Report to	**Cabinet**
Report by	**Councillor Joyce Plummer Portfolio Holder Resources**
Date	**9th February 2022**
Report Prepared by	Joe McIntyre Deputy Chief Executive

GENERAL FUND CAPITAL PROGRAMME 2022/23

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2022/23 and to recommend to the Council a capital programme for approval at its meeting on the 24th February 2022, 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 2022/23 of £38,593,918 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £23,428,958 and £15,164,960 of new investment from the Council's resources, the redesignation of reserves to support the capital programme and the use of borrowing. 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. Where the Deputy Chief Executive deems it appropriate, he has the authority to release funding in stages to ensure effective financial control can be maintained and project risk managed.

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 2022 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 2022/23. In the past 20 years, the Council has funded significant programmes of Capital Expenditure which sometimes exceeded £15m per annum. After a number of years in which due to austerity the Council vastly reduced its capital programme, it is now returning this year to a major funding programme of capital investment centred around its leisure estate and redevelopment of Accrington town centre with a total of proposals for capital investment in excess of £38.5m.

The significant level of investment proposed to start this year has only been made possible by the Council obtaining financial support from external organisations and its own effective financial management over recent years which has allowed it to have the funds necessary to finance these major projects when other funding became available.

It is intended that the Council will continue these strong policies of financial management and look only to borrow what it needs to fund these 2 major investment projects. The Council will continue to rely upon 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 up compared to previous years due to the size of programme compared to previous years. However to further reduce the risk the Council will be looking to supplement its own project management and cost control capacity by the appointment of experienced professionals in both disciplines for its two largest projects. 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 2022/23 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 11 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 10 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 11 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 0.25% are not expected to increase until the Summer of 2023 at the earliest.

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 2022/23 show that our estimated debt has decreased from the projected £27m in 2004 to under £10m by December 2021. The debt level is likely to rise by around £5m over the next 12 to 18 months as we finance our investment in the Leisure Estate and Accrington Town Centre.

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

   a) The Accrington Town Centre regeneration proposals could see an investment of up to £24 million in the first phase. This consists of an expected £20m Government grant from the Levelling Up Fund plus £2m of match funding from the Council and a £2 million contingency reserve against any additional costs or agreed extension that may arise on the project.
   b) The Leisure Estate Transformation Project is expected to cost £12m with £2m of support from Sports England and up to £10m of investment by the Council and other partners. This will significantly improve the Leisure Estate across Hyndburn. The project will include a review of the suitability and cost effectiveness of Mercer Hall, the potential development of new facilities at Wilson's Playing Field and an upgrade to Hyndburn Sports Centre. This significant investment is designed to uplift our current facilities to provide a major boost to encouraging the local population to become more active and combat health inequalities and poor health outcomes suffered across Hyndburn. We will also invest in a new 3G pitch at Hyndburn Sports Centre and we will support the development of sporting facilities at Accrington Stanley Community Trust with a £250,000 grant as match

funding for a major expansion of their site to provide additional capacity for sporting and other community activity[1].

c) The Council will commit almost £1,096,000 to Disabled Facility Grants in 2022/23, 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.

d) We will also be investing in our buildings, parks, playgrounds, depots, vehicle fleet and our ICT infrastructure, as well as supporting a major investment in the improvement of the Leeds Liverpool Canal towpath to ensure even more of it can operate as a cycle path and pedestrian throughfare to improve the connectivity between key industrial and commercial areas from residential properties.

Improving the Management of Capital Investments

9. The Council needs to continue to develop its financial control over its major capital investment programme. It is critical that during 2022/23 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.

10. The outline of schemes for the 2022/23 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

[1] This funding will be released only on completion by ASCT of planning conditions imposed on their current site.

successful approach introduced 12 years ago, each scheme is required to provide more detailed analysis, if requested, before final approval to 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.

11. The Deputy Chief Executive will have the authority to release permission to spend in stages as he deems appropriate for larger projects to ensure the effective management of the overall scheme and the mitigation of risk. The Deputy Chief Executive will only 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.

12. 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.

13. 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

14. Overall, the Council will be investing £38.5m in Capital investment in 2022/23. There is a significant amount of the total resource available this year dedicated to major improvements to Accrington Town Centre and our Leisure Estate along with supporting people with disabilities to continue to live in their own homes and investment in key assets and infrastructure.

15. The details behind all these proposals remains 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.

16. 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. The Capital Programme Working Group (CPWG)will report back to Cabinet at frequent intervals throughout the year to ensure Cabinet is kept appraised of the current situation and that 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 participate via a meeting of the Council's Resources Overview & Scrutiny Committee on the 16th February 2022 at 3:00pm 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 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. The Council will be seeking to supplement its own project management skills by the appointment of professional project managers and cost control experts for its 2 largest projects.

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 take 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

2022/23

Scheme	Gross Cost	External Funding	Other Funding	Net Cost 2022/23
Accrington Town Centre Levelling Up Project	24,000,000	20,000,000		4,000,000
Leisure Estate Investment Project	12,000,000	2,000,000		10,000,000
Stanley Sports Hub - contribution to the extension of indoor sports facility	250,000			250,000
Hyndburn Leisure 3G Pitch Full Replacement	280,000		40,000	240,000
Accrington Cemetery & Welfare Facility	228,000			228,000
Planned Asset Improvement Programme	121,580			121,580
Willows Lane Stores Upgrade Work	70,000			70,000
Vehicle & Plant Annual Replacement Programme	55,000			55,000
Play Area Knuzden Recreation Ground	148,000	30,000	68,000	50,000
Leeds Liverpool Canal Cycle Path	235,000	195,000		40,000
Chip & Pin Devices	22,880			22,880
CVMU Yard & Roadway Resurfacing	22,500			22,500
Gatty Park Polytunnels & Greenhouse Replacement	20,000			20,000
War Memorial Restoration	20,000			20,000
Tech Refresh - Upgrade QE Room	15,000			15,000
Wi-Fi Upgrade Scaitcliffe House	10,000			10,000
Disabled Facility Grant	1,095,958	1,095,958		0
Total	**38,593,918**	**23,320,958**	**108,000**	**15,164,960**