



CABINET: 10 January 2017

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
26 January 2017**

Report of: Borough Treasurer

Relevant Portfolio Holder: Councillor C. Wynn

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SUBJECT: MEDIUM TERM CAPITAL PROGRAMME

Wards Affected: Borough wide

1.0 PURPOSE OF THE REPORT

- 1.1 To set out details on the GRA medium term capital programme position for the next 3 years.

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 Finance be given delegated authority to submit firm proposals to Council on 22 February 2017 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 26 January 2017.

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 22 February 2017.
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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 three years will need to be agreed by Council at its meeting in February 2017. 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 general capital programme are receipts from the sale of assets, and at the start of this financial year there were £2.238m of receipts being held for this purpose. The number and value of assets sold each year can vary significantly depending on a range of factors. In particular Council House sales under Right to Buy (RTB) legislation can be volatile depending on the state of the economy and changes in government rules.

5.2 Table 1 shows details of sales by number and value in recent years. Part of the proceeds from the sale of Council Houses must be repaid to the Government, and the usable sale proceeds shown below reflect the amount available for new capital spending after taking these payments into account.

Year	Number of Sales		Usable Sale Proceeds £000	
	Council Houses	Other Assets	Council Houses	Other Assets
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	25	3	240	102
2013/14	48	4	307	29
2014/15	35	4	300	273
2015/16	57	5	338	142
2016/17 (mid year)	36	5	165	146

5.3 Based on recent trends and projecting forward on a prudent basis it is anticipated that there will be receipts of £0.925m generated from an estimated 185 RTB Council House sales over the next 4 years, as well as £0.446m of receipts from land sales.

5.4 In addition to the funding shown above the Council is also able to retain a further share of the proceeds from RTB sales under government regulations in relation to an "Allowable Debt" factor. Part of this funding is set aside for the repayment of Housing debt and the remaining element is then available for new capital

spending. It is estimated that this should enable new spending of £1.862m over the next 4 years in addition to the figures shown above.

- 5.5 Taking all of these factors into account, it is anticipated that there will be capital receipts of £3.233m generated over the 4 year period 2016-17 to 2019-20 that will be available to fund new capital expenditure. These projections 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 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 2016/2017 to 2018/2019. 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 (based on decisions made at the Council meeting in December 2016) is £4.187m which is analysed in Appendix 1. In addition to the existing scheme approvals it is our normal practice in developing the rolling medium term programme to include provisional allocations for the next year of the programme (in this case 2019/2020). Consequently, Appendix 1 also contains provisional allocations of £0.802m for ongoing capital schemes which typically receive funding each year.

7.0 OVERVIEW

- 7.1 Table 2 overleaf summarises the current position in terms of estimated capital receipt funding and spending requirements. The bottom line position is that there is estimated funding available of £482,000 over the programme period. This funding position is before any consideration is given to potential new capital schemes that have been identified by Heads of Service. Appendix 2 provides a summary of these budget options, which in total comes to £737,000 although a number of potential schemes still have values to be confirmed.
- 7.2 Given this position there will be a need to review and realign the programme, as well as scrutinising the new budget options, as has been the case in most 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 considerable period of time.

Table 2 – General Capital Receipts Funding Available	£000
Usable capital receipts held in April 2016	2,238
Estimate of receipts that will be generated between April 2016 and the end of the 2019/2020 financial year	3,233
Existing spending approvals covering period 2016/2017 – 2018/2019	-4,187
Provisional spending approvals for 2019/2020	-802
Total Funding Available for new schemes	482

8.0 WAY FORWARD

- 8.1 There are a number of options that can be considered 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 There are a number of factors that can be considered or given regard through this process including:
- The Council has been very successful in attracting external capital investment over many years, although opportunities for government grant funding are now more limited than in the past
 - The Local Land Auction Pilot is actively being pursued, which should deliver funding for the Skelmersdale Town Centre Vision
 - The priority that is attached to the potential new capital schemes set out in Appendix 2
 - Prudential borrowing could be assessed as a mean of providing additional capital 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 £70,000 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 the GRA's challenging medium term financial position.
 - It would 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.

- The scope to develop new capital schemes funded through Section 106 Agreements (where there was a balance of £1.723m in April 2016) or Community Infrastructure Levies which are subject to separate processes
- The Leisure Strategy may result in potential new additional capital spending requirements being identified
- The development of the Westec House site that should deliver sales proceeds that can be reinvested back into the capital programme or used to provide funding for the proposed new development company

8.3 Officers will work with each Political Group during 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 significant 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.

Appendices

Appendix 1 - Capital Receipt Funding Approvals

Appendix 2 – Potential new capital schemes

Appendix 3 – Minute of Cabinet 10 January 2017 (Executive Overview and Scrutiny Committee only)