

FUNDING THE COUNCIL'S CAPITAL PROGRAMME

Submitted by: Executive Management Team

Portfolio: Finance and Resources; Economic Development and Town Centres

Ward(s) affected: All

Purpose of the Report

To review the options for funding the capital investment required over the next four years (2015/16 to 2018/19) and means of providing a continuing sustainable funding flow into the future.

Recommendations

- (a) That the contents of the report be noted;
- (b) That Cabinet agrees with the principle that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal;
- (c) That officers report back to the next Cabinet meeting with a list of potential development sites to be used as the basis for a formal response by the Council as a land owner to the local planning authority's "call for sites" (as part of the Local Plan process) and used as a basis for programming future land/property disposals through annual Asset Management planning, beginning with the Asset Management Strategy 2015/16;
- (d) That the principle of engaging a development partner to bring forward the larger sites be agreed.

Reasons

The Council has significant investment needs over the next four years (and beyond) whilst the resources available to fund this investment fall considerably short of what is required. It is necessary, therefore, to consider options for meeting this shortfall and propose the most effective means to achieve this to a future Cabinet meeting for approval. Because of the size of the shortfall and the early need to fund investment, this needs to be done as soon as practicable.

1. Background

- 1.1 The Cabinet considered a report at its meeting on 5 February 2014 'Newcastle Capital Investment Programme'. This report set out a comprehensive list of the known or likely capital expenditure requirements which the Council will be required to fund over the next 4 years. It provided comprehensive data down to individual scheme level and also indicated the timescale within which such expenditure would be required to be committed (acknowledging that in some instances the Council is not obligated to proceed with the schemes).
- 1.2 This report highlighted that currently the council's capital resources are very limited. It recorded that at its meeting on 15 January 2014 the Cabinet had approved the marketing for sale of a number of sites which could realise capital receipts of up to £8m in the

foreseeable future. It also noted other sources of potential capital income but as these sources are at this stage undefined, since they relate to Section 106 or partner contributions, these cannot be quantified or considered to be confirmed.

- 1.3 In relation to the current capital programme the February report set out a set of strategies and actions required to deal with the possible shortfall of resources to meet the programme of capital works set out in the report. This work is in hand and an Assets Review Group chaired by the Chief Executive has been established to bring forward this programme.
- 1.4 However, whilst work to review capital demands will assist the Council to prioritise future capital expenditure, it will not address the widening gap between the potential capital expenditure demands and the sources of funding which the Council has to meet these commitments.

2. The Council's Capital Programme and other capital requirements

- 2.1 Whilst the programme of asset disposals approved by the Cabinet in January 2014 has the potential to realise receipts of up to £8m over the next three or four years this is still at a level considerably below that of the overall potential capital expenditure demands which the council will face in the immediate and medium term future (notwithstanding the potential scope for the Council to realise significant receipts from two or three opportunistic disposals referred to elsewhere in your agenda).
- 2.2 The Cabinet has identified further high priority projects over and above those schemes set out in the Newcastle Capital Investment Programme which will require significant capital expenditure. In short this may mean a capital programme expenditure requirement of around £30m over the next four years or so. In some cases these capital expenditure requirements are needed to invest in measures which will give the Council longer term revenue cost savings, the main example being the proposed new waste collection service (to operate from July 2016) which has the potential to provide an ongoing revenue saving of £500k p.a. but which will require capital investment of over £4m over the next two financial years to implement.
- 2.3 There are other potential "invest to save" opportunities such as the re-provision of the leisure facilities at Kidsgrove which similarly will require considerable capital investment to realise revenue cost savings. Additionally, at the Cabinet meeting held on 23 July, a report on the future of the former Keele Golf Centre was considered at which it was noted that in the absence of any short or long term continuing use of the facility, it was agreed that the area would be the subject of a master plan to consider the longer term use for the site and the surrounding area. The report noted that the cost involved in the preparation of a master plan would be in the order of at least £100k, funding for which is not yet allocated in the council's budget or future expenditure plans.
- 2.4 The Capital Investment Programme 2015/19 summarised that the capital requirements over the next 4 years was nearly £19m. These requirements are summarised in the table below.

Investment Type	2015/16	2016/17	2017/18	2018/19	Totals
	£'000s	£'000s	£'000s	£'000s	£'000s
Improving Housing in the Borough (mainly DFGs)	425	425	425	425	1,700
Investing in community facilities	1,168	835	276	275	2,554
Community centres	314	326	101	208	949
Safeguarding the Borough's heritage	180	578	98	200	1,056
Vehicles and Plant	948	2,302	419	406	4,075
TOTAL	4,629	6,229	3,661	4,340	18,859

- 2.5 In addition to these identified demands upon the Council's capital resources, the Council faces the need to find significant savings to contain its revenue budgets within available resources as identified in the Medium Term Financial Strategy for the period. Over the next five years around £5m of savings or additional income will need to be found. This has two significant implications for capital resources. Firstly, one option or source for capital expenditure is to borrow. Whilst this council has been able to avoid borrowing because other sources of funding have been available, the situation of the Council's capital resources makes borrowing in the short and potentially the longer term an inevitability (unless substantial receipts can be generated from land/property disposals into at least the medium term). Whilst at present borrowing can be undertaken at relatively low cost, this debt does require to be serviced from the revenue budget thereby placing additional demands upon these resources. Secondly, in order to make the necessary reductions in the revenue budgets as central government grant is reduced the council may need to incur capital expenditure in order to deliver efficiency improvements in order to balance the revenue budget. Good examples are investment in ICT, equipment and facilities which can improve revenue spending efficiency, however, these require capital expenditure which is often required up front. The Council currently has limited provision for a capital investment programme which it could use to deliver revenue budget efficiency savings.

3. Funding capital expenditure

- 3.1 As has been indicated above, the Council can derive capital monies from a number of sources. Most councils will routinely review their asset portfolio and sell land and property assets which are no longer required to fund the capital programme. This council has a well developed process for doing this through the annual Asset Management Strategy review process which is linked to the Council's budget setting process.
- 3.2 Councils will also routinely borrow money to fund capital works and this can be done either through the Public Works Loan Board (PWLB) or commercial financial institutions. As councils generally have a good credit score they are able to secure very good loan rates and the PWLB also acts as a moderating influence in respect of all public sector borrowing. Whilst at present borrowing can be undertaken at relatively low cost it is

expected that rates of interest will rise in the medium term from the current historically low levels.

- 3.3 Historically Councils have also been able to derive capital funding for specific projects or infrastructure improvements through Section 106 planning payments. Funding under Section 106 is derived in the main from developers and in simple terms it has to relate to their development proposals in scale, nature and location although members will be aware of the decreasing levels of funding available from this source (for a number of reasons); such funding will diminish significantly from April next year because of legislative changes. There is the potential in the future to secure such infrastructure investment from the emerging Community Infrastructure Levy, although this is unlikely to be in place until around 2018. District councils may also be in receipt of capital programme funding from their respective county council and on occasions from other public sector partners such as health. Whilst these sources do add significantly to the capital programme of this Council they are always granted for specific purposes and therefore cannot be vired to other capital projects that are this Council's responsibility. These resources are therefore considered to be ringfenced and, whilst representing an element of the council's capital programme, do not provide support for the council's wider capital expenditure requirements.
- 3.4 The New Homes Bonus has been developed by central government as an incentivisation programme to encourage councils to bring forward housing development. Through this programme the government makes a grant payment to councils for every completed residential unit. New Homes Bonus is unringfenced grant and can be spent by councils as they consider most appropriate to local circumstances. Nevertheless the original objective of Government was to use at least some of the funds derived on additional improvements to community infrastructure, promoting it as a reward to communities for accepting new development. In any event it is considered unlikely that this funding mechanism will continue into the long term.

4. Prudent use of assets and the Asset Management Strategy

- 4.1 Councils are under a statutory duty to maintain good stewardship of their assets. It is good practice, actively encouraged by successive Governments, for councils to keep their assets under review and to release assets which are no longer required for service or other uses and to recycle the receipts from these into priority spend areas. This Council has a process of assets review which is undertaken annually through the Asset Management Strategy.
- 4.2 When councils dispose of assets they are under a duty to achieve "best consideration" for that asset. This enables councils to balance financial receipt with broader social, economic and environmental considerations, but the council will always need to ensure that it has achieved an optimum financial return in the public interest.

5. Housing land supply in the Borough

- 5.1 As the Local Planning Authority for this area, the Borough Council has a responsibility to prepare and maintain an up-to-date Development Plan for its area to meet forecast demands for growth and to facilitate economic growth, including a 5-year housing land supply.
- 5.2 Due to the demand for new housing and as a consequence of Government policies which require that sufficient land is brought forward for new housing development, the Council's Planning Committee has faced a series of very difficult decisions regarding a number of major housing land applications in recent months. The prevailing national planning policy

framework means that the Council's Planning Committee has come under considerable pressure to grant consent for developments on sites and in locations which may be sub-optimal when assessed against key policy considerations.

- 5.3 An option which the council has not considered thusfar is whether it has sites within its own land ownership which could be brought forward for development and which provide better alternative sites for housing development than those which are being generated by market demand. The scale and widespread nature of the Council's own land holding may mean that it could offer sites in locations where there is market demand for housing but on sites which are preferable in broad planning policy terms to those being provided by the market.
- 5.4 Given that the Council as local planning authority is under a requirement to provide a five year housing land supply and if the market is finding this difficult to deliver, or is delivering housing sites which are very controversial in communities, then the council could assist this situation by offering alternative sites in more sustainable and appropriate locations. The Council could reduce the undersupply of housing sites by bringing forward sites in its own ownership as a means of meeting the housing land supply target. The recent Peer Review of the Council's Planning function highlights the importance of achieving greater alignment between resource planning and town planning functions.

6. Provision of affordable and social housing

- 6.1 The Council has a stated policy objective to bring forward more affordable and social housing within the Borough. As the Local Planning Authority, the Council has a policy requirement for the provision of 25% affordable homes on development sites of 15 dwellings or more.
- 6.2 The Council has committed to the preparation of a new Local Plan, which includes the assessment of housing need with a Strategic Housing Market Assessment being commissioned as one of the key parts of the evidence base upon which the Plan will be developed. Through reviewing the housing register there is still a need for affordable housing and it is believed that the 2015 Housing Strategy will continue to support the current strategy approach to enable the delivery of affordable housing. A snapshot of the Housing register shows that there is continuing need for affordable homes particularly smaller units with 4.5 households wanting each 1-bed vacancy.

Bedroom	Applicants on Housing Register	Lettings	Ratio of Applicant to Lettings
Bedroom 1	1,464	325	4.5 : 1
Bedroom 2	598	270	2.2 : 1
Bedroom 3	211	132	1.6 : 1
Bedroom 4	39	15	2.6 : 1

(Data as at 1/4/14)

Whilst the applicants in housing need for larger properties are fewer in number there remains evidence of significant unmet demand for affordable housing.

- 6.3 The Council has an established approach for the identification of assets for disposal and annually updates the Asset Management Strategy. This approach enables the Council to

regularly review and maximise the use of assets for service delivery and importantly financial consideration.

- 6.4 Amongst other things the current Asset Management Strategy provides supports for the delivery of affordable housing. Firstly, through sale of land, this can include sale to a Registered Provider for the development of affordable housing or sale of land to developers where affordable housing needs to be provided to meet planning requirements. This occurs on sites of more than 15 properties in the urban area and sites of 5 or more in the rural area, triggering the delivery of up to 25% affordable homes (at the developer's expense, subject to commercial viability; and it should be understood that this will normally reduce the value of the capital receipts). Secondly the Asset Management Strategy has identified that disposal of three sites will be specifically used to bring forward the development of affordable housing as the primary objective and contributing to the regeneration of key areas. The table below outlines how the current sites approved for disposal are used to deliver the twin key objectives of housing and capital receipts.

Sites within the Asset Management Strategy 2014/17		
	Disposal sites targeted for Affordable Housing	Disposal Sites for primarily general housing and income receipt
Less 15 units in the urban area or 5 in the rural area	Kinnersley Street, Kidsgrove	Gloucester Road, Kidsgrove *
	Cotswold Avenue, Knutton	Hillport Avenue, Porthill *
		St. Edmunds Avenue, Porthill
		Sandy Lane / Brampton Road, May Bank
		Church Lane, Knutton
		Wedgwood Avenue, Westlands
		Gallowstree Lane, Thistleberry *
		Stafford Avenue, Clayton
More than 15 properties in the urban area and sites of 5 or more in the rural area, triggering the delivery of 25% affordable homes	Heathcote Street, Kidsgrove	Bower End Lane, Madeley
		Market Drayton Road, Loggerheads
		Eccleshall Road, Loggerheads

*These sites are adjacent to land suitable for redevelopment owned by others, whereby consideration will be given to joint disposal to achieve best consideration.

- 6.5 During the past year the Council has worked closely with its largest registered provider of social housing, Aspire Housing, to review land in the ownership of the two organisations with the objective of bringing forward additional affordable housing in the Borough. The

initial partnership work with Aspire did consider the potential for the two organisations to bring forward housing on adjacent sites which were owned by the respective parties. Due to the legislation governing public sector procurement joint development of land could not be undertaken without having gone through a procurement process. A report was endorsed by the Cabinet at its meeting in June 2014 which explained the most appropriate approaches for Aspire to bring forward affordable housing over the next few years (taking account of the National Affordable Housing Programme provisions and process). This piece of work with Aspire did help to clarify the potential nature and extent of the Council's role in supporting Registered Providers in such circumstances. The Council continues to engage with other registered providers with a view to bringing forward similar programmes on land within their ownership.

- 6.6 In summary the Council has, for many years, used its own land holding to lever further social and affordable housing development in the Borough. Whilst release of land assets for this purpose has been beneficial to achieve such outcomes, in the main the Council has had to forgo most or all of the potential capital receipt from such sites in order to realise the housing development policy priority. Looking forward there may be a need to introduce a slightly more refined process that seeks to achieve an appropriate balance between the competing policy objectives.

7. Potential housing and employment land sites

- 7.1 The Borough Council has a number of sites which have current or future housing / employment development potential. As part of the new local plan preparation process, the Council as local planning authority has made a public call for potential development sites (for housing, employment and other purposes). As a major landowner and for reasons cited above it is considered that the Council should respond to this request. Officers have begun the preparation of a list of potential sites which are considered appropriate for inclusion in a formal response to this call for sites. At this stage this would not commit the Council to a disposal but it would enable the local planning authority to consider the suitability and planning merits of our land in the context of other options put forward by private and other public land owners.
- 7.2 On a related note, it is intended to use this exercise to identify the Council-owned land that should feed into the proposed master-planning exercise on land to the west of Newcastle's urban area (centred around the former Keele Golf Centre). It is considered that this would enable a comprehensive treatment of these parcels of land that would best achieve delivery of any infrastructure improvements.

8. Lessons from former land disposal programmes

- 8.1 In 2009 the Council developed a programme to dispose of seven sites under the Newcastle Development Programme. The Council received a high degree of criticism for this programme from those residents who lived in the vicinity of those sites due to the approach adopted to publicity and consultation which had surrounded the proposed disposals. The Newcastle Development Programme was the subject of a major scrutiny review and a full report setting out recommendations on the handling of future programmes was made. In turn subsequent versions of the Asset Management Strategy have taken account of the key findings.
- 8.2 The most recent Asset Management Strategy process has enabled a first tranche of sites to come forward for disposal. These sites have been subjected to public consultation and the results of this have recently been considered by the Cabinet (along with desk-top technical research). Whilst there will always be concern from local residents and Ward Councillors about development on particular sites, the most recent process has

demonstrated that consultation can provide a valuable means of drawing out specific limitations of particular sites such as ground conditions, amenity considerations and access. This allows the Council as a land owner to consider whether it is appropriate to proceed with a disposal.

- 8.3 It was perhaps an unfortunate consequence of the manner in which the Newcastle Development Programme proposals became public that the Council was not able to explain how the various sites were intended to be developed. In particular it was always the intention to include an element of public amenity within the larger sites and to lay these out in a manner which retained areas of open space and landscaping. Unfortunately the debate about these sites became overly polarised between the development of the land for housing over their retention as publicly accessible areas of open space. In progressing any future land disposal programme it is important that the Council is clear about the form of development which is proposed and the intended provision of public amenity which will be provided as part of the development.

9. Methods to bring forward sites for development

- 9.1 The council has a range of options to bring forward land for development:

(a) Sell land with planning permission

Under this approach the Council seeks planning approval for development on land within its ownership prior to selling it. This route will normally net a premium capital receipt.

(b) Sell land subject to planning permission

The Council can sell land without planning permission but on that basis that a relevant planning permission will be secured by the purchaser/developer. This may net a high capital receipt but will normally leave risk with the Council since a prospective purchaser will normally have reversion rights in the event that the planning permission is not secured.

(c) Sale of land through a procurement process

Where a council wishes to sell larger or a number of plots it may use a procurement process to secure a development partner or partners who will implement development of the site or group of sites. In such circumstances a council would normally have secured the relevant planning permissions on the land prior to engaging in the procurement process. Often the capital receipts are derived over the course of the development linked to phasing. There may be scope to derive a regular revenue income on a ground lease mechanism on such large sites.

(d) Sale of land without specific end use or planning permission

The Council may sell land without planning permission for a particular end use but this will normally net a significantly lower receipt than land sold with a specific planning permission, given that the risk shifts to the prospective purchaser / developer. In some instances a public auction will be used as the most efficient disposal method.

10. Borrowing to fund capital expenditure

- 10.1 In an earlier part of the report brief consideration was given to the option to borrow to fund in whole or part the Council's capital expenditure requirements. Whilst this remains an option and indeed in the current prevailing period of low interest rates may be an attractive option, nonetheless, any borrowing would create a corresponding call upon revenue funds to repay the debt. It is considered that whilst the Council has surplus assets which can be disposed of to generate capital receipts that this should be considered as a matter of

principle to be the preferred option over borrowing to fund the Council's capital requirements.

11. A programme of capital receipts

- 11.1 In order to fund the capital expenditure set out in the Newcastle Capital Investment Programme, to fund identified policy priorities and to provide a level of capital funding to enable the Council to realise its medium term planned efficiency savings, it will require capital funding of about £30m. At present there is approximately £1m of uncommitted money within the Council's current capital resources (although a proportion of this should be retained as a contingency). As indicated above there is a reasonable prospect of generating about £10m worth of receipts from "agreed" disposals (including the disposals referred to in reports elsewhere on this agenda). The Council therefore needs to approve an assets disposal programme of at least £20m to deliver the necessary capital receipts between now and late 2017/18 to early 2018/19 (profiled to match the expenditure requirements).
- 11.2 Of course it should be noted that there are risks associated with the realisation of capital receipts from land disposals. Most importantly there can be no guarantees of planning permissions being forthcoming and market values are liable to fluctuate due to a number of external factors. Additionally unknown technical constraints, such as abnormal ground conditions, would impact negatively upon the value of receipts. Consequently it would be prudent to establish a realistic disposals programme taking account of such factors. In practice this would mean over-programming to optimise the prospects of adequate capital funding being available at the times it is required.

12. Timescales and processes

- 12.1 The table at para. 2.4 indicates the timescales within which capital resources are required to be committed. It is anticipated that the available capital receipts will not be sufficient to meet the known/likely capital programme demands for 2015/16 (see table under paragraph 6.4). So it would be necessary for the next iteration of the Council's Asset Management Strategy to identify some 'early win' sites to meet the forecast gap. In addition the said Strategy must identify other sites which are required to be released in order to meet the level of expenditure that is known or likely over the following three financial years, plus a contingency figure of say 20%. The sites should be ranked in priority order on the basis of their ability to be bought forward (taking account of salient/current planning policies). The sites will be derived from the list of sites to be brought to your next meeting in response to the local planning authority's call for sites (some of which it is understood are very long term in nature due to relevant Planning Policy constraints and/or service-based policy considerations).
- 12.2 It is intended that in future years the Council's Capital Programme proposals will be supported by clear and deliverable plans showing how they can be funded through a realistic programme of land/property disposals (where that is possible and appropriate).
- 12.3 It is proposed that as a matter of principle, in order to bring forward the larger sites, the Council engages a development partner to be selected through a competitive procurement process. At this stage there are no such sites available given the prevailing Development Plan policy context. Nevertheless the principle of the approach can be endorsed at this stage.

13. Consultation

- 13.1 There will be full consultation in relation to each site to be disposed of. The process followed will be that used by the Council for the sites which are currently being disposed of. Typically this will involve letters being sent to local Councillors, local residents and, where relevant, Town/Parish Councils and any known Residents' Associations, providing information about the proposals and giving them a period of up to six weeks to submit representations. In addition site notices will be placed in prominent publicly accessible locations providing similar information. Any information derived from such consultation is taken into account, along with a desk-top technical site evaluation, before any final disposal decision is made.

14. Conclusion

- 14.1 This report has demonstrated that there is now a priority for the Council to identify the means by which it can fund its medium term financial capital commitments. The report has also explained that as a result of other policy considerations the Council needs to embark upon a systematic programme of surplus land disposals in order to meet the known future capital expenditure requirements. The option for the Council to borrow money to fund future capital requirements has been considered but it has been noted that the cost of servicing the debt which this would produce makes this a far less favoured or justifiable option whilst the Council has surplus assets which it can dispose of. As the report has shown a systematic programme of surplus land disposals would not only provide funding to meet the Council's known future capital expenditure requirements but would also enable it to deliver its policy objective to bring forward more affordable and social housing. Further, by bringing forward land within its own ownership for housing development the Council can directly address the current pressure which it faces as the local planning authority to meet the housing supply requirement. It is also considered that by bringing forward certain of its own surplus land holdings the Council can ensure that a greater share of new housing is delivered into the most appropriate (sustainable) locations.
- 14.2 The report seeks the approval of Members to bring forward a programme of surplus land disposals which match the Council's stated medium term capital financial needs. In so doing the Council can also help address the known housing land shortage and also accelerate the provision of additional social and affordable housing in the Borough.

15 Financial and Resource Implications

- 15.1 Implications have been set out under the relevant sections of this report. In particular, the suggested programme of surplus land disposals will provide capital receipts to enable implementation of the Council's capital investment programme. With regard to staff capacity / resources it is intended to assimilate the tasks identified into the relevant service's work programmes (as a high priority task). Any need to supplement existing resources because of shortages in either capacity or specialist skills will be reported if and when such situations arise.

16 Major Risks

- 16.1 The major risk is that, for one reason or another, land approved for disposal is not sold or there is a significant delay in so-doing. In particular there has to be sufficient market demand at the time of marketing and there may be a shortfall against the Council's valuation. There may be some situations where the grant of planning permission is either not secured or that there are significant costs arising from the imposition of conditions.

Additionally the necessary legal and administrative processes must be completed by both parties and this can sometimes cause delays.

16.2 In the event that insufficient capital receipts are generated as they are needed or there is a delay in this happening, this will mean that it would be necessary to either abandon, or postpone investment or to find an alternative source of funding, most likely to be borrowing. The availability of a long list of sites will help to mitigate this.

16.3 If projects included in the capital investment programme are not carried out a number of other risks may arise, depending on which projects are concerned

- Service continuity suffers or service may not be able to be provided at all;
- Customers, staff and the general public are exposed to unacceptable health and safety risks, e.g. from unsafe buildings and structures;
- The Council fails to fulfil its statutory responsibilities;
- The Council fails to meet its legal obligations, e.g. with regard to property leases;
- Income is lost because commercial properties become unlettable or cannot obtain acceptable rentals.