

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation) (Introduced by the Executive Member for Resources, Councillor A. Cullens)	Executive Cabinet	14 August 2008

## CAPITAL PROGRAMME MONITORING 2008/09 ONWARDS

### PURPOSE OF REPORT

- To report proposed changes to the 2008/09 capital programme and to review the availability of capital resources required for the financing of the programme.

### RECOMMENDATION(S)

- That the revised Capital Programme for 2008/09, as set out in Appendix 1 at a total cost of £10,197,590, be approved.

### EXECUTIVE SUMMARY OF REPORT

- It is proposed that the programme be increased by £163,040, funded fully from external resources. A final contribution of £80,000 from a third party towards the cost of the Eaves Green Link Road is payable to Lancashire County Council, at no cost to Chorley Council. Corporate Director (People) recommends that Chorley Council implements a lottery-funded £83,040 play area scheme at Clayton Brook with Places For People. The cost of the Coronation Recreation Ground lighting scheme has increased by £16,280, but this can be met from the project design fees budget. These changes would increase the revised programme to £10,197,590.
- External factors are affecting the resources available to finance the capital programme, which could lead to additional borrowing. It is expected that there will be a shortfall of capital resources in 2008/09 compared to previous estimates. In particular, capital receipts from the sale of assets and preserved 'right to buy' sales are expected to be £1.362m less than previously reported. This shortfall can be offset in part by increased use of developers' contributions, though the total of such contributions available this year may also be less than expected because of delays to the developments that would have produced them. The financing of the revised programme shown in Appendix 1 shows the potential effect of the shortfall in capital income, which could require additional borrowing of £0.724m in 2008/09. Such an increase in borrowing would be undesirable because of the additional revenue cost in 2009/10 and subsequent years. I am not proposing that the Council should budget to incur this additional borrowing, but rather to start the process of identifying how total borrowing can be brought back on target.

## REASONS FOR RECOMMENDATION(S)

### (If the recommendations are accepted)

5. To update the 2008/09 capital programme to take account of the addition of externally-funded schemes, and the higher than budgeted tender price for the Coronation Recreation Ground lighting scheme.
6. To indicate the likely effect of external economic factors on the availability of capital resources, in particular leading to a potential increase in the level of borrowing required to finance the 2008/09 capital programme unless corrective action is taken.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

7. The estimated increase in borrowing could be avoided or minimised by a combination of reducing or slipping expenditure to a later year; using other resources such as revenue reserves or "VAT shelter" income of up to £0.650m due from CCH; or approving the disposal of more surplus assets. These possibilities should be explored but it is not possible to report the potential beneficial effect at this stage.

## CORPORATE PRIORITIES

8. 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

9. The Capital Programme for 2008/09 was updated to a total of £10,034,550 at Executive Cabinet of 26 June 2008. This took account of slippage of committed budgets from 2007/08, slippage of uncommitted budgets to 2009/10, the transfer to revenue of some budgets, and deletion of other budgets. This report proposes that the programme be increased by a further £163,040, funded from external sources.

## ADDITIONAL EXPENDITURE

10. For technical accounting reasons, the payment of £80,000 by a third party to Lancashire County Council as a contribution towards the cost of connecting to the Eaves Green Link Road needs to be added to the capital programme. In brief, this Council will collect the contribution and pay it to County, which is the extent of our involvement.
11. Places For People have secured funding from the Big Lottery Fund to construct a play area at Clayton Brook. Chorley Council would employ the contractors and draw down funding from Places For People. The initial budget would be £83,040 but there is the potential for increasing it by a further £13,740 if BLF agree.

12. The lowest tender for the lighting at Coronation Recreation Ground exceeds the externally-funded budget of £60,000. In order to proceed with this scheme, it is recommended that the overall shortfall of £16,280, which includes Liberata's supervision fees, be met from Council capital resources. However, it should be possible to transfer the necessary budget increase from the existing budget for 'project design fees'. That budget is for recharges of Business and People directorate staff to capital schemes and is to be reviewed as a consequence of the restructuring of the People directorate in any case. The recharge is equivalent to cash income to the General Fund revenue account therefore any reduction will be reflected in revenue budget monitoring.

## **CHANGES TO FINANCING OF PROGRAMME**

13. I indicated in my report of 26 June 2008 that capital receipts were likely to fall short of expectations. I have reduced estimated capital receipts from the sale of assets and preserved RTB receipts from CCH, as indicated in Appendix 1. To some extent this is offset by increasing the use of developers' contributions in 2008/09, but additional borrowing of £0.724m could be needed to make up the shortfall unless other income became available. One potential source of income available to finance capital expenditure instead of borrowing would be that due under the VAT sharing agreement with CCH (the "VAT shelter"). Up to £0.650m could be available during 2008/09, but I have not taken it into account at this stage pending confirmation from CCH of the sum likely to be receivable. Once CCH have confirmed the estimated amount payable by them this year I will revise the financing of the capital programme in order to reduce use of borrowing.
14. A number external factors are likely to contribute to a shortfall in capital income compared to budget. As a result of the so-called "credit crunch", CCH's tenants may find it harder to obtain mortgages to buy their properties and may also prefer to wait for their homes to be improved by CCH before buying them. Housing developers, including housing associations, may find it harder to justify buying development land for new housing when house prices are falling. Receipt of income due under S106 agreements may also slip to later years if developments are proceeding slower than expected.
15. Increased borrowing would be at a cost to the revenue budget so for that reason is not desirable. Measures to reduce borrowing to the figure budgeted for the four year period 2007/08 to 2010/11 (i.e. £3.625m in total) could involve a combination of generating additional capital receipts and developers' contributions, using other sources of funding, and reducing expenditure. All of these measures should be investigated and the impact reported back at a later stage. In addition, should it be possible to increase the level of capital receipts above the total required to finance next year's capital programme, the use of any 'surplus' receipts to repay borrowing could be considered.
16. Column 10 of Appendix 1 indicates those capital budgets likely to require use of this Council's capital resources (i.e. borrowing, capital receipts and revenue financing) in 2008/09 only. The financing of the programme for 2009/10 and 2010/11 cannot be indicated in detail at present and it is not clear whether the shortfall in capital receipts will continue beyond this year.
17. The reduced capital receipts estimates presented in Appendix 1 still cannot be guaranteed to be achieved in full. Of the total of £1.344m only £0.494m has been brought forward from 2007/08. The remainder (£0.850m) has to be earned during 2008/09 and performance against this target will be monitored throughout the year.

## **ASTLEY PARK LOTTERY PROJECT**

18. Though the Astley Park project is approaching its final stages, it is not yet clear whether all of the remaining contracts will be within budget. Further information will be provided as it becomes available. As the duration of the project will be longer than originally intended,

the recharge for project management, which is not financed by the Heritage Lottery Fund grant, needs to be increased. In the same way that the 'project design fees' budget has been used to meet the increase in the Coronation Recreation Ground scheme costs, it may be possible to increase the project management budget from the same source. This will be confirmed when the Astley Park budget as a whole has been reviewed.

## IMPLICATIONS OF REPORT

19. 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	

GARY HALL  
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION)

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael L. Jackson	5490	25 <sup>th</sup> July 2008	Capital Programme Monitoring Aug 2008.doc