u>
This scheme was scheduled to complete in February 2018, but due to contractor delays it is anticipated that the building will only now be handed over in June 2018. Slippage of £697,000 into 2018/19 is therefore requested.

**6.2 CAPITAL RECEIPTS**
Actual capital receipts at 31st March 2018 were £0.75 million; all of these receipts will be utilised to support of the Minimum Revenue Provision.

**6.3 BALANCE SHEET POSITION**

**6.3.1 Overview**
Good balance sheet management assists in the effective use and control over the Council's assets and liabilities. Key assets comprise the Council's tangible fixed assets, debtors, investments and bank balances. Key liabilities include long and short-term borrowing, creditors and reserves.

**6.3.2 Non-current Assets**
Tangible non-current assets include property, plant and equipment held by the Council for use in the production or supply of goods and services, for rental to others or for administrative purposes. Property assets are the responsibility of the Resources portfolio. One fifth of all assets are re-valued every year, and annual reviews are undertaken to establish whether any impairment or other adjustments need to be applied. New assets and enhancements to existing assets are managed by way of the capital programme, as reported in Appendix 1.

**6.3.3 Borrowing and Investments**
Long term borrowing requirements flow from the capital programme. Regular dialogue and meetings take place between the Director of Finance, her staff and the Council's independent Treasury

consultants Arlingclose, and options for optimising borrowing requirements are actively reviewed.

No long term borrowing has been taken for the last three years. While short term borrowing has historically been used to help with cash flow management, for the last four years it has also been used strategically to cover the borrowing requirements generated by the capital programme and the repayment of existing long term debt. This has generated significant revenue savings and has reduced investment exposures and risk. Going forward, it is recognised that this approach could impact on the Council's opportunities for obtaining the maximum benefit from future interest rate changes and as such will continue to be monitored.

The Council's surplus cash balances are managed on a day to day basis in line with the Treasury Management Strategy approved by Finance Council. The Council spreads its investment risk over a number of institutions and has limits on how much can be invested in any one institution and for how long. The list of approved institutions is kept under regular review by the Treasury Management Group in conjunction with information form the Council's treasury consultants.

The most significant variation at outturn was an increase of £280,000 in the MRP (Minimum Revenue Provision) charge, resulting from lower than anticipated capital receipts. This was partly offset by net savings on interest costs and dividends of around £60,000.

Treasury debt and investments at Year End were as follows:

| | Amounts at 31/03/18<br>£000 | Amounts at 31/03/17<br>£000 |
|---|---|---|
| Short term borrowing | 85,000 | 57,000 |
| Long term borrowing | 125,341 | 127,122 |
| Transferred debt re Local Government Re-organisation | 15,352 | 15,992 |
| *Associated Capital Financing Requirement* | *15,978* | *16,318* |
| Debt in relation to PFI arrangements (including short term debt) | 66,849 | 68,551 |
| *Associated Capital Financing Requirement* | *69,825* | *69,965* |
| Investments made by the Council | 33,720 | 22,075 |

The totals above include the debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use the new BSF school buildings which are financed through PFI arrangements. These adjustments are made to ensure that the Council's effective control over, and use of, these assets is recognised with corresponding adjustments to the debt. These changes do not add to the costs faced by the Council Tax payer as the actual capital costs for these schools form part of the ongoing stream of payments made to the PFI contractor (which are in turn largely offset by PFI grant funding from the Government).

| | **Original Budget**<br>**2017-18**<br>£'000 | **Outturn**<br>**2017-18**<br>£'000 |
|---|---|---|
| Interest paid on borrowing | 6,203 | 6,024 |
| PFI interest paid | 6,411 | 6,420 |

| | | |
|---|---|---|
| Interest receipts | (135) | (247) |
| MRP (Minimum Revenue Provision) for debt repayment – non-PFI | 5,925 | 6,073 |
| MRP (Minimum Revenue Provision) for debt repayment – PFI | 141 | 141 |

Excluding PFI elements, interest on financing the Council's debt cost the Council approximately £6.1 million (down from £6.2 million in 2016/17) – this includes £0.3 million interest on the debt managed on the Council's behalf by Lancashire County Council. Lower interest rates brought down the cost of short term borrowing, generating a saving against the original budget.

Treasury interest receipts remained low, reflecting exceptionally low interest rates. The Council's returns on its Local Education Partnership investment were again the most significant element, at over £150 thousand of the total return.

In 2016/17 the Council reviewed its MRP (Minimum Revenue Provision) Policy, which determines how it will make a prudent charge for debt repayment in the accounts. The change more closely aligned the revenue costs of capital expenditures with the economic benefits received over the life of those assets, and resulted in significantly lower MRP charges over the first 20 years. As the MRP cost currently borne is lower than the actual cash repaid in relation to both PFI and Transferred Debt, the outstanding CFR (Capital Financing Requirement) is higher than the remaining debt for both these elements. A small part of the MRP saving is therefore offset by higher interest costs, but there is still a significant net saving (of over £4 million)

**6.3.4 Debtors**

The Council has a corporate debt policy as well as other specific policies for the management of debt in the key areas of council tax, business rates and housing benefit overpayments. The table below summarises the collection performance of the various debts and the total outstanding debt in the respective areas at a single point in time, i.e. 1st April 2018. The table also shows the corresponding level of debt at the same point in the last financial year.

Council Tax

The current year collection rate has slightly improved on the previous year, however, the arrears continue to increase, due mainly to the inability to collect arrears from Council Tax Support claimants.

Business Rates

Business Rates continues to have legislative changes that result in less collectable debt – these include changes to small business rate relief and the introduction of government reliefs and pub reliefs last year. There has also been an improvement in collection rate due to the introduction of bankruptcy as a recovery option. A number of very hard to collect debts have been recovered via this method in 2017/18.

| | **Position at 1/4/18** | **Position at 1/4/17** |
|---|---|---|
| **Council tax** | | |
| Current year arrears (£000) | 2,556 | 2,474 |
| Previous year arrears (£000) | 8,027 | 7,137 |

| | | |
|---|---|---|
| **Total Council tax arrears** | **10,583** | **9,611** |
| Collection rates | 95.4 | 95.3% |
| **Business rates** | | |
| Current year arrears (£000) | 687 | 1,243 |
| Previous year arrears (£000) | 2,010 | 2,041 |
| **Total Business rates arrears** | **2,697** | **3,284** |
| Collection rates | 98.5% | 97.4% |
| **Housing Benefit** | | |
| Overpayments balances (£000) | 2,737 | 2,706 |

*NB.*
*Arrears reported above are net of credits and exclude costs outstanding.*
*In addition to the above, the following is also outstanding in 2017/18:*
*Council Tax court costs £1,497,483*
*Business Rates court costs £49,573*

**7. LEGAL IMPLICATIONS**
The Council has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

**8. RESOURCE IMPLICATIONS**
None.

**9. EQUALITY AND HEALTH IMPLICATIONS**
**Please select one of the options below. Where appropriate please include the hyperlink to the EIA.**

Option 1 ☒ Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 ☐ In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 ☐ In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

**10. CONSULTATIONS**
None

**11. STATEMENT OF COMPLIANCE**
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

| 12. DECLARATION OF INTEREST |
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| All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting. |

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| **VERSION:** | **V2** |

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| **CONTACT OFFICER:** | **Gaynor Simons (Ext 5635)    Julie Jewson (Ext 5893)** |
| **DATE:** | 21st June 2018 |
| **BACKGROUND PAPER:** | N/A |