



AGENDA ITEM: 13

CABINET: 17 January 2012

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:**
2 February 2012

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

Relevant Portfolio Holders: Councillors D Westley and A Owens

Contact for further information: Mrs K Samosa (Ext. 5038)
(E-mail: karen.samosa@westlancs.gov.uk)

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 context of the current difficult financial environment.

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 29th February 2012 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 2nd February 2012.

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 29th February 2012.

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 2012.
- 4.2 The total value of the medium term capital programme currently stands at £24.316m. These approvals include Housing Public Sector capital schemes that are the subject of a separate report contained elsewhere on this agenda.
- 4.3 The main Council source of funding to support the capital programme are receipts from the sale of assets, and this is the primary focus of this report.

5.0 CAPITAL RECEIPT FUNDING

- 5.1 In April 2011 the Council had a total of £5.807m 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.
- 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. However in recent years the number and value of asset sales has been very low, which mainly reflects the difficult economic climate.
- 5.3 It is currently 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. However it is possible that recent government proposals to offer a greater discount on Council house sales could affect both the number of sales and the value of the receipt that will be kept by the Council. The effect of these proposals will need to be kept under review.
- 5.4 This estimate, however, is potentially subject to significant variation as one large asset sale could produce a significant receipt. The Strategic Asset Management Plan 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 2014/2015, it is estimated that there will be £6.707m available (based on £5.807m already held in April 2011 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 £6.242m. The Appendix 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, and it is normal practice in developing the rolling medium term programme to include provisional allocations for the next year of the programme (in this case 2014/15). Consequently the Appendix also contains provisional allocations of £0.752m, for ongoing capital schemes which typically receive funding each year.
- 6.3 Consequently, in total looking at the period up to 2014/2015, there is a potential spending requirement of £6.994m (based on £6.242m of existing approvals and £0.752m of potential additional expenditure).

7.0 OVERVIEW

- 7.1 Table 1 summarises the position in terms of capital receipt funding and spending approvals, and identifies a potential funding gap of £0.287m.

Table 1 – Capital Receipt Funding Gap	£m
Usable capital receipts held at April 2011	5.807
Estimate of £0.225m pa of receipts that will be generated between April 2011 and the end of the 2014/2015 financial year	0.900
Estimated receipts available	6.707
Spending Approvals covering period to 2013/2014	-6.242
Provisional spending approvals for 2014/2015	-0.752
Total Funding Gap	-0.287

- 7.2 Heads of Service have also identified a number of potential new spending requirements, which are not included in the table above. Consequently, there is a need to review and realign the programme to ensure it is affordable. However, this can be achieved 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. Members will need to carefully 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 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 or reduced. 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 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.
- 8.4 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 between £60,000 and £70,000 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.
- 8.5 Officers will work with each Political Group throughout the budget process to review 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 Council has fixed assets of around £200m and there is 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 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.
- 10.3 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

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. Existing capital receipt funding approvals
2. Minute of Cabinet – 17 January 2012 (Executive Overview & Scrutiny Committee only)