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THE CITY OF EDINBURGH COUNCIL

Item no **4.3(b)(i)**
Report no **CEC/88/10-11/CD**

Capital Investment Programme 2011/12 to 2014/15 Capital Receipts

The City of Edinburgh Council

10 February 2011

1 Purpose of report

1.1 To report on the effect of the current economic climate on capital receipts, as requested by the Policy and Strategy Committee on 18 January 2011.

2 Main report

2.1 In August 2008 the Council's Corporate Asset Management Group (CAMG) considered a report by the Director of City Development which examined the widespread worsening economic conditions and recommended a revised disposal strategy for the period 2009-12 in light of the severe down turn in the property market.

2.2 The report confirmed that the down turn in the market was having a significant adverse affect on the Capital Receipts Programme with prospective purchasers continuing to withdraw interest, adopt delaying tactics or at best seek a significant reduction in price.

2.3 As a consequence, the CAMG agreed a number of options, including delaying the sale of land and buildings until such time as the property market recovered and only marketing a property when there was sufficient interest in the sale, where a sale at a sensible value could be achieved.

2.4 In early March 2009, property consultants DTZ observed that as a result of the "credit crunch" and a lack of bank facilities available to house builders to acquire sites, "the land market in Edinburgh has virtually closed down over the last six months". DTZ also noted that sites which were proceeding to sale with conditions had been cancelled. DTZ expected conditions to worsen in the short to medium term and the start of recovery to be at least two or three years away.

2.5 In a similar vein, residential agents Rettie & Co reported in early 2009 that many residential developers had been forced to provide unprecedented levels of price reductions on new houses, up to 50% in some developments within Edinburgh. Rettie also reported that new home completions were 70% down across Scotland and 84% in the City of Edinburgh Council region.

2.6 The severe market downturn was not just confined to the residential sector. Property consultants Knight Frank reported in January 2009 that between mid 2007 and December 2008 commercial capital values had fallen by 39% with a further drop anticipated. Putting this into context, in the downturn of the early 1990s, between the peak in October 1989 and the trough of June 1993, values dropped by 27%. In other words, at that time, it took 43 months for the market to reach the bottom whereas this time round we had already exceeded that level of decline in just 20 months.

2.7 Over the past two years, the market has shown little sign of recovery with any sales during this period being at significantly reduced levels of value. Despite this, the Council is still endeavouring to stimulate development and provide capital receipts by continuing to market properties if sufficient demand is apparent. This action is consistent with the majority of other Local Authorities throughout Scotland.

2.8 The vast majority of the higher valued properties in the Council's disposal programme comprise residential development opportunities and, subsequently, the almost zero activity in the residential sector continues to have a profound effect on the Council's Capital Receipts Programme.

2.9 In August 2008 the estimated capital receipt final outturn for 2008/09 was £43.5 million and at that time £8.5 million had been settled. The severity of the economic downturn however resulted in a final outturn as at 31 March 2009 of just £18.70 million, which, although a significant sum in the prevailing conditions, was substantially less than had been anticipated.

2.10 In view of the continuing poor market conditions, the estimated value of the Capital Receipts Programme for the period 2009/10 to 20013/14 has been significantly reduced with a number of surplus properties being removed from 2009/10 and moved to later years. The overall capital investment programme has managed the reduction in receipts through realignment of the budget and slippage occurring in the programme.

2.11 Details of the level of capital receipts in previous years and estimated receipts for future years are detailed below:-

Year	Original Estimated Receipt	Actual Receipt Received
2008/09	£43.50m	£18.70m
2009/10	£13.3m	£ 5.47m
2010/11	£ 9.00m	£ 4.34m (as at 1/2/11)
2011/12	£12.0m	Nil
2012/13	£ 15.0m	Nil
2013/14	£ 4.0m	Nil

2.12 If there is no improvement in the economic climate it is highly unlikely that the estimated receipts for the period 2011/12 to 2013/14 will be achieved. The situation is being constantly monitored by the Directors of Finance and City Development and the Capital Receipts Programme for this period will be amended if required.

3 Financial Implications

3.1 The severe economic down turn and knock-on impact on property values has resulted in a substantial reduction in the level of capital receipts over the past two years and this is likely to continue for the foreseeable future.

4 Environmental Impact

4.1 There are no environmental issues arising from this report.

5 Recommendations

5.2 Council is asked to note the effect of the current economic climate on the level of capital receipts.

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Appendices	None
Contact/tel/Email	Bill Miller, Property Management and Development Manager Tel. 529 5932 e-mail william.miller@edinburgh.gov.uk
Wards affected	All
Single Outcome Agreement	National Outcome 10 – We live in well designed sustainable places where we are able to access the amenities and services we need. National Outcome 12 – We value and enjoy our built and natural environment and protect it and enhance it for future generations.
Background Papers	None