



AGENDA ITEM: 14

CABINET: 15 January 2013

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
31 January 2013**

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 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 27th February 2013 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 31st January 2013.

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 27th February 2013.

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 2013.
- 4.2 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, and at the start of this financial year there were £4.249m of capital receipts being held. In previous years the proceeds of 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, which reflects the depressed economic climate.
- 5.2 The following table shows details on sales by number and value in recent years. The usable sale proceeds reflect the amount available for new capital spending (75% of the proceeds of council house sales have had to be paid over 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 mid year	7	1	75	15

- 5.3 The government have recently changed the rules on right to buy council house sales and increased the maximum discount from £26,000 to £75,000. However this has not led to a dramatic change in the number of sales taking place but has reduced the average value of the capital receipts being generated. On a prudent basis taking account of this latest information, future receipts from council house sales have been estimated at £540,000 over the 4 year period 2012/13 to 2015/16.
- 5.4 A significant amount of work has now been completed on the Strategic Asset Management Planning process 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 2012/13 to 2015/16.

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 2012-13 to 2014-15. 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 £4.712m. 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 2015/16). Consequently the Appendix also contains provisional allocations of £0.852m, for ongoing capital schemes which typically receive funding each year.

7.0 OVERVIEW

7.1 The table below summarises the current position in terms of capital receipt funding and spending requirements, and identifies a small initial surplus of £225,000 before new spending requirements are taken into account.

	£000
Usable capital receipts held in April 2012	4,249
Estimate of receipts that will be generated between April 2012 and the end of the 2015-16 financial year	
- Council house sales	540
- Land sales	1,000
Existing spending approvals covering period to 2014-15	-4,712
Provisional spending approvals for 2015-16	-852
Net position	225

- 7.2 Based on past experience it is likely that when additional spending requirements and potential new schemes are taken into account then this will produce an overall funding gap. Consequently it is likely that there will be a need to review and realign the programme as has been the case in recent budget rounds. However this can be done over a medium term time scale as there are sufficient receipts already held by the Council to fund the programme for a number of years into the future. There is though an ongoing problem in that capital spending has continued at historical levels while capital receipts have dropped considerably.

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 planned 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 The Council has been very successful in attracting external capital investment over many years. Recent examples of this include the £1.7m grant funding supplied by the Environment Agency to carry out 2 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 also actively being pursued, which could potentially deliver significant additional funding.
- 8.3 However while these avenues are worthy of exploration such funding can have some considerable lead in times before issues are concluded, and there are limited opportunities with cuts in government funding and the difficult financial climate. This route can though provide additional funds to deliver schemes that might otherwise not be possible, and will be important for the future development of the programme.
- 8.4 A further option that could be considered is prudential borrowing to provide additional resources. 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 £81,000 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, and this could be difficult to achieve given that the GRA's medium term financial position.
- 8.5 It would also be feasible to consider using part of the current year's projected favourable budget variance on the GRA as a potential funding source for new capital schemes. This approach would though need to be considered in conjunction with the revenue budget position for next year.
- 8.6 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 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