Borough of Pendle

REPORT OF:	**MANAGEMENT TEAM**
TO:	**SPECIAL BUDGET COUNCIL**
DATE:	**27th FEBRUARY 2020**

Report Author:	Dean Langton
Tel. No:	01282 661602
E-mail:	dean.langton@pendle.gov.uk

CAPITAL PROGRAMME 2020/23

PURPOSE OF REPORT

1. The purpose of this report is to seek approval to the proposed capital programme for 2020/21. The report also provides an overview of the Medium-Term Capital Programme for the period 2020/23.

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. The Council is recommended to:-

   a) note the forecast outturn position on the Council's capital programme for 2019/20 as shown at **Appendix A** and detailed in the report;

   b) approve the proposed capital programme for 2020/21 as shown in **Appendix C**;

   c) grant delegated authority to the Chief Executive, as the Council's Chief Finance Officer, to determine the most appropriate method of financing the capital programme for 2020/21 to ensure the use of resources is optimised by the Council;

   d) note the indicative programmes for 2021/22 and 2022/23 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;

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

REASONS FOR RECOMMENDATION

4. To seek approval to the revised capital programme for 2019/20 and the capital programme for 2020/21.

ISSUE

5. This report provides details of the likely capital resources available in 2020/21 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 2020/21 has been developed for consideration by the Council.

Forecast Capital Outturn 2019/20

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 January 2020 and is provided so that Councillors can consider the proposed 2020/21 programme in the context of existing capital expenditure commitments.

7. Table 1 below provides a summary of the Capital Programme for 2019/20 with a more detailed analysis provided at **Appendix A**. Actual expenditure at 31st January 2020 amounted to £1.755m. The projected expenditure at year end is £3.063m. Comparing this with the approved programme of £16.759m gives rise to an implied underspend of £13.696m 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 2019/20 – Forecast Outturn

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Housing Projects	3,983	1,344	(2,639)	2,639	-
Car Parks, Flooding etc	625	415	(210)	210	-
Other Miscellaneous Projects	821	329	(492)	482	(9)
Community Safety	79	75	(4)	4	-
Asset Renewal (excl.Parks)	5,663	290	(5,373)	5,373	-
Parks and Recreation Assets	374	255	(118)	118	-
Resource Procurement	4,692	155	(4,537)	4,537	-
Area Committees	523	200	(323)	323	-
TOTAL	**16,759**	**3,063**	**(13,696)**	**13,686**	**(9)**

Source: Appendix A

8. On the basis of current estimates, it is envisaged that there will be a net underspend of £9k on the programme in this year once account has been taken of project slippage. This relates specifically to the residual underspend on the acquisition of Number One Market Street in the last financial year. Subject to approval, 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**.

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

Table 2: Capital Programme 2019/20 – Forecast Capital Cash Resources

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
General Capital Receipts	2,355	1,226	(1,128)	1,128	-
Revenue Contributions	95	53	(41)	41	-
Capital Grants	2,150	1,730	(419)	419	-
s106 Funding	58	-	(58)	58	-
Total	**4,657**	**3,010**	**(1,647)**	**1,647**	**-**

Source: Appendix A

10. 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

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 2019/20 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 £12.049m 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 2019/20

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Capital Programme (Table 1)	16,759	3,063	(13,696)	13,686	(9)
Less: Capital Cash (Table 2)	4,657	3,010	(1,647)	1,647	-
Required Prudential Borrowing	12,103	53	(12,049)	12,040	(9)
Budgeted Prudential Borrowing	12,103	53	(12,049)	12,040	(9)
Variance	**-**	**-**	**-**	**-**	**-**

Capital Strategy 2019/22 – Flexible Capital Receipts

13. The most recent Strategy for 2019/22 was approved by Council in September 2019. The Strategy is maintained under ongoing review in response to the significant reduction in capital resources experienced in recent years. As Councillors may recall, the Capital Strategy includes a strategy for the flexible use of capital receipts. This flexibility applies to new capital receipts arising from the disposal of property, plant and equipment in the financial years to 2021/22.

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*".

15. The Council's initial strategy approved by Council in July 2018 for current year earmarked up to £500k of capital receipts for business transformation leading to revenue savings. The likelihood is that there will be no use of this funding in 2019/20. As a consequence, it is proposed to carry forward only £300k to 2020/21 as provision for costs which may be incurred as part of the Council's strategy to achieve ongoing revenue savings.

Capital Investment Priorities

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, as set out in the Capital Strategy, comprise:-

- ***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. In the meantime, the Council has established PEARL Together, a joint venture partnership with Barnfield Investment Properties and Together Housing, to deliver new housing stock;

- ***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;

.

- ***Invest to save / transformation projects*** – the Council has used its prudential borrowing powers to undertake projects which generate revenue savings. Past 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.

- ***Investment in property acquisitions for a commercial return*** – in accordance with the 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.

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 grown in significance in 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***.

Overview of Capital Resources 2020/21

19. 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 2021/22)

	2020/21 £000	2021/22 £000	2022/23 £000
Capital Receipts - In Hand	1,291	-	-
Capital Receipts - New	400	100	100
Revenue Contribution to Capital	58	-	-
Grants	1,239	820	820
s106 Agreement	58	-	-
Borrowing - General	7,040	-	-
Borrowing – Strategic Property Investment	10,000	-	-
Borrowing	480	500	500
Total	**20,566**	**1,420**	**1,420**

Source: Appendix C

20. Details of the estimated capital resources are summarised in **Appendix C**. The table shown above includes new borrowing of £480k, reflecting an amount equivalent to the Minimum Revenue Provision in 2019/20. This additional borrowing, whilst providing some additional capacity for capital expenditure, should result in no material change to the Council's Capital Financing Requirement and hence no significant change in ongoing costs of debt when compared to existing budget provision.

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 2020/21 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 (in additional to £383k carried forward from 2019/20).

As Councillors are aware, the Council has bid successfully for Future High Street funding and has been chosen by the Government to receive Town Deal funding for Nelson. Both of these projects may result in additional capital and revenue funding for the Council which, once determined, will be reflected in the appropriate budgets.

(c) ***Borrowing*** – this consists of the estimated unused borrowing of £7.040m carried forward from the current year, which is matched to spending commitments carried forward (i.e. project slippage), £10.0m for the Property Investment Strategy and £480k of new borrowing;

(d) ***Revenue*** – the sum of £58k shown above represents a contribution from the revenue account towards capital expenditure.

The Proposed Capital Programme for 2020/21

22. Table 5 below summarises the proposed capital programme for 2020/21 together with the indicative programme to 2022/23. More detail is provided in **Appendix C**.

Table 5: Proposed Capital Programme for 2020/21

	Capital Bids 2020/21 £000	Proposed Programme 2020/21 £000	Capital Bids 2021/22 £000	Capital Bids 2022/23 £000
Housing Projects	3,689	3,459	1,050	1,050
Car Parks, Flooding etc	210	210	-	-
Other Miscellaneous Projects	1,106	1,007	564	557
Community Safety	4	4	-	-
Asset Renewal (excl.Parks)	1,067	708	285	285
Parks and Recreation Assets	247	148	5	-
Strategic Property Investment	10,000	10,000		
Resource Procurement	4,737	4,537	200	200
Area Committees	493	493	170	170
TOTAL	**21,553**	**20,566**	**2,274**	**2,262**

Source: Appendix C

23. The following narrative provides a summary of the main items of expenditure forming the proposed capital programme for 2020/21. In total the value of capital expenditure is estimated at £20.566m, in line with the current level of estimated resources. This position will be monitored during the year to ensure spend is aligned with resources.

Private Sector Housing

24. The Housing Capital Programme will focus primarily on Brierfield Mill, Empty Homes and Disabled Facilities Grants. Subject to approval, a total, £3.5m will be spent on housing related projects. As in the current year, the proposed expenditure 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.

Car Parks, Flooding etc

25. This budget reflects the residual costs for flood alleviation schemes in Earby and Barnoldswick along with the funding allocated for highways improvements on Red Lane, Colne.

Other Miscellaneous Projects

26. This comprises the following budgets:-

    (a) *Waste Containers* – an amount of £85k is included in the budget for replacement waste containers for the Refuse Collection Service;

    (b) *Information Technology* - In addition to slippage of £397k, the additional sum proposed for 2020/21 is £100k which seeks to continue with the investment required to undertake key elements of the ICT strategy during the year. There is also £50k for PC Refresh and £75k to meet the capitalised cost of development days associated with IT Projects;

    (c) *Climate Change Initiatives* - £50k has been included in the budget to meet the cost of Climate Change Initiatives arising from the Council's decision to declare a climate emergency and the development of an action plan to be considered by the Climate Change Working Group.

Asset Renewal and Parks / Recreation Services

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 £1.186m of which £826k is included in the proposed programme. Of this, £373k 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. The sum of £135k is included for replacement of operational vehicles.

Strategic Property Investment

29. As previously agreed by the Council, an amount of £10.0m is earmarked for the Council's Property Investment Strategy. This is expected to be funded by specific borrowing with any such proposed investments, once identified, evaluated in accordance with the requirements of the Strategy.

Resource Procurement

30. The Resource Procurement Budget includes the following:-

    (a) PEARL Initiatives - The budget includes provision of £780k to support the Council's partnership with the various PEARL companies. No additional provision has been made for PEARL Projects in 2020/21. Following the successful completion of projects such as Foxhills and Langroyd, it is anticipated that funding previously advanced to PEARL for these development projects will be available for reinvestment in new projects being undertaken by PEARL;

    (b) Extension of Lomeshaye Industrial Estate – The budget includes c£1.574m representing the Council's contribution to the development of the extension to the Lomeshaye Industrial Estate;

    (c) *Brownfield Development* - £1.537m remains of the Brownfield Development Fund albeit over £0.5m of this is now committed to schemes.

Area Committees

31. Total funding for Area Committees in 2020/21 has been maintained at £170,000 and, as in the current year, is wholly for capital expenditure.

Revenue Implications of the Capital Programme

32. 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 repayment</u> (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 £58,000 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.

33. An assessment of the revenue implications of the proposed capital programme for 2020/21 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

34. 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 2020/21 is considered to be affordable, prudent and sustainable.

IMPLICATIONS

Policy

35. 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

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

Legal

37. 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.

38. 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.

39. 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

40. 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 2020/21 within the level of resources available.

41. 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. 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.

42. 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.

43. 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.

44. The Capital Programme for 2020/21 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.

45. 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. 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

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

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Programme 2019/20 – Projected outturn
Appendix B – Capital Receipts to 2022/23
Appendix C – Proposed Capital Programme 2020/21 (with indicative programmes for 2021/22 2022/23)
Appendix D – Prudential Indicators 2020/21

LIST OF BACKGROUND PAPERS

Background papers in relation to the capital programme are held in Financial Services (Accountancy).
Reports to the Policy and Resources Committee (16th January 2020 and 13th February 2020)