REPORT OF:	**MANAGEMENT TEAM**
TO:	**SPECIAL BUDGET POLICY AND RESOURCES COMMITTEE**
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Report Author:	Susan Guinness
Tel. No:	01282 661867
E-mail:	susan.guinness@pendle.gov.uk

CAPITAL PROGRAMME & STRATEGY 2019/20 to 2021/22

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to the proposed Capital Programme for 2019/20. The report also provides an overview of the Medium Term Capital Programme for the period 2019/20 to 2021/22 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 Policy and Resources Committee:-

   a) notes the forecast out-turn position on the Council's Capital Programme for 2018/19 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 26th February;

   c) submit the proposed 2019/20 Capital Programme as shown in **Appendix C** for approval by Council on 26th February;

   d) grant delegated authority to the Chief Financial Officer to determine the most appropriate method of financing the Capital Programme for 2019/20 to ensure the use of resources is optimised by the Council;

   e) note the indicative programmes for 2020/21 and 2021/22 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;

   f) agree that an updated Asset management Plan is developed, with a view to identifying surplus and under used assets for disposal, and that a report on this matter is considered at a future meeting of this committee;

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

REASONS FOR RECOMMENDATION

4. To approve the revised Capital Programme for 2018/19 and the Capital Programme for 2019/20 together with the flexible use of capital receipts strategy.

ISSUE

5. This report provides details of the likely capital resources available in 2019/20 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 2019/20 has been developed for consideration by the Policy and Resources Committee prior to Council on the 26th February 2019.

Forecast Capital Out-turn 2018/19

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 Policy and Resources Committee in December and is provided so that Councillors can consider the proposed 2019/20 programme in the context of existing capital expenditure commitments.

7. Table 1 below provides a summary of the Capital Programme for 2018/19 with a more detailed analysis provided at **Appendix A**. The projected expenditure at year end is £5.409m. Comparing this with the approved programme of £10.586m gives rise to an implied underspend of £5.178m 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 2018/19 – Forecast Out-turn

	Revised Budget £000	Forecast Out-turn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Housing Projects	3,606	2,101	1,505	(1,505)	-
Car Parks, Flooding and Other Engineering	465	415	50	(50)	-
Waste Collection Service	257	257	-	-	-
Community Safety	93	30	63	(63)	-
Asset Renewal (excl. Parks)	888	572	316	(316)	-
ICT Strategy Investment	445	144	301	(301)	-
Resources Procurement	4,224	1,595	2,629	(2,629)	-
Area Committees	383	202	181	(181)	-
Othe Miscellaneous Projects	226	94	132	(132)	-
Total	**10,586**	**5,409**	**5,178**	**(5,178)**	**-**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be no variation on the programme in this year once account has been taken of project slippage. Subject to approval, 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**.

9. The most significant slippage is on the Housing Capital Programme (£1.5m), and within Resource Procurement (£2.6m). The main elements are represented by budgets for Disabled Facilities Grants, the Brownfield Development Fund, contributions to Pearl / Social Housing schemes and the Phase 1 extension of Lomeshaye Industrial Estate. The Policy and Resources Committee has received updates on each of these schemes during the year.

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

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

	Revised Budget £000	Forecast Out-turn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
General Capital Receipts	1,858	1,420	438	(438)	-
Revenue Contributions to Capital	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)**	**-**
Borrowing	7,003	2,869	4,134	(4,134)	-
Total	**10,576**	**5,409**	**5,168**	**(5,168)**	**-**

Source: Appendix A

11. The main variation shown above is on Borrowing. This has created underspends within the revenue budget on the cost of debt as is referred to in the General Fund Revenue Budget 2019/20 report elsewhere on this agenda. That said, there is expected to be no variation to the Programme should approval be granted by the committee to carry forward the 2018/19 schemes into 2019/20 shown as slippage in **Appendix A** with the associated capital resources.

Prudential Borrowing in 2018/19

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 2018/19 to fund the current approved programme (whether it is spent in this year or in later years). As Prudential Borrowing has implications for the revenue budget, the Capital Strategy over the medium term is that there will be no new borrowing in future Capital Programmes with capital funding coming from Capital Receipts.

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 £4.134m 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 2018/19

	Revised Budget £000	Forecast Out-turn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Capital Programme (table 1)	10,586	5,409	5,178	(5,178)	0
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	(4,134)	0
Amount of Unfunded Projects *Source: Appendix A*	**10**	**0**	**10**	**(10)**	**0**

Capital Strategy 2019/20 to 2021/22

14. The current strategy for 2018 to 2021 was approved by Council in 2017/18. 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 Policy and Resources Committee prior to Council later in February. It includes a proposed strategy for the flexible use of capital receipts in 2019/20. This flexibility was announced as part of the local government finance settlement for 2017/18 and applies to new capital receipts arising from the disposal of property, plant and equipment in the financial years from 2016/17 and not to any receipts held in hand prior to this period.

15. 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 proposed Capital Programme for 2019/20 earmarks up to £300k 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 England;
- ***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 arrangements with Barnfield Investment Properties – PEARL and PEARL2 and more recently PEARL (Brierfield Mill) – as key vehicles for regeneration activity. Along with the recently formed PEARL Together, 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 has used its prudential borrowing powers to undertake projects which generate revenue savings and opportunities to do this will continue to be sought. 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 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.

18. One source of income that has therefore 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.

19. Acknowledging that Capital Receipts are a fundamental part of the Council's Capital Financing Strategy, a further review of the Council's land and property assets is considered necessary to identify and bring forward for disposal any surplus or under used assets. To that end, the committee is requested to agree that the Council's Asset Management Plan is updated and reported to this committee in due course.

Overview of Capital Resources 2019/20

20. Table 4 below summarises the estimate of available capital resources for 2019/20 (with 2020/21 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
General Capital Receipts	2,238	306	100
Revenue Contribution to Capital	13	5	5
Capital Grants - in year	820	750	700
Capital Grants - brought forward	502	-	-
s106 Contributions	93	-	-
Leasing	100	-	-
Borrowing (Carry Forward Commitment)	4,144	-	-
Total Proposed Capital Expenditure *Source: Appendix C*	**7,910**	**1,061**	**805**

21. 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 in 2016/17 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.

22. 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 2019/20 the only in year grant funding included at this stage is that relating to Disabled Facilities Grants. The receipt of £820k is currently assumed from the Better Care Fund. This grant is projected to decrease annually thereafter.

(c) ***Revenue*** – the sum of £13k shown above represents a contribution from revenue budget to part fund a number of Capital Bids.

(d) ***Borrowing*** – this consists only of the estimated unused borrowing of £4.144m carried forward from the current year which is matched to spending commitments carried forward (i.e. project slippage).

The proposed Capital Programme for 2019/20

23. Table 5 below summarises the proposed Capital Programme for 2019/20 together with the indicative programme to 2021/22. More detail is provided in **Appendix C**.

Table 5: Proposed Capital Programme for 2019/20

	Capital Bids 2019/20 £000	Proposed Capital Programme 2019/20 £000	Capital Bids 2020/21 £000	Indicative Programme 2020/21 £000	Capital Bids 2021/22 £000	Indicative Programme 2021/22 £000
Private Sector Housing	2,325	2,325	750	750	700	700
Asset Renewal	900	516	151	151	67	67
Area Committees	351	351	170	170	170	170
Other General Capital Schemes	1,626	1,490	890	813	687	597
Resource Procurement/External Funding	3,229	3,229	-	-	-	-
Total Proposed Capital Expenditure	**8,431**	**7,910**	**1,961**	**1,884**	**1,624**	**1,534**

Source: Appendix C

24. The following narrative provides a summary of the main items of expenditure forming the proposed capital programme for 2019/20. In total the value of capital expenditure is estimated at £7.910m which is matched by capital resources as per Table 4 above.

25. The indicative programmes in 2020/21 and 2021/22, however, are under resourced by £0.824m and £0.729m respectively. This is caused by insufficient Capital Resources to fund the scheme together with the strategy to incur no new borrowing due to affordability given the ongoing pressures on the revenue budget.

Private Sector Housing

26. The housing capital programme will focus primarily on Empty Homes and Disabled Facilities Grants. Subject to approval, a total, £2.325m will be spent on housing related projects. The proposed expenditure of £820k 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 as additional in-year grant allocations can be forthcoming. An additional in-year allocation was received in 2018/19 for £0.152m.

Asset Renewal

27. 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 £900k of which £516k is included in the proposed programme. Of this, £316k 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.

28. Other areas of proposed capital expenditure in 2019/20 are as follows:-

(a) Area Committees

Total funding for Area Committees in 2019/20 has been maintained at £170,000 (the budget for Area Committees in table 5 for 2019/20 includes estimated slippage from 2018/19). It is important to note that this is wholly capital funding. The former revenue contribution from 2017/18 was replaced by capital in 2018/19 to ease the pressure on the revenue budget. In 2019/20 the same budget arrangements continue, that is, 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 2019/20 is £275,000 and seeks to continue with the investment required to undertake key elements of the ICT strategy during the year. This includes £150k for development of ICT, £50k for PC refresh and £75k for associated with project management costs(the latter will be dependent on progress of projects).

(c) Pearl Projects

The draft programme includes provision of £200,000 to support Pearl related projects. Assuming this funding is used to support Pearl Together, this funding should leverage a further £1.133m from our joint venture partners giving an overall investment fund of £1.333m.

(d) Waste Collection

An amount of £65,000 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.

(e) Resource Procurement / External Funding

The sum of £3.229m is included in next year's programme primarily in support of the following projects:

• Extension of Lomeshaye (Phase 1)	£1.627m
• Brownfield Regeneration Fund	£0.787m
• Contribution to PEARL Joint Venture	£0.700m

Details on both these projects have been reported previously to Policy and Resources Committee.

Revenue Implications of the Capital Programme

29. Consideration of the Capital Programme needs 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) **cost of borrowing -** this comprises two elements:

- an interest cost 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 principal 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 2019/20 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. Albeit that interest rates continue to be low, the authority has achieved more investment income that originally budgeted for in 2018/19.

(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 £12,550.

(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.

30. An assessment of the revenue implications of the proposed capital programme for 2019/20 has been undertaken and the impact reflected as appropriate in the General Fund Revenue Budget presented elsewhere on this agenda. Should the proposed programme change, however, it may be necessary to undertake a further assessment to establish the impact on the revenue budget.

Prudential Indicators

31. 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 2019/20 is considered to be affordable, prudent and sustainable.

IMPLICATIONS

Policy

32. 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

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

Legal

34. There are no legal implications arising directly from the recommendations in 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.

35. 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.

36. 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 recommendation in this report.

Risk Management

37. 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 2019/20 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.

38. 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 using capital budget virement. Invariably, this might mean schemes approved as part of the proposed programme being either delayed or not progressed at all.

39. 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.

40. 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 Policy and Resources Committee.

41. The Capital Programme for 2019/20 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.

42. 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.

43. 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

44. There are no health and safety issues arising directly from the recommendations in this report.

Sustainability

45. There are no sustainability arising directly from the recommendations in this report.

Community Safety

46. There are no community safety issues arising directly from the recommendations in this report.

Equality and Diversity

47. There are no new equality and diversity issues arising directly from the recommendations in this report.

APPENDICES

Appendix A – Capital Programme 2018/19 – Projected Out-turn.
Appendix B – Corporate Capital Strategy including the flexible use of capital receipts.
Appendix C – Proposed Capital Programme 2019/20 (with indicative programmes for 2020/21 and 2021/22).
Appendix D – Prudential Indicators 2019/20 to 2021/22.

LIST OF BACKGROUND PAPERS

Developing the Medium Term Capital Programme 2019/20 to 2021/22 – Policy and Resources Committee 18/12/18
Background papers in relation to the capital programme are held in Financial Services (Accountancy).