



APPENDIX A

CABINET: 20 January 2009

**EXECUTIVE OVERVIEW AND
SCRUTINY: 5 February 2009**

Report of: Council Secretary and Solicitor

Relevant Portfolio Holder: Councillor D. Westley

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SUBJECT: MEDIUM TERM CAPITAL PROGRAMME

District wide interest

1.0 PURPOSE OF THE REPORT

1.1 To set out a number of options for determining the medium term capital programme in the light of a significant reduction in capital receipt funding.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the reduction in capital receipt funding from Right to Buy Council House sales be noted.

2.2 That consideration be given to the options set out in section 6 on producing a balanced capital programme.

2.3 That the Portfolio Holder for Finance be given delegated authority to submit firm proposals to Council on 25th February 2009 to enable the capital programme to be set.

2.4 That call in is not appropriate for this item as it is to be submitted to the Executive Overview and Scrutiny Committee on 5th February 2009.

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 Finance in advance of the Council meeting to be held on 25th February 2008.

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 few years will need to be agreed by Council at its meeting in February 2009.
- 4.2 The total value of the capital programme currently stands at £34.570m. These approvals include Housing Public Sector capital schemes that are the subject of a report contained elsewhere on this agenda. The programme also contains a significant number of schemes that are dependent on external funding, which reflects the Council's success in attracting match funding for capital works and grants. The programme is updated for such schemes once the funding is secured.
- 4.3 A further significant source of funding of £11.368m for the programme comes from the capital receipts generated by sales of assets, and this area is explored in more detail in the next section.

5.0 CAPITAL RECEIPTS

- 5.1 For many years, a key source of internal funding to support the programme has been capital receipts generated by Council house sales, as shown in the following table:

	2003/04	2004/05	2005/06	2006/07	2007/08	To Date 2008/09
House sales	444	321	232	130	91	26
Gross receipts £'m	10.5	9.3	8	6	4	1
Usable receipts £'m	2.6	2.3	2	1.5	1	0.25

- 5.2 The pattern of Council house sales over recent years has meant that it could be anticipated that at least £1m plus of usable receipts would be generated via this method. These receipts have then been used to fund part of the capital programme. Other asset sales (most noticeably land sales) have also contributed resources to the programme but this has not been a regular element in the past.
- 5.3 Over the past several months the number of Council house sales has decreased rapidly. The reduction in sales is probably due to a combination of factors:
- Economic downturn
 - Credit crunch
 - Maximum house price discount of £26,000 remaining static and
 - Possibly that the majority of tenants that want to buy their home have already done so

- 5.4 At the mid-year review of the Capital Programme it was forecast that the number of sales for the year would struggle to be 45 in total and that the level of capital receipts would fall to an estimated £0.45m for 2008/09. The Housing market, however, has subsequently deteriorated further and it is now doubtful if this figure will be achieved. This situation is being closely monitored and any revised information will be incorporated into the budget process ahead of finalising the Capital Programme.
- 5.5 Economic forecasts indicate that the downturn is set to last for at least a couple of years. It is anticipated that future capital resources will be volatile. However, the estimated profile is detailed in the table:

	2008/2009 Revised Target	2009/2010	2010/2011	2011/2012
House sales	45	40	50	60
Gross receipts £'000	1,800	1,600	2,000	2,400
Usable receipts £'000	450	400	500	600

- 5.6 The anticipated reduction in Council House sales over the next few years will produce a shortfall in capital receipt funding for the existing programme of £1.832m. This represents 16.1% of the total capital receipt funding for the programme of £11.368m.

6.0 WAY FORWARD

- 6.1 There are a number of options that can be considered to deal with the scenario of reduced capital receipt funding:
- Reduce the level of current and future spending to match the resources that are expected to be available.
 - Utilise alternative sources of funding for the capital programme in the future

REVIEW USE OF EXISTING CAPITAL RECEIPT APPROVALS

- 6.2 The existing capital programme consists of budgets for the current year and notional allocations for future years that were approved some time ago. It is now appropriate to review these allocations given the change in financial circumstances and new policy priorities.
- 6.3 Appendix A sets out the current allocations from the Capital Pot. A number of options including deleting schemes, reducing the funding for schemes, and re-profiling schemes into later years, are currently being considered. The outcome of this process will be incorporated into the budget process. Given the difficult financial position a period of "belt tightening" now seems inevitable and some desirable but not essential schemes will need to be taken out of the capital programme.

- 6.4 The potential changes are being scrutinised to ensure that health and safety requirements will continue to be met, that contractual commitments are funded, and that essential investment still takes place.

ALTERNATIVE SOURCES OF FUNDING

- 6.5 One area that could be used in order to provide additional capital resources is borrowing. If the Council was to borrow £1m, it would increase revenue costs currently by broadly £50,000 to £70,000 pa as a result of interest and minimum revenue provision requirements.
- 6.6 The costs associated with borrowing would need to be factored into the revenue budget, and the GRA is already facing a significant budget gap. Consequently, it would only be appropriate to use borrowing to fund schemes that provide long term fixed assets for the Council and/or will generate future revenue savings.
- 6.7 There is the possibility of selling other fixed assets, such as Investment properties. However, with the potential revenue consequences of this action and the poor economic climate, this avenue is unlikely to be attractive.
- 6.8 The Council has been very successful at attracting external capital investment. For example, the setting up of the Leisure Trust provided the platform for £3.4m of capital investment over a 15 year timeframe. Also, over £0.5m was obtained from external sources to fund the Liverpool Road Building and changing facilities.
- 6.9 Whilst this avenue is worthy of exploration, such funding can have some considerable lead in times before issues are concluded. However partnership with the private sector and other forms of external funding will be important for the future development of the programme.
- 6.10 Confirmation is still awaited on the Housing Allocation Grant due from the Government. Early indications are that this is likely to change from its current level and schemes that are reliant on this source of funding will be reviewed once confirmation is received.

7.0 ABBOTSFORD REGENERATION

- 7.1 Members attention is drawn to the Council report on this issue presented on 16th July 2008. Funding of £1.3m has already been set aside towards the cost of the scheme and it is also expected that a significant capital receipt will be generated from the sale of our Derby Street site. The balance of funding required for this scheme will be found from the following sources:
- Reserves and balances
 - Reviewing the existing capital programme to free up resources
 - Future asset sales
 - Prudential borrowing
 - Separately funded preparatory work
- 7.2 As previously mentioned, sales of other Council assets e.g. land, have not generated a regular income stream in the past. However, the Council has

previously agreed that the proceeds from any future land sales will be earmarked for the Abbotsford Regeneration project.

8.0 PROPOSALS

- 8.1 Officers will continue to work with each Political Group over the next few weeks to review the various budget options. An update on the progress of this work will be presented to the next Executive Overview and Scrutiny Committee meeting. 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 Council has fixed assets totalling some £276m. The Council has a capital strategy and asset management plan to ensure their proper management. In addition, the Property Services Team manage these assets and the capital and revenue schemes associated with them. This ensures that health and safety and other legislative requirements are met.
- 10.2 The level of capital receipts generated by Right to Buy 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 further reductions to be made.

11.0 SUMMARY

- 11.1 It is expected that there will be a significant reduction in the capital receipt funding available for the capital programme over the medium term. This report sets out a number of options for dealing with this situation. The Council will discuss and agree its new capital programme at its meeting on 25th February 2009.

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

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

Appendices

A – Capital Receipt Funding for the Capital Programme