



AGENDA ITEM: 12

CABINET: 18 January 2011

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
3 February 2011**

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 the continuing 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 23rd February 2011 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 3rd February 2011.

3.0 RECOMMENDATION 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 23rd February 2011.

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 2011.
- 4.2 The total value of the medium term capital programme currently stands at £23.522m. 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 significant source of funding for the programme comes from the capital receipts generated by sales of assets. This area is explored in more detail in the next section.

5.0 CAPITAL RECEIPT FUNDING

- 5.1 In April 2010 the Council had a total of £6.848m of usable capital receipts that it held and which had been generated from asset sales in previous years. These receipts had mainly been generated from Council house sales, but also reflected a number of land sales as well.
- 5.2 The pattern of Council house sales in the past had meant that it could be relied upon to produce a very substantial and regular source of income for the capital programme. While land sales had also generated income, this had tended to be a smaller, less regular factor.
- 5.3 Over the last 2½ years the number of Council house sales has been very low. This is probably due to a combination of factors including, the economic downturn and the credit crunch, a reduction in the value of Right to Buy discounts, and, possibly, that the majority of tenants that want to buy their home have already done so.
- 5.4 At the current time it has been estimated that capital receipts of around £0.225m could be generated each year from Council house sales and land sales. The assumptions underlying these projections have been based on discussions with colleagues in Housing and Estates. This estimate, however, is potentially subject to significant variation as one large asset sale could produce a significant receipt and asset sales are demand led. The Strategic Asset Management Plan that has recently been agreed may also identify opportunities in this area. However, in looking at medium term financial plans, it is best practice to use a prudent approach when estimating future available resources.

5.5 Consequently, looking at the medium term programme in total up to 2013/2014, it is estimated that there will be £7.748m available (based on £6.848m already held in April 2010 plus £0.225m of receipts per annum that will be generated this year and over each of the next 3 years).

6.0 SPENDING REQUIREMENTS

6.1 Based on budget decisions made previously by Council the total value of capital receipt funded scheme approvals over the medium term is £7.669m. Appendix A provides a detailed breakdown by scheme. The vast bulk of these approvals relate to Housing and Corporate Property and reflect the Council's main fixed assets. It should be recognised, however, that we operate a medium term capital programme and that where approvals have been given for future years these are indicative allocations only that are potentially subject to change.

6.2 In addition to the existing programme, there is also a need to consider potential future spending requirements. Divisional Managers have identified £1.641m of new capital issues that will need to be considered through the budget process. Details on these issues are provided in Appendix B. The majority of these issues are for essential or unavoidable items and consequently may be difficult to avoid. However, it is important to recognise that, given the overall budget gap, any new issues will require either matching cuts to be made elsewhere or additional funding to be found.

6.3 Consequently, in total looking at the period up to 2013/2014, there is currently a potential spending requirement of £9.310m (based on £7.669m of existing approvals and £1.641m of potential additional expenditure).

6.4 These figures do not include any provision for a potential significant redevelopment scheme at Firbeck and Findon which has been the subject of previous Committee reports.

7.0 OVERVIEW

7.1 Table 1 summarises the position in terms of capital receipt funding and spending requirements:

Table 1 – Capital Receipt Funding Gap	£m
Usable capital receipts held at April 2010	6.848
Estimate of receipts that will be generated between April 2010 and the end of the 2013/2014 financial year	0.900
Estimated receipts available	7.748
Spending Approvals covering period to 2013/2014	-7.669
Potential new unavoidable capital issues identified	-1.641
Total Funding Gap	-1.562

7.2 In total, over the period to 2013/2014, there is a potential funding gap of £1.562m. Consequently, there will be a need to review and realign the programme. However, this can be done over a medium term time scale as there are sufficient receipts already held by the Council to fund this year's and next year's programme.

8.0 WAY FORWARD

8.1 There are a number of options that can be used to realign the programme that essentially involve either reducing the level of current and future spending to match the available resources, re-profiling schemes into later years, or finding alternative sources of funding.

8.2 Given the reduced level of capital receipts available for the foreseeable future and the difficult financial position facing the Council in general, it now seems inevitable that a period of "belt tightening" should take place. This means that some desirable but not essential schemes will need to be taken out of the capital programme. This is particularly relevant to schemes that may have been approved several years ago but which are no longer consistent with current priorities and the more difficult financial climate.

8.3 The Executive Overview and Scrutiny Committee recently requested details on the age of schemes that have been slipped year on year. This information is shown in Appendix C along with approvals that have been re-profiled from previous years. The appendix figures cover all capital resources, not just capital receipts, and exclude Housing Public Sector schemes which are the subject of a separate report elsewhere on this agenda.

8.4 The capital programme contained £1.922m that had previously been allocated to the Abbotsford Regeneration scheme. Council have approved that funding from this source is to be used to meet the costs of a replacement roof and refurbishment of the Derby Street site (£0.763m) and a further report will be produced for Council on the costs arising from the relocation of CCTV to the depot (£0.35m). This leaves a balance of £0.809m that could go to balancing the programme or which could be set aside for future capital works on the Derby Street site.

8.5 The Council has been very successful at attracting external capital investment over many years, and this could provide additional funds to maintain the capital programme. However, while this avenue is worthy of exploration, such funding can have some considerable lead in times before issues are concluded and there are likely to be less opportunities in the future given reductions in government funding and the ongoing recession. Nevertheless, partnership with the private sector and other forms of external funding will be important for the future development of the programme.

8.6 Government grants have been secured for the commencement of Flood Alleviation schemes at Calico Brook, Appley Bridge (£1.267m) and Dock Brook, Parbold (£0.392m). Members are aware that officers have been negotiating

funding for these schemes with the Environment Agency and approvals of £0.187m have been obtained for 2010/2011. A further £0.75m for 2011/2012, £0.36m for 2012/2013, and £0.362m for 2013/2014 is expected to be ratified by the Environment Agency in February, 2011. Members will be advised of any changes to this funding.

- 8.7 A further option that could be considered is borrowing to provide additional resources. However, if the Council was to borrow £1m it would increase revenue costs by broadly £80,000 pa as a result of interest and minimum revenue provision requirements. 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.
- 8.8 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.

11.0 CONCLUSIONS

- 11.1 A capital programme covering 2011/2012 to 2013/2014 will need to be approved by Council in February 2011. There is currently £7.669m of expenditure approvals and a further £1.641 of new issues identified. However, anticipated

capital receipts available to fund this expenditure is £7.748m. This leaves a funding gap of £1.562m.

11.2 Members are asked to consider the options to close this funding gap and to submit comments to the Portfolio Holder for Finance to enable the capital programme to be set by Council in February.

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 – Existing capital receipt funding approvals
- B – New capital issues identified by divisional managers
- C – Analysis of significant slippage