Report to	**Council**
Report by	**Councillor Gareth Molineux** **Portfolio Holder Resources**
Date	**22nd February 2018**
Report Prepared by	Joe McIntyre Deputy Chief Executive

GENERAL FUND

CAPITAL PROGRAMME

2018/19

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2018/19 and to recommend to the Council a capital programme for approval at its meeting on the 22nd February 2018, 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 2018/19 of £4,939,283 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £1,853,559 along with scheme funding from other sources of £947,693 and £2,138,031 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 2018 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 2018/19. In recent years, the Council has funded significant programmes of Capital Expenditure which have 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 almost £5.0m, 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. 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 debt financing costs in 2018/19 are expected to be 5% or less of general revenue expenditure. 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 5 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 under the present financial climate.

4. 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 0.5% are not expected to increase until late 2018 or 2019 at the earliest. The increase when it comes in either the final quarter of 2018 or at some point in 2019 is only expected to by 25 base points, raising the Base Rate at the Bank of England to 0.75% and further increases are expected to be limited to 25 base points and only introduced on a quarter year basis at the most.

5. 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 25 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 within 6 months 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.

6. The current Capital Projections for 2018/19 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.

7. 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.
8. The Capital Programme Working Group (CPWG) received bids considerably in excess of the available resources for the 2018/19 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2018/19.

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

    a) The Council will invest over £1.2.m into Accrington Town Centre as part of our commitment to improve this area via investments in uplifting and restoring some of the historic buildings along Blackburn Road along with further investment into the Town Hall to create a new Wedding venue for more intimate ceremonies and continuing this year with our major public realm investment project to regenerate the area around the Market Hall and Town Hall.

    b) We will also be continuing our major investment into the housing stock of Hyndburn with a further £1.1m invested into Woodnook, following on from the £1.9m invested in 2017/18 and setting aside £550,000 for previously approved housing regeneration scheme. In addition we will be providing a minimum of £828,000 of grants to those that struggle with a disability to help them continue to live in their own homes.

    c) In light of Lancashire County Council's decision to end the Cost Sharing Agreement with Hyndburn Council and the other District Councils across Lancashire, the Council will be investing a further

£400,000, on top of the £850,000 we set aside last year, as part of our strategy to improve the collection of recyclables and reduce the operational costs of collection at the same time. We will also be setting aside £55,000 this year and in future years to ensure a fund exists to allow us to replace refuse vehicles when needed.

d) The Council will also be investing in our local sport facilities by supporting Leisure In Hyndburn with £250,000 of funds to help maintain the key sport centres in Accrington and Great Harwood. In the aftermath of the Grenfall Tower Disaster, the Council has set aside £200,000 to improve Fire Safety at its buildings and increased its expenditure on Planned Asset Improvements from previous years.

e) Other expenditure commitments include a major refresh of ICT equipment, a new photocopying machine, funding for the development of a Safe House and money to improve the decorations of Accrington and other locations at Christmas time.

Improving the Management of Capital Investments

10. The Council needs to continue to develop its financial control over its major capital investment programme. It is critical that during 2018/19 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.

11. The 2018/19 Capital Programme outline of schemes can be seen in 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 11 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.

12. 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.

13. 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.

14. 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

15. Overall the Council will be investing almost £5.0m in Capital investment in 2018/19. There is over £1.2m of investment into Accrington Town Centre with a further £1.7m in housing and community regeneration investment into the area surrounding the town centre. As a minimum over £828,000 has been made available for Disabled Facility Grants to help people continue to live in their own homes. The Council has also added £400,000 to the £850,000 it set

aside last year to introduce a new waste recycling collection service and made available almost £750,000 for investment into buildings and infrastructure.

16. 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.

17. 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 are invited to the Council's Overview & Scrutiny Committee on the 22nd February 2018 at 2:30pm 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 2018/19 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 relates to the potential volatility around costs within the Housing Regeneration Programme as the project enters its final phase and the usual risks around inflation and project management. The redevelopment of the Town Hall presents some risk of cost escalation as we are dealing the fabric of a 19th Century Building that is Grade II listed, as does the work

we are undertaking elsewhere on fire prevention measures, as once work commences other issues may arise that were not identified in the initial survey work.

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

2018/19

Scheme	Gross Cost	External Funding	Previous Approvals	Net Cost 2018/19
Acc Town Hall Refurbishment PH4	414,000			414,000
Accrington Town Hall - External Improvements	100,000			100,000
Town Hall & Service Yard Improvements	50,000			50,000
AccringtonTown Centre Public Realm & Infrastructure Work	275,000	275,000		0
Accrington Townscape Heritage Initiative (THI)	269,494		269,494	0
Accrington Market Hall - External Improvements	100,000		100,000	0
Lower Woodnook Housing Renewal Scheme	1,150,000	750,000		400,000
Pendle Street	350,000		350,000	0
Transitional Housing Programme	197,878		197,878	0
Disabled Facility Grants	828,559	828,559		0
Wheeled Bins - Recycling	400,000			400,000
Annual Vehicle Plant Replacement Programme	55,000			55,000
Hyndburn Leisure Centre - Mechanical & Electrical Plant Replacement Programme	150,000			150,000
Hyndburn Leisure Centre Re-roofing	90,000			90,000
Hyndburn Leisure 3G Pitch Sinking Fund	10,000			10,000
Planned Asset Improvement Programme	137,500			137,500
Fire Assessment Building Alterations Various Buildings	100,000			100,000
Fire Assessment Building Alterations Acc Crematorium	50,000			50,000
Fire Assessment Building Alterations Elmfield Hall	50,000			50,000
Technology Refresh - Annual Replacement Programme	100,000			100,000
Safe House	30,321		30,321	0
Christmas Decorations Replacement	25,000			25,000
Photocopier (1st floor Scaitcliffe House)	6,531			6,531
Total	4,939,283	1,853,559	947,693	2,138,031