Capital Financing and Capital Criteria

EXECUTIVE MEMBER: Councillor Gillian Troughton

LEAD OFFICER: Darienne Law, Head of Corporate Resources

REPORT AUTHOR: Leanne Barwise, Senior Accounting Officer

WHY HAS THIS REPORT COME TO COUNCIL?
Executive at its meeting on 18th December 2012 recommended the contents of this report to Council for approval at this meeting.

RECOMMENDATION:
Council are asked to approve the following:

(i) the capital criteria as set out in this report (Appendix A) to assist in the prioritisation of potential capital projects for inclusion in our non-housing Capital Programme in accordance with service requirements

(ii) the use of the VAT share receipt to finance the non-housing capital programme for 2012/13 & 2013/14 onwards as detailed within paragraph 2.8 & Table 1 in 2.9.

(iii) repayment of any internal borrowing required for the non-housing elements of the programme back to the Preserved Right to Buy and Residual Right to Buy elements of the useable capital receipts reserve by swapping funding to the VAT Share receipt.

(iv) For ease of reference approve the renaming of the Useable Capital Receipts Reserve elements as outlined in paragraph 2.12.

1 INTRODUCTION

1.1 Copeland Borough Council faces an extremely challenging time, currently experiencing the largest reduction in both our budget and resources that has ever been known. Therefore change is inevitable across the whole authority.

1.2 Effective asset management planning is a crucial corporate activity to ensure we meet our corporate and service aims to deliver our services. This is evidently even more important with the reduction in Government funding that we are currently facing as an Authority.

1.3 The Council is currently undertaking a public consultation to determine its role and priorities to 2015. The use of our assets in future will need to be aligned with the future focussed role of the Council.

2 CAPITAL PROGRAMME BUDGET, FORECAST EXPENDITURE & RECEIPTS

2.1 The Useable Capital Receipts Reserve is the reserve used to pay for all capital activity and it is currently sub divided into the following areas (see also Table 1 at 2.9 below):-

a) **Receipts from sale of assets** - this is as a result of past asset sales (excluding housing stock) and is used to fund the capital programme (excluding housing).
b) **Preserved Rights to Buy (PRTB)** - Part of the housing stock transfer agreement resulted in CBC receiving £9,000 for the sale of each of first of 250 houses sold after transfer - £2.25m. In 2008/09 Executive agreed this full amount would support renovation grants and Disabled Facilities Grants (DFG's).
c) **Residual Right to Buy (RRTB)** - As at 31st March 2004, the Council had £1.5m from sale of houses PRIOR to stock transfer. It was agreed in 2005/06 that this full amount be used to support renovation grants and DFG's.
d) **VAT Share Scheme** - As part of the housing stock transfer Home Group shared the VAT Receipts up to a maximum of £4.2m with the Council. Upon completion Home Group paid £1.4m to the Council and currently pays 40% of the VAT receipts (up to a maximum amount of £2.8m being £4.3m maximum less £1.4m on completion). The current balance on this element of the reserve stands at approximately £2m.

2.2 Asset sales have been reduced in recent years due to slow-moving market conditions but our Capital Programme has continued to spend. This has led to a depletion of capital funding which has in turn, resulted in Council approving (February 2012) the use of the previously determined housing element of the Useable Capital Receipts Reserve to help finance the current 2012/13 capital programme.

2.3 The forecast capital receipts in year were revised to £393,092 in expectation of the level we anticipate to receive prior to the financial year end. This, together with the balance on the capital receipts brought forward from a previous year of £92,759, gives a total capital receipt balance of £485,851 to fund the capital programme 2012/13 (excluding housing)(see (a) above).

2.4 To date we have realised £159,153 of the £393,092 capital receipts anticipated.

2.5 As at 30th November 2012 (Period 8) the amended net capital programme budget was £1,556,356 with a forecast anticipated net spend of £1,425,218 at 31st March 2013, £97,850 of which relates to Housing with the remainder, £1,327,368, to be financed from receipts from the sale of assets.

2.6 If the anticipated capital receipts mentioned in 2.3 above are received prior to the year end as expected and the non-housing spend remains in line with forecast (£1,327,368), there will be a shortfall in the level of capital receipts required to fund the non-housing element of the capital programme in 2012/13 of £841,517.

2.7 This would mean it is necessary to "borrow" £841,517 from the housing elements of the Useable Capital Receipts Reserve. This process was agreed by Council at its meeting on 23rd February 2012.

2.8 The sales from receipts of assets will not be sufficient to fund the capital programme 2012/13 and so it is necessary to borrow from the other reserves as detailed in 2.7 of this report. To date there has been no decision on how the VAT Share Receipts are to be utilised. It is requested that Council approve of the use of the VAT Share receipts (current balance £2,012,613) to fund the Capital Programme in general.

2.9 Table 1 overleaf shows the impact of the forecast capital programme spending and forecast capital receipts in 2012/13 will have on the Useable Capital Receipts Reserve should all non-housing expenditure be funded from the VAT Share receipt.

Table 1: Impact of forecast capital programme spending and capital receipts in 2012/13 on the UCRR					
USABLE CAPITAL RECEIPTS	Receipts from sale of assets (a) £	Preserved right to buy sales (b) £	Residual Right to buy (c) £	VAT sharing receipt (d) £	TOTAL £
Opening balance per audited accounts:	-92,759	-660,793	-1,349,385	-1,981,318	**-4,084,255**
Forecast draw down to fund 12/13 capital programme	485,851	97,850		**841,517**	**1,425,218**
VAT sharing receipts to date				-31,295	**-31,295**
Forecast Capital Receipts in year	-393,092				**-393,092**
Forecast useable Capital Receipts **closing balance**	**0**	**-562,943**	**-1,349,385**	**-1,171,096**	**-3,083,424**

2.10 Should all forecast non-housing expenditure be funded from the VAT Share receipt as shown in table 1 above, the resultant balance on the VAT Share (non-housing) reserve would be £1,171,096 (current VAT share receipts total £2,012,613 - opening balance of £1,981,318 plus in year receipts of £31,295).

2.11 It is proposed that all future expenditure on the non-housing related capital programme (including both the projects approved in principal within the existing 2012/13 programme and new projects) will be considered in line with the revised criteria and subject to a further report which will be presented to Executive on 12th February 2013.

2.12 It is proposed that the Useable Capital Receipts Reserve be split into two funding areas – Housing Related Capital Reserves and General Capital Reserves to replace the four funding streams as identified in the table above. Therefore it is proposed that the future receipts from sale of assets (a) and the VAT Share receipt (d) will become the "General Capital Reserve" and both the Preserved Right to Buy (b) and the Residual Right to Buy (c) will be renamed "Housing Capital Reserves".

3 PROPOSAL – FUTURE CAPITAL BID PROCESS

3.1 The Capital Control & Monitoring Group have reviewed the current criteria applied to capital bids and proposes a new criteria as detailed in Appendix A.

This will enable effective prioritisation of prospective capital projects for inclusion in the capital programmes in future years.

3.2 When considering approval of capital bids, we need to ensure that:-

- we would not fail to meet our statutory duties if a scheme was not approved
- our spending decisions are meeting our key priorities and are compliant with the most recent policy framework delivering a priority outcome
- urgent projects are given priority to meet legal obligations/avoid litigation claims
- consideration has been given to sources of funding available
- we have maximised external funding on all bids (where appropriate)
- we recognise potential external partnership benefits with public, private or voluntary sector
- all revenue costs/savings as well as capital costs have been considered
- the failure to approve a bid would prove detrimental to the continuity of the service delivery
- we can establish that although the project may not necessarily link with corporate priorities it will provide positive results to service delivery

3.3 The Capital bids are initially prepared by Project Managers and reviewed with Finance to ensure the resulting spend is of a capital nature and is therefore appropriate to be included in any considerations for the programme.

3.4 The revised criteria (as attached at Appendix A) will look at introducing full scoring criteria with weightings as agreed by the Capital Control & Monitoring Group and will be utilised for the submission of bids for the Capital Programme 2013/14 onwards. Additionally, it is anticipated that bids approved in principal in February 2012 for inclusion in the capital programme in 2013/14 and beyond, will also be subject to this revised criteria to ensure these projects reflect the current needs of the Authority.

4 CONCLUSION

4.1 It is requested that the proposed capital criteria as set out in Appendix A is recommended by Executive to Council for approval to be adopted as part of the capital bid process. This will enable the effective prioritisation of potential capital projects for inclusion in the capital programmes in future years.

4.2 It is asked that Executive recommend to Council the use of the current VAT Share receipt (part of the UCRR) of £2,012,613 as at 31st October 2012 (shown as (d) in Table 1 above). Additionally, it is requested that any future capital receipts received in relation to the VAT Share element of Useable Capital Receipt Reserve are also utilised to fund the Capital Programme 2013/14 and beyond.

5 STATUTORY OFFICER COMMENTS

5.1 The Monitoring Officer's comments are: Report requires Full Council approval as part of budget process. No other comments.

5.2 The Section 151 Officer's comments are: Included within this report

5.3 EIA Comments: EIA Completed as part of the budget setting process.

5.4 Policy Framework:

5.5 Other consultee comments, if any:

6 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

6.1 The capital programme assumes funding from the sale of assets. Generation of capital receipts presents risks in terms of the timing and value of receipt. The Estates and Valuations Manager and the Financial Management and Treasury Accountant meet quarterly and review asset sales. Additionally, the Legal Services Manager and the Estates and Valuations Manager are actively progressing sales to generate the required capital receipt prior to the financial year end.

7 WHAT MEASURABLE OUCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

7.1 Once approved, the revised criteria will be utilised for the prioritisation of future capital projects for inclusion in the Capital Programme each year to ensure that the projects reflect the current needs of the Authority.

List of Appendices:
Appendix A – Proposed Capital Programme Criteria and Scoring System

List of Background Documents:
Capital Programme 12/13 – Budget Monitoring Report Quarter 2
Capital Budget – Period 7 Summary Monitoring Report 2012/13

Capital Expenditure and Financing Tables

Consultees:
Ann Treble, Financial Management & Treasury Accountant

Suggested Criteria	Summary	Weight	SCORING			
			1	2	3	4
Statutory requirement	We would fail to meet our statutory duties if the scheme was not approved	25	Does not Meet	Partially Meets	Substantially Meets	Fully Meets
Urgent priorities/avoidance of litigation claims	Urgency of investment required to meet legal obligations i.e. avoidance of Corporate Manslaughter and other litigation claims, Health and Safety, Disability Discrimination Act	25	N/A			Definate
New policy framework	A project that specifically complies with the most recent policy framework and delivers a priority outcome.	15	Does not comply			Fully complies
Business need/Avoiding future business interruption	The project is essential to ensure the continuity of the of the service delivery and avoid future potential business interruption	15	Not essential to continuity	partially essesntial to continutity	substantially essential to continuity	Totally essential to continuity
Invest to save	Provision of future revenue savings/additional income from completion of project include payback period	10	No savings/net income	upto 15% savings/income	15%-25% savings/income	Over 25% savings/income
Revenue implications	Delivery and completion of the project would result in a future net revenue cost (see invest to save for positive revenue implications)	10	Under 10k net cost (=score*-1)	£11k to £20k net cost (*-1)	£21k to 50K net cost (*-1)	Over £50k net cost (*-1)
Operational benefits	The project does not necessarily link with corporate priorities but will provide positive benefits to service delivery	10	No positive benefits	Limited positive benefits	Substantial positive benefits	Full positive benefits
Partnership working	External partnership benefits with public, private or voluntary sector	10	No partnership benefits	Limited partnership benefits	Substantial partnership benefits	Full partnership benefits
External match funding/full external funding	Project is part funded or fully funded from externally generated resources	10	None	Up to 33% funded	34% - 66% funded	67%-100% funded

Weighting Criteria: (Weight x score)