Report to	**Cabinet**
Report by	**Councillor Joyce Plummer** **Portfolio Holder Resources**
Date	**6th February 2019**
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GENERAL FUND CAPITAL PROGRAMME 2019/20

Purpose of the Report

To invite the Cabinet to consider the Council's capital investment priorities for 2019/20 and to recommend to the Council a capital programme for approval at its meeting on the 21st February 2019, 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 2019/20 of £2,070,128 as set out in Appendix 1.
2. That the programme is funded by new anticipated direct external grants of £1,235,128 and £835,000 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 2019 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 2019/20. 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 £2.1m, 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 2019/20 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 8 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.

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 second quarter of 2019 at the earliest. The increase when it occurs in 2019 is only expected to by 25 base points, raising the Base Rate at the Bank of England to 1.00% and further increases are expected to be limited to 25 base points and only introduced on a quarter year basis at the most in 2020.

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 2019/20 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 2019/20 year and all of these applications have gone through a process of rationalisation to come up with a proposed programme for 2019/20.

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 £900,000 to Disabled Facility Grants in 2019/20, to help those that suffer medical conditions so that they can continue 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 £50,000 scheme to improve Broadway.
    c) There will be significant investment in our Parks with almost a quarter of a million pounds dedicated to a major improvement to Milnshaw Park, following on from the regeneration of Rhyddings Park over the last few years. In addition, almost £150,000 is committed to improving facilities for young people at Mercer Park and there is

£25,000 this year to improve paths and walkways around our other parks.

d) Money has also been set aside in the Capital Programme to upgrade Hyndburn Sport Centre plant and machinery to ensure the key sport and leisure facility in Hyndburn remains functional and there is a loan to Hyndburn Leisure to allow them to develop a much needed gymnastic facility that will allow the Trust to significantly increase the numbers of participants in this sport over the coming years.

e) The Council will also be investing heavily in its key buildings, assets and infrastructure with £575,000 set aside for health and safety improvements, the upgrade of financial and information technology systems and vehicle replacements, along with a provision for the updating of Christmas decorations used at key shopping locations each year to help boost local trade.

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 2019/20 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 2019/20 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 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.

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 almost £2.1m in Capital investment in 2019/20. There is a significant amount of the total resource available this year dedicated to supporting people with disabilities 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 are invited to the Council's Overview & Scrutiny Committee on the 12th February 2019 at 10:00am 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 2019/20 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

2019/20

Scheme		BID PROPOSALS		
		Gross Cost	External Funding	Net Cost 2019/20
Disabled Facility Grants		**£ 895,128**	**£ 895,128**	**£ -**
Planned Asset Improvement Programme		**£ 325,000**		**£325,000**
Milnshaw Park Refurbishment Works		**£ 223,000**	**£ 198,000**	**£ 25,000**
Hyndburn Leisure Centre - Mechanical and Plant Replacement		**£ 150,000**		**£150,000**
Mercer Park Skate Facility		**£ 142,000**	**£ 117,000**	**£ 25,000**
New Financial Software		**£ 100,000**		**£100,000**
Annual Vehicle Replacement Programme		**£ 55,000**		**£ 55,000**
Broadway Resurfacing		**£ 50,000**	**£ 25,000**	**£ 25,000**
Tech Refresh		**£ 50,000**		**£ 50,000**
Upgrading CCTV		**£ 35,000**		**£ 35,000**
Infrastructure Reconstruction Works		**£ 25,000**		**£ 25,000**
Hyndburn Leisure 3G Pitch Sinking Fund		**£ 10,000**		**£ 10,000**
Christmas Decorations		**£ 10,000**		**£ 10,000**
Total		**£2,070,128**	**£1,235,128**	**£835,000**
Loan				
Hyndburn Leisure Gymnastics Expansion		**£ 36,500**		**£ 36,500**