REPORT OF:	**MANAGEMENT TEAM**
TO:	**EXECUTIVE**
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CAPITAL PROGRAMME & STRATEGY 2018/21

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to the proposed capital programme for 2018/19. The report also provides an overview of the Medium-Term Capital Programme for the period 2018/21 and presents a draft corporate capital strategy including the flexible use of capital receipts.

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. It is recommended that the Executive:-

   a) notes the forecast outturn position on the Council's capital programme for 2017/18 as shown at **Appendix A** and detailed in the report;

   b) endorse the draft corporate capital strategy at **Appendix B** including the flexible use of capital receipts strategy and recommend this to Council for approval on 22nd February;

   c) acknowledge the change of approach with regard to the funding of Area Committee capital programme allocations as outlined in paragraph 20 of this report and note the intention to report to each Area Committee to inform them of the implications of this for 2018/19;

   d) submit the proposed 2018/19 capital programme as shown in **Appendix C** for approval by Council on 22nd February;

   e) grant delegated authority to the Financial Services Manager to determine the most appropriate method of financing the capital programme for 2018/19 to ensure the use of resources is optimised by the Council;

   f) note the indicative programmes for 2019/20 and 2020/21 as shown in Appendix C and acknowledge that these will be subject to further review as part of the development of future years capital programmes;

g) approve the Prudential Indicators as shown in **Appendix D**.

REASONS FOR RECOMMENDATION

4. To approve the revised capital programme for 2017/18 and the capital programme for 2018/19 together with the flexible use of capital receipts strategy.

ISSUE

5. This report provides details of the likely capital resources available in 2018/19 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 2018/19 has been developed for consideration by the Executive prior to Council on the 22nd 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 2018/19 programme in the context of existing capital expenditure commitments.

7. Table 1 below provides a summary of the Capital Programme for 2017/18 with a more detailed analysis provided at **Appendix A**. Actual expenditure at 31st January 2018 amounted to £8.38m (73% of the expected total expenditure by the year end). The projected expenditure at year end is £11.54m. Comparing this with the approved programme of £17.216m gives rise to an implied underspend of £5.68m before account is taken of project slippage. This is summarised in Table 1 below and in more detail in **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	4,706	2,420	(2,286)	2,286	-
Car Parks, Flooding and Other Engineering	77	83	6	-	6
Waste Collection Service	348	348	-	-	-
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	**17,216**	**11,540**	**(5,676)**	**5,682**	**6**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be a net overspend of £6k on the programme in this year once account has been taken of project slippage. This relates to street works undertaken at May Tree Close, Brierfield. Subject to approval, 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**. Included in the £348k shown above for the Waste Collection Service is the sum of £282,000 for the purchase of 20,000 wheeled bins as agreed by Council in December 2017 when accepting changes to the collection frequency for recycled waste.

The most significant slippage is on the Housing capital programme (£2.3m), 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.

9. 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	1,389	1,118	(271)	271	-
S106 Funding/Leasing	404	404	-	-	-
Sub-total (cash resources)	**4,137**	**2,866**	**(1,271)**	**1,271**	**-**
Borrowing	13,073	8,674	(4,399)	4,411	12
TOTAL	**17,210**	**11,540**	**(5,670)**	**5,682**	**12**

Source: Appendix A

10. As reported in December, 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

11. 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).

12. 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 £4.4m 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)	17,216	11,540	(5,676)	5,682	6
Capital Cash Resources (Table 2)	4,137	2,866	(1,271)	1,271	-
Required Prudential Borrowing	**13,079**	**8,674**	**(4,405)**	**4,411**	**6**
Budgeted Prudential Borrowing	13,073	8,674	(4,399)	4,411	12
Amount of Unfunded Projects	**6**	**-**	**(6)**	**-**	**(6)**

13. The current strategy for 2017/20 was approved by Council in June 2017. The strategy is maintained under ongoing review in response to the significant reduction in capital resources experienced in recent years. An updated strategy is attached at **Appendix B** for consideration by the Executive prior to Council later in February. It includes a proposed strategy for the flexible use of capital receipts in 2018/19. This flexibility was announced as part of the local government finance settlement for the last financial year. It applies to new capital receipts arising from the disposal of property, plant and equipment in the financial years 2016/17 to 2018/19 and not to any receipts held in hand prior to this period.

14. 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". The Council's initial strategy approved by Council in July for this year earmarked up to £500k of capital receipts for business transformation leading to revenue savings.

Capital Investment Strategy

15. 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 Communities Agency (HCA);

- ***Promoting, Enabling and Providing Regeneration*** **–** the wider regeneration of Pendle remains a key capital investment priority for the Council. In previous years this has largely been driven by external funding. More recently, 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;

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- ***Invest to save / transformation projects*** **–** the Council has used 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.

16. Councillors will be aware that the availability of 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 general 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.

17. 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

18. 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
General Capital Receipts	2,185	1170	570
Revenue Contribution to Capital	56	0	0
Capital Grants - in year	750	700	650
Capital Grants - b/fwd	271	0	0
Borrowing (including c/fwd commitment)	4,411	0	0
ESTIMATED RESOURCES	**7,673**	**1,870**	**1,220**

Source: Appendix C

19. Details of the estimated capital resources are summarised in **Appendix C.** The table shown above excludes any amount for ‘new’ borrowing. This follows a decision taken by the Executive during last year to avoid any new borrowing over the next 3 years so as to save the associated revenue costs of borrowing and support the revenue budget. It was agreed that capital receipts would be used in lieu of borrowing over the period 2018 to 2021 in the sum of £400k per annum.

20. In addition to no new borrowing it was also agreed 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 has been 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. This represents a significant change for the Committees and as a result it is intended to report on the implications of this to the March round of Area Committees.

21. Other points to note about capital resources include:

(a) ***Capital Receipts*** – this reflects both the use of receipts generated in year from disposals and receipts held in hand; more information on receipts is provided in Appendix B;

(b) ***Capital Grants*** – for the purposes of developing the draft programme for 2018/19 the only in year grant funding included at this stage is that relating to Disabled Facilities Grants. The receipt of £750k is currently assumed from the Better Care Fund. This grant is projected to decrease annually thereafter.

(c) ***Borrowing*** – this consists only of the estimated unused borrowing of £4.4m carried forward from the current year which is matched to spending commitments carried forward (i.e. project slippage).

(d) ***Revenue*** – the sum of £56k shown above represents a contribution from a specific reserve towards the acquisition of new software as outlined in paragraph 27 (b) below.

The proposed capital programme for 2018/19

22. Table 5 below summarises the proposed capital programme for 2018/19 together with the indicative programme to 2020/21. More detail is provided in **Appendix C**.

Table 5: Proposed Capital Programme for 2018/19

	Capital Bids 2018/19 £'000	Proposed Capital Programme 2018/19 £'000	*Capital Bids 2019/20 £'000*	*Capital Bids 2020/21 £'000*
Private Sector Housing	3,256	3,096	760	710
Asset Renewal	1,341	937	302	262
Area Committees	276	276	170	170
Other General Capital Schemes	913	903	335	285
Resource Procurement / External Funding	2,472	2,472	400	-
Total Proposed Capital Expenditure	**8,257**	**7,683**	**1,967**	**1,427**

Source: Appendix C

23. The following narrative provides a summary of the main items of expenditure forming the proposed capital programme for 2018/19. In total the value of capital expenditure is estimated at £7.68m, some £10k above the current level of estimated resources. This over-programmed position will be monitored during the year to ensure spend is aligned with resources.

Private Sector Housing

24. As in the current year, the housing capital programme will focus primarily on Brierfield Mill, Empty Homes and Disabled Facilities Grants. Subject to approval, a total, £3.1m will be spent on housing related projects. The proposed expenditure of £750k on Disabled Facilities Grants (inclusive of fees) matches the assumed level of grant funding from the Better Care Fund. Any variation in funding will be mirrored in the expenditure budget once funding has been confirmed for next year.

Asset Renewal and Parks / Recreation Services

25. 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 £1.34m of which £927k is included in the proposed programme. Of this, £547k 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.

26. The sum of £80k is included for replacement of operational vehicles. A sum of £100k is included to facilitate the removal and re-installation of the MUGA from Vivary Way to Alkincoats Park, Colne together with related footpath and lighting works. This is linked to the disposal of land at Vivary Way to adjacent businesses. Lastly, the sum of £10k has been included as a contribution to the costs of the BMX pump track forming part of phase 2 of the Steven Burke cycle hub.

27. Other areas of proposed capital expenditure in 2018/19 are as follows:

(a) Area Committees

Total funding for Area Committees in 2018/19 has been maintained at £170,000. However, this is now wholly capital funding. The former £70k revenue contribution has been replaced by capital to ease the pressure on the revenue budget. It does mean that only items of a capital nature can be funded from the area committee allocations and guidance will be provided to the committees in connection with this.

(b) Information Technology

The sum proposed for 2018/19 is £256,000 and seeks to continue with the investment required to undertake key elements of the ICT strategy during the year. This includes £56k for a revised version of our current financial management system. Our current provider will no longer support the version we operate from September 2018. We have to move to a web-based version by no later than December 2018. Funds have been set aside in the revenue expenditure reserve for this purpose.

(c) Pearl Projects

The draft programme includes provision of £200,000 to support Pearl related projects. If agreed this funding should leverage a further £1.33m from our joint venture partners.

(d) Waste Collection

An amount of £55,000 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. The purchase of 20,000 bins to support the implementation of revised collection frequencies for recycled waste has been included in the 2017/18 capital programme.

(e) Resource Procurement / External Funding

The sum of £2.47m is included in next year's programme primarily in support of the following projects:

- Extension of Lomeshaye (Phase 1) £1.00m
- Brownfield Regeneration Fund £1.03m

Details on both these projects have been reported previously to the Executive.

Revenue Implications of the Capital Programme

28. Ordinarily, consideration of the capital programme would need 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 <u>interest cost</u> 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 <u>principal</u> 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; no new prudential borrowing is proposed for 2018/19 and the following two years.

(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. Subject to approval, a revenue contribution to capital of £56,000 is now being proposed for the purposes set out in paragraph 27 (b) above.

(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.

29. An assessment of the revenue implications of the proposed capital programme for 2018/19 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 may be necessary to undertake a further assessment to establish the impact on the revenue budget.

Prudential Indicators

30. 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 D**. 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 2018/19 is considered to be affordable, prudent and sustainable.

IMPLICATIONS

Policy

31. 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

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

Legal

33. 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.

34. 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 D** to this report.

35. 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

36. 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 2018/19 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.

37. 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.

38. 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.

39. 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 the Executive.

40. The Capital Programme for 2018/19 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.

41. 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.

42. 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

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

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Programme 2017/18 – Projected outturn
Appendix B – Corporate Capital Strategy including the flexible use of capital receipts.
Appendix C – Proposed Capital Programme 2018/19 (with indicative programmes for 2019/20 and 2020/21)
Appendix D – Prudential Indicators 2018/21

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