AGENDA ITEM: 15

CABINET: 19 January 2010

EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE:
4 February 2010

Report of: Council Secretary and Solicitor

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 in the light of a significant reduction in capital receipt funding.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the on-going 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 8 on producing a balanced capital programme over the medium term.

2.3 That the Portfolio Holder for Finance be given delegated authority to submit firm proposals to Council on 24th February 2010 to enable the capital programme to be set.

2.4 That call in is not appropriate for this item as the report is to be submitted to the Executive Overview and Scrutiny Committee on 4th February 2010.

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 24th February 2010.

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 2010.

4.2 The total value of the medium term capital programme currently stands at £32.195m. These approvals include Housing Public Sector capital schemes that are the subject of a separate 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, £8.628m, for the programme comes from the capital receipts generated by sales of assets. This area is explored in more detail in the next section and details of schemes to be funded from this source are included in the Appendix.

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 Table 1.

Table1 : Recent Trend of Council House Sales

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 To Mid December
House sales	321	232	130	91	27	6
Usable receipts after pooling £'m	2.3	2.0	1.5	1.0	0.3	0.07

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 last 12 months, however, Council house sales have plummeted due to several factors including the impact of the recession. This trend is set to continue for the foreseeable future meaning that the amount of capital receipts available to fund capital expenditure will be significantly reduced.

5.4 It should be recognised, however, that the level of Council house sales can be extremely volatile and this collapse in sales has been unprecedented. At some point in time the levels of sales should pick up, although the timing and extent of this is very uncertain.

5.5 The level of receipts from sales in past years will be sufficient to fund the programme in the current year, 2009/2010, and 2010/2011. However, if the current trend does continue there will be a significant funding gap that will appear in 2011/2012.

5.6 For many years the capital programme has typically included a range of recurring, on-going schemes including Corporate Property, Leisure Trust, ICT Infrastructure, and Disabled Facilities Grants that have cost around £0.7m per annum. To some extent, these schemes are essential as they reflect health and safety, statutory requirements, or contracted commitments although the level of spending per year may be variable.

5.7 When the level of capital receipt funding was £1m plus per year, it was relatively straightforward to finance these ongoing schemes and still have money left for other projects. However, due to the fall in capital receipt generation, a new medium term approach will need to be developed to provide for these ongoing, schemes beyond 2010/2011 as well as any new projects that are required.

6.0 ALTERNATIVE SOURCES OF FUNDING

6.1 Having recognised the potential funding gap caused by the reduction in capital receipts, it is more important than ever that opportunities for alternative funding are pursued.

6.2 In recent years, the Council has been very successful at attracting external capital investment and working with partners to deliver capital schemes. For example, the setting up of the Leisure Trust provided the platform for £3.4m of capital investment over a 15 year timeframe; over £0.5m was obtained from external sources to fund the Liverpool Road Building and changing facilities; and the County Council are building a waste transfer station at Stanley Depot at a cost of £1.5m that will significantly enhance the Borough Council's asset. Whilst this avenue is worthy of further exploration, such funding can have some considerable lead in times before issues are concluded. Partnership with the private sector and other forms of external funding, however, will be important for the future development of the programme.

6.3 The recent success in attracting social housing grant to build 17 new houses in Elmstead is a good example of how match funding can make the Council's own resources go further. The financing arrangements for this scheme mean the Council will contribute £0.9m of its own resources towards the total scheme cost of £1.7m.

6.4 The Council have also been successful in bidding for a potential £1.643m grant funding from the Environment Agency over a 5-year period for two flood defence schemes at Appley Bridge and Parbold. These grant allocations are notional at this stage and Members will be advised of the progress of this bid in due course.

6.5 One area that could be used in order to provide additional capital resources is borrowing. However, the costs associated with borrowing would need to be factored into the revenue budget which 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.

6.6 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 at the current time.

6.7 It would also be possible to consider substituting housing capital allocation funding (a type of government grant) for capital receipt funding for housing schemes in the future. However, the potential to use this approach would depend on Member views on the priority for this funding and the amount of grant we actually receive through this route in future years.

7.0 ABBOTSFORD REGENERATION

7.1 Funding of £1.4m has been identified in the capital pot and a further £0.6m has been set aside from land sales towards the cost of the scheme. It is also possible that a further capital receipt could be generated from the sale of our Derby Street site. The balance of funding required for this scheme will then need to be found from a combination of sources including: prudential borrowing, reserves and balances, reviewing the existing capital programme to free up resources (although this would be difficult in the current climate), and future asset sales.

7.2 As previously mentioned, sales of other Council assets, e.g. land, have not generated a regular income stream in the past. However, Council have previously agreed that the proceeds from any significant future land sales will be earmarked for the Abbotsford Regeneration scheme.

7.3 If the Abbotsford Regeneration scheme does not progress, then the Council's current premises at Derby Street are in need of repair and renovation. This will require a significant amount of money. In a report to Council in July 2008, the costs of external works, internal works, rectifying asbestos issues, and complying with the Disability Discrimination Act were estimated at £3.1m. However, this investment will not produce a significant increase in the commercial value of the site and will require the £2m set aside for the regeneration to be utilised together with a further £1.1m of funding to be identified.

8.0 THE WAY FORWARD

8.1 The two basic approaches that can be used to produce a balanced budget over the medium term are to:

- 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.

8.2 Officers will work with each Political Group throughout the budget process to review the 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 Council has fixed assets totalling over £200m and 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 RTB 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.

10.3 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

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

Appendix

Capital Pot Funding for the Capital Programme