ASSETS POLICY COMMITTEE – 16 DECEMBER 2015

FUNDING OPTIONS FOR THE COUNCIL'S CAPITAL PROGRAMME

1. Purpose of Report

To provide members with an outline of the options available to fund the Council's capital investment programme, and to identify the options to be taken forward.

2. Recommendations

2.1 That the Assets Policy Committee reaffirms the decision of Cabinet taken in October 2014 ***"that the Council as a first resort, will seek to fund its known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal".***

2.2 That the Assets Policy Committee recommends to full Council that provision is made in future revenue budgets for prudential borrowing.

3. Reasons

3.1 To agree the options available to fund the Council's capital investment programme.

4. Background

4.1 In October 2014 Cabinet approved a report entitled "Funding the Council's Capital Programme" which was subsequently endorsed by full Council as part of the approval of the Capital Strategy in February 2015.

4.2 The report set out the options for funding the capital investment required over the next four years (2015/16 to 2018/19) and the means of providing a continuing sustainable funding flow into the future. It concluded that the only realistic option to meet investment needs was a systematic programme of surplus land disposal which also enabled the Council to deliver its policy objective of bringing forward more affordable and social housing by the release of some of its land holdings. The alternative of borrowing to part fund the programme was seen to be a more expensive option owing to the cost of servicing the debt.

4.3 Accordingly, the main recommendation that was approved was: ***"That Cabinet agrees with the principle that the Council as a first resort, will seek to fund its known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal".***

5. Funding Capital Expenditure

5.1 Local authorities can derive capital monies from a number of sources as outlined below:

5.2 ***Central Government Funding*** - this used to be a major source of funding but has declined significantly over the last few years. The Council has in the past benefited from funding regimes such as the Single Regeneration Budget (SRB) and the North Staffordshire Housing Market Renewal Programme. Very few funding opportunities currently exist other than those which are linked or ring fenced to types of expenditure e.g. the Better Care Fund which is used to largely fund disabled facilities grants.

5.3 ***Capital Receipts from Right to Buy (RTB) Sales*** - the Council still receives a share of the receipts from RTB sales and will continue to do so until 2030. However, these are now minimal - only £448,000 was received for sales in 2014/15 compared to £1.7m for sales in 2007/08. In addition, full Council agreed on 23 September 2015 to earmark the next £750,000 worth of receipts, over the next two years, to part fund the Civic Hub project.

5.4 ***Revenue Contributions*** - local authorities are allowed to use these to fund their capital programmes. However, these are currently unaffordable due to the pressures that presently exist on the Council's revenue budget.

5.5 ***New Homes Bonus (NHB)*** - since 2011/12 local authorities have received funding via NHB. This is based on the number of new properties that come into a local authority's area each year. The money is not ring fenced and can be used for either capital or revenue. The majority of councils have used the money in their General Funds to compensate for the loss of Revenue Support Grant. However, the Borough Council has used approximately £500,000 of this funding each year to contribute towards delivery of the capital programme. A review of NHB was announced by the Chancellor as part of the recent spending review. Details of this are expected to be included as part of the Local Government Financial Settlement announcement on 16 or 17 December. The proposals will include reducing the current funding from six years to four years.

5.6 ***Section 106 Contributions*** - historically Councils have been able to derive capital funding for specific projects or infrastructure improvements through Section 106 planning obligations (payments). This is in the main from developers and in simple terms it has to relate to their development proposals in scale, nature and location although decreasing levels of funding are available from this source because of legislative changes. There is the potential in future to secure such infrastructure investment from the establishment of a Community Infrastructure Levy (CIL), although this is unlikely to be in place until around 2018 (i.e. once the Local Plan has been adopted). This source of funding is therefore considered to be ring fenced and would not provide support for the Council's wider capital expenditure requirements.

5.7 ***Contributions from Partners or Other Bodies*** - Sometimes projects are carried out in conjunction with partners who may provide some funding towards the cost. It is also possible to obtain funding for specific types of project from specialised funding bodies. None of the projects included in the programme are likely to attract significant funding of this nature.

5.8 For the reasons outlined above, with the exception of some funding from NHB, these sources are not options for the funding of the £16.5m expenditure programme outlined in the previous report on the agenda. Therefore, that leaves two possible options to fund the programme. These are borrowing and capital receipts from the sale of assets.

5.9 ***Borrowing*** - the Council is currently debt free and has been since the receipt for the transfer of its housing stock to Aspire in 2000. Councils can borrow money to fund capital works and this can be done through the Public Works Loan Board (PWLB) or commercial financial institutions or possibly from other local authorities. Whilst at present borrowing can be undertaken at relatively low cost it is expected that interest rates will rise in the medium term from their current historically low levels.

Local authority borrowing is regulated through the Prudential Code issued by the Chartered Institute of Finance and Accountancy (CIPFA), which has statutory effect through the Accounts and Audit Regulations (2015). The primary requirement of the Code is that borrowing must be affordable and the revenue consequences must be fully understood and considered before its use. This would take place via consideration of the Treasury Management Strategy and a paragraph that is required to be included in the budget report to be considered by Full Council stating the revenue consequences of proposed capital expenditure. The cost of borrowing must be charged to the General Fund revenue account. Charges comprise two elements, the interest paid to lenders and, more significantly, an amount, referred to as the “minimum revenue provision (MRP)” intended to provide sufficient to repay the loan at maturity. The annual interest is charged each year as it is paid. The MRP is also an annual charge, which continues for the term of the loan, or until it is repaid, and is subject to statutory requirements as to its method of calculation.

There are a number of options set out in statutory Guidance issued by the Secretary of State and the Council’s MRP Policy appended to the Treasury Management Strategy states that the council will use the Asset Life method. This entails dividing the amount borrowed by the life of the asset created or how long works to an asset will last, e.g. borrowing for the purchase of a vehicle with a life of 8 years costing £80,000 will result in a £10,000 charge. MRP charges commence in the year after the expenditure is incurred, so for expenditure in 2016/17 there will be no MRP charge until 2017/18. The Council can also fund capital expenditure temporarily if it has a positive cash flow or via temporary borrowing but cannot have unfinanced capital expenditure at the end of the financial year.

5.10 ***Capital Receipts from the Sale of Assets*** - councils are under a statutory duty to maintain good stewardship of their assets. It is good practice, actively encouraged by successive Governments, for councils to keep their assets under review and to release assets which are no longer required for service or other uses and to recycle the receipts from them into priority spending areas. The strategy acknowledges the additional benefits of enabling the development of surplus land to meet growing housing development needs. The Council has a process of assets review which is undertaken annually through the Asset Management Strategy.

6. Conclusions

6.1 The Council has two main options to fund its capital programme - borrowing and capital receipts from the sale of assets.

6.2 The current pressures on the revenue budget mean that extensive prudential borrowing is unaffordable in the short term. However, it is proposed to incrementally include provision in the revenue budget from 2017/18 onwards to build in to the base budget funding for future borrowing costs.

6.3 The Council should continue to pursue and maximise capital receipts from the sale of assets.