

**REPORT OF:** CHIEF EXECUTIVE  
**TO:** POLICY AND RESOURCES COMMITTEE  
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**Report Author:** Craig Finn  
**Tel. No:** 01282 661014  
**E-mail:** craig.finn@pendle.gov.uk

**DEVELOPING THE MEDIUM TERM CAPITAL PROGRAMME  
2020/21 to 2022/23**

**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 2020/21 to 2022/23.

**RECOMMENDATIONS**

2. The Policy and Resources Committee is recommended to:
  - a) note the projected position on the Capital Programme for 2019/20 as shown in **Appendix A**;
  - b) note that the capital bids submitted for 2020/21 exceed the projected resources available by £987k and are therefore unaffordable;
  - c) in view of (b) above consider the draft Capital Programme for 2020/21 as shown in **Appendix C** pending a further report on this matter to the meeting of Policy and Resources Committee in February 2020;
  - 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 2020/21;
  - 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 2020/21 to 2022/23.

## ISSUE

4. This report provides details of the likely capital resources available in 2020/21 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 2020/21 has been put forward for consideration by the Policy and Resources Committee. A further report on the Council's Medium Term Capital Programme for 2020/21 and an updated capital strategy will be prepared for the February cycle of meetings.

### **Capital Programme 2019/20**

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 2019/20

6. Table 1 below provides a summary of the Capital Programme for 2019/20 with a more detailed analysis provided at **Appendix A**.

**Table 1: Capital Programme 2019/20 – Forecast Outturn**

	<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	3,983	1,344	(2,639)	2,639	-
Environment, Flooding and Roads	575	415	(160)	160	-
Waste Collection	70	65	(5)	5	-
Other General Capital Schemes	751	264	(487)	477	(10)
Community Safety	79	75	(4)	4	-
Area Committees	466	200	(266)	266	-
Resource Procurement Schemes	4,687	130	(4,557)	4,557	-
Strategic Property Investment	5,000	-	(5,000)	5,000	-
Asset Renewal	1,027	536	(491)	491	-
<b>TOTAL</b>	<b>16,637</b>	<b>3,029</b>	<b>(13,608)</b>	<b>13,599</b>	<b>(10)</b>

Source: Appendix A

7. On the basis of current estimates, it is envisaged that there will be a variation of £10k on the programme in this year after account has been taken of project slippage. This is in respect of sums brought forward from prior years for costs associated with the acquisition of No1 Market Street, which are no longer anticipated. The slippage on current projects will be carried forward to 2020/21. A full analysis of the variations, before and after forecast slippage, is provided at **Appendix A**.

### Forecast Capital Resources 2019/20

8. Table 2 below summarises the expected available capital cash resources for 2019/20.

**Table 2: Capital Programme 2019/20 – 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	2,354	1,226	(1,128)	1,128	-
Revenue Contributions	22	22	-	-	-
Capital Grants	2,100	1,681	(419)	419	-
S106 Funding/Leasing	58	-	(58)	58	-
<b>Sub-Total (cash resources)</b>	<b>4,534</b>	<b>2,929</b>	<b>(1,605)</b>	<b>1,605</b>	<b>-</b>

Source: Appendix A

9. There are no variations here as it is anticipated that all capital cash resources will be required to fund the Programme in the current or subsequent years.

### Prudential Borrowing in 2019/20

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 2019/20 to fund the current approved programme (whether it is spent in this year or in later years).
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 £12.0m 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 2020/21 report elsewhere on this agenda.

**Table 3: Prudential Borrowing 2019/20**

	<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)	16,638	3,029	(13,609)	13,609	(10)
Less: Capital Cash Resources (table 2)	4,534	2,929	(1,605)	1,605	-
Required Prudential Borrowing	12,104	100	(12,004)	11,994	(10)
Budgeted Prudential Borrowing	12,104	100	(12,004)	12,004	-
Variance	-	-	-	(10)	-

### **Capital Strategy 2019/20**

12. The Capital Strategy for 2019/20 to 2021/22 was approved by Council in February 2019 as part of the approval process for current year's Capital Programme. It was subsequently revised in August 2019 to reflect inclusion of the Council's approved Property Investment Strategy and was approved by Council in September 2019.
13. 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 2020 cycle of meetings covering the period 2020/21 to 2022/23.
14. 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. As there has been no call on the initial allocation (£300k) of this funding during the current year, no additional budget provision will be made in 2020/21.
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. 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, PEARL2, PEARL (Brierfield Mill) and more recently PEARL Together– 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.
- **Investment in property acquisitions for a commercial return** – in accordance with an agreed Property Investment Strategy, the Council will use its ability to access PWLB borrowing to acquire properties for investment with a view to generating net additional income which will support the General Fund Revenue Budget.

### Capital Resources Strategy

16. Councillors are aware that the ongoing position is one in which the level of available capital resources remains constrained.
17. 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 reductions in core revenue grant funding there is no longer the capacity to make general revenue contributions to support the Capital Programme. Those revenue contributions included in the draft Capital Programme 2020/21 are identified from within Service Revenue budgets included in the draft General Fund Revenue Budget presented elsewhere on the agenda. 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 costs of borrowing.
18. 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. In accordance with the Land and Asset Management Plan, 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**.
19. As Capital Receipts are fundamental to financing the Capital Programme, the process of identifying and disposing of surplus land and property continues. Councillors are asked to note that a report on this matter will be brought to a Policy and Resources Committee meeting early in the new financial year.

## Overview of Capital Resources 2020/21

20. Table 4 below summarises the estimate of available capital resources for 2020/21 (with 2021/22 and 2022/23 shown for information):

**Table 4: Estimated Capital Resources 2020/21 (2021/22 and 2022/23)**

	2020/21 £000	2021/22 £000	2022/23 £000
Capital Receipts (balance in-hand)	163	-	-
Capital Receipts (in year only)	400	100	100
Other Resources	16	-	-
Capital Grant (in year) – DFG's only	820	820	820
Prudential Borrowing – Property Investment	5,000	-	-
Prudential Borrowing (equiv. to MRP paid in 2019/20)	480	-	-
<b>Estimated Resources</b>	<b>6,879</b>	<b>920</b>	<b>920</b>

Source: Appendices B and C

21. 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, except in support of the Council's Property Investment Strategy, as approved by Council in September 2019. In a change to that approach, it is proposed to have additional borrowing equivalent to the amount of the prior year Minimum Revenue Provision (£480k for 2019/20) to provide some headroom for the Capital Programme but with increasing the Council's Capital Financing Requirement over the medium term.
22. Other points to note about capital resources include:
- Capital Receipts** – the assumptions on receipts generated in year only are shown in Appendix B;
  - Capital Grants** – for the purposes of developing the draft programme for 2020/21 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. The assumption is sustained grant at this level over the medium term.
  - S106 Funding** – will be used only for the purposes it was received by the Council.

## Bids for Capital Expenditure 2020/21

23. The bids (including forecast slippage carried forward from 2019/20) 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 2020/21**

	<b>Capital Bids 2020/21 £000</b>	<b>Capital Bids 2021/22 £000</b>	<b>Capital Bids 2022/23 £000</b>
Private Sector Housing Projects	3,689	1,050	1,050
Environmental, Flooding and Roads	160	-	-
Waste Collection	126	119	112
Other General Capital Schemes	980	445	445
Community Safety	4	-	-
Area Committees	436	170	170
Resource Procurement Schemes	4,757	200	200
Strategic Property Investment	10,000	-	-
Asset Renewal	1,314	290	285
<b>Total Proposed Capital Expenditure</b>	<b>21,466</b>	<b>2,274</b>	<b>2,262</b>

Source: Appendix C

### ***Affordability of the Proposed Capital Bids 2020/21***

24. 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 £987k in 2020/21 (£1.4m in 2021/22 and £1.3m in 2022/23).

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

	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Capital Bids (Table 5)	21,466	2,274	2,262
Less Capital Resources (Table 4)	(6,879)	(920)	(920)
Less resources carried forward from 2019/20	(13,598)	-	-
<b>Resource Shortfall</b>	<b>987</b>	<b>1354</b>	<b>1342</b>

25. An important consideration in assessing the affordability of our future capital investment plans is the cost to the General Fund Revenue Budget. As indicated in previous reports, the cost of borrowing for capital investment comprises two elements:-
- an interest cost arising from either new cash borrowing or where we choose to redeem investments (i.e. interest foregone) in order to have sufficient cash to meet capital payments when they are due;
  - a principal repayment (otherwise known as the Minimum Revenue Provision (MRP)) required to reduce the net indebtedness of the Council.
26. These costs are direct charges to our General Fund Revenue Budget. Aside from the committed borrowing of c£17.0m (of which £10.0m earmarked for Property Investment only), the current Medium Term Financial Plan assumes no increase in the Capital Financing Requirement other than for the borrowing shown above over the life of the current Medium Term Capital Programme (as agreed by the Council as part of its capital strategy). The estimate of debt charges to 2022/23 on the basis of current assumptions is provided in Table 7 below:-

**Table 7: Estimated Debt Charges 2020/21**

	Estimate 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Minimum Revenue Provision	530	621	643
Estimated Interest Costs	801	847	855
<b>Total Estimated Debt Charges</b>	<b>1,331</b>	<b>1,467</b>	<b>1,498</b>

27. ***This position represents the ongoing cost of our present capital programme and commitments along with the proposed borrowing set out above.***

28. The borrowing requirement to meet the bids for 2020/21 is an additional £987k. If this additional borrowing was undertaken the costs falling on the General Fund would increase by an estimated c£80k per annum. ***In view of the financial position facing the Council as presented in a report elsewhere on this Agenda, this is neither affordable, sustainable nor prudent.*** Indeed, subject to Councillors discussions on the General Fund Revenue Budget 2020/21, consideration may need to be given to the affordability of the borrowing currently assumed in 2020/21 and future years.

#### ***Draft Capital Programme 2020/21***

29. 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 2020/21 is provided at **Appendix C** and summarised in Table 8 below for consideration by the Policy and Resources Committee.

**Table 8: Proposed Capital Programme**

	<b>Capital Bids Bids 2020/21 £000</b>	<b>Draft Programme 2020/21 £000</b>	<b>Variance 2020/21 £000</b>
Private Sector Housing Projects	3,689	3,459	(230)
Environmental, Flooding and Roads	160	160	-
Waste Collection	126	85	(41)
Other General Capital Schemes	980	922	(58)
Community Safety	4	4	-
Area Committees	436	436	-
Resource Procurement Schemes	4,757	4,557	(200)
Strategic Property Investment	10,000	10,000	-
Asset Renewal	1,314	856	(458)
<b>Total Proposed Capital Expenditure</b>	<b>21,466</b>	<b>20,478</b>	<b>(987)</b>
Funded by:			
Less Resources b/fwd	(1,605)	(1,605)	-
Less New Capital Cash Resources	(1,400)	(1,400)	-
<b>Required Prudential Borrowing</b>	<b>18,460</b>	<b>17,473</b>	<b>(987)</b>

#### ***Timetable and Next Steps***

30. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2020/21:

**Table 9: Capital Programme - Timetable**

<b>Date</b>	<b>Action</b>	<b>Status</b>
mid October	Pro-Forma (with guidance notes) issued to Service Managers	Completed
early November	Return of Pro-Formas from Service Managers	Completed
16 <sup>th</sup> January 2020	Policy and Resources Committee to consider Capital Programme Roll-Forward	This report
January 2020	Mgmt Team Consideration of detailed Capital Programme 2020/21	
13 <sup>th</sup> February 2020	Policy and Resources Committee approval of Capital Programme 2020/21	
27 <sup>th</sup> February 2020	Special Budget Council including Capital Programme 2020/21	

**IMPLICATIONS****Policy**

31. 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**

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

**Legal**

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

**Risk Management**

34. 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.
35. 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**

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

**Sustainability**

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

**Community Safety**

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

**Equality and Diversity**



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

## **APPENDICES**

Appendix A – Capital Programme 2019/20 – Provisional Outturn

Appendix B – Capital Receipts 2019/20 to 2022/23

Appendix C – Capital Bids and draft Medium Term Capital Programme 2020/21 to 2022/23

**LIST OF BACKGROUND PAPERS** – None