

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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DEVELOPING THE MEDIUM TERM CAPITAL PROGRAMME 2021/24

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 initial proposals for the 2021/22 to 2023/24 capital programme.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:
 - a) note the projected position on the Capital Programme for 2020/21 as shown in **Appendix A**;
 - b) agree that a review of the Council's Land and Asset Management Strategy be undertaken with a view to identifying surplus land and property for disposal;
 - c) note that the capital bids submitted for 2021/22 exceed the projected resources available by £0.936m and are therefore unaffordable;
 - d) in view of (c) above consider the draft Capital Programme for 2021/22 as proposed in **Appendix C** pending a further report on this matter to the meeting of Policy and Resources Committee in February 2021;

REASONS FOR RECOMMENDATION

3. To consider the development of the Council's Capital Programme for 2021/22 to 2023/24.

ISSUE

4. This report provides details of the likely capital resources available in 2021/22 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 2021/22 has been put forward for consideration by Policy and Resources Committee. A further report on the Council's Medium Term Capital Programme for 2021/22 and an updated capital strategy will be prepared for the February cycle of meetings.

Capital Programme 2020/21

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 and corporate priorities.

Forecast Capital Expenditure 2020/21

6. Table 1 below provides a summary of the Capital Programme for 2020/21 with a more detailed analysis provided at [Appendix A](#).

Table 1: Capital Programme 2020/21 – Forecast Outturn

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Private Sector Housing	4,087	1,763	(2,324)	2,324	-
Engineering, Flooding etc	251	103	(148)	148	-
Resource Procurement	10,780	3,875	(6,905)	6,905	-
Asset Renewal	890	296	(594)	594	-
Property Investment Strategy	10,000	-	(10,000)	-	(10,000)
Waste Collection	123	135	12	-	12
Area Committees	811	611	(200)	200	-
Other General Capital Schemes	905	485	(420)	420	-
Total Capital Programme	27,847	7,268	(20,579)	10,591	(9,988)

Source: Appendix A

7. On the basis of current estimates, it is envisaged that there will be no material variation on the programme in this year after account has been taken of project slippage. This is with the exception of the Property Investment Strategy, more details of which are provided below. The slippage on current projects will be carried forward to 2021/22. A full analysis of the variations, before and after forecast slippage, is provided at [Appendix A](#).

Property Investment Strategy

8. Councillors will recall that the Council agreed a Property Investment Strategy during 2019. The purpose of the Strategy was to identify assets for acquisition by the Council and to derive a net investment return as a contribution to the Council's General Fund budget. It was intended that all acquisitions would be funded by additional prudential borrowing.

9. Since the Strategy was agreed, the Government has voiced its increasing concern about the level of local authority investments in commercial property acquired solely for investment yield and the potential risks that can arise from these investments. A number of Councils have significant commercial property investments which have been funded by cheap borrowing from the Public Works Loan Board (PWLb). The Government's view is the PWLB should not be used for such investments. Consequently, in October 2019 (just after the Council's Property Investment Strategy was agreed), the Government increased the cost of PWLB borrowing by 1% to curtail such investments.
10. In addition, the National Audit Office in its February 2020 report 'Local authority investment in commercial property', highlighted a risk that some local authorities could have paid a premium price above the market rate in acquiring commercial property due to the low rate of borrowing available through the PWLB.
11. Following a consultation on the PWLB's Lending Terms earlier this year the Government implemented reforms in November 2020 to these lending terms that are intended to stop Councils that invest primarily for yield from borrowing from the PWLB. Councils are still free to borrow for capital purposes associated with service delivery, housing, regeneration and government priorities. Whilst this does not prevent Councils from borrowing from another source to fund commercial investments, it does represent a clear signal that, from the Government's perspective, these activities are not considered to be a core function of a local authority.
12. At the same, the impact of the Covid-19 Pandemic has increased the uncertainty of returns from commercial property investment in all sectors and any such investment in the current climate is considered to be a significant risk and at best have a long term return on the investment.
13. In view of these matters, it is proposed not to pursue the Property Investment Strategy as previously set out at this stage hence the deletion of the budget and the equivalent borrowing provision.

Lomeshaye Industrial Estate – Phase 1

14. A report elsewhere on the Agenda for this meeting provides an update on the delivery of the extension to Lomeshaye Industrial Estate. Whilst that report focuses on issues with the delivery of the site, it is worthwhile updating Councillors here on changes to the funding of the project.
15. The original estimate for the project was £3.5m and was to be funded by Pendle Council (£1.5m), Lancashire County Council (£1.5m) and European Structural Investment Funding (ESIF) of £0.5m.
16. The Council was successful in securing funding of £4m from the Lancashire Enterprise Partnership (LEP) towards the delivery of Phase 2 of the extension of the Lomeshaye Industrial Estate. However, following changes in ownership of the site, it has not been possible to progress this Scheme and, after discussions with the LEP, it has been agreed to use £1.5m of the funding allocated towards the Phase 1 extension and in lieu of the Council's contribution (on the understanding that the Council's contribution is subsequently used for capital investment in economic development schemes).
17. At the same time, a review of the costs of delivering the extension of Phase 1 has been undertaken. The Scheme is now expected to cost c£4.1m with the increase in costs mainly as a result of the anticipated costs of installing utilities to the site. The additional costs will, however, be met from the capital receipts arising from the disposal of the site to PEARL.

Forecast Capital Resources 2020/21

18. Table 2 below summarises the expected available capital cash resources for 2020/21:

Table 2: Capital Programme 2020/21 – Forecast Capital Cash Resources

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Capital Receipts	2,077	2,395	318	-	318
Revenue Contributions	47	12	(34)	34	-
Capital Grants	7,630	4,306	(3,324)	3,325	-
Other Funding (eg s106 Funding)	86	30	(56)	56	-
Total Capital (Cash) Resources	9,839	6,743	(3,096)	3,414	318

Source: Appendix A

19. The main variation in the proposed use of resources is to use £318k more capital receipts than budgeted towards capital expenditure. These additional receipts will be taken from the Council's retained balance of capital receipts (a summary of the position with capital receipts can be found at [Appendix B](#)).

Prudential Borrowing in 2020/21

20. 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 2020/21 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, and as agreed as part of the Council's Capital Strategy for 2020/21, the programme only contains new borrowing in 2020/21 equivalent to the amount of the Minimum Revenue Provision.
21. 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 £10.319m less than budgeted owing to the additional use of Capital Receipts and the proposal not to implement the Council's Property Investment Strategy at this stage.

Table 3: Prudential Borrowing 2020/21

	Revised Budget £000	Forecast Outturn £000	Variance £000	Forecast Slippage £000	Revised Variance £000
Capital Programme (Table 1)	27,847	7,268	(20,579)	10,591	(9,988)
Less: Capital Cash Resources (Table 2)	9,839	6,743	(3,096)	3,414	319
Required Prudential Borrowing	18,008	525	(17,483)	7,176	(10,307)
Budget Prudential Borrowing	18,008	525	(17,483)	7,176	(10,307)
Variance	-	-	-	-	-

Capital Strategy 2021/24

22. The latest Capital Strategy for 2020/23 was approved by Council in February 2020 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 2021 cycle of meetings covering the period 2021/22 to 2023/24.

Capital Investment Strategy

23. 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. The most recent example of this is the development of the Nelson Town Investment Plan as part of the Government's Town Deal Policy. The Council will continue to look at new funding opportunities such as, for example, the proposed Levelling-Up fund and UK Shared Prosperity Fund as ways of bringing investment to the Borough. In the last 10 years, the Council has used its joint venture arrangement with Barnfield Investment Properties – PEARL and 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. Key priorities including bringing forward the extension of Lomeshaye Industrial Estate as a strategic employment site in partnership with the Lancashire Enterprise Partnership and the County Council; Phase 1 of this project is currently being delivered. And the delivery of Northlight (formerly Brierfield Mill) as a key employment site; again this project is currently being delivered;
 - **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, for 2021/22, there remains some scope to use capital receipts flexibly to fund expenditure on transformation type projects where they also deliver revenue savings. Given the change in 'ways of working' arising from the Covid-19 Pandemic, there will be a greater focus on 'agile' working – allowing Council staff to undertake work either at home or in the workplace – as well as ensuring the Council's IT infrastructure supports this and remain resilient;
 - **Commercial Investment Opportunities** – This 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. An update on the Property Investment Strategy is provided earlier in this report.
24. As ever, these capital investment priorities will continue to be reviewed in the context of the Council's strategic objectives combined with a need to maintain assets for service delivery.

Capital Resources Strategy

25. Councillors are aware that the ongoing capital funding 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.
26. 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 recent years, 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](#).
27. 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.

Overview of Capital Resources 2021/24

28. Table 4 below summarises the estimate of available capital resources for 2021/22 (with 2022/23 and 2023/24 shown for information):

Table 4: Estimated Capital Resources 2021/22 (2022/23 and 2023/24)

	2021/22 £000	2022/23 £000	2023/24 £000
Capital Receipts – In Hand	395	-	-
Capital Receipts – In Year	630	100	100
Capital Grant (in year) – DFGs only	850	850	850
Prudential Borrowing	480	480	480
Total Estimated Capital Resources	2,355	1,430	1,430

Source: Appendix C

29. As the table indicates, Capital Receipts – In Hand are estimated to be £0.395m at 31st March 2021 (on the basis of the funding required for the Capital Programme in the current year). Capital Receipts – In Year are expected to be realised from the land disposals shown in the table below:-

Table 5: Estimated Capital Receipts in 2021/22

	2021/22 £000
Former Fairground Site, Carr Hall Road, Nelson	300
Harrison Drive, Colne	230
Other Miscellaneous Receipts	100
Estimated Capital Receipts	630

30. The disposal of both the Former Fairground Site, Carr Hall Road, Nelson and Harrison Drive, Colne are well-advanced and the receipts may even be realised in the current financial year. It has also been assumed that £0.1m will be generated from general disposal in each year for the next 3 years.
31. For the purposes of drafting the Capital Programme, the only grant funding included at this stage is that relating to the delivery of Disabled Facilities Grants. The sum of £850k is currently assumed from the Better Care Fund. This grant is expected to remain at this level over the life of the plan. As Councillors will be aware, the Council will be submitting a Town Investment Plan for Nelson at the end of January 2021. If this is successful in securing Town Deal Funding, which is largely for capital expenditure, there will be a need to update the Capital Programme accordingly.
32. Table 4 shows prudential borrowing in each year of £0.480m. As set out in the Capital Strategy for the current year, to provide some capacity for capital expenditure, borrowing equivalent to the amount of the annual Minimum Revenue Provision is assumed in each year of the plan.

Bids for Capital Expenditure 2021/22

33. The bids (including forecast slippage carried forward from 2018/19) for capital expenditure are shown in detail at [Appendix C](#) and summarised in Table 6 below along with indicative bids for the following two financial years:-

Table 6: Capital Bids 2019/20

	Capital Bids 2021/22 £000	Capital Bids 2022/23 £000	Capital Bids 2023/24 £000
Private Sector Housing	1,050	1,050	1,050
Environmental Services	279	225	225
Parks and Grounds Maintenance	186	140	150
Asset Renewal	862	292	152
Area Committees	170	170	170
Resource Procurement	200	200	200
Other General Capital Schemes	544	544	544
Total Capital 'Bids'	3,291	2,621	2,491

Source: Appendix C

Affordability of the Proposed Capital Bids 2021/22

34. Table 7 below provides a comparison of the total capital bids against available resources. The table below shows capital bids exceeding capital resources by approximately £0.9m in 2021/22 (£1.2m in 2022/23 and £1.1m in 2023/24). As this indicates, the 'bids' are not affordable within the estimated capital resources available to the Council.

Table 7: Capital Bids (including slippage) compared to Capital Resources

	Capital Bids 2021/22 £000	Capital Bids 2022/23 £000	Capital Bids 2023/24 £000
Capital Bids (Table 6)	3,291	2,621	2,491
Less: Capital Resources (Table 4)	2,355	1,430	1,430
Resource Shortfall	936	1,191	1,061

Draft Capital Programme 2021/22

35. 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 2021/22 is provided at [Appendix C](#) and summarised in Table 8 below for consideration by the Committee.

Table 8: Proposed Capital Programme

	Capital Bids 2021/22 £000	Draft Capital Programme 2021/22 £000	Variance 2021/22 £000
Private Sector Housing	1,050	850	(200)
Environmental Services	279	149	(131)
Parks and Grounds Maintenance	186	145	(41)
Asset Renewal	862	348	(515)
Area Committees	170	170	-
Resource Procurement	200	200	-
Other General Capital Schemes	544	494	(50)
Total Proposed Capital Expenditure	3,291	2,355	(936)
Less: Estimated Resources	2,355	2,355	-
Amount of Unfunded Projects	936	-	(936)

Source: Appendix C

Timetable and Next Steps

36. The table below sets out an outline timetable for the remaining part of the process for the development of the Capital Programme for 2021/22:

Table 9: Capital Programme – Timetable

Date	Action	Status
Mid Oct	Pro-Forma (with guidance) issued to Service Managers	Completed
Early Nov	Return of Pro-Forma	Completed
17 th Dec	Provisional Local Government Financial Settlement 2020/21	Released 17 th December
Jan 2021	Management Team to consider Capital Prog 2021/22	Completed
Jan 2021	Policy and Resources to consider Capital Programme 2021/22	This report
Feb 2021	Policy and Resources recommend Capital Programme 2021/22 to Council	
Feb 2	Special Budget Council to approve Capital Programme 2021/22	

IMPLICATIONS

Policy

37. 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 Land and Asset Management Plan to ensure that resources are appropriately prioritised.

Financial

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

Legal

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

Risk Management

40. 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.
41. 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.
42. Equally, the delivery of the capital programme is increasingly dependent on the availability of capital receipts from the disposal of land and property assets. Over recent years, the Council has been reasonably successful in identifying and disposing of surplus assets. However, the Council's asset base has fewer such assets and those that may be available for disposal include land assets such as Gib Hill, Nelson and Aspen Grove, Earby that Councillors have, to date, not agreed to bring forward for sale.

Health and Safety

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Capital Programme 2020/21 – Provisional Outturn

Appendix B – Capital Receipts 2020/21 to 2023/24

Appendix C – Capital Bids and draft Medium Term Capital Programme 2021/22 to 2023/24

LIST OF BACKGROUND PAPERS – None