

REPORT OF: CHIEF FINANCIAL OFFICER
TO: POLICY AND RESOURCES COMMITTEE
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**DEVELOPING THE MEDIUM TERM CAPITAL PROGRAMME
2019/20 to 2021/22**

PURPOSE OF REPORT

1. The purpose of this report is to provide Policy and Resources Committee with an update on the Capital Programme in the current year and outline the initial capital programme for 2019/20 to 2021/22.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:
 - a) note the projected position on the Capital Programme for 2018/19 as shown in **Appendix A**;
 - b) note that the capital bids submitted for 2019/20 exceed the projected resources available by £0.521m and are therefore unaffordable;
 - c) in view of (b) above consider the draft Capital Programme for 2019/20 as shown in **Appendix C** pending a further report on this matter to the meeting of Policy and Resources Committee in February 2019;
 - 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 2019/20;
 - e) note that a further report on land disposals will be brought to a subsequent meeting of the committee.

REASONS FOR RECOMMENDATION

3. To consider the development of the Council's Capital Programme for 2019/20 to 2021/22.

ISSUE

4. This report provides details of the likely capital resources available in 2019/20 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 2019/20 has been put forward for consideration by Policy and Resources Committee. A further report on the Council's Medium Term Capital Programme for 2019/20 and an updated capital strategy will be prepared for the February cycle of meetings.

(A) Capital Programme 2018/19

5. A review of the current year's 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 2018/19

6. Table 1 below provides a summary of the Capital Programme for 2018/19 with a more detailed analysis provided at **Appendix A**.

Table 1: Capital Programme 2018/19 – Forecast Out-turn

	<i>Revised Programme £000</i>	<i>Projected Out-turn £000</i>	<i>Variation £000</i>	<i>Forecast Slippage £000</i>	<i>Revised Variation £000</i>
Private Sector Housing Projects	3,606	2,101	(1,505)	1,505	-
Environmental, Flooding and Roads	465	415	(50)	50	-
Waste Collection	257	257	0	0	-
Other General Capital Schemes	671	238	(434)	434	-
Community Safety	93	30	(63)	63	-
Area Committees	383	202	(181)	181	-
Resource Procurement Schemes	4,224	1,595	(2,629)	2,629	-
Asset Renewal	888	572	(316)	316	-
TOTAL	10,586	5,409	(5,178)	5,178	-

Source: Appendix A

7. On the basis of current estimates, it is envisaged that there will be no variation on the programme in this year after account has been taken of project slippage. The slippage on current projects will be carried forward to 2019/20. A full analysis of the variations, before and after forecast slippage, is provided at **Appendix A**.

Forecast Capital Resources 2018/19

8. Table 2 below summarises the expected available capital cash resources for 2018/19.

Table 2: Capital Programme 2018/19 – Forecast Capital Cash Resources

	<i>Revised Programme £000</i>	<i>Projected Out-turn £000</i>	<i>Variation £000</i>	<i>Forecast Slippage £000</i>	<i>Revised Variation £000</i>
General Capital Receipts	1,858	1,420	(438)	438	-
Revenue Contributions	6	6	-	-	-
Capital Grants	1,563	1,060	(502)	502	-
s106 Funding/Leasing	147	54	(93)	93	-
Sub-Total (cash resources)	3,574	2,540	(1,034)	1,034	-

Source: Appendix A

9. The main variation shown above on Capital Receipts and Capital Grants, reflects the slippage of Capital Schemes that span financial years and projects that have been re-profiled into the next year. A detailed breakdown of these schemes are listed in Appendices A and C. As per the Revised Variation in Table 2 above, it is not expected that the budget allocated to these schemes will need to be amended at this stage.

Prudential Borrowing in 2018/19

10. 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 2018/19 to fund the current approved programme (whether it is spent in this year or in later years). Due to the financial pressures facing the Council the programme contains no new borrowing to fund 2019/20 schemes onwards as the cost of borrowing falls to the revenue budget.
11. 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 £4.1m less than budgeted owing to delays in capital spending. This will be carried forward to the following year to finance project slippage. The impact on the revenue budget is explained in the General Fund Revenue Budget 2019/20 report elsewhere on this agenda.

Table 3: Prudential Borrowing 2018/19

	<i>Revised Programme £000</i>	<i>Projected Out-turn £000</i>	<i>Variation £000</i>	<i>Forecast Slippage £000</i>	<i>Revised Variation £000</i>
Capital Programme (table 1)	10,586	5,409	(5,178)	5,178	0
Less: Capital Cash Resources (table 2)	3,574	2,540	(1,034)	1,034	0
Required Prudential Borrowing	7,013	2,869	(4,144)	4,144	0
Budgeted Prudential Borrowing	7,003	2,869	(4,134)	4,144	10
Amount of Unfunded Projects	10	-	(10)	(0)	(10)

(B) Capital Strategy 2018/19

12. The latest Capital Strategy for 2018/19 to 2020/21 was approved by Council in February 2018 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 Policy and Resources Committee and Council in the February 2019 cycle of meetings covering the period 2019/20 to 2021/22.
13. This will include the strategy for the flexible use of capital receipts to help fund transformation projects that deliver ongoing revenue savings. The Council's initial strategy was approved by Council in July 2017 and earmarked up to £500k of capital receipts for business transformation leading to revenue savings.

Capital Investment Strategy

14. 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. The extent to which the Council has the financial capacity to deliver the renewal of private sector housing, however, will largely depend on the future receipt of external funding from the Government or related agencies such as the Homes England;
- **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 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. 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. 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.
- **Commercial Investment Opportunities** – Elsewhere on the agenda for this meeting is a draft Commercial Strategy for consideration by the committee. This draft strategy outlines various approaches to commercialism, some of which may require capital investment. As and when such opportunities are identified, and as indicated in the Commercial Strategy, these will be brought forward for consideration by the committee.

Capital Resources Strategy

15. 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 considered unsustainable for the Council to rely on continual new borrowing to fund capital expenditure unless this generates ongoing revenue savings that are sufficient enough to cover all of the cost of borrowing.
16. One source of income that has grown in significance over recent years 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**.
17. As Capital Receipts are fundamental to financing the Capital Programme, the process of identifying and disposing of surplus land and property continues. It is recommended that a report on this matter is brought to a future Policy and Resources Committee.

(C) Overview of Capital Resources 2019/20

18. Table 4 below summarises the estimate of available capital resources for 2019/20 (with 20120/21 and 2021/22 shown for information):

Table 4: Estimated Capital Resources 2019/20 (2020/21 and 2021/22)

	2019/20 £000	2020/21 £000	2021/22 £000
Capital Receipts	1,806	300	100
Other Resources	113	5	5
Capital Grant (in year) – DFG’s only	820	750	700
Estimated Resources	2,739	1,055	805

Source: Appendix C

19. The table shown above omits any amount for ‘new’ borrowing. Following a decision taken by the Executive in 2017/18, it was agreed that no new borrowing would be undertaken for the next 3 years. This is to save the associated revenue costs of borrowing and help mitigate the pressure on the revenue budget.
20. In addition to no new borrowing it was also agreed at that time 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 was replaced by equivalent capital receipts. This ensured there was no reduction in budgets available to Area Committees but saved £70k per annum on the revenue budget. It did mean however, that funding awards made by the Committees needed be of a capital nature. The draft Medium Term Capital Programme includes £0.170m in each year from 2019/20 to 2021/22 for Area Committee Capital Budgets but leaves an issue of financing items of revenue expenditure. A report on this will be brought back to the committee in due course.
21. 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 2019/20 the only grant funding included at this stage is that relating to Disabled Facilities Grants. The sum of £820k is currently assumed from the Better Care Fund. This grant is expected to decrease annually thereafter.

(D) Bids for Capital Expenditure 2019/20

22. The bids (including forecast slippage carried forward from 2018/19) 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 2019/20

	<i>Capital Bids</i> 2019/20 £000	<i>Capital Bids</i> 2020/21 £000	<i>Capital Bids</i> 2021/22 £000
Private Sector Housing	2,326	750	700
Asset Renewal	1,280	160	76
Area Committees	471	170	170
Other General Capital Schemes	1,131	881	678
Resources Procurement/External Funding	3,229	-	0
Total Proposed Capital Expenditure	8,437	1,961	1,624

Source: Appendix C

(E) Affordability of the Proposed Capital Bids 2019/20

23. Table 6 below provides a comparison of the total capital bids against available resources. The table below shows capital bids exceeding capital resources by approximately £0.5m in 2019/20 (£0.900m in 2020/21 and £0.800m in 2021/22). It should be noted that the financing shortfalls in 2020/21 and 2021/22 are significantly greater than those estimated at the equivalent time last year (being, £0.1m in 2019/20 and £0.2m in 2020/21).

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

	2019/20 £000	2020/21 £000	2021/22 £000
Capital Bids (Table 5)	8,437	1,961	1,624
Less Capital Resources (Table 4)	(2,739)	(1,055)	(805)
Less resources carried forward from 2017/18	(5,178)	-	-
Resource Shortfall	521	906	819

(F) Draft Capital Programme 2019/20

24. 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 2019/20 is provided at Appendix C and summarised in Table 8 below for consideration by the Executive.

Table 8: Proposed Capital Programme

	<i>Capital Bids Bids 2019/20 £000</i>	<i>Draft Programme 2019/20 £000</i>	<i>Variance 2019/20 £000</i>
Private Sector Housing	2,326	2,326	-
Asset Renewal	1,280	896	(385)
Area Committees	471	471	-
Other General Capital Schemes	1,131	995	(136)
Resources Procurement/External Funding	3,229	3,229	-
Total Proposed Capital Expenditure	8,437	7,916	(521)
Less Estimated Resources	2,738	2,738	-
Less Resources b/fwd	5,178	5,178	-
Excess of Bids over resources	521	-	(521)

Source: Appendix C

(G) *Timetable and Next Steps*

25. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2019/20:

Table 9: Capital Programme - Timetable

Date	Action	Status
mid October	Pro-Forma (with guidance notes) issued to Service Managers	Completed
early November	Return of Pro-Formas from Service Managers	Completed
18 th December	Policy and Resources Committee to consider Capital Programme Roll-Forward	This report
January 2019	Mgmt Team Consideration of detailed Capital Programme 2019/20	
12 th February 2019	Policy and Resources Committee approval of Capital Programme 2019/20	
26 th February 2019	Special Budget Council including Capital Programme 2019/20	

IMPLICATIONS

Policy

26. 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

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

Legal

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

Risk Management

29. 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.

30. 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

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Programme 2018/19 – Provisional Outturn

Appendix B – Capital Receipts 2018/19 to 2021/22

Appendix C – Capital Bids and draft Medium Term Capital Programme 2019/20 to 2021/22

LIST OF BACKGROUND PAPERS – None