Borough of Pendle

REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
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CAPITAL STRATEGY
UPDATE ON THE MEDIUM TERM CAPITAL PROGRAMME 2018/21

PURPOSE OF REPORT

1. The purpose of this report is to provide the Executive with an update on the development of the Council's Medium-Term Capital Programme (MTCP) for the period to 2020/21 and to highlight the expected availability and usage of capital receipts over this period.

RECOMMENDATIONS

2. The Executive is recommended to:

   a) note the indicative Medium Term Capital Programme as shown at **Appendix A,** and

   b) endorse the proposals outlined in this report for the use of capital receipts over the medium-term period, and

   c) agree that a further report be submitted on these matters as the medium-term capital programme is developed in line with the timescales for the Council's process for the 2018/19 budget. This report to include details of the scope for further asset disposals to help generate capital receipts.

REASONS FOR RECOMMENDATION

3. To continue with the implementation of the Council's Financial Strategy and development of the medium-term capital programme.

ISSUE

Background

4. The Executive received a report at its May meeting setting out the projected position on the Council's revenue budget for the period 2018/19 to 2020/21. This report sets out the equivalent position on the capital programme and outlines proposals for the use of capital receipts in support of the Council's strategic objectives over the same period.

5. This report also builds on the capital programme report presented to Council in February 2017 when setting the budget for the current year, together with a report to the March meeting of the Executive on a strategy for the flexible use of capital receipts.

Medium Term Capital Programme 2018/21

6. **Appendix A** provides a summary of the Council's projected Medium Term Capital Programme showing anticipated expenditure and funding. This is also summarised in table 1 below. The position shown for the first two years reflects the 'indicative' position as reported to Council in February 2017.

Table 1: Outline Medium Term Capital Programme 2018/21

	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Capital Expenditure (bids)	1,185	1,075	900
Less Capital Funding	(700)	(600)	(500)
Unfunded Capital Spending	485	475	400
Implied Borrowing Requirement	**485**	**475**	**400**
Budgeted Borrowing	(400)	(400)	(400)
Savings Required *1	**85**	**75**	**0**

*1 – This assumes borrowing at the level shown. In the event, the amount of borrowing is reduced, further savings would be required.

7. Issues to note about the above MTCP are as follows:-

a) The capital expenditure in the first two years shown above reflects the indicative programme submitted to Council in February this year. However, the value of bids from service areas significantly exceeded these sums at £1.538m and £1.455m respectively. The figures shown for 2020/21 are based simply on the assumption that spend will be aligned with the anticipated level of resources available for that year;

b) it is based on the assumption that that there will be no growth in the capital programme shown and that any bids will, as a minimum, have to be contained within budgeted resources including any additional capital receipts that may be generated over the plan period;

c) the estimate of capital receipts currently is £100k per annum, which is assumed to be from the disposal of miscellaneous assets (e.g. ad hoc parcels of land);

d) no further Right to Buy Receipts from Housing Pendle are assumed as the sharing agreement has now expired;

e) it assumes there will be no new capital grant funding other than funding for Disabled Facilities Grants (DFGs).

8. Whilst the MTCP shown above largely reflects the 'indicative' programme as reported to Council in February, extended for one year, there have been more recent developments which need to be considered and, subject to approval, included in the ongoing development of the capital programme. These emerging developments are shown in table 2 below:

Table 2: Emerging capital proposals requiring use of capital receipts	£'000
Lomeshaye Industrial Estate *(subject of report elsewhere on this agenda)* – match funding for Phase 1 extension – 10% match funding for LEP contribution	 1,500 400
Substitute capital receipts in lieu of revenue budget contributions for the Area Committees (3 years @ £70k per annum - 2018/19 to 2020/21)	210
Provision for the capitalisation of costs of change/business transformation under the 'flexible use of capital receipts' strategy *(considered by Executive in March 2017 and going to Council in July for approval)*	500
Sub-total	**2,610**
Additional use of capital receipts as a source of funding in lieu of borrowing (3 years @ £400k per annum for 2018/19 to 2020/21)	1,200
Total	**3,810**

9. Whilst none of the proposed uses included in the table above has any formal status at this time each will support the delivery of the Council's strategic objectives and key projects within the Borough. Subject to approval by Councillors and the timely receipt of proceeds from asset disposals, it is anticipated that they could be fully funded from the balance of capital receipts and this is considered in more detail below.

The flexible use of capital receipts

10. As reported previously to the Executive, there is now limited scope to apply capital receipts to transformational type projects which help deliver ongoing revenue savings. This requires the Council to approve a flexible use of capital receipts strategy and a draft of this document was considered by the Executive in March. It will go to Council for adoption in July. At this time there is nothing built in to the capital programme for the use of such receipts. They could for example be used to meet the 'cost of change' arising from changes in staffing structures or changes in models of service delivery.

Projected availability of capital receipts

11. As at the 31st March 2017, the Council had capital receipts in hand of £2m. Included in this is an amount of c£0.55m which we expect to have to pay over to the Homes and Communities Agency (HCA) under the agreement implemented as part of the refurbishment of properties in the Whitefield area of Nelson. Taking this in to account and factoring in receipts expected to arise over the next three years results in the following projection of available capital receipts:

	£'000	£'000
Net balance of available receipts as at 31/3/17		1,450
Add receipts in respect of:		
• 2017/18		
○ Sale of properties in Whitefield to Calico	1,225	
○ Balance of disposals in Whitefield	470	
○ Miscellaneous disposals	100	1,795
• 2018/19		
○ Sale of land at Red Lane, Colne	950**	
○ Miscellaneous disposals	100	1,050
• 2019/20 & 2020/21		
○ Miscellaneous disposals *(£100k per annum)*	200	200
Total of projected capital receipts		4,495

***net of costs of shared site 'abnormals' and with no S.106 contribution*

The use of capital receipts

12. Capital receipts can only be used to fund capital expenditure. They cannot be used to support the day to day delivery of council services. However, under the 'flexible use of capital receipts' it is now possible to class some forms of revenue expenditure as capital and thereby use capital receipts to fund it. Examples include the following as extracted from the Government's guidance issued to local authorities on this subject:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

Updating the MTCP

13. Taking account of the indicative programme provided at Appendix A together with the emerging capital requirements shown in table 2 above gives rise to a revised programme as follows (with incremental change only shown for 2017/18):

	Budget 2017/18 £'000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Totals £'000
Capital Expenditure (per Appendix A)		1,185	1,075	900	**3,160**
Plus 'new' emerging capital requirements (per table 2)	750	1,320	470	70	**2,610**
Less Capital Funding – grants		(600)	(500)	(400)	**(1,500)**
Less Capital Funding – use of capital receipts *(including £1.2m in lieu of borrowing)*	(750)	(1,905)	(1,045)	(570)	**(4,270)**
Residual Borrowing Requirement	**0**	**0**	**0**	**0**	**0**

14. The table above shows the near full utilisation of the projected level of capital receipts available as shown in paragraph 11 above. The balance of £225k (i.e. £4,495k minus £4,270k) is required in support of the existing approved programme in the current year.

15. Adopting the above profile of receipts would also enable the avoidance of prudential borrowing of £400k per annum. This level of borrowing is currently assumed in the capital programme and the medium-term financial plan includes the associated revenue costs of debt charges. If this borrowing can be avoided it would generate revenue savings estimated at c£32k per annum.

16. During the remainder of this year it is intended to further develop the medium-term capital programme to the end of 2020/21. This work will follow the same timescales as that reported to the Executive in May when considering the process for developing the revenue budget for 2018/19.

17. In advance of this the Executive is asked to consider the position outlined in this report and the proposals for the use of capital receipts over the medium-term period. As the capital programme is increasingly dependent on the use of capital receipts it is also intended to review the council's asset holdings to identify the scope for further asset disposals. The outputs from this review will inform subsequent reports to the Executive on the developing capital programme.

IMPLICATIONS

Policy

18. The flexible use of capital receipts requires the Council to approve an annual strategy for their use. This will be considered by Council in July following approval by the Executive earlier in March this year.

Financial

19. The financial implications are generally as given in the report.

Legal

20. There are no legal implications arising from this report.

Risk Management

21. The main risks associated with the proposals outlined in this report relate to the generation and timing of sufficient capital receipts so as to meet the Council's spending obligations on approved capital projects as and when they fall due. At this time the balance of capital receipts in hand as at 31st March 2017 together with confirmed disposals since (e.g. sale of properties to Calico) will help mitigate this risk. However, to achieve all that is set out in paragraph 13 above will require further sales to be completed such as that agreed for land at Red Lane, Colne.

22. The Council's existing budget monitoring arrangements will help manage the above risk and ensure that the Council only commits to the projects when the availability of funding from capital receipts is confirmed.

Health and Safety

23. There are no health and safety implications arising from this report.

Climate Change

24. There are no climate change implications arising directly from this report.

Community Safety

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

Equality and Diversity

26. There are no equality and diversity considerations arising from this report.

APPENDICES

Appendix A – 'Indicative' capital programme 2018/19 to 2020/21

LIST OF BACKGROUND PAPERS

None.