REPORT OF:	**MANAGEMENT TEAM**
TO:	**SPECIAL BUDGET EXECUTIVE**
DATES:	**9th FEBRUARY 2016**

Report Author:	Vince Green
Tel. No:	01282 661867
E-mail:	vince.green@pendle.gov.uk

CAPITAL PROGRAMME 2016/19

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to the proposed capital programme for 2016/17. The report also provides details of the Medium-Term Capital Programme for the period 2016/19.

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 2015/16 as shown at **Appendix A** and detailed in the report;

   b) Recommend the proposed 2016/17 Capital Programme as shown in **Appendix B** for approval by Council;

   c) Grant delegated authority to the Financial Services Manager to determine the most appropriate methods of financing the capital programme for 2016/17 to ensure the use of resources is optimised by the Council;

   d) Note the indicative programmes for 2017/18 and 2018/19 as shown in Appendix B and acknowledge that these will be subject to review as part of the development of future years capital programmes;

   e) Approve the Prudential Indicators as shown in **Appendix C**;

   f) 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.

REASON FOR RECOMMENDATION

4. To approve the revised Capital Programme for 2015/16 and the Capital Programme for 2016/17.

ISSUE

5. This report provides details of the likely capital resources available in 2016/17 and capital bids for 2016/17 as submitted by Services. In view of the estimate of available capital resources for the year, a proposed Capital Programme for 2016/17 has been put forward for consideration by the Executive in advance of Council on 18th February 2016.

Forecast Capital Outturn 2015/16

6. 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 2015 and is provided so that Councillors can consider the proposed 2016/17 programme in the context of existing capital expenditure commitments.

7. Table 1 below provides a summary of the Capital Programme for 2015/16 with a more detailed analysis provided at **Appendix A**. Actual expenditure at 31st December 2015 amounted to £1.47m (48% of the expected total expenditure by the year end). The projected expenditure at year end is £3.06m. Comparing this with the approved programme of £9.795m gives rise to an underspend of £6.74m. This is summarised in Table 1 below and in more detail in **Appendix A**.

Table 1: Capital Programme 2015/16 – Forecast Outturn

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Housing Projects	5,779	1,382	(4,396)	4,331	(65)
Car Parks, Flooding and Other Engineering	75	39	(36)	35	(1)
Other Miscellaneous Projects	1,227	938	(290)	297	7
Community Safety	136	6	(129)	129	-
Asset Renewal (excluding Parks)	734	206	(528)	487	(41)
Parks and Recreation Assets	84	63	(21)	18	(3)
Resource Procurement	1,137	70	(1,067)	1,067	-
Area Committees	445	237	(208)	208	-
Other Externally Funded Projects	179	116	(63)	61	(2)
TOTAL	**9,795**	**3,057**	**(6,738)**	**6,634**	**(104)**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be an underspend of £6.74m in the current year. This represents delayed expenditure rather than genuine underspends such that all bar £104k of this balance is now expected to be incurred during 2016/17 and as such will be carried forward as slippage. A full analysis of the variations – before and after forecast slippage – is provided at ***Appendix A***. The most significant slippage is on the Housing capital programme with slippage of £4.3m projected. The main items of slippage being budgets earmarked for Brierfield Mill, the Brownfield Regeneration Fund, Empty Home Loans and Social Housing schemes. The Executive has received updates on these schemes during the year. On non-housing schemes the most significant element of slippage relates to

Resource Procurement schemes with slippage of £1.1m linked mainly to the Lancashire Growth Deal and the Council's partnership contribution to Pearl, linked to Brierfield Mill.

9. Table 2 below summarises the expected available capital cash resources for 2015/16:

Table 2: Capital Programme 2015/16 – Forecast Capital Cash Resources

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
General Capital Receipts	300	300	-	-	-
Housing Capital Receipts	-	-	-	-	-
Revenue Contributions	695	695	-	-	-
Capital Grants	700	673	(26)	61	35
S106 Funding/Leasing	118	118	-	-	-
Sub-total (cash resources)	**1,812**	**1,786**	**(26)**	**61**	**35**
Borrowing	7,962	1,270	(6,692)	6,573	(119)
TOTAL	**9,775**	**3,057**	**(6,718)**	**6,634**	**(84)**

Source: Appendix A

10. The table above also indicates that not all other capital cash resources are expected to be applied in 2015/16. It is estimated that the sum of £61k will be carried forward linked to potential future funding commitments which are included in the forecast slippage shown in Table 1 above.

Prudential Borrowing in 2015/16

11. 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 2015/16 to fund the current approved programme (whether it is spent in 2015/16 or in future years).

12. The required prudential borrowing has been compared to the budgeted prudential borrowing taking into account the projected level of slippage. As the table indicates, the amount of prudential borrowing in the current year is expected to be c£6.7m less than budgeted owing to delays in capital spending. Of this, an amount of £6.57m will be carried forward to next year to finance project slippage.

Table 3: Prudential Borrowing 2015/16

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	9,795	3,057	(6,738)	6,634	(104)
Capital Cash Resources (Table 2)	1,812	1,786	(26)	61	35
Required Prudential Borrowing	**7,982**	**1,270**	**(6,712)**	**6,573**	**(139)**
Budgeted Prudential Borrowing	7,962	1,270	(6,692)	6,573	(119)
Amount of Unfunded Projects	**20**	**-**	**(20)**	**-**	**(20)**

13. 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 £1.27m would be required to finance expenditure in the

current year. Net of slippage, this is £119k less than expected owing to a projected underspend on capital projects combined with the additional capital cash resources outlined above. This position will be kept under review for the remainder of the financial year.

Corporate Capital Strategy 2016/19

14. The Council's capital investment priorities will be driven by the strategic objectives combined with a need to maintain assets for service delivery. Any capital investment undertaken by the Council must be affordable, prudent and sustainable. In recognition of this, it is assumed that the key capital investment priorities for the Council will continue to be:-

- ***Private Sector Housing Renewal*** – This remains a priority for the Council given the condition of the housing stock within some areas of Pendle and the ongoing focus on reducing the number of empty homes in the Borough. However, the extent to which the Council has the financial capacity to deliver the renewal of private sector housing will largely depend on the receipt of external funding from the Government or related Agencies such as the Homes and Community Agency (HACA);

- ***Promoting, Enabling and Providing Regeneration*** – The wider regeneration of Pendle is a key capital investment priority for the Council. In previous years this has largely been driven by the external funding provided to the Council. More recently, given the continuing constraints on external funding, the Council has used its joint venture arrangement with Barnfield Investment Properties – PEARL and PEARL2 and more recently PEARL (Brierfield Mill) – as key vehicles for regeneration activity. This will continue to be the case where it remains viable to do so;

- ***Corporate and Service Asset Renewal*** – Where resources permit we will continue investing in our own assets, primarily those employed in the delivery of services direct to the residents, e.g. parks and recreational facilities but also those that are used for administrative purposes. A key part of this is to provide adequate resources to ensure assets are safe to use and occupy.

Capital Resources Strategy

15. Councillor's will be aware that the ongoing position is one in which the forecast level of capital resources available remains much less than has been the case in previous years. There is little expected grant funding other than that which may be awarded to the Council for Disabled Facilities Grants (DFG).

16. As a result of significant and ongoing reductions in revenue grant funding from Central Government there is no scope for the Council to increase the revenue contributions it makes to support the capital programme without additional compensating savings being identified. The constraints on the revenue budget, as highlighted in the Medium-term Financial Plan, also mean it is not sustainable for the Council to rely on new borrowing to fund capital expenditure, as the ongoing financing costs (interest and principal repayments) fall on the revenue budget and will simply increase the required savings required each year to balance the budget.

17. One source of income generation which the Council can determine is that arising from a programme of disposals of council land and property assets. Whilst the Council agreed the disposal of the following 4 strategic development sites in June 2013 none have thus far been sold and other than the Clitheroe Road site no account has been taken of any potential capital receipts at this stage in developing the medium-term capital programme:

    - Land at Clitheroe Road, Brierfield (progressing – sale expected 2016/17)
    - Land at end of Trent Road, Nelson (not considered viable)
    - Land at Further Clough Head, Nelson (public consultation undertaken in late 2015)
    - Land at Great House Farm, Red Lane, Colne (not currently being progressed)

18. Subject to Councillors' approval, any receipts arising from these disposals could be used to support future capital investment.

Estimated Capital Resources 2016/19

19. Table 4 below provides a summary of the estimated resources for the period 2016/19.

Table 4: Estimated Capital Resources 2016/19

	2016/17 £000	2017/18 £000	2018/19 £000
Capital Receipts			
- General Capital Receipts	300	100	100
- Housing Capital Receipts	0	0	0
Revenue Contribution to Capital	100	100	100
Capital Grants	431	350	320
Other (e.g. S106)	0	0	0
Borrowing (including adjusted c/fwd commitment)	7,117	500	500
ESTIMATED RESOURCES	**7,948**	**1,050**	**1,020**

Source: Appendix B

20. Details of the estimated capital resources are summarised in **Appendix B** and comprise the following:

a) ***General Capital Receipts*** - For 2016/17 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.

b) ***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.

c) ***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.

d) ***Revenue Contribution to Capital*** – this reflects the contribution from revenue reserves to fund property related health and safety works.

e) ***Capital Grants*** – For the purposes of developing the outline programme for 2016/17, only grant funding provided for Disabled Facilities Grants (DFGs) has been included in addition to grant resources in hand brought forward from 2015/16. In relation to DFG funding allocation, the sum of £370k has been estimated for 2016/17 pending confirmation of the Council's funding allocation under the Better Care Fund arrangements.

f) ***Borrowing*** – this comprises the estimated unused borrowing of £6.573m carried forward from 2015/16 which is matched to spending commitments brought forward. In addition, the medium-term financial plan provides for £0.5m of new prudential borrowing in 2016/17 and the revenue consequences of this are included in the draft budget for next year presented elsewhere on this agenda.

21. 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 2016/17 is considered to be affordable, prudent and sustainable (please refer to the Prudential Indicators at **Appendix C**).

22. 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 2016/17

23. Table 5 below summarises the proposed capital programme for 2016/17 together with the indicative programme to 2018/19. More detail is provided in **Appendix B**.

Table 5: Proposed Capital Programme for 2016/17

	Capital Bids 2016/17 £'000	Proposed Capital Programme 2016/17 £'000	*Capital Bids 2017/18 £'000*	*Capital Bids 2018/19 £'000*
Private Sector Housing	5,317	4,941	905	885
Asset Renewal	1,009	742	440	344
Area Committees	358	308	150	150
Other General Capital Schemes	830	830	115	115
Resource Procurement / External Funding	1,128	1,128	-	-
Total Proposed Capital Expenditure	**8,641**	**7,948**	**1,610**	**1,494**

Source: Appendix B

24. 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 2016/17.

Private Sector Housing

25. As in the current year, the housing capital programme will focus primarily on Brierfield Mill, Empty Home Loans and the Brownfield Regeneration Fund. Subject to Councillors' approval, a total, £4.94m will be spent on housing related projects. This includes proposed expenditure of £400k for Disabled Facilities Grants (excluding fees) based on estimated external grant funding of £370k with the Council funding the balance.

Asset Renewal and Parks/Recreation Services

26. 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 £1m of which £742k is included in the proposed programme. Of this, £506k 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

27. Other areas of proposed capital expenditure in 2016/17 are as follows:

(a) Area Committees

Funding of £100,000 has been allocated for Area Committees in 2016/17. 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 2016/17 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 £200,000 to support Pearl related projects. If agreed this funding should leverage a further £467k from the joint venture partner.

(d) Waste Collection

An additional sum of £48,000 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 part of this capital bid.

Revenue Implications of the Capital Programme

28. 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 <u>interest cost</u> 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 <u>principal</u> 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 £100,000 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.

29. An assessment of the revenue implications of the proposed capital programme for 2016/17 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

30. 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 C**. 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

31. 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

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

Legal

33. 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.

34. 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 C** to this report.

35. 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

36. 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 2016/17 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.

37. 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.

38. 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.

39. The Capital Programme for 2016/17 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.

40. The capital bids above exceed 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:

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

Climate Change:

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

Community Safety:

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

Equality and Diversity:

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

APPENDICES

Appendix A – Capital Programme 2015/16 – Projected outturn
Appendix B – Proposed Capital Programme 2016/17 (with indicative programmes for 2017/18 and 2018/19)
Appendix C – Prudential Indicators 2016/19

LIST OF BACKGROUND PAPERS

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