

REPORT OF: CHIEF EXECUTIVE
TO: POLICY & RESOURCES COMMITTEE
DATE: 23rd JULY 2020

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CAPITAL PROGRAMME – PROVISIONAL OUTTURN 2019/20

PURPOSE OF REPORT

1. This report informs the Committee of the provisional outturn position on the Council's capital programme for 2019/20.

RECOMMENDATIONS

2. The Committee is recommended to:
 - a) note the provisional outturn position on the Council's capital programme for 2019/20;
 - b) approve the proposals to carry forward budget slippage on the programme from 2019/20 to 2020/21.
 - c) note the accounting treatment applied in 2019/20 in respect of the loan to Pendle Leisure Trust for the former High Ropes course (paragraphs 22-25);
 - d) note the budget position and endorse the proposed use of residual funding in support of the Council's financial contribution to the Brierfield Mill (Northlight) project (paragraphs 26-27).

REASONS FOR RECOMMENDATION

3. To inform the Committee of the provisional outturn position for the Council's capital programme in 2019/20. This information is deemed provisional pending completion of the audit by Grant Thornton of the Council's accounts for 2019/20. Other matters are for reported for information / transparency purposes.

ISSUE

2019/20 Approved Capital Programme

4. At the Council meeting on 26th February 2019, Councillors approved a capital programme for 2019/20 of £7.91m. This included slippage from 2018/19, estimated at that time of £5.2m. During the year, there have been various adjustments to the programme as follows:-

- a) additional budget provision arising from the actual slippage brought forward from 2018/19. This amounted to £8.2m, some £3m more than the slippage initially assumed in the programme ([see Appendix A, Column 4](#)) – details on this were reported to the Policy and Resources Committee in June 2019;
- b) changes to the programme for supplementary allocations, adjustments reflecting the receipt of additional external funding and virements within the programme totaling £5.8m ([see Appendix A, Column 5](#)).

5. The main items giving rise to the adjustments of £5.8m are as follows:

	£'000
• Approved Property Investment Strategy	5,000
• Additional Disabled Facilities Grant	183
• Additional in year capital receipts	100
• Additional revenue contribution to capital works	136
• Misc 3 rd party grants/other funding contributions	<u>393</u>
	5,812

6. Taking these adjustments in to account, the overall Capital Programme for 2019/20 totals £16.775m ([see Appendix A, Column 6](#)).

Draft (pre-audit) Capital Programme Outturn Position 2019/20

7. The draft (pre-audit) outturn position for the capital programme is expenditure of £3.047m, a net underspend of £13.73m when compared to the revised budget for the year. This is summarised in Table 1 below:-

Table 1: Capital Outturn 2019/20 (pre-slippage)

	Revised Budget £000	Draft Outturn £000	Variance £000
Housing	4,012	1,401	(2,611)
Waste Collection	70	47	(23)
Environmental, Roads, Street Lighting and Road Safety	625	370	(255)
Information & Communications Technology	638	173	(465)
Resource Procurement / Externally Funded	4,552	172	(4,380)
Asset Renewal	638	270	(368)
Parks and Recreation	399	258	(140)
Area Committees	659	218	(441)
Property Investment Strategy	5,000	0	(5,000)
Other Capital Projects	183	138	(45)
TOTAL	16,775	3,047	(13,728)

Source: Appendix A

8. With the exception of the Property Investment Strategy the net underspend *mainly* consists of budgets that are committed but have not yet been spent. These elements are detailed at [Appendix A \(Col 8 – Variations and Col 9 – Slippage\)](#). Resources to meet the costs of budgets that are committed will also be slipped to 2020/21, subject to approval by this Committee.

9. Before considering scheme slippage for 2019/20, the following outlines the major variations in the Programme as shown in Table 1 above:-

- **Housing Projects** – There is an underspend on housing projects of £2.61m with the main variances being:
 - *Brierfield Mill (Northlight - underspend of £560k)* – The council's budget allocation is required to contribute to the enabling and infrastructure elements of the project. The expenditure incurred reflects £200,000 converted from a cashflow loan advanced originally in 2016/17 to a capital grant now that State Aid considerations have been resolved. Updates on this project have been presented to Councillors during the year.
 - *Empty Homes Clusters funding (underspend of £549k)* – this funding was originally earmarked for public realm improvements and the provision of loans to owners to help them bring empty properties back into use. The element of funding for the public realm works was spent in earlier years. Councillors have received periodic updates on the Empty Home Loan scheme and have varied the scheme previously to broaden its appeal. Despite this, take up is low with enquiries not converting to loan advances. However, owners are often bringing the properties back into use without the use of the Council's loan funding once we have supported them by producing schedules setting out what work is required.
 - *Contribution to Social Housing (underspend of £276k)*. A total of £19,500 was advanced during the year to PEARL Together under the funding agreement which the Council is a party to. The unspent budget is currently uncommitted. However, Councillors will recall that the budget must be used on social housing schemes in partnership with Together Housing (in respect of agreements with Housing Pendle). A number of potential schemes are being considered with Together Housing;
 - *Disabled Facilities Grant (underspend of £1,058k)* – the council has received increased grant allocations under the Better Care Fund framework in recent years. There is a pipeline of grant applications which the housing team is working through and it can take time for the grant process to move from the status of 'approved' to 'completed'. Applicants are not obliged to use the Council to oversee the works so we do not always have control over the timescales for delivery.
- **ICT Strategy / IDOX** – (underspend of £465k) – the unspent budget is required in support of the continuing implementation of the ICT Strategy. During 2020/21 this will support key systems (e.g. financial system) and aid the ongoing development and integration of back office systems with the Customer Relationship Management system and website given the move towards automated/self-service for transactional activity.
- **Area Committees** – (underspend of £441k) – the underspend on the capital programme is to be carried forward in full to 2020/21 to cover outstanding commitments in respect of allocations agreed but not yet incurred;
- **Resource Procurement** – (underspend of £4.4m). These budgets are linked to significant projects including the Lancashire Growth Deal, the Council's partnership contributions to Pearl (notably re Brierfield Mill), the Brownfield Regeneration Fund and the extension of the Lomeshaye Industrial Estate (phases 1 and 2). Periodic updates on these matters have been provided to Councillors previously and subject to approval the intention is to carry the unspent budgets forward in full. An update on the extension to Lomeshaye Industrial Estate is provided elsewhere on this agenda.
- **Asset Renewal** (underspend £368k) – The main variances relate to budgets allocated for asset renewal and enhancement on those properties managed by the Leisure Trust and general properties managed by Liberata on behalf of the Council. These are held primarily as contingency type budgets in the event of any urgent works being required on grounds of health and safety. Hence, it is proposed to carry the unspent budget forward in full.
- **Property Investment Strategy** (underspend £5m) – Council agreed the Strategy in September with a budget allocation of £5m to be funded by borrowing if suitable investment opportunities presented themselves. Sentiment has shifted in relation to local authority commercial investments and the final quarter of the year concluding with the current pandemic changed the property investment landscape significantly. As a result of these factors no action has been taken in support of this budget during the year.

Scheme Slippage 2019/20

10. Slippage relates to schemes that were not completed by 31st March 2020 and therefore require carrying over into the new financial year. A review of the capital programme for the year has identified scheme slippage totaling £13.73m. An analysis of these schemes is provided at **column 9 of Appendix A**. The following table shows the capital outturn position adjusted for slippage:

Table 2: Capital Outturn 2019/20 (post slippage)

	Variance (Pre Slippage) £'000	Slippage £'000	Variance (Post Slippage) £'000
Housing	(2,611)	2,611	-
Waste Collection	(23)	23	-
Environmental, Roads, Street Lighting and Road Safety	(255)	255	-
Information & Communications Technology	(465)	465	-
Resource Procurement / Externally Funded	(4,380)	4,380	-
Asset Renewal	(368)	368	-
Parks and Recreation	(140)	140	-
Area Committees	(441)	441	-
Property Investment Strategy	(5,000)	5,000	-
Other Capital Projects	(45)	45	-
TOTAL	(13,728)	13,728	-

11. Table 2 above indicates the intention, subject to approval, to carry forward all unspent budget resulting in a nil variance overall.

Available Capital Resources 2019/20 (excluding Borrowing)

12. The original estimate of available resources for capital expenditure in 2019/20, as reported to Council in February 2019, was £3.67m excluding borrowing. The final budgeted resources for 2019/20, taking into account adjustments for actual slippage from 2018/19 and other resources received during the year, amount to £4.67m (including monies received from capital receipts and external grants/contributions). This variation in resources of £1.0m in year is primarily explained by the following:

	£'000
• Net reduction in use of capital receipts	(83)
• Increased contribution from revenue budget	136
• Disabled Facilities Grant funding & contributions	301
• Misc 3 rd party grants/contributions/incl.S106	<u>596*</u>
	950

**Includes £250k from the Environment Agency in respect of flood alleviation works at Ghyll Meadow, Barnoldswick and £68 from Sport England for works at Pendle Leisure Centre, Colne.*

13. A summary of the movement in available resources is provided on the first page of **Appendix A**. The total budgeted capital resource in 2019/20 including borrowing is £16.775m.

Application of Capital Resources 2019/20

14. Ordinarily, to help minimise borrowing costs in the short-term, it is prudent to use all capital cash resources in hand to finance expenditure in the first instance and thereby reduce the Capital Financing Requirement, the notional measure of debt upon which debt charges are based.
15. Capital receipts of £1.261m have been used to finance capital expenditure.
16. The approved revenue contribution to capital expenditure of £148k has been applied in full.
17. Capital grant of £1.045m has been applied from the Council's allocation from the Better Care Fund administered via the County Council. This grant, together with contributions from applicants of £29k, has been used to finance the expenditure incurred on disabled facilities grants in the year.
18. During the year various other capital grants and contributions have been received and applied towards financing the associated capital expenditure. These grants combined with the use of grants in hand have led to the sum of £563k being applied towards capital projects in 2019/20. The most significant of these being:-
 - a) £353k from the Environment Agency in connection with flood works in Barnoldswick, comprised of grant received in year (£210k with £40k carried forward) and grant in hand carried forward from previous year (£143k);
 - b) contributions from local town councils towards Area Committee schemes totaling £63k; the most significant being for back street resurfacing works in Brierfield and Nelson;
 - c) contribution of £68k from Sport England for refurbishment works carried out at the Pendle Leisure Centre in Colne.
19. The above funding streams fully fund the capital expenditure incurred during 2019/20 meaning there is no underlying prudential borrowing required in the year.

Resources carried forward to 2020/21

20. The total budget for expenditure to be slipped from 2019/20 to 2020/21 is £13.728m as shown in Table 2 above. To fund this expenditure in 2020/21 Table 3 below summarises the net amount of resources that will be carried forward:

Table 3: Resources Carried Forward to 2020/21

	£000
Prudential Borrowing	12,103
Capital receipts c/fwd	893
Grants and Contributions – balance of grants incl. S106 c/fwd	732
Balance of Resources Remaining	13,728

Other Capital Matters

21. The following capital matters are reported for the Committee's information linked either to our work on closing the Council's capital accounts for 2019/20 or the ongoing capital budget:
 - Loan to Pendle Leisure Trust (High Ropes Course)
 - Use of capital budget for Brierfield Mill, Northlight

Loan to Pendle Leisure Trust

22. Members may recall that the Council advanced a loan of £210,000 to the Trust in 2013/14 to facilitate the construction of a high ropes course on land off Vivary Way, Colne. The course was subsequently dismantled and the site was cleared with the agreement of the Council. The land has recently been sold off to adjacent businesses.
23. At the start of this financial year the Council retained an outstanding loan balance of £147k and in closing the accounts for 2019/20 a decision was required as to how to treat the outstanding balance.
24. The facility has not operated for some time. This combined with the recent impact of COVID-19 and the financial challenges now facing the Trust make the prospect of repayment remote. As a result of these factors the loan balance is considered fully impaired. The accounts need to reflect this judgement and hence the outstanding loan balance has in effect been written out of the accounts in 2019/20.
25. Although write-offs and impairments of the loan advances are legitimate charges in the authority's surplus or deficit on the provision of services, they are not financed from council tax. The loan advances originally made constituted expenditure for capital purposes in 2013/14 and they were fully financed at that time. As a result there is no bottom line impact on the General Fund from the treatment adopted in the accounts for 2019/20. The Council will, however, forego capital receipts arising from the future loan repayments had they continued.

Capital Programme Budget for Brierfield Mill, Northlight

26. As shown in Appendix A the Council retains a capital budget for this major project of £560,180. The budget when the scheme first commenced was c£1.5m and as members are aware the project is now well advanced. The bulk of expenditure incurred to-date has related to land and property transactions including CPO payments. In 2019/20 the Council has converted a temporary loan of £200,000 to a grant in favour of PEARL Brierfield Mill Ltd. The principle of this was agreed by the former Executive in May 2016 but the conversion to grant was dependent on State Aid considerations being addressed.
27. With regard to the remaining budget, subsequent expenditure will consist of further grant payments to PEARL Brierfield Mill Ltd primarily linked to the costs of general public infrastructure and public realm works (including the abnormal costs of development of the infrastructure i.e. non-value enhancing). Such payments form part of the Council's approved funding contribution to the overall cost of the scheme and the Committee is asked to endorse this action.

IMPLICATIONS

Policy

28. The application of capital resources is undertaken within the objectives of the Council's Capital Strategy and Asset Management Plan, both of which have been prepared with the intention that capital investment and performance will support the delivery of the Council's key corporate priorities.

Financial

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

Legal

30. There are no legal implications arising directly from this report.

Risk Management

31. There are no risk management implications arising from this report.

Health and Safety

32. There are no health and safety implications arising directly from this report.

Climate Change

33. There are no climate change implications arising directly from this report.

Community Safety

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

Equality and Diversity

35. There are no equality and diversity issues arising from the contents of this report.

APPENDICES

[Appendix A](#) - Capital Programme – Capital Outturn 2019/20

LIST OF BACKGROUND PAPERS - Capital Programme Working Papers 2019/20