Report of	Meeting	Date
Assistant Chief Executive (Business Transformation) (Introduced by the Executive Member for Resources)	Executive Cabinet	12th November 2009

CAPITAL PROGRAMME MONITORING 2009/10 TO 2011/12

PURPOSE OF REPORT

1. To update the capital programme for 2009/10 to 2011/12.

RECOMMENDATION(S)

2. That the revised capital programme for 2009/10 presented in Appendix 1 be approved.

3. That the amendments to the provisional capital programme figures for 2010/11, presented in Appendix 1, be noted.

4. That applications be submitted for directions to enable the capitalisation of redundancy and pension strain costs, and the impairment of the Icelandic investment.

5. That budget holders review their uncommitted 2009/10 budgets in order to identify whether any expenditure could be rephased to a later financial year.

EXECUTIVE SUMMARY OF REPORT

6. A number of changes to the capital programme for 2009/10 are recommended. In particular, it is recommended that the Council applies for permission to capitalise redundancy payments arising from restructuring of directorates this year and any costs from the senior management restructure, and to capitalise the impairment of the Icelandic investment that otherwise would be a charge against the revenue budget next year.

7. Capital receipts from the disposal of surplus assets and preserved Right To Buy (RTB) receipts from Chorley Community Housing (CCH) are not on target, mainly because of the rephasing of the asset disposal programme. Most receipts from asset sales will be rephased to next year at the earliest because sites will not be marketed until values increase, which would lead to an increase in financing by borrowing temporarily in 2009/10. This increase in borrowing can be minimised by increasing the use of VAT Shelter income from CCH.

8. After taking into account the proposed expenditure increases, rephasing of capital receipts to 2010/11 and increased use of VAT Shelter income, together with other minor or neutral changes, borrowing in 2009/10 would increase by £786,180. Provided the capital receipts rephased from this year to next are achieved, it should be possible to reduce the need to finance capital expenditure by borrowing next year. A significant element of the capitalisation is invest to save through the capitalisation of costs that will generate significant revenue savings.

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

9. To update the 2009/10 capital programme to add and delete budgets and to reflect the estimated availability of capital resources.

10. To update the provisional capital programme figures for 2010/11 to take account of rephasing of expenditure and the resources estimated to be available.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

11. If the Council did not apply to capitalise redundancy and pension strain costs, and the Icelandic investment impairment, these would be charged to the revenue budget in 2009/10 and 2010/11 respectively.

CORPORATE PRIORITIES

12. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organization	✓

BACKGROUND

13. The revised capital programme for 2009/10 was approved at a total of £8,029,400, and the provisional totals for 2010/11 and 2011/12 were £3,592,180 and £2,141,110 respectively. The financing of the three-year programme took into account estimated resources, in particular capital receipts from disposal of surplus assets and the Council's share of preserved RTB receipts from sale of dwellings transferred to CCH. Subsequently changes to both expenditure and resources have been identified.

2009/10 CAPITAL PROGRAMME

14. I recommend that the Council should apply for permission to capitalise redundancy and pension fund costs arising from restructuring of directorates required to achieve efficiency savings. In Appendix 1 I have included a figure of £217,120, which represents restructuring costs committed to 30 September 2009. This is likely to increase by the deadline for applications for capitalisation directions, which is December 2009 as a result of the senior management restructure. The result of such an application would be known only in January 2010 and there is no guarantee of success. However, the majority of this Council's applications in recent years have been approved. Capitalisation of revenue expenditure in such circumstances is worthwhile when cashable efficiency savings are achieved and the payback period is relatively short.

15. Revised guidance in respect of capitalisation of the impairment of Icelandic investment impairments has been issued recently and the Government will now look at applications on a case by case basis. It should be possible to apply for a capitalisation direction this year, which is my recommendation. Such an opportunity might not be possible next year, in which case the impairment – estimated to be £379,000 based on recovery of 83% of the

investment - would be a charge against the revenue budget and has to be financed from balances. The capitalisation allows for the costs to be written off over a period determined by the Government.

16. Two S106 funded projects can be deleted from the 2009/10 capital programme, if the S106 agreement is amended so that the contributions are paid directly to Lancashire County Council. These are the Euxton Library Extension (£60,000) and Buckshaw Village Primary School (£1,000,000). The effect on the use of the Council's resources would be neutral.

17. A share of the Climate Change Pot has been allocated as a grant to Active Nation to install a Combined Heat and Power Plant at All Seasons Leisure Centre. This not only helps to achieve climate change targets but also should produce annual savings in energy costs, to be shared between the Council and Active Nation.

18. I am aware of a number of other issues that are not reflected in the current report. The use of the S106 contribution for financing of expenditure relating to the Buckshaw Village Railway Station is not yet included in the programme, but will be added once phasing of expenditure has been confirmed. The Astley Park enhancement scheme is nearing completion and the outturn cost is likely to be slightly above budget, at around £4,000 which represent a small % of the budget. The CCTV system for the park and hall is also expected to cost about £3,000 more than budget. I suggest that these increases should be met by virements from existing capital budgets.

19. Most of the capital receipts that were expected to arise from disposal of surplus assets in 2009/10 will not be achieved until 2010/11 at the earliest because marketing of sites will be delayed until values increase. In Appendix 1, I have shown £508,260 capital receipts being rephased to 2010/11 plus half of the preserved RTB receipts, leaving just those receipts brought forward from 2008/09 and £50,000 preserved RTB receipts. To help to offset this rephasing, I have suggested the use of further VAT Shelter income due from CCH in 2009/10. This is not yet received and might also be subject to delay for reasons beyond the control of the Council. Even if the sum expected to be available this year is received, the net effect of expenditure increases and rephasing of capital receipts is shown to be an increase in borrowing by £786,180. This is on the assumption that all schemes spend up to budget by 31st March 2010. Based on past experience, this is unlikely, and financing by borrowing could be reduced by reviewing those schemes that are not yet committed. It should be noted that a significant proportion o the additional borrowing will be recovered from ongoing revenue savings and that a proportion of the borrowing is temporary pending the realisation of capital receipts.

20. The increase in borrowing in 2009/10 results from the following changes to expenditure and resources:

	£	£
Rephasing of asset sales to 2010/11		558,260
Addition of capitalised revenue expenditure		
- Restructuring costs (redundancy/pension strain)	217,120	
- Icelandic investment impairment	379,000	
		596,120
Rephasing of expenditure to 2010/11		(68,200)
Increased use of VAT Shelter income		(300,000)
Net increase in borrowing		786,180

DRAFT CAPITAL PROGRAMME 2010/11

21. If the capital receipts from asset disposals rephased from this year can be achieved next year, then it should be possible to finance the 2010/11 programme without any borrowing. This is by no means certain and it is possible risk that capital receipts from assets not sold this year could be delayed by more than one year.

22. The basis of allocating housing capital grant in 2010/11 is subject to review at present. It is possible that the sum allocated to Chorley Council could exceed the provisional figure of £500,000, but it seems unlikely that it would approach the sum allocated this year, i.e. £1,277,000. Overall the resources available to the North West appear to have been reduced by around 39% compared to 2009/10, but the reduction for each council is unlikely to be pro-rata to this year's grant. Part of the allocation in 2010/11 will be 'protected', and the balance will be redistributed according to regional priorities. The 2010/11 programme will be updated to take account of the final allocation as soon as possible.

23. There are no changes to the draft capital programme for 2011/12 at this time.

IMPLICATIONS OF REPORT

24. This report has implications in the following areas and the relevant Corporate Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

Financial implications are indicated in the body of the report.

GARY HALL
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION AND IMPROVEMENT)

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	27th October 2009	Capital programme Monitoring 2009-10 – 2011-12 Nov 09.doc