REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
DATES:	**16th March 2017**

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CAPITAL STRATEGY 2017/20

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to submit to Council in March the Capital Strategy for the period 2017/20 which also contains the proposed strategy for the flexible use of capital receipts in 2017/18.

RECOMMENDATIONS

2. The Executive is recommended to endorse the draft corporate capital strategy at **Appendix A** (including the flexible use of capital receipts strategy), and approve its submission to Council for approval.

REASONS FOR RECOMMENDATION

3. To approve the Capital Strategy for 2017/20 together with the flexible use of capital receipts strategy as required under statutory guidance.

ISSUE

4. The Council approved the capital programme for 2017/18 at the Budget meeting of Council on 23rd February.

5. This report provides the strategic context for capital expenditure and financing over an extended period to 2019/20. The proposed capital strategy is provided at **Appendix A.** It includes a 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. It applies to receipts arising from the disposal of property, plant and equipment.

6. 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".

7. 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. The view of DCLG is that individual authorities are best placed to decide which projects can use the flexibility provided.

8. 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.

9. 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 can be part of the annual budget documents. This has been included as Appendix 1 in the draft corporate capital strategy presented at **Appendix A**. It is a requirement that the strategy be approved by the full Council.

10. 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.

11. 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 the key capital investment priorities for the Council 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 (HCA);

    - ***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. 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.

IMPLICATIONS

Policy

12. The flexible use of capital receipts presents an opportunity to charge to capital expenditure costs of business transformation that would previously have been charged to revenue. There is statutory guidance which underpins this flexibility including a requirement for an annual strategy which must be approved by the full Council.

Financial

13. The financial implications are as given in the report and proposed Strategy.

Legal

14. The flexible use of capital receipts is permitted under statutory guidance issued by the Department for Communities and Local Government in March 2016. The Council must have regard to this when deciding whether a project qualifies for the flexibility.

Risk Management

15. The risks are mainly considered to relate to compliance linked to the selection and suitability of projects for the use of the new flexibility. Any decisions taken in this respect will be subject to review or scrutiny by DCLG and the Council's auditors for example. However, the guidance does provide a wide scope for projects to benefit from the flexible use of capital receipts.

Health and Safety

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

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Strategy 2017/20 (including the strategy for the flexible use of capital receipts)

LIST OF BACKGROUND PAPERS

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