

REPORT OF: MANAGEMENT TEAM

TO: EXECUTIVE

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CAPITAL STRATEGY AND CAPITAL PROGRAMME ROLL- FORWARD 2015/18

PURPOSE OF REPORT

1. The purpose of this report is to review the Council's Corporate Capital Strategy in the context of the Council's objectives and priorities and to seek approval to the proposed capital programme for 2015/16. The report also provides details of the Medium-Term Capital Programme for the period 2015/18.
2. In accordance with the Prudential Code for Capital Investment in Local Authorities, the report also provides various prudential indicators for consideration and approval.

RECOMMENDATIONS

3. It is recommended that the Executive:-
 - a) Note the forecast outturn position on the Council's capital programme for 2014/15 as shown at [Appendix A](#) and detailed in the report;
 - b) Endorse a budget virement (transfer) of £1m from underspends on existing capital schemes in support of the redevelopment of Brierfield Mill (paragraphs 12–14 refer);
 - c) Recommend to Council the approval of a supplementary capital estimate for £250,000 funded from the ICT Strategy Reserve to fund the IDOX solution (paragraphs 15-17 refer);
 - d) Approve a loan of £110,000 to Pendle Leisure Trust to fund the replacement of fitness equipment with the terms of the loan to be agreed by the Head of Central & Regeneration Services (paragraph 18 refers);
 - e) Endorse the updated Corporate Capital Strategy for 2015/18 as shown at [Appendix B](#) as the basis upon which the 2015/16 Capital Programme will be considered;
 - f) Recommend the proposed 2015/16 Capital Programme as shown in [Appendix C](#) for approval by Council;
 - g) Grant delegated authority to the Head of Central and Regeneration Services to determine the most appropriate methods of financing the capital programme for 2015/16 to ensure the use of resources is optimised by the Council;

- h) Note the indicative programmes for 2016/17 and 2017/18 as shown in Appendix C and acknowledge that these will be subject to review as part of the development of future years capital programmes;
- i) Approve the Prudential Indicators as shown in [Appendix D](#);
- j) Advise the Area Committees, when considering their capital allocations, to seek to maximise external resources, to have regard to the Council's key objectives and to only use the funding allocated for capital purposes.

REASONS FOR RECOMMENDATION

- 4. To agree adjustments to the Capital Programme for 2014/15, agree the Corporate Capital Strategy 2015/18 and the Capital Programme for 2015/16.

ISSUE

Forecast Capital Outturn 2014/15

- 5. A review of the current capital programme has been undertaken prior to the development of draft plans for next year. This is based broadly on the position that was presented to the Executive in December 2014 and is provided so that Councillors can consider the proposed 2015/16 programme in the context of existing capital expenditure commitments.
- 6. The original capital programme approved by Council in February 2014 for 2014/15 provided for expenditure of £8.041m. This comprised new capital expenditure of £1.595m combined with slippage from 2013/14 estimated at that time to be £6.446m. The final amount of slippage from 2013/14 was £9.045m as reported to the Executive in June 2014. Taking account of this and other variations in the year to-date the overall total of the capital programme for 2014/15 currently stands at £11.092m as shown in [Appendix A](#).
- 7. Actual expenditure at 31st December 2014 amounted to £3.7m (or 52% of the expected total expenditure by the year end). The projected outturn on the capital programme is expenditure of £7.2m. Comparing this with the approved programme gives rise to an underspend of £3.9m. This is summarised in Table 1 below and in more detail in [Appendix A](#).

Table 1: Capital Programme 2014/15 – Forecast Outturn

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Housing Projects	6,364	4,289	(2,075)	2,077	2
Car Parks, Flooding and Other Engineering	548	157	(391)	380	(11)
Other Miscellaneous Projects	948	807	(141)	121	(20)
Community Safety	144	10	(134)	134	-
Asset Renewal (excluding Parks)	323	137	(186)	186	-
Parks and Recreation Assets	654	327	(327)	242	(85)
Resource Procurement	536	63	(473)	473	-
Area Committees	507	352	(154)	154	-
Other Externally Funded Projects	1,069	1,012	(57)	63	6
TOTAL	11,092	7,154	(3,938)	3,829	(108)

Source: Appendix A

8. On the basis of current estimates, the majority of the underspend shown above of £3.9m will represent budget slippage and, subject to approval, will be carried forward to 2015/16. Taking this into account gives rise to a net underspend of £108k and details of the main variations are shown in [Appendix A](#).
9. Table 2 below summarises the expected available capital cash resources for 2014/15:

Table 2: Capital Programme 2014/15 – Forecast Capital Cash Resources

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
General Capital Receipts	150	434	284	-	284
Housing Capital Receipts	1,565	1,565	-	-	-
Revenue Contributions	508	508	-	-	-
Capital Grants	1,524	1,463	(61)	61	(0)
S106 Funding/Leasing	215	186	(29)	20	(9)
Sub-total (cash resources)	3,962	4,155	193	81	274
Borrowing	7,103	2,999	(4,103)	3,748	(355)
TOTAL	11,064	7,154	(3,910)	3,829	(81)

Source: Appendix A

10. The forecast outturn on general capital receipts shown above includes the proceeds from a number of property disposals due to complete in this year. These include Bank House, Colne and refurbished IFS properties at 72-80 Burnley Road, Brierfield. The projected level of receipts from disposals in the current year is estimated to exceed the budget by £0.3m.
11. Excluding general capital receipts, the table above also indicates that not all other capital cash resources are expected to be applied in 2014/15. It is estimated that the sum of £81k will be carried forward linked to potential future funding commitments which are included in the forecast slippage shown in Table 1 above. These relate to Section 106 and other grant contributions.

Request for Virement (Budget Transfer) for the redevelopment of Brierfield Mill

12. Members will be aware of discussions regarding the expansion of the Growth Deal for Lancashire. It was announced on 29th January 2015 that the Lancashire Local Enterprise Partnership has agreed an expansion to its Growth Deal with the Government which will see an extra £17.2m invested in Lancashire between 2016 and 2021. This is in addition to the £233.9m of funding committed by the Government on 7 July 2014. The expanded growth deal includes a number of proposed projects, one of which is the redevelopment of Brierfield Mill, reviving this historic building and local landmark into a new business and leisure destination.
13. The Mill redevelopment entails a mixed funding package comprising Government, Lancashire Enterprise Partnership, PEARL, Private Sector as well as the Council. To facilitate the latter it is requested that unused capital budget amounting to £1m in the current year be allocated towards this project. The unused funding arises from the Bradley scheme (where a commercial property acquisition did not proceed) and Whitefield schemes (where funding held back as contingency pending completion of various schemes in the locality can now be released).
14. Subject to approval, the information presented at [Appendix A](#) and [Appendix C](#) reflects the above virement.

15. The Council currently operates a number of software applications which utilise property related information and data. The systems include those used by Planning, Housing, Environmental Health, Waste Services, Licensing and Land Charges. Each currently operates as a stand-alone system with separate licensing and running costs albeit with a common dependency on property based information. This information is not held in one uniform database which can be shared across all applications. Each application holds its own information which, over time, has led to inconsistencies and duplicated records. A number of the systems were developed in-house prior to 2005 and there is a need to rationalise this arrangement.
16. The proposal is to replace these systems with an integrated solution called 'Uniform' developed by IDOX. This requires capital investment estimated at £250k. The software would be procured via the Council's partnership arrangement with Liberata. Liberata have developed the proposal on behalf of the Council and if this is agreed, the contract term would be 5 years during which the Council would avoid the 'one off' costs associated with upgrading the existing suite of disparate applications as well as the ongoing licensing costs of each. The estimated cost of £250k would be met fully from the ICT Strategy Reserve and the draft business plan developed for the IDOX solution indicates a payback period of 2 years.
17. Whilst there is further work to do before an agreement with IDOX can be confirmed, at this stage the Executive is asked to recommend to Council, the approval of a supplementary capital estimate of £250,000 in 2014/15. This includes provision for implementation costs including temporary staffing resource. Subject to approval, the information provided at [Appendix A](#) currently includes the expenditure and funding associated with IDOX.
18. The Executive is also asked to approve the making of a loan for £110,000 in the current year to Pendle Leisure Trust. The loan will fund the refresh of exercise equipment. Subject to approval, the terms of the loan will be agreed with the Head of Central and Regeneration Services. There have been precedents for such loans to the Trust, most recently in connection with the High Ropes course. The loan advance is reflected in [Appendix A](#).

Prudential Borrowing in 2014/15

19. Prudential Borrowing is necessary where there are insufficient capital cash resources to finance capital expenditure. Table 3 below compares the forecast capital programme with available capital cash resources and shows the amount of prudential borrowing that would be required in 2014/15 to fund the current approved programme (whether it is spent in 2014/15 or in future years).

Table 3: Prudential Borrowing 2014/15

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	11,092	7,154	(3,938)	3,829	(108)
Capital Cash Resources (Table 2)	3,962	4,155	193	81	274
Required Prudential Borrowing	7,130	2,999	(4,131)	3,748	(383)
Budgeted Prudential Borrowing	7,103	2,999	(4,103)	3,748	(355)
Amount of Unfunded Projects	28	-	(28)	-	(28)

20. The required prudential borrowing has been compared to the budgeted prudential borrowing taking into account the projected level of slippage. As shown in the table, on current projections, prudential borrowing of £3m would be required to finance expenditure in the current year. This is £355k less than expected owing to a projected underspend on capital projects combined with additional capital receipts as referred to above. This position will be kept under review for the remainder of the financial year.
21. It is proposed to carry forward £270k of this reduced borrowing to provide resources in support of the Lancashire Growth Deal. This forms a bid in the draft 2015/16 capital programme at [Appendix C](#) which is subject to Councillors' approval (please see paragraph 33(e) below for more information on this).

Corporate Capital Strategy 2015/18

22. Attached at [Appendix B](#) is an updated Corporate Capital Strategy for 2015/18 which the Executive is requested to consider and approve. The funding context for this remains one in which the availability of capital resources is significantly reduced with no indications currently that this will improve in the medium-term.
23. In view of the significant reduction in resources, underlying the Strategy is a need to focus the limited resources available on the Council's key investment priorities. As outlined in the Strategy, these are assumed to be:
- **Private Sector Housing Renewal** – this remains a priority given the condition of the housing stock within parts of Pendle. The extent to which the Council will deliver the renewal of such housing, will remain largely dependent on the existing joint venture arrangements and the receipt of external funding (e.g. New Homes Bonus);
 - **Promoting, Enabling and Providing Regeneration** – the wider regeneration of Pendle remains a key investment priority and has been driven largely by the receipt of external funding. Given the current limitations on such funding the Council continues to work innovatively via the PEARL joint venture arrangements to optimise regeneration opportunities (e.g. plans to redevelop Brierfield Mill, subject to funding);
 - **Corporate and Service Asset Renewal** – whilst work continues to rationalise and where appropriate divest council assets there is an ongoing need to maintain investment in council assets, both those used for administrative purposes as well as those used to deliver services to residents (e.g. leisure facilities) and IT. A key part of this will be to ensure adequate resources are available to maintain assets in a suitable and safe condition.
24. The remaining part of this report focuses on the estimated capital resources and proposed capital programme for the next financial year. Whilst information is also provided on the indicative capital programme for 2016/17 and 2017/18 these will be subject to separate review in later years.

Estimated Capital Resources 2015/18

25. Table 4 below provides a summary of the estimated resources for the period 2015/18.

Table 4: Estimated Capital Resources 2015/18

	2015/16 £000	2016/17 £000	2017/18 £000
Capital Receipts			
- General Capital Receipts	300	100	100
- Housing Capital Receipts	0	0	0
Revenue Contribution to Capital	600	100	100
Capital Grants	481	350	350
Other (e.g. S106)	20	0	0
Borrowing (including adjusted c/fwd commitment)	4,668	500	500
ESTIMATED RESOURCES	6,069	1,050	1,050

Source: Appendix C

26. Details of the estimated capital resources are summarised in [Appendix C](#) and comprise the following:
- General Capital Receipts** - For 2015/16 it is assumed that receipts of £300,000 will be generated through the Council's disposals programme and £100,000 per annum in subsequent years. This represents a provisional sum which will be monitored throughout the year.
 - Housing Capital Receipts** – At this stage, no 'new' receipts have been assumed as the use of such receipts is dependent primarily on the consent of the Homes and Communities Agency. HACA.
 - Right to Buy Receipts** – In view of the challenging economic climate, the assumption remains that the Council will receive no income from Housing Pendle in relation to RTB sales. Any such receipts will be treated as windfall income.
 - Revenue Contribution to Capital** – this reflects (i) the contribution from revenue reserves to fund property related health and safety works and (ii) the use of £0.5m from two specific reserves (LA Mortgage Scheme Reserve and the Strategic Developments Reserve) to fund the Council's contribution towards the redevelopment of Brierfield Mill as part of the expanded growth deal for Lancashire announced in January 2015.
 - Capital Grants** – For the purposes of developing the outline programme for 2015/16, only grant funding provided for Disabled Facilities Grants (DFGs) has been included in addition to grant resources in hand brought forward from 2014/15. In relation to DFG funding allocation, the sum of £420k has been estimated for 2015/16, being the first year under the Better Care Fund arrangements. Grant in later years is currently assumed to fall to £350k per annum.
 - Other** – £20k of S106 funding has been carried forward from 2014/15 linked to flood alleviation works in Earby.
 - Borrowing** – this comprises the estimated unused borrowing of £3.7m carried forward from 2014/15 which is matched to spending commitments brought forward, together with the £270k of unused borrowing, earmarked subject to approval, for the Lancashire Growth Deal initiative in 2015/16. In addition, the medium-term financial plan provides for £0.65m of new prudential borrowing in 2015/16 and the revenue consequences of this are included in the draft budget for next year presented elsewhere on this agenda.
27. In accordance with the requirements of the Prudential Code for Capital Investment in Local Authorities, the level of borrowing assumed in the proposed capital programme for 2015/16 is considered to be affordable, prudent and sustainable (please refer to the Prudential Indicators at [Appendix D](#)).
28. The above estimates of resources are based on information available at the time of drafting this report. If any further information becomes available which impacts on this, a verbal update will be provided at the meeting of the Executive.

The proposed Capital Programme for 2015/16

29. Table 5 below summarises the proposed capital programme for 2015/16 together with the indicative programme to 2017/18. More detail is provided in [Appendix C](#).

Table 5: Proposed Capital Programme for 2015/16

	Capital Bids 2015/16 £'000	Proposed Capital Programme 2015/16 £'000	Capital Bids 2016/17 £'000	Capital Bids 2017/18 £'000
Private Sector Housing	3,555	3,247	905	880
Asset Renewal	1,216	628	563	417
Area Committees	254	254	100	100
Other General Capital Schemes	1,502	1,425	170	170
Resource Procurement / External Funding	536	536	-	-
Total Proposed Capital Expenditure	7,064	6,089	1,738	1,567

Source: Appendix C

30. The proposed programme maintains the current focus on housing related projects aligning insofar as is possible the draft programme with capital bids in this area. The following narrative provides a summary of the proposed capital programme for 2015/16.

Private Sector Housing

31. As in the current year, the housing capital programme will focus primarily on the conclusion of residual HMR projects and reducing the number of empty homes. Projects include Whitefield, Bradley, and Empty Homes Clusters. Subject to Councillors' approval, a total, £3.25m will be spent on housing related projects. This includes proposed expenditure of £500k for Disabled Facilities Grants based on estimated external grant funding of £420k with the Council funding the balance. The list of schemes includes the redevelopment of Brierfield Mill as outlined in paragraphs 12-14 above which is now included in the expanded growth deal for Lancashire. The proposed budget of £1.5m represents the Council's estimated contribution to the project.

Asset Renewal and Parks/Recreation Services

32. Given the limited availability of new capital resources it is not possible to fund all the capital bids submitted. The value of bids submitted was £1.2m of which £628k is included in the proposed programme. Of this, £428k is project slippage carried forward from the current year. Rather than approve specific bids the programme includes the sum of £100k for works to facilities used by the Leisure Trust and £100k for health and safety related works to other assets, funded from reserves.

Other areas of proposed capital expenditure

33. Other areas of proposed capital expenditure in 2015/16 are as follows:

(a) Area Committees

Funding of £100,000 has been allocated for Area Committees in 2015/16. Further advice will be provided to Area Committees on seeking alternative sources of funding to ensure they maximise external resources when considering their detailed programmes. The Committees will also be advised to develop their programmes consistently with the Council's key objectives and priorities and the need to ensure that the resources are used only for spending of a capital rather than revenue nature.

(b) Information Technology

The bid proposed for 2015/16 is £100,000 and seeks to continue with the investment required to undertake those elements of the ICT strategy during the year.

(c) Pearl Projects

The draft programme includes provision of £300,000 to support Pearl related projects. If agreed this funding should leverage a further £699k from the joint venture partner.

(d) Waste Collection

An additional sum of £40,000 is included in the draft programme to fund the cost of new containers for domestic, commercial waste and recycling collections. Members will be aware that there is a proposal to charge a fee for replacement bins included in the revenue budget submission elsewhere on this agenda which if agreed could negate this capital bid.

(e) Provision for Lancashire Growth Deal

The Lancashire Growth Deal aims to realise the growth potential of the whole of Lancashire, building on key local economic assets including the universities and colleges, the Lancashire Advanced Engineering & Manufacturing Enterprise Zone, the Preston and South Ribble Lancashire City Deal, and the high value business clusters in Central and East Lancashire. Improving transport connectivity to release economic activity and housing potential particularly in Preston, East Lancashire, and Blackpool and the Fylde coast is a key component of this growth deal. The final details relating to the Council's participation in the growth deal and the resultant costs and benefits have yet to be confirmed. Hence, at this stage, in addition to the Brierfield Mill project outlined above, the proposed programme includes a provisional sum of £270k to support other developments such as the Burnley/Pendle growth corridor. It is estimated that this allocation could unlock additional investment in Pendle of c£1.75m.

Revenue Implications of the Capital Programme

34. Any consideration of the capital programme needs to take into account the relationship between capital investment and the revenue budget. The revenue implications that can arise from capital investment decisions may include the following:

(a) **the cost of borrowing** - this comprises two elements:

- an interest cost arising from either new cash borrowing or where we choose to redeem investments (and thereby forego interest receipts) in order to have sufficient cash to meet capital payments when they fall due;
- a principal repayment (known as the Minimum Revenue Provision or MRP) which is required to reduce the net indebtedness of the Council. Variant options exist under which the MRP liability can be calculated and the Council agrees an annual policy in this respect each year in March as part of the Treasury Management Strategy Statement. In general terms the MRP charge is aligned with the useful life of the asset for any new borrowing.

(b) **investment income foregone** – the programme relies on the generation of capital receipts which if not used to fund capital expenditure could be retained and invested and thereby earn interest to credit to the revenue account.

- (c) **revenue contribution to capital** – the General Fund revenue budget is presented elsewhere on the agenda for this meeting. The budget includes, subject to approval, a revenue contribution to capital of £600,000 funded from reserves.
- (d) **operational costs/savings** – some of the capital projects proposed in the programme may have ongoing revenue implications – these might include ongoing maintenance costs or cost reduction/avoidance for example from energy efficiency measures or regulatory compliance.

35. An assessment of the revenue implications of the proposed capital programme for 2015/16 has been undertaken and the impact reflected as appropriate in the General Fund Revenue Budget presented elsewhere on this agenda. However, should the proposed programme change it will be necessary to undertake a further assessment to establish the impact on the revenue account of any such changes.

Prudential Indicators

36. The Prudential Code for Capital Investment in Local Authorities requires various indicators to be approved by the Council; those applicable to this council are shown in [Appendix D](#). Following approval, these indicators will be monitored where required throughout the year and provide a benchmark against which actual performance will be assessed.

IMPLICATIONS

Policy

37. The development of the Council's capital programme and revenue budget is undertaken within the corporate service planning and performance management framework so as to ensure that resources are directed to those activities which help achieve the council's objectives and priorities.

Financial

38. The financial implications are as given in the report.

Legal

- 39. There are no legal implications arising directly from the contents of this report. In accordance with s32 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year. A report elsewhere on the Agenda for this meeting deals with the Council's General Fund Revenue Budget, whereas this report deals with the Capital Programme.
- 40. The Local Government Act 2003 introduced additional requirements for local authorities in respect of capital finance and accounting. Fundamental to this is the requirement to comply with the Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires local authorities to establish a range of 'prudential indicators and limits' and to monitor these on an ongoing basis. Those prudential indicators and limits that are applicable to this Council are shown at [Appendix D](#) to this report.
- 41. Other than these requirements, and those other matters referred to in the body of the report, there are no direct legal implications arising from the contents of this report.

Risk Management

42. In terms of the robustness of the estimates in the capital programme, all practical steps have been taken to identify and make provision for the Council's capital commitments in the proposed programme for 2015/16 within the level of resources available. Councillors will appreciate that there may be additional projects identified during the year for which there is currently no provision within the proposed capital programme. In the event that any such projects come forward, and there are no additional capital resources available, there will be a need to consider how they can be funded from within the existing capital resources envelope. Invariably, this might mean schemes approved as part of the proposed programme being either delayed or not progressed at all.
43. The development of the capital programme is a complex task and is based on estimates of future income and expenditure. Councillors will appreciate that these estimates are made on the basis of the best information known when undertaking the work. It is necessary, for example, to make assumptions about the disposal of assets during the year to determine the level of capital receipts that might be available; this is a key area of risk for the Council given the extent to which receipts are required to fund the programme. Similarly, assumptions have to be made about the timing and availability of external funding.
44. Whilst every effort is made to ensure these estimates are robust, Councillors should be aware there is a risk that both internal and external factors may have an impact on the delivery of the capital programme. To minimise and control the impact of this, the Council has in place various mechanisms including for example, financial and contract procedure rules, budgetary control and monitoring arrangements, particularly through the Executive.
45. The Capital Programme for 2015/16 includes a range of proposals for capital investment. These proposals have been identified through the Council's Service and Financial Planning process and represent areas of investment that are necessary to contribute to the achievement of the Council's strategic objectives. The risk of not approving any, or all, of the service development proposals is that the Council may not be able to fulfil these requirements with a resulting impact on service delivery, customer expectations and achievement of national targets where applicable. In relation to the potential risks faced by the Council, there needs to be a balance between maintaining and improving service delivery and the sustainability of the financial standing of the Council.
46. The capital bids above are significantly in excess of the Council's present resources and it is important, therefore, that these are critically reviewed and prioritised to ensure the Council's limited resources are applied most effectively. There is the risk, however, that not all policy objectives of the Council that require capital investment can be pursued.

Health and Safety:

47. There are no health and safety issues arising directly from the contents of this report.

Climate Change:

48. There are no climate change issues arising directly from the contents of this report.

Community Safety:

49. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity:

50. There are no new equality and diversity issues arising directly from the contents of this report.

APPENDICES

Appendix A – Capital Programme 2014/15 – Projected outturn

Appendix B – Corporate Capital Strategy 2015/18

Appendix C – Proposed Capital Programme 2015/16 (with indicative programmes for 2016/17 and 2017/18)

Appendix D – Prudential Indicators 2015/18

LIST OF BACKGROUND PAPERS

Background papers in relation to the capital programme are held in Financial Services (Accountancy).