



AGENDA ITEM:

CABINET: 14 January 2014

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
30 January 2014**

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

Relevant Portfolio Holder: Councillor D Westley

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SUBJECT: MEDIUM TERM CAPITAL PROGRAMME

Wards Affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out a number of options for determining the medium term capital programme.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the medium term financial position be noted, and consideration given to how a balanced capital programme can be achieved.

2.2 That the Portfolio Holder for Resources and Transformation be given delegated authority to submit firm proposals to Council on 26th February 2014 to enable the capital programme to be set.

2.3 That call in is not appropriate for this item as it is to be submitted to the Executive Overview and Scrutiny Committee on 30th January 2014.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

3.1 That consideration be given to how a balanced capital programme can be set and that any comments agreed by the Committee be submitted to the Portfolio Holder for Resources and Transformation in advance of the Council meeting to be held on 26th February 2014.

4.0 BACKGROUND

4.1 The Council has a medium term rolling capital programme, which is reviewed and updated on a regular basis. As part of the budget setting process, a programme covering the next three years will need to be agreed by Council at its meeting in February 2014. This report concentrates on the general capital programme and does not consider the HRA capital programme, which is determined through a separate process.

5.0 CAPITAL RECEIPT FUNDING

5.1 The main source of Council funding available to support the capital programme are receipts from the sale of assets. At the start of this financial year there were £3.330m of capital receipts being held for this purpose. In previous years, the proceeds from sales of Council Houses and Land provided a significant and reliable income stream. However, in recent years funding from this source has been at an historically low level reflecting the depressed economic climate. Levels of Council House sales have however now started to increase due to a number of factors including the increased discount rate offered to tenants who want to buy their home following a change in government regulations and an improvement in the general availability of mortgages.

5.2 Table 1 shows details of sales by number and value in recent years. The usable sale proceeds reflect the amount available for new capital spending after payments made to the government under a pooling system:

Year	Number of sales		Usable sale proceeds, £000	
	Council houses	Land sales	Council houses	Land sales
2007/08	91	4	1,181	8
2008/09	27	2	326	158
2009/10	12	2	174	43
2010/11	18	2	226	97
2011/12	10	0	123	0
2012/13	25	3	240	102
2013/2014 (mid year)	25	2	151	15

5.3 The government's changes in right to buy capital receipt regulations have led to an increase in the number of sales but a reduction in the average sales value (primarily as a result of the maximum discount offered to tenants increasing from £26,000 to £75,000). Taking this into account along with an anticipated increase in demand has provided an estimate of future receipts from council house sales of £1.235m over the 4 year period 2013/14 to 2016/17.

5.4 A significant amount of work has now been completed on the Strategic Asset Management Project and this provides an opportunity to supply a stream of receipts for future capital spending. It has been estimated that receipts of £1,000,000 could be generated from a range of land sales in the period 2013/14

to 2016/17, including the disposal of the Westec House site and the sale of a house next to the Civic Hall.

- 5.5 These estimates of capital receipt funding are potentially subject to significant variation as, for example, a single large asset sale could produce a large receipt and the level of future house sales is difficult to predict. However, in looking at medium term financial plans it is best practice to use a prudent approach when estimating future available resources. The assumptions underlying these projections have been based on discussions with colleagues in Housing and Estates, and the estimates will also be updated on a regular basis to ensure they take account of new developments.

6.0 SPENDING REQUIREMENTS

- 6.1 The Council's current 3 year programme covers the period 2013/14 to 2015/16. Consequently, in addition to current year budgets there are also indicative spending approvals in place for the following two years. It should be recognised, however, that as we operate a medium term capital programme, approvals that have been given for future years are indicative allocations only that are potentially subject to change.

- 6.2 The current value of spending approvals to be funded from capital receipts is £4.498m. A breakdown of these approvals by scheme is provided in the Appendix. In addition to the existing scheme approvals it has become normal practice in developing the rolling medium term programme to include provisional allocations for the next year of the programme (in this case 2016/17). Consequently, the Appendix also contains provisional allocations of £0.802m, for ongoing capital schemes which typically receive funding each year.

7.0 OVERVIEW

- 7.1 Table 2 summarises the current position in terms of capital receipt funding and spending requirements, and identifies a small initial surplus of £0.320m before new spending requirements are taken into account.

Table 2 – Capital Receipts Available	£000
Usable capital receipts held in April 2013	3,330
Estimate of receipts that will be generated between April 2013 and the end of the 2016/17 financial year	
- Council house sales	1,235
- Land sales	1,000
- Other sales	55
Existing spending approvals covering period to 2015/16	-4,498
Provisional spending approvals for 2016/17	-802
Net position	320

- 7.2 This surplus will provide resources to develop a limited number of new capital schemes, which is a significant improvement on the financial position in recent years. However it is unlikely to be sufficient to meet all of the potential new and additional spending requirements that may be identified and consequently there will be a need to prioritise resources through the budget process.

8.0 WAY FORWARD

- 8.1 The budget process provides Members with the opportunity to realign and reshape the capital programme, for example through amending the spending approvals for specific schemes, re-profiling schemes into later years, or finding alternative sources of funding. Members will need to consider what proposals to include in the final budget to meet corporate and service objectives but also to ensure a balanced overall financial position.
- 8.2 The Council has been successful in attracting external capital investment over many years. Recent examples of this include grant funding supplied by the Environment Agency to carry out flood defence schemes, and working jointly with the Homes and Communities Agency on the purchase of land as part of the Skelmersdale Vision. The Local Land Auction Pilot is being actively pursued and could potentially deliver significant additional funding, as could the proposed introduction of a Community Infrastructure Levy, which is currently being developed. However while external funding avenues will continue to be pursued, such funding can have some considerable lead in times before issues are concluded, and may not be guaranteed.
- 8.3 A further option that could be considered to provide additional resources is prudential borrowing. This type of borrowing can be used to finance investment in long term fixed assets where it is prudent, affordable and sustainable. If the Council was to borrow £1m for 25 years, it would increase revenue costs by £86,000 per annum as a result of interest and minimum revenue provision requirements. The costs associated with this borrowing would then need to be factored into the revenue budget.
- 8.4 In recent years funding from favourable revenue budget performance has played an important part in financing new schemes, and the use of the projected surplus arising from this year's mid year review was considered in a Budget update report to Council in December. At this meeting funding was agreed for a couple of new IT capital schemes and financing was also set aside for the Moor Street project and Skelmersdale Town Centre Environmental Improvements.
- 8.5 Officers will work with each Political Group throughout the budget process to review all of the available options. The Council meeting will then provide an opportunity for each Political Group to put forward proposals to produce a balanced capital programme.

9.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

- 9.1 The proper management of the Council's asset base enhances service delivery. Assets consume a high level of resources both in terms of capital investment and

revenue maintenance and having a proper strategy in this area ensures that the capital base can shape the future direction of the Council.

10.0 RISK ASSESSMENT

- 10.1 The level of capital receipts generated by asset sales is a key risk to the future development of the programme. If receipts exceed the projections contained in this report, it would enable additional schemes to be developed. However, if receipts are below the projections, it would require reductions to be made.
- 10.2 Some schemes in the Programme are dependent on external partner funding. To minimise the risk of funding not being available, such schemes will only begin once their funding details have been finalised.

Background Documents:

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision from this report does not have any direct impact on members of the public, employees, elected members and/or stakeholders. Therefore, no Equality impact assessment is required. A full Equality Impact Assessment, however, will be included in the Council report when substantive decisions on expenditure are considered.

Appendix

1. Capital Receipt Funding Approvals
2. Minute of Cabinet 14 January 2014 (Executive Overview and Scrutiny Committee only)