Borough of Pendle

REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
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DEVELOPING THE MEDIUM TERM CAPITAL PROGRAMME 2017/20

PURPOSE OF REPORT

1. The purpose of this report is to provide the Executive with an update on the capital programme in the current year and the initial capital programme for 2017/20 and outline the prospects for future capital investment.

RECOMMENDATIONS

2. The Executive is recommended to:

   a) note the projected position on the capital programme for 2016/17 as shown in **Appendix A**;

   b) approve a virement in the sum of £35,000 within the capital programme for the current financial year for the purposes outlined in paragraph 9 of this report;

   c) subject to (d) below, approve a loan in 2016/17 to Pendle Leisure Trust estimated at £1.1m and provide delegated authority to the Financial Services Manager to finalise the loan and related terms (paragraph 11 refers);

   d) recommend to Council that a supplementary capital estimate of £1.1m be approved in 2016/17 to cover the above loan advance to Pendle Leisure Trust funded by borrowing;

   e) note that capital expenditure bids for 2017/18 exceed projected capital resources by £0.7m and are, therefore, unaffordable in the context of the Council's Medium Term Financial Plan;

   f) consider the draft Capital Programme for 2017/18 shown at **Appendix B** pending a further report on this matter to the meeting of the Executive in February 2017;

   g) note the intention to submit a strategy for the flexible use of capital receipts in the February cycle of meetings to enable the Council to benefit from this flexibility in 2017/18.

REASONS FOR RECOMMENDATION

3. To consider the development of the Council's Capital Programme for 2017/20.

ISSUE

4. This report provides details of the likely capital resources available in 2017/18 and capital bids for the year as submitted by services. In view of the estimate of available capital resources for the year, a draft capital programme for 2017/18 has been put forward for consideration by the Executive.

5. A further report on the Council's medium-term capital programme for 2017/18 and an updated capital strategy will be prepared for the February cycle of meetings.

Capital Programme 2016/17

6. A review of the current years 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 November 2016 as part of the Strategic Monitoring Report and is provided so that Councillors can consider the proposed programme for next year in the context of existing capital expenditure commitments.

Forecast Capital Expenditure 2016/17

7. Table 1 below provides a summary of the Capital Programme for 2016/17 with a more detailed analysis provided at ***Appendix A***.

Table 1: Capital Programme 2016/17 – Forecast Outturn

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Housing Projects	4,323	2,004	(2,319)	2,319	-
Car Parks, Flooding and Other Engineering	77	77	-	-	-
Waste Collection Service	49	49	-	-	-
Community Safety	129	129	-	-	-
Asset Renewal (excluding Parks)	1,300	1,063	(237)	237	-
Parks and Recreation Assets	78	78	-	-	-
Resource Procurement / Ext funded projects	2,959	675	(2,284)	2,223	(61)
Area Committees	373	272	(101)	101	-
Other Miscellaneous Projects	2,992	614	(2,378)	2,378	-
TOTAL	**12,280**	**4,960**	**(7,320)**	**7,259**	**(61)**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be an underspend of £7.3m in the current year. However, this represents delayed expenditure rather than genuine underspends such that all bar £61k of this balance is expected to be incurred during 2017/18 and hence 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 (£2.3m), the ACE Centre leasehold acquisition (£2.3m included under Other Miscellaneous Projects in table above) and within Resource Procurement (£2.2m). The main elements represented by budgets for Brierfield Mill, the Brownfield Redevelopment Fund and contributions to Pearl / Social Housing schemes. The Executive has received updates on each of these schemes during the year. The acquisition of parts of the ACE Centre (as agreed by Council in October) is not scheduled to complete until early April 2017.

9. The original capital programme included a residual sum of £35,000 in respect of a loan to Pendle Leisure Trust to fund replacement equipment. As the Trust procured and financed the equipment by other means this budget allocation is no longer required. The revised programme at ***Appendix A*** reflects the virement (transfer) of this budget to the Spa reinstatement project at Pendle Wavelengths to help meet costs falling on the council from following the fire. Whilst our insurer is funding the majority of the project, certain elements of work had to be redesigned as part of the spa reinstatement with the costs falling on the Council. The Executive is asked to endorse this budget transfer.

10. Another matter highlighted for the Executive is the grant of a loan to Pendle Leisure Trust for the Trust to settle outstanding lease rental obligations. Currently, the Trust has an obligation to pay lease rentals in the sum of c£1.1m relating to the Wavelengths extension (including the Spa). Under this arrangement the Council acts as guarantor in the event that the Trust defaults on repayment. This lease arrangement expires in July 2022. Following the fire in August 2015 the Spa has been totally renewed which provides an opportunity to refinance the outstanding rentals. This generates revenue savings over the medium-term albeit extending the repayment period to align with the remaining term of the Trust's lease of council the facilities, i.e. until October 2028.

11. What is being proposed is that the Council borrows from the Public Works Loan Board and advances the proceeds by way of loan to Pendle Leisure Trust. The Trust would then settle the outstanding rentals in full and repay the loan to the Council over a 12 year term. Dependent on confirmation of the final settlement figure and PWLB loan rate it is estimated that by doing this the Trust could reduce the annual management fee required from the Council by c£110k as follows:

Current Position	£'000
Lease rentals – annual value of repayments (subject to VAT)	190
Lease rentals – irrecoverable VAT on repayments	17
Current annual cost to the Trust	207
Proposed Loan Arrangement	
Annual Loan repayment by the Trust (annuity)	100
Net annual saving (Yrs 1-6)	107

Whilst the repayments extend over a longer term than the current lease rentals the arrangement as proposed produces a positive net present value. The loan repayments (the principal element) by the Trust will constitute capital receipts to the Council and the intention is to set these aside to provide for the repayment of the PWLB loan by the Council.

Forecast Capital Resources 2016/17

12. Table 2 below summarises the expected available capital cash resources for 2016/17.

Table 2: Capital Programme 2016/17 – Forecast Capital Cash Resources

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
General Capital Receipts	300	300	-	-	-
Revenue Contributions	122	122	-	-	-
Capital Grants	1,530	1,241	(289)	228	(61)
S106 Funding/Leasing	147	64	(83)	83	-
Sub-total (cash resources)	**2,098**	**1,726**	**(372)**	**311**	**(61)**
Borrowing	10,182	3,234	(6,948)	6,948	-
TOTAL	**12,280**	**4,960**	**(7,320)**	**7,259**	**(61)**

Source: Appendix A

13. The net variance shown above of £61k matches the equivalent underspend on expenditure in table 1 and relates to a heritage lottery funded project for the redevelopment of Spring Cottage in Nelson which has ended.

Prudential Borrowing in 2016/17

14. 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 is required in 2016/17 to fund the current approved programme (whether it is spent in this year or in later years).

15. 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 £6.95m less than budgeted owing to delays in capital spending. This will be carried forward to the following year to finance project slippage.

Table 3: Prudential Borrowing 2016/17

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	12,280	4,960	(7,320)	7,259	(61)
Capital Cash Resources (Table 2)	2,098	1,726	(372)	311	(61)
Required Prudential Borrowing	**10,182**	**3,234**	**(6,948)**	**6,948**	**(0)**
Budgeted Prudential Borrowing	10,182	3,234	(6,948)	6,948	-
Amount of Unfunded Projects	**-**	**-**	**-**	**-**	**(0)**

Capital Strategy 2016/17

16. The latest Capital Strategy for 2016/19 was approved by Council In February 2016 as part of the approval process for current year's capital programme. The Capital Strategy is maintained under ongoing review in response to the significant reduction in capital resources experienced in recent years. An updated strategy will be submitted to the Executive and Council in the February cycle of meetings covering the period 2017-2020. This will include the strategy for the flexible use of capital receipts to help fund transformation projects that deliver ongoing revenue savings. This flexibility was announced as part of the local government finance settlement for the current year and was reported on separately to the Executive earlier this year.

Capital Investment Strategy

17. 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 expected that the key capital investment priorities for the Council will 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.

- ***Invest to save / transformation projects*** – the Council will consider using its prudential borrowing powers to undertake projects which generate revenue savings. Recent examples of this include the recently approved acquisition of parts of the ACE Centre in Nelson and the proposed acquisition of No.1 Market Street, Nelson (subject to approval by Council in December). In addition there is now some scope to use capital receipts flexibly to fund expenditure on transformation type projects where they also deliver revenue savings.

Capital Resources Strategy

18. 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 awarded to the Council for Disabled Facilities Grants (DFG) as part of the Better Care Fund framework.

19. As a result of the significant and ongoing reductions in core revenue grant funding 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. Likewise, the constraints on the revenue budget, as highlighted in the Medium-term Financial Plan, also mean it is unsustainable for the Council to rely on continual new borrowing to fund capital expenditure unless it generates ongoing revenue savings.

20. 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 (dropped as not considered viable)
    - Land at Further Clough Head, Nelson
    - Land at Great House Farm, Red Lane, Colne (terms of disposal for housing agreed subject to planning approval)

21. Subject to Councillors' approval, any receipts arising from these disposals could be used to support future capital investment or applied in accordance with the new flexibility referred to above to generate revenue savings. For example the land disposal at Red Lane, Colne could generate a maximum gross capital receipt of £1.26m.

Overview of Capital Resources 2017/18

22. Table 4 below summarises the estimate of available capital resources for 2017/18 (with 2018/19 and 2019/20 shown for information):

Table 4: Estimated Capital Resources 2017/18 (2018/19 and 2019/20)

	2017/18 £000	2018/19 £000	2019/20 £000
Capital Receipts			
- General Capital Receipts	200	100	100
- Housing Capital Receipts	0	0	0
Revenue Contribution to Capital	100	0	0
Capital Grant (in year) – DFG's only	700	600	500
ESTIMATED RESOURCES	**1,000**	**700**	**600**

Source: Appendix B

23. At this stage, Table 4 above does not include any amount for borrowing and the scope for this is discussed in more detail below. Points to note about capital resources include:

a. ***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 HACA;

b. ***General Capital Receipts*** - for 2017/18, it is currently assumed that receipts of £200,000 will be generated through the Council's ongoing disposals programme. This represents a provisional sum which will be monitored throughout the year; At this stage no account has been taken of any receipts from the disposal of strategic sites given the conditionality on planning or other factors;

c. ***Revenue Contribution to Capital*** – this reflects a £100k contribution from revenue reserves to fund general property capital works; the reserve is fully used after this contribution in 17/18;

d. ***Capital Grants*** – for the purposes of developing the draft programme for 2017/18 the only grant funding included at this stage is that relating to Disabled Facilities Grants. The sum of £700k is currently assumed from the Better Care Fund. This grant is expected to decrease annually thereafter.

Bids for Capital Expenditure 2017/18

24. The bids (including forecast slippage carried forward from 2016/17) for capital expenditure are shown in detail at Appendix B and summarised in Table 5 below along with bids for the following two financial years:-

Table 5: Capital Bids 2017/18

	Capital Bids 2017/18 £'000	*Capital Bids 2018/19 £'000*	*Capital Bids 2019/20 £'000*
Private Sector Housing	4,700	935	900
Asset Renewal	850	180	132
Area Committees	201	100	100
Other General Capital Schemes	2,723	323	323
Resource Procurement / External Funding	862	-	-
Total Proposed Capital Expenditure	**9,336**	**1,538**	**1,455**

Source: Appendix B

Affordability of the Proposed Capital Bids 2017/18

25. Table 6 below provides a comparison of the total of capital bids to available resources. At this stage, the table below assumes no new prudential borrowing and shows capital bids exceeding capital resources by approximately £1.1m in 2017/18 (£0.8m in 2018/19 and £0.9m in 2019/20).

Table 6: Capital Bids (including slippage) compared to Capital Resources

	2017/18 £000	*2018/19 £000*	*2019/20 £000*
Capital Bids (Table 5)	9,336	1,538	1,455
Less Capital Resources (Table 4)	(1,000)	(700)	(600)
Less resources carried forward from 2016/17	(7,259)	-	-
Resource Shortfall	**1,077**	**838**	**855**

26. An important consideration in assessing the affordability of our future capital investment plans is the cost to the General Fund Revenue Budget. As indicated in previous reports, the cost of borrowing for capital investment comprises two elements:-

- an interest cost arising from either new cash borrowing or where we choose to redeem investments (i.e. interest foregone) in order to have sufficient cash to meet capital payments when they are due;
- a principal repayment (otherwise known as the Minimum Revenue Provision (MRP)) required to reduce the net indebtedness of the Council.

27. These costs are direct charges to our General Fund Revenue Budget. In addition to the committed borrowing of £6.95m carried forward from the current year, the Medium Term Financial Plan assumes new borrowing of £0.4m in 2017/18 and the two years thereafter. The estimate of debt charges to 2019/20 on the basis of current assumptions is provided in Table 7 below:-

Table 7: Estimated Debt Charges

	Forecast 2017/18 £000	**Forecast 2018/19 £000**	**Forecast 2019/20 £000**
Minimum Revenue Provision	493	548	699
Estimated Interest Costs	695	793	842
Total Estimated Debt Charges	**1,188**	**1,341**	**1,541**

28. This position represents the ongoing cost of our present capital programme and commitments along with the additional borrowing set out above.

29. Table 6 above highlights a gross additional borrowing ‘need’ of £1.1m to fund all bids in 2017/18. This is £0.7m higher than currently assumed in the Medium Term Financial Plan. If this additional borrowing was undertaken the costs falling on the General Fund would increase by an estimated £56k per annum. In view of the financial position facing the Council in 2017/18 as presented in a report elsewhere on this Agenda, this is not considered affordable, sustainable or prudent. Indeed, subject to Councillors discussions on the General Fund Revenue Budget for next year, consideration may need to be given to the affordability of the borrowing currently assumed in 2017/18 and future years.

30. In view of the financial challenge faced by the Council it is questionable whether the Council can afford any ‘new’ borrowing unless it generates revenue savings. Equally, the extent of committed borrowing carried forward from 2016/17 needs to be critically reviewed to determine whether any of this can be avoided so as to reduce borrowing costs going forward. The Council is faced with finding significant savings on its revenue budget and reducing capital financing costs would make a contribution to this.

31. Removing the scope for any new borrowing would leave the Council reliant on capital receipts, grants and contributions as the only funding sources with which to sustain any capital expenditure. In the local government finance settlement for the current year the Secretary of State announced that local authorities would be allowed to use capital receipts to fund the revenue costs of reform projects. Subject to the Council approving a strategy for this change it could see capital resources being diverted towards revenue to alleviate budget pressures and help move the Council to a lower cost base.

32. More work needs to be done on these matters and the intention is to complete this and submit a further report in February when the Executive and Council will be asked to consider and approve the final budgets for 2017/18.

Draft Capital Programme 2017/18

33. Subject to the above comments, there is a need to critically review the capital bids for next year to determine a package of bids that is affordable. To this end, a draft Capital Programme for 2017/18 is provided at Appendix B and summarised in Table 8 below for consideration by the Executive.

Table 8: Proposed Capital Programme

	Capital Bids 2017/18 £'000	*Draft Programme 2017/18 £'000*	*Variance 2017/18 £'000*
Private Sector Housing	4,700	4,480	(220)
Asset Renewal	850	497	(353)
Area Committees	201	191	(10)
Other General Capital Schemes	2,723	2,634	(89)
Resource Procurement / External Funding	862	862	-
Total Proposed Capital Expenditure	**9,336**	**8,665**	**(672)**
Less Estimated Resources	(1,000)	(1,000)	-
Less Resources b/fwd	(7,259)	(7,259)	-
New Amount of Prudential Borrowing	**1,078**	**406**	**(672)**

Source: Appendix B

34. As Table 8 shows, to fully deliver the draft Capital Programme in 2017/18 would require prudential borrowing of c£1.1m which exceeds the current assumption on borrowing in the Council's General Fund Revenue Budget by £0.7m (i.e. expenditure would be over-programmed by this amount if the draft programme as set out in Table 8 was adopted).

Timetable and Next Steps

35. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2017/18:

Table 9: Capital Programme - Timetable

Date	Action	Status
early October	Pro-Forma (with guidance notes) issued to Service Managers	Completed
21st October	Return of Pro-Formas from Service Managers	Completed
8th December	Executive to consider Capital Programme Roll-Forward	This report
January 2017	Mgmt Team Consideration of detailed Capital Programme 2017/18	
8th February	Executive approval of Capital Programme 2017/18	
February (tbc)	Special Budget Council including Capital Programme 2017/18	

IMPLICATIONS

Policy

36. The Council's Capital Programme supports the delivery of services in pursuance of the Council's Strategic Objectives. In view of the position set out in the report, work will need to be undertaken to prioritise capital bids according to the Council's policy objectives. Underpinning this work will be a need to review and update the Council's Corporate Capital Strategy and the Asset Management Plan to ensure that resources are appropriately prioritised.

Financial

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

Legal

38. There are no legal implications arising directly from the contents of this report.

Risk Management

39. 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 outlined in this report 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 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 2016/17 – Projected Outturn
Appendix B – Capital Bids and draft Capital Programme 2017/20

LIST OF BACKGROUND PAPERS

None