Report to	**Cabinet**
Report by	**Councillor Joyce Plummer Portfolio Holder Resources**
Date	**12th February 2020**
Report Prepared by	Joe McIntyre Deputy Chief Executive

GENERAL FUND CAPITAL PROGRAMME 2020/21

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2020/21 and to recommend to the Council a capital programme for approval at its meeting on the 27th February 2020, having regard to key linkages between the management of the Council's capital and revenue resources.

Recommendations

I recommend that the Cabinet proposes to Council

1. A Capital Programme for 2020/21 of £3,107,775 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £976,000 and £2,131,775 of new investment from the Council's resources. External grant funding must be secured before any internal

funds are committed to projects that rely on external funding to proceed.

3. That delegated authority is given to the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources to flex the programme in accordance with the available funding, provided this does not require any additional borrowing.

4. That the individual projects within the Capital Programme require the written authorisation of the Deputy Chief Executive following consultation with the Portfolio Holder for Resources before commencing and incurring expenditure and that Service Managers provide the Deputy Chief Executive, with written details of estimated costs of schemes with full justification of the need and benefits from undertaking the capital investments before approval is provided and that approval to commence is delegated to the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources.

5. That Projects are timed to minimise the need for borrowing and the Deputy Chief Executive be requested to seek project start dates after September 2020 whenever this is practical.

6. That in-year underspends are not made available to fund new projects during the year.

Summary

The Report sets out the Council's Capital Programme for 2020/21. In the past 20 years, the Council has funded significant programmes of Capital Expenditure which sometimes exceeded £15m per annum. In these more austere times it is not possible to fund investment into the local community at these levels. However the Council is able to put forward a substantial capital investment programme of over £3.1m, despite the severe reductions in public spending that have been necessary due to the Recession. This has only been made possible by the Council's effective financial management over recent years, which has seen it avoid additional borrowing and increase its revenue reserves, while reducing its operating costs.

It is intended that the Council will continue these strong policies of financial management and this year will again avoid increasing its borrowing. It will rely on securing external sources of funding, using capital receipts, making revenue contributions to capital projects and will use unspent monies to fund its programme. It will also apply a rigorous approach to selecting projects by examining all proposals against its corporate objectives and only selecting the most pressing and deserving projects to fund. This is in accordance with the Council policy of limiting the increase in debt and borrowing costs, while ensuring the Council's objectives are met.

The Revenue implications of the strategy to finance the Capital Programme are a key element in the affordability issues on the Revenue Budget this year. The programme contains a limited amount of risk this year. The level of risk is significantly down from previous financial years. This is largely due to the smaller programme and the removal of much of the risk around the level of available capital funds to meet the

proposed expenditure. The Council's overall resources and management systems are believed to be sufficiently robust to effectively monitor these risks and ensure appropriate action is taken if they should materialise.

The Council will continue with its strategy adopted for over 10 years of attempting to reduce its level of debt wherever possible by restricting borrowing and repaying debt and will continue to work extensively with external funders to bring forward realistic plans for Capital investment in the area.

Detail

1. The Council fundamentally altered its capital investment strategy with the Capital Programme it announced in March 2004. Up until that point, the Council had looked to maximise the capital investment it made each year. The upper limit of investment each year was the Basic Credit Approval provided by the Government plus any specific Supplementary Credit Approvals. This system of Capital Credit Approvals allowed local authorities to spend up to a maximum amount each year on Capital Schemes. This figure was pre-determined by the Government.

2. By taking advantage of these Credit Approvals, the Council made significant investments in the local infrastructure, however this came at the cost of steep increases in revenue costs to meet the interest payments in relation to these borrowings. Further underlying problems were also being built-up by the use of Capital Receipts to further support more Capital expenditure rather than repaying existing debt. The issue of debt repayment was accentuated still

further by the significant reduction in Grant Commutation which was impacting on the revenue costs of the Council.

3. Work undertaken in 2004, showed the Council was moving on a course that would see its General Fund Debt rise from £16.3m in 2002/3 to £27.5m by March 2007 and would see its financing costs rise from just over £1m in 2002/3 to almost £2.9m by 2006/7 with a continuing forward trajectory of escalating costs. This analysis predicted the proportion of the General Fund Revenue Account required to fund debt-financing would rise from around 8% in 2002/3 to almost 25% by 2006/7 and continue on an upward path in subsequent years. At times of increased pressure on the General Fund from a wide variety of sources it was recognised that the previous strategy was unsustainable and a new approach was developed around limiting capital investment to essential projects and using capital receipts to repay debt. This strategy has proved very successful and the predicted interest costs in 2020/21 are expected to be 5% or less of general revenue expenditure.

4. This transformation has saved the Council around £2.275m per year over the last 10 years, based on the current ratio of cost to total net expenditure. This action, in light of the severe reduction in funding the Council has faced over the last 9 years, has ensured that the Council has been able to manage its financial position appropriately. If the Council still had the levels debt it had in 2003/4 or had allowed the amounts borrowed to grow over the last 10 years its financial position would have been precarious in the present financial climate.

5. Debt financing costs are expected to remain stable over the next 3 years. Our loan portfolio has interest rates that are unlikely to significantly alter over the

period of the Medium Term Financial Strategy (MTFS). Interest rates, with the Bank of England Base Rate currently at 0.75% are not expected to increase until the first quarter of 2021 at the earliest and could possibly decrease initially. The increase when it occurs in 2021 is only expected to by 25 base points, raising the Base Rate at the Bank of England to 1.00% with no further increases expected for the remainder of 2021. A further increase of 25 base points in 2022 is also then considered likely.

6. The Council via its successful financial management of its resources repaid the last of its short term loans during 2015/16 and now only has long term debts of just under £10m that it cannot repay for around another 20 years. The loans outstanding are held as fixed term loans or “lender option, borrower option” (LOBO) loans. Interest rate increases are not expected to change sufficiently for our LOBO lenders to exercise their options to “call” the loan and have it repaid, in the expectation that they can produce a better return on their money. At some point in the future the Council should consider starting to build sufficient cash reserves to effectively terminate these loans when they are either “called” or mature. However, the current pressure on the Council’s financial positon over the next few years and the remote likelihood of any “call” in that period suggest this would not be an effective strategy at the present time.

7. The current Capital Projections for 2020/21 show that our estimated debt has decreased from the projected £27m in 2004 to under £10m currently and that we do not estimate that there will be a need for this position to worsen in the near future.

8. This demonstrates that our early prudent action in the management of the debt position has produced a significant improvement in our debt position and we have achieved our objectives as detailed in last year's Capital Programme.

9. The Capital Programme Working Group (CPWG) received bids considerably in excess of the available resources for the 2020/21 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2020/21.

10. The proposed programme is outlined in Appendix 1 and a summary of the major projects are given below.

    a) The Council will commit almost £966,000 to Disabled Facility Grants in 2020/21, to help those that suffer from medical conditions that threaten their ability to live independent lives in their own homes. The money will provide stairlifts, toilet and bathroom adaptations, access ramps and other equipment, as well as grants for major structural alterations where needed.
    b) The Council will continue to assist in the regeneration of Accrington Town Centre, building on the major £2m investment it has already undertaken in recent years outside the Town Hall and Market Hall and along Blackburn Road, with a £ ¾m investment to transform the Peel Street area adjacent to the Market Hall, creating new much needed parking spaces and opening up the grand façade of the building. A further £500,000 will be committed to refurbish the internal area within the Market Hall itself to modernise the shopping, retail and leisure

experience and provide further assistance to regenerating the main shopping and retail core areas of Accrington. Additionally, a scheme to improve the Market Hall Service Yard in 2019/20 has already been approved and this will be extended in 2020/21 with an additional £10,000 to resurface the area.

c) The poor state of health and the extent of illnesses and early deaths continues to be a major issue across Hyndburn and the Council will therefore continue to support Leisure in Hyndburn to promote physical activity and wellbeing by providing £173,000 of funding to improve Hyndburn Sport Centre and £50,000 to improve the lighting to its customers' car park, along with a set aside of £10,000 to help fund a replacement for Hyndburn Sport Centre 3G artificial pitch when it comes time to renew it.

d) We will also continue our investment into the Council's infrastructure with £150,000 to upgrade our 20 year old financial system, accompanied by a £50,000 investment to modernise and automate a variety of corporate property databases into one holistic system, a further £35,000 investment across the Council to upgrade desktop computers to ensure they are compliant with the latest security and operating requirements and £11,000 to uplift the ICT that supports our highly acclaimed Refuse and Recycling Service.

e) There will also be nearly £29,000 made available to tackle a number of major park walls which are indicating they may collapse due to age and other pressures and £55,000 will be set aside to ensure we have funds available to replace vehicles as they come to the end of their economic life.

Improving the Management of Capital Investments

11. The Council needs to continue to develop its financial control over its major capital investment programme. It is critical that during 2020/21 the Council continues to adequately manage this spend, to ensure it gains as much benefit from this investment as possible and effectively controls its costs.

12. The outline of schemes for the 2020/21 Capital Programme can be seen at Appendix 1. However, the Council needs to ensure these schemes can provide the positive benefits the level of spend requires. Following on from the successful approach introduced 12 years ago, each scheme is required to provide more detailed analysis, if requested, before final spending is committed to ensure that the project can be delivered within the funds made available, that revenue costs of the schemes can be accommodated within existing revenue budgets and most importantly that the benefits from the scheme are clearly identified and delivered.

13. The Deputy Chief Executive, will be instructed only to release funds for capital investment once the required written detail has been submitted to him for approval. Until this has been given, Service Managers are not allowed to commit expenditure. Additional projects may be authorised by the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources during the year if the projects have sufficient external funding to meet their costs or other funding sources can be obtained.

14. Under the previous regime of Credit Approvals from the Government there was an in-built incentive to spend up to the maximum each year—as failure to do so, might have led to reduced credit approvals in the future and subsequently lost the Council flexibility in future spending decisions. Therefore, if parts of the Capital Programme slipped, came in under budget or were cancelled, there was a strong tendency to seek to replace these with other projects, to maintain the overall spend close to the maximum Credit Approval.

15. Under the new regime of Prudential Borrowing, there is no requirement to spend up to a budgeted amount. The Council should determine its needs for Capital spend purely on rational grounds and underspends in the programme should not automatically lead to other projects being brought forward to soak up potentially available funds. Given that a rigorous process of determining the need for Capital spend has taken place at the start of the year and the Council's strong commitment for reducing the overall level of debt, there should be a major predisposition to continued banking of these underspends as a genuine saving to the Council.

Conclusion

16. Overall the Council will be investing £3.1m in Capital investment in 2020/21. There is a significant amount of the total resource available this year dedicated to supporting people with disabilities to continue to live in their own homes, along with continued investment in Accrington Town Centre and the Council's key buildings and infrastructure that it needs to deliver services to the public.

17. The details behind all of these proposals remain at the outline stage only and further work is required to ensure that these projects provide positive benefits to the Community and the Council. Each project is therefore required to submit further detailed plans if required in order to obtain final approval for expenditure to occur and to obtain final clearance from the Deputy Chief Executive, in consultation with the Portfolio Holder for Resources.

18. The Capital Programme does require a degree of flexibility within it, to respond to sudden demands for Capital expenditure, actions to be taken on the receipts of monies and revisions to proposals as projects are not financially viable or encounter other problems such as securing external funding. CPWG will report back to Cabinet at frequent intervals throughout the year to ensure Cabinet is kept appraised of the current situation and any approvals necessary for alteration are obtained.

CONSULTATIONS

A variety of schemes are recommended from a number of sources to the Council. These are considered by the Council's CPWG against a list of corporate priorities and other assessment criteria before the final list is determined. Councillors and the Public as well as Businesses are invited to the Council's Overview & Scrutiny Committee on the 18th February 2020 at 3:00pm in Scaitcliffe House, Accrington to review the proposals and give their views. These views are then reported to the Council ahead of them making their decision on the Capital Budget.

REASONS FOR RECOMMENDATIONS

These schemes represent the best value for money and meet the Council's overall corporate policy objectives, within the funding envelop for the year.

ALTERNATIVE OPTIONS CONSIDERED AND REASONS FOR REJECTION

A wider programme of funding has not been considered due to the Council's policy commitment to limiting Capital Expenditure to affordable levels and seeking to repay debt.

BUDGET IMPLICATIONS

As outlined in the report.

Risk Management

The programme for 2020/21 should be low risk and has much less risk attached to it compared to recent years, due to its decreased size and the level of certainty around its funding. As with previous years we look to monitor the individual transactions closely and arrange the overall programme so that we do not commit expenditure in areas where we have some degree of control, until these risky transactions are concluded. The main risks within the programme relate to the dangers of escalating costs linked to building work, as many of the buildings are old and potential problems can emerge once the scheduled work has commenced. The Council attempts to mitigate this risk by undertaking survey work ahead of schemes commencing and adopting a rolling programme of work to allow flexibility in the scheduling of projects if cost overruns start to occur.

LINKS TO CORPORATE PRIORITIES

The Council's Corporate Objectives are delivered through its Capital and Revenue Budget.

EQUALITY

The report is for information and does not contain any changes to Council Policies which would require an equality impact assessment to rake place.

LEGAL IMPLICATIONS

Not applicable

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

No specific background papers applicable, other than previous reports on this subject in previous years but they do not relate directly to the content of this report.

APPENDIX 1

Capital Programme

2020/21

	Bid Proposals		
Scheme	**Gross Cost**	**External Funding**	**Net Cost**
Disabled Facility Grants	£966,000	£966,000	£0
Accrington Market Hall Pavilions	£750,000		£750,000
Accrington Market Hall Refurbishment	£500,000		£500,000
Cemetery Welfare & Depot Facilities	£184,000		£184,000
Hyndburn Leisure Centre M & E	£173,000		£173,000
New Financial System	£150,000		£150,000
Broadway	£85,000	£10,000	£75,000
Hyndburn Sport Centre Car Park Lighting	£50,000		£50,000
Computer Aided FM System	£50,000		£50,000
Willows Lane Depot Improvements	£40,000		£40,000
Technology Refresh	£35,000		£35,000
Park Walls Reconstruction	£28,750		£28,750
Waste Services Ipad Upgrade	£11,025		£11,025
Wilson Playing Fields Storage & Welfare Facilities	£10,000		£10,000
Annual Vehicle Replacement Programme	£55,000		£55,000
Hyndburn Sport Centre 3G Pitch Sinking Fund	£10,000		£10,000
Market Hall Service Yard Phase II	£10,000		£10,000
Total	**£3,107,775**	**£976,000**	**£2,131,775**