REPORT OF:	**MANAGEMENT TEAM**
TO:	**COUNCIL**
DATES:	**23rd FEBRUARY 2017**

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

CAPITAL PROGRAMME & STRATEGY 2017/20

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to the proposed capital programme for 2017/18. The report also provides details of the Medium-Term Capital Programme for the period 2017/20.

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. Council is recommended to:-

   a) note the forecast outturn position on the Council's capital programme for 2016/17 as shown at **Appendix A** and detailed in the report;

   b) approve the proposed capital programme for 2017/18 as shown in **Appendix B;**

   c) grant delegated authority to the Financial Services Manager to determine the most appropriate method of financing the capital programme for 2017/18 to ensure the use of resources is optimised by the Council;

   d) note the indicative programmes for 2018/19 and 2019/20 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.

REASONS FOR RECOMMENDATION

4. To receive an updated position on the revised capital programme for 2016/17 and seek approval to the proposed capital programme for 2017/18.

ISSUE

5. This report provides details of the likely capital resources available in 2017/18 and compares these to the capital bids for the year as submitted by services. In view of the excess of bids over resources a proposed capital programme for 2017/18 has been developed for consideration by the Executive prior to Council on the 23rd February.

Forecast Capital Outturn 2017/18

6. A review of the current capital programme has been undertaken prior to the development of the draft programme for next year. This is based broadly on the position that was presented to the Executive in December and is provided so that Councillors can consider the proposed 2017/18 programme in the context of existing capital expenditure commitments.

7. Table 1 below provides a summary of the Capital Programme for 2016/17 with a more detailed analysis provided at **Appendix A**. Actual expenditure at 31st December 2016 amounted to £2.29m (39% of the expected total expenditure by the year end). The projected expenditure at year end is £5.96m. Comparing this with the approved programme of £13.4m gives rise to an underspend of £7.42m. This is summarised in Table 1 below and in more detail in **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)	2,400	2,059	(341)	341	-
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	**13,380**	**5,956**	**(7,424)**	**7,363**	**(61)**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be an underspend of £7.42m in the current year. This represents delayed expenditure rather than genuine underspends such that all bar £61k of this balance is now expected to be incurred during 2017/18 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**.

9. The most significant items of slippage are 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). Specific schemes include the 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 last October) is not due for completion until early April 2017.

10. 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	11,282	4,230	(7,052)	7,052	-
TOTAL	**13,380**	**5,956**	**(7,424)**	**7,363**	**(61)**

Source: Appendix A

11. As reported in December, 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

12. 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 2016/17 to fund the current approved programme (whether it is spent in 2016/17 or in future years).

13. 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 required in the current year on present projections is some £7m less than budgeted owing to delays in capital spending. Subject to confirmation at year end this will be carried forward in full to next year to finance the related slippage on approved schemes. This position will be kept under review for the remainder of the financial year.

Table 3: Prudential Borrowing 2016/17

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	13,380	5,956	(7,424)	7,363	(61)
Capital Cash Resources (Table 2)	2,098	1,726	(372)	311	(61)
Required Prudential Borrowing	**11,282**	**4,230**	**(7,052)**	**7,052**	**(0)**
Budgeted Prudential Borrowing	11,282	4,230	(7,052)	7,052	-
Amount of Unfunded Projects	**-**	**-**	**-**	**-**	**(0)**

14. The revised budget shown above for prudential borrowing includes that agreed in support of the ACE Centre (part acquisition) and the loan of £1.1m to Pendle Leisure Trust. It does not include the recently agreed acquisition of Number One Market Street as this forms part of the 2017/18 programme as agreed by Council in December.

Corporate Capital Strategy 2017/20

15. It is intended to present an updated capital strategy covering the period 2017-2020 to the Executive and Council in March. This will includes a draft strategy for the flexible use of

capital receipts over the period 2017-2020. This flexibility was announced as part of the local government finance settlement for the current year and applies to capital receipts arising from the disposal of property, plant and equipment.

16. This flexibility applies only to new capital receipts in the financial years 2016/17 to 2018/19 and not to any receipts held in hand prior to this period. DCLG issued statutory guidance on the flexible use of capital receipts in March 2016. This stated that the flexibility could be used to fund the costs of transformation of services that "generates ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners".

17. Initial information on the flexible use of capital receipts was reported to the Executive in May last year. The report included an appendix which set out examples of qualifying expenditure. For background information the report can be viewed **here** (item 6 refers). The view of DCLG is that individual authorities are best placed to decide which projects can use the flexibility provided. However, councils should have regard to relevant professional guidance, including the Prudential Code for Capital Finance in Local Authorities; The Code of Practice on Local Authority Accounting; and the Treasury Management Code of Practice. It is also important that councils demonstrate the highest standards of accountability and transparency in using this flexibility.

18. The guidance suggests that an authority should have a Flexible use of Capital Receipts Strategy, but this does not have to be a separate document and could be part of the annual budget documents. It is a requirement that the strategy be approved by the full Council and it is intended to submit the strategy in the March cycle of meetings.

19. It is recommended that the strategy is prepared in advance of the year in which the flexibility will be used, although failure to have this strategy does not mean that the flexibility is not accessible. Where the flexibility is used, but no strategy has been developed, it should be prepared and presented to a full council at the earliest opportunity.

20. The Council's capital investment priorities will continue to be determined 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 considered that key capital investment priorities for the Council will consist of:-

    - ***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. 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;

- ***Enabling economic growth*** – to support the growth of business and employment opportunities within the borough. A key priority is to bring forward the extension of Lomeshaye Industrial Estate as a strategic employment site in partnership with the Lancashire Enterprise Partnership and the County Council;

- ***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 acquisition of No.1 Market Street, Nelson. 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

21. Councillors 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.

22. 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 revenue savings.

23. A source of income generation that 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 – disposal 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).

24. 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 2017/20

25. Table 4 below provides a summary of the estimated resources for the period 2017/20.

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

	2017/18 £000	2018/19 £000	2019/20 £000
General Capital Receipts	200	100	100
Housing Capital Receipts	0	0	0
Revenue Contribution to Capital	125	0	0
Capital Grants	1,136	600	500
Borrowing (including c/fwd commitment)	10,952	400	400
ESTIMATED RESOURCES	**12,413**	**1,100**	**1,000**

Source: Appendix B

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

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 £125k contribution from two revenue reserves to fund general property capital works and a replacement vehicle for the Environmental Action Group; the use of £100k from the repairs and renewals reserve will reduce the balance on this reserve to nil by the end of 2017/18;

d. ***Capital Grants*** – for the purposes of developing the draft programme for 2017/18 the only 'new' grant funding assumed at this stage is that relating to Disabled Facilities Grants (£700k) and a grant via the Bradley Big Local (£125k) for the renewal of the play area at Hodge House. The sum of £700k currently assumed from the Better Care Fund for DFG's is expected to decrease annually thereafter; the table above also includes £311k of grants in hand carried forward to 2017/18 from the current year (mainly re DFGs);

e. ***Borrowing*** – this comprises the estimated unused borrowing of £7.052m carried forward from the current year which is matched to spending commitments carried forward together with the £3.5m agreed by Council in December linked to the acquisition of Number 1 Market Street, Nelson. In addition the medium-term financial plan provides for £0.4m of 'new' prudential borrowing in 2017/18 and the revenue consequences of this are included in the draft revenue budget for next year.

27. 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 2017/18

28. Table 5 below summarises the proposed capital programme for 2017/18 together with the indicative programme to 2019/20. More detail is provided in **Appendix B**.

Table 5: Proposed Capital Programme for 2017/18

	Capital Bids 2017/18 £'000	Proposed Capital Programme 2017/18 £'000	*Capital Bids 2018/19 £'000*	*Capital Bids 2019/20 £'000*
Private Sector Housing	4,700	4,450	935	900
Asset Renewal	978	626	180	132
Area Committees	201	201	100	100
Other General Capital Schemes	6,223	6,154	323	323
Resource Procurement / External Funding	987	987	-	-
Total Proposed Capital Expenditure	**13,089**	**12,419**	**1,538**	**1,455**

Source: Appendix B

29. The following narrative provides a summary of the main items of expenditure forming the proposed capital programme for 2017/18. In total the value of capital expenditure is estimated at £12.419m, some £6k above the current level of estimated resources. This position will be monitored during the year to ensure spend is aligned with resources.

Private Sector Housing

30. As in the current year, the housing capital programme will focus primarily on Brierfield Mill, Empty Homes and the Brownfield Regeneration Fund. Subject to approval, a total, £4.45m will be spent on housing related projects. This includes proposed expenditure of £700k for Disabled Facilities Grants (inclusive of fees) to match the assumed level of grant funding from the Better Care Fund.

Asset Renewal and Parks / Recreation Services

31. Given the limited availability of new capital resources it is not possible to fund all the capital bids submitted. The value of bids submitted is close to £1m of which £626k is included in the proposed programme. Of this, £341k is 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. A sum of £85k is included for replacement of operational vehicles including £25k for a replacement vehicle for the Environmental Action Group funded from reserve contributions set aside for this group.

32. Other areas of proposed capital expenditure in 2017/18 are as follows:

(a) Area Committees

Capital funding for Area Committees in 2017/18 has been maintained at £100,000. 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 sum proposed for 2017/18 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 £100,000 to support Pearl related projects. If agreed this funding should leverage a further £233k from the joint venture partner.

(d) Waste Collection

An amount of £50,000 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.

(e) Acquisition of No.1 Market Street, Nelson

The programme includes the sum of £3.5m in support of the above. The detail behind this was reported to and agreed by Council in December.

Revenue Implications of the Capital Programme

33. 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 £125,000 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.

34. An assessment of the revenue implications of the proposed capital programme for 2017/18 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

35. 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**.

36. Following approval, these indicators will be monitored where required throughout the year and provide a benchmark against which actual performance will be assessed. In accordance with the requirements of the above code the level of borrowing assumed in the proposed capital programme for 2017/18 is considered to be affordable, prudent and sustainable.

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 C** 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 2017/18 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.

43. 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.

44. 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.

45. 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 reports to the Executive.

46. The Capital Programme for 2017/18 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.

47. 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:

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

Climate Change:

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

Community Safety:

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

Equality and Diversity:

51. 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 – Proposed Capital Programme 2017/18 (with indicative programmes for 2018/19 and 2019/20)
Appendix C – Prudential Indicators 2017/20

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