

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

DATE: 14th DECEMBER 2017

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

DEVELOPING 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 capital programme in the current year and outline the initial capital programme for 2018/21.

RECOMMENDATIONS

2. The Executive is recommended to:
 - a) note the projected position on the capital programme for 2017/18 as shown in [Appendix A](#);
 - b) note that the capital bids submitted for 2018/19 exceed the projected resources available by £0.57m and are therefore unaffordable;
 - c) in view of (b) above consider the draft Capital Programme for 2018/19 as shown in [Appendix C](#) pending a further report on this matter to the meeting of the Executive in February 2018;
 - d) note the intention to submit an updated strategy for the flexible use of capital receipts in the February cycle of meetings to enable the Council to benefit from this flexibility in 2018/19.

REASONS FOR RECOMMENDATION

3. To consider the development of the Council's Capital Programme for 2018/21.

ISSUE

4. This report provides details of the likely capital resources available in 2018/19 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 2018/19 has been put forward for consideration by the Executive. A further report on the Council's medium-term capital programme for 2018/19 and an updated capital strategy will be prepared for the February cycle of meetings.

Capital Programme 2017/18

- A review of the current years capital programme has been undertaken prior to the development of draft plans for next year. This is provided so that Councillors can consider the proposed programme for next year in the context of existing capital expenditure commitments.

Forecast Capital Expenditure 2017/18

- Table 1 below provides a summary of the Capital Programme for 2017/18 with a more detailed analysis provided at [Appendix A](#).

Table 1: Capital Programme 2017/18 – Forecast Outturn

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Housing Projects	4,702	2,610	(2,091)	2,091	-
Car Parks, Flooding and Other Engineering	77	83	6	-	6
Waste Collection Service	66	66	-	-	-
Community Safety	98	20	(78)	56	(22)
Asset Renewal (excluding Parks)	755	226	(529)	529	-
Parks and Recreation Assets	260	242	(18)	18	-
ACE Centre and No.1 Market St	5,800	5,776	(24)	46	22
Resource Procurement	4,142	1,670	(2,472)	2,472	-
Area Committees	402	297	(106)	106	-
Other Miscellaneous Projects	629	459	(170)	170	-
TOTAL	16,930	11,448	(5,482)	5,488	6

Source: Appendix A

- On the basis of current estimates, it is envisaged that there will be a net overspend of £6k on the programme in this year after account has been taken of project slippage. This relates to street works undertaken at May Tree Close, Brierfield. The slippage on current projects will be carried forward to 2018/19. 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 (£2.1m), and within Resource Procurement (£2.5m). The main elements are represented by budgets for Brierfield Mill, the Brownfield Development Fund, contributions to Pearl / Social Housing schemes and the Phase 1 extension of Lomeshaye Industrial Estate. The Executive has received updates on each of these schemes during the year.
- One matter highlighted for the Executive is as follows:

- Sale of properties in Whitefield – share of receipts payable to Homes & Communities Agency*

The disposal of the remaining refurbished properties on sale in Whitefield took place in May this year to Calico generating a gross capital receipt of £1.226m. The regeneration of this area was funded primarily by grant under the former Housing Market Renewal initiative. Under the agreement attached to the funding from the Homes and Communities Agency (HCA) was a sharing arrangement in which the sale proceeds are shared with the HCA. Following the completion of sale of all remaining properties the payment due to the HCA under this arrangement was confirmed at £520k. The payment of this share represents capital expenditure to the Council and is shown in Appendix A. This expenditure is funded from the share of capital receipts attributable to the HCA and this is also shown in Appendix A.

Forecast Capital Resources 2017/18

10. Table 2 below summarises the expected available capital cash resources for 2017/18.

Table 2: Capital Programme 2017/18 – Forecast Capital Cash Resources

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
General Capital Receipts	2,219	1,219	(1,000)	1,000	-
Revenue Contributions	125	125	-	-	-
Capital Grants	1,384	1,118	(267)	267	-
S106 Funding/Leasing	122	122	-	-	-
Sub-total (cash resources)	3,851	2,584	(1,267)	1,267	-
Borrowing	13,073	8,864	(4,209)	4,221	12
TOTAL	16,924	11,448	(5,476)	5,488	12

Source: Appendix A

11. The main variation shown above on capital receipts reflects the inclusion of the capital project for Phase 1 of the Lomeshaye Industrial Estate extension. Council agreed a total budget of £1.9m in July this year funded from capital receipts. Of this, an amount of £1.5m has been included in the programme for 2017/18 with the balance in later years. However, the projected spend in this year is estimated at £500k leaving a balance of £1m to be carried forward to 2018/19. The associated capital receipts will also be carried forward.

Prudential Borrowing in 2017/18

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 is required in 2017/18 to fund the current approved programme (whether it is spent in this year or in later 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 in the current year is expected to be £4.2m 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 2017/18

	Revised Budget £'000	Forecast Outturn £'000	Variance £'000	Forecast Slippage £'000	Revised Variance £'000
Capital Programme (Table 1)	16,930	11,448	(5,482)	5,488	6
Capital Cash Resources (Table 2)	3,851	2,584	(1,267)	1,267	-
Required Prudential Borrowing	13,079	8,864	(4,215)	4,221	6
Budgeted Prudential Borrowing	13,073	8,864	(4,209)	4,221	12
Amount of Unfunded Projects	6	-	(6)	-	(6)

Capital Strategy 2017/18

14. The latest Capital Strategy for 2017/20 was approved by Council In June 2017 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 2018/21.
15. This will include an update on 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 last year. The Council's initial strategy was approved by Council in July this year and earmarked up to £500k of capital receipts for business transformation leading to revenue savings.

Capital Investment Strategy

16. 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 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

17. Councillors are aware that the ongoing position is one in which the level of available capital resources remains constrained. 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. As a result of the ongoing reductions in core revenue grant funding there is no longer the capacity to make revenue contributions to support the capital programme.

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 this generates ongoing revenue savings.

18. One source of income that has grown in significance is that of capital receipts. These arise from the disposal of surplus council land and property assets. The Council has followed a strategy of identifying and disposing of land and property deemed surplus to requirements and this has delivered significant receipts with further sums due over the medium-term plan period. This is summarised in [Appendix B](#).

Overview of Capital Resources 2018/19

19. Table 4 below summarises the estimate of available capital resources for 2018/19 (with 2019/20 and 2020/21 shown for information):

Table 4: Estimated Capital Resources 2018/19 (2019/20 and 2020/21)

	2018/19 £000	2019/20 £000	2020/21 £000
Capital Receipts	1,165	1,170	570
Capital Grant (in year) – DFG's only	750	700	650
ESTIMATED RESOURCES	1,915	1,870	1,220

Source: Appendix C

20. The table shown above omits any amount for 'new' borrowing. However, following a decision taken by the Executive earlier this year it has been agreed that no new borrowing will be undertaken over the next 3 years. This is to save the associated revenue costs of borrowing and help mitigate the pressure on the revenue budget. It was agreed that capital receipts will be used in lieu of borrowing over the period 2018 to 2021 in the sum of £400k per annum.
21. In addition to no new borrowing it was also agreed in June to substitute capital receipts for the revenue contributions that make up part of the Area Committee capital programme budget each year. Hence, the £70k per annum revenue budget will be replaced by equivalent capital receipts. This ensures no reduction in the budgets available to Area Committees but saves £70k per annum on the revenue budget. It does mean however, that funding awards made by the Committees **must** be of a capital nature.
22. Other points to note about capital resources include:
 - a. **Capital Receipts** – the assumptions on receipts generated in year only are shown in Appendix B;
 - b. **Capital Grants** – for the purposes of developing the draft programme for 2018/19 the only grant funding included at this stage is that relating to Disabled Facilities Grants. The sum of £750k is currently assumed from the Better Care Fund. This grant is expected to decrease annually thereafter.

Bids for Capital Expenditure 2018/19

23. The bids (including forecast slippage carried forward from 2017/18) for capital expenditure are shown in detail at Appendix C and summarised in Table 5 below along with indicative bids for the following two financial years:-

Table 5: Capital Bids 2018/19

	Capital Bids 2018/19 £'000	Capital Bids 2019/20 £'000	Capital Bids 2020/21 £'000
Private Sector Housing	3,061	760	710
Asset Renewal	1,311	302	262
Area Committees	276	170	170
Other General Capital Schemes	857	335	285
Resource Procurement / External Funding	2,472	400	-
Total Proposed Capital Expenditure	7,976	1,967	1,427

Source: Appendix C

Affordability of the Proposed Capital Bids 2018/19

24. Table 6 below provides a comparison of the total of capital bids to available resources. The table below shows capital bids exceeding capital resources by approximately £0.6m in 2018/19 (£0.1m in 2019/20 and £0.2m in 2020/21).

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

	2018/19 £000	2019/20 £000	2020/21 £000
Capital Bids (Table 5)	7,976	1,967	1,427
Less Capital Resources (Table 4)	(1,915)	(1,870)	(1,220)
Less resources carried forward from 2017/18	(5,488)	-	-
Resource Shortfall	573	97	207

Draft Capital Programme 2018/19

25. In view of the position outlined above 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 2018/19 is provided at Appendix C and summarised in Table 8 below for consideration by the Executive.

Table 8: Proposed Capital Programme

	Capital Bids 2018/19 £'000	Draft Programme 2018/19 £'000	Variance 2018/19 £'000
Private Sector Housing	3,061	2,901	(160)
Asset Renewal	1,311	907	(403)
Area Committees	276	276	-
Other General Capital Schemes	857	847	(10)
Resource Procurement / External Funding	2,472	2,472	-
Total Proposed Capital Expenditure	7,976	7,403	(573)
Less Estimated Resources	(1,915)	(1,915)	-
Less Resources b/fwd	(5,488)	(5,488)	-
Excess of Bids over resources	573	-	(573)

Source: Appendix C

Timetable and Next Steps

26. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2018/19:

Table 9: Capital Programme - Timetable

Date	Action	Status
early October	Pro-Forma (with guidance notes) issued to Service Managers	Completed
20 th October	Return of Pro-Formas from Service Managers	Completed
14 th December	Executive to consider Capital Programme Roll-Forward	This report
January 2018	Mgmt Team Consideration of detailed Capital Programme 2018/19	
7 th February	Executive approval of Capital Programme 2018/19	
22 nd February	Special Budget Council including Capital Programme 2018/19	

IMPLICATIONS

Policy

27. 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

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

Legal

29. There are no new legal implications arising from the contents of this report.

Risk Management

30. 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.
31. 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

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

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Programme 2017/18 – Provisional Outturn

Appendix B – Capital Receipts 2017 - 2021

Appendix C – Capital Bids and draft Capital Programme 2018/21

LIST OF BACKGROUND PAPERS

None