SECTION 10

THE CAPITAL PROGRAMME 2008/09 to 2012/13

Introduction

10.1 This section up-dates the capital programme position for 2008/09 and sets out proposals for the programme from 2009/10 onwards. The programme includes for the first time projected figures for 2012/13.

10.2 The capital programme is a four year rolling programme. The key drivers of the capital programme are priorities in the Corporate Strategy and condition of assets. These are in turn reflected in the Capital Strategy, asset management plans for classes of assets (e.g. schools, council housing, other council buildings, roads, parks etc) and private sector and social housing strategies (disabled facilities grants, private sector renewal, housing association grants).

10.3 There are a number of constraints on the capital programme which are as follows:

a. Unavoidable capital spending requirements: e.g. the council's buildings need to meet basic condition standards, school places need to be provided, roads need to be maintained;

b. Restrictions on the way resources are used: e.g. lottery, Transport for London, Targeted Capital Fund, devolved capital funding for schools, disabled facilities grant, other grant funding, Section 106 funding etc;

c. Limited access to capital receipts: This is particularly an issue given the impact of the current slump in the property market. Right to Buy sales in 2008/09 are a quarter what they were in 2007/08. The general market situation means it is not a good time to sell other non-housing assets;

d. Limited capacity to fund borrowing: There is no direct constraint on borrowing (since the Local Government Act 2003 introduced the prudential borrowing framework) but councils have to take into account the impact on future revenue spending. The level of prudential borrowing has to be considered in the context of the council's overall revenue budget commitments in the medium term.

10.4 The Local Government Act 2003 gives the council freedom to fund capital spending, but only if the capital charges that result are affordable, prudent and sustainable. The council has been careful to restrict its use of prudential borrowing because of pressures within the Medium Term Financial Strategy.

10.5 The current administration has adopted the following approach in setting the capital programme in previous years:

a. The level of prudential borrowing has been contained within previously agreed levels;

b. Additional funding has been redirected into priority areas including roads and pavements and CCTV;

c. The allocation to schools is in line with government funding, including both grant and supported borrowing;

d. Support for private sector housing and disabled facilities grant has remained at levels necessary to deliver the private sector housing strategy;

e. There is a central allocation for planned repairs and maintenance to non-schools properties which has been used to address urgent back-log repairs to existing buildings;

f. The council has rationalised its office building portfolio in advance of the development of the Civic Centre, including coming out of leased buildings where possible and purchasing the freehold of Brent House;

g. External funding sources have been used where possible to deliver other priorities including section 106, the Big Lottery Fund, the academy programme, and PFI.

10.6 The current recession requires that the council reviews its approach. On the one hand, in the short term at least capital receipts and section 106 receipts will reduce which limits resources to fund the capital programme. But capital spend by the council also contributes to jobs in the borough both directly through local people employed on capital schemes and indirectly by the spending of those working on schemes – so reducing spending would make recession worse. The council also has to consider the longer term impact of recession. The requirement to pay back additional government borrowing in the years following the recession will reduce local government funding and require the council to manage within a much tighter resource envelope in future years, as set out in the Medium Term Financial Strategy. It is important therefore that there are not additional long term commitments which cannot be afforded in future years.

10.7 The following short term strategy is aimed at ensuring continuing delivery of capital schemes and combating the effects of the recession in Brent:

a. The council will continue to fund existing programmes at their current level despite the expected reduction in the short term in capital receipts. Funded schemes within the capital programme often are delayed for a variety of reasons including the need for consultation and problems with obtaining planning permission. In practice therefore our borrowing in any one year is less than the council budgeted for which contributes to underspends on capital financing charges. The intention therefore is to address the shortfall in receipts by assuming some unavoidable slippage in the capital programme.

b. Where schemes can be delivered, the intention will be to ensure that schemes progress as quickly as they can to ensure money is being spent in the local Brent economy. This will apply to schemes funded from the council's own resources but we will also work with schools to see if school schemes funded from their own devolved resources can be progressed quickly.

c. Funding for highways and parks schemes will be brought forward from later years of the programme to earlier years. The current capital programme includes a rolling programme of spending on infrastructure assets – roads, pavements, footpaths, fencing and so on – of £3.715m each year. It is proposed to bring forward a total of £1.430m of spending on these assets to 2009/10 and 2010/11. The amounts from 2011/12 onwards have been reduced by the same amount to ensure that the council is not building up commitments beyond the period covered by the Medium Term Financial Strategy. The revenue cost of funding borrowing early to allow this is £24k in 2009/10, £100k in 2010/11, £127k in 2011/12, £50k in 2012/13 and nothing from 2013/14 onwards. These costs are taken into account in the capital financing charges included in central items.

d. A combination of prudential borrowing within the HRA and use of HRA revenue reserves has been added to the capital programme to allow £3m to be spent on health and safety and other works at South Kilburn.

e. Capacity to spend Disabled Facilities Grant (DFG) is being addressed by growth within the revenue budget for additional surveyor posts. This will allow the programme to proceed faster than it is at the moment, addressing current delays in the programme. There is also additional government funding for Disabled Facilities Grants which will increase the overall amount spent.

f. The Department for Children, Schools and Families has asked the council to look at whether it can bring forward grant funded capital spending on schools. The council has so far agreed to bring forward £3.501m of spending from later years to 2009/10.

10.8 Whilst focusing on short term measures to address issues resulting from the current economic situation, the council also has to consider longer term issues that need to be addressed. These include:

a. The *schools capital programme* where the Executive has previously received a report on the development of a 10 year programme aimed at combining a variety of funding sources, including Building Schools for the Future, Primary Capital programme resources and schools' own resources, to meet longer term school capital needs.

b. The longer term revenue and capital funding needs of *council housing* which will be the subject of a report to the Executive in February.

c. *Sports facilities* which were the subject of a report to the Executive in November 2008. The top priority identified within that report was for a third pool in the north of the borough. The report identified potential funding sources including section 106 and other development opportunities, Building Schools for the Future, and other external bidding regimes. However it remains clear that identification of sufficient funding for a third pool and other priorities within the sports strategy will be a major challenge

d. *Libraries* where there has been spending on Kingsbury Library Plus, Neasden Library, Harlesden Library and Willesden Library, and there are plans for a new library in the Civic Centre but there is no funding identified for improvements to the remainder of the library portfolio.

e. *Parks* where there is a backlog of repairs which is currently being assessed. The proposal is that infrastructure assets such as footpaths, fencing, lighting etc are considered as part of the wider prioritisation of use of mainstream and section 106 funds allocated to other infrastructure assets such as roads and pavements. Relative priorities are currently being assessed. Work required to structures and buildings in parks is being considered as part of the overall asset management plan for the council's property portfolio and urgent works will be funded from resources allocated to the corporate property programme.

10.9 The programme also includes funding for the design of the new Civic Centre and purchase of the site. It does not currently include funding for the construction costs at this time. These will be included when there is more certainty about the size and nature of the contract.

10.10 This section of the report sets out:

- Forecast outturn spending on the 2008/09 programme, including progress against target outcomes for the programme in 2008/09;
- The proposed 2009/10 to 2012/13 programme, including target outcomes over that period;
- The main risks in the capital programme;
- The policy to be applied to Minimum Revenue Provision.

The 2008/09 Capital Programme

10.11 The revised capital programme for 2008/09 is summarised in Appendix M(i), with details of the programme and changes to it in M(ii). A summary of the revised 2008/09 programme is included in Table 10.1 below.

<u>Table 10.1 Revisions to 2008/2009 Capital Programme since Second Quarter Monitoring</u>

Service Area	2008/09 position (second quarter) £'000	Amended 2008/09 position (third quarter) £'000	Variations to 2008/09 position £'000
Resources			
Grant and External Contributions	(48,711)	(53,442)	(4,731)
Capital Receipts	(4,824)	(1,945)	2,879
S106 Funding	(13,346)	(12,123)	1,223
Supported Borrowing	(7,154)	(7,154)	0
Unsupported Borrowing	(19,315)	(14,370)	4,945
Self-funded borrowing	(26,203)	(21,677)	4,526
Total GF Resources	**(119,553)**	**(110,711)**	**8,842**
Housing HRA	(20,063)	(11,491)	8,572
Total Resources	**(139,616)**	**(122,202)**	**17,414**
Expenditure			

Service Area	2008/09 position (second quarter) £’000	Amended 2008/09 position (third quarter) £’000	Variations to 2008/09 position £’000
Children and Families	41,258	34,298	(6,960)
Environment and Culture	28,307	29,857	1,550
Housing and Community Care – Adults	670	670	0
Housing and Community Care – Housing	7,349	8,136	787
Corporate	38,445	33,560	(4,885)
Allowance for slippage	0	(2,310)	(2,310)
Total GF expenditure	**116,029**	**104,211**	**(11,818)**
Housing HRA	26,563	17,991	(8,572)
Total Expenditure	**142,592**	**122,202**	**(20,390)**
Net Position	**2,976**	**0**	**(2,976)**

10.12 High level outcomes are set for each of the main elements of the programme each year. Details of the outcomes set for 2008/09 and forecast outturn against these outcomes are included in Appendix M(v).

2009/10 to 2012/13 Capital Programme

Overall programme

10.13 A summary of the proposed capital programme for 2009/10 to 2012/13 is attached as Appendix M(iii), with details of the breakdown of the programme in Appendix M(iv). Table 10.2 provides a high level summary.

Table 10.2 Proposed 2008/09 to 2011/12 Capital Programme

Service Area	Amended 2008/09 position (third quarter) £’000	2009/10 £’000	2010/11 £’000	2011/12 £’000	2012/13 £’000
Resources					
Grant and External Contributions	(53,442)	(37,810)	(36,771)	(15,028)	(15,028)
Capital Receipts	(1,945)	(1,950)	(2,900)	(4,000)	(4,430)
S106 Funding	(12,123)	(10,138)	(9,591)	(5,905)	(5,080)
Supported Borrowing	(7,154)	(5,917)	(4,581)	(4,600)	(4,600)
Unsupported Borrowing	(14,370)	(16,804)	(8,939)	(4,382)	(4,628)
Self-funded borrowing	(21,677)	(6,653)	(16,150)	0	0
Total GF Resources	**(110,711)**	**(79,272)**	**(78,932)**	**(33,915)**	**(33,766)**
Housing HRA	(11,491)	(19,520)	(9,284)	(9,284)	(9,284)
Total Resources	**(122,202)**	**(98,792)**	**(88,216)**	**(43,199)**	**(43,050)**

Service Area	Amended 2008/09 position (third quarter) £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Expenditure					
Children and Families	34,298	38,804	29,805	13,804	14,050
Environment and Culture	29,857	18,825	17,021	10,566	9,545
Housing and Community Care – Adults	670	89	94	0	0
Housing and Community Care – Housing	8,136	8,281	5,605	5,735	5,931
Corporate	33,560	15,139	25,692	3,510	3,510
Allowance for slippage	(2,310)	(1,866)	715	300	730
Total GF expenditure	**104,211**	**79,272**	**78,932**	**33,915**	**33,766**
Housing HRA	17,991	19,520	9,284	9,284	9,284
Total Expenditure	**122,202**	**98,792**	**88,216**	**43,199**	**43,050**
Net Position	**0**	**0**	**0**	**0**	**0**

Spending proposals

10.14 The capital programme is based on the previous year's four year capital programme, rolled forward by a year.

10.15 Amendments to the programme against that previously reported reflect:

a. Slippage of funding for schemes from 2008/09.

b. Acceleration of £1.430m of spend on roads and other infrastructure assets from 2011/12 and 2012/13 to 2009/10 and 2010/11.

c. Acceleration of Schools Capital Investment as approved by DCSF bringing forward a total of £3.501m resources and expenditure from 2010/11 to 2009/10.

d. New grant funded schemes added to the programme, including:

(i) Growth Fund allocations of £2.553m in 2009/10 and £2.574m in 2010/11, which will be targeted at the Wembley Growth Area.

(ii) Places of Change Programme allocation of £1.000m in 2009/10 which is to be passed on to the Registered Social Landlord for the Pound Lane redevelopment.

(iii) Increased Disabled Facilities grant of £462k in all years from 2009/10 to 2012/13.

(iv) Improving Homes Beyond the Decent Homes Standard (HRA) of £2.035m in 2009/10 for required works at the Brentfield Estate.

(v) Performance Reward Grant capital allocations of £2.000m in both 2009/10 and 2010/11, which will be allocated to invest to save schemes under the Improvement and Efficiencies programme.

e. Up-dated figures on section 106 funding;

f. Self-funded expenditure on:

   (i) The installation of automation (RFID) across Brent's Libraries totalling £485k in 2009/10 and £250k in 2010/11.

   (ii) Stage Lane Day Centre spending totalling £18k in 2009/10.

   (iii) Health and safety works in South Kilburn (HRA) £2.000m in 2009/10.

   (iv) Associated costs of the new civic centre and purchase of the site total £15.900m in 2010/11, which is in addition to the £6.100m slipped from 2008/09 to 2009/10.

g. Additional scheme expenditure in 2009/10 to be funded through revenue contribution to capital outlay for the provision of:

   (i) Doorway to Desktop (enhanced access card) scheme - £80k

   (ii) Health and safety works in South Kilburn - £1.045m

h. The addition of a fourth year – 2012/13 – to the four year programme which includes rolling programmes, such as highways maintenance, the private sector housing renewal programme, the corporate buildings repairs and maintenance programme but does not at this stage include any new major schemes.

<u>Resources</u>

10.16 Funding changes from the previously agreed programme are as follows:

a. *Grant funded schemes*
New grant funded schemes have been detailed in paragraph 10.15 above.

b. *Capital receipts*

Useable Right to Buy capital receipts have been reduced by a total of £3.000m between 2008/09 and 2012/13. Receipts from non-housing disposals have been kept at previous levels but re-phased so that a lower level has been included in early years of the programme and a higher level in later years. It is not proposed to reduce spending at this stage. Levels of slippage within the programme reflect this and allow the reductions to be managed in the short to medium term but the position will need to be kept under review. Details of the properties included in the disposal programme are included at Appendix M (vi). The disposal timetable is indicative and decisions will be taken on the basis of market conditions at the time and the need for the council to ensure best value from the disposals.

c. *S106 Funding Agreements*

Table 10.3 below provides the details of estimated Section 106 agreement funds that have been allocated within the planned capital programme. Members should note however that Section 106 funds are only triggered once schemes start on site and therefore timing of receipt of funds is not guaranteed. In addition, the council needs to ensure that all Section 106 agreements are within the legislative framework and that the money is spent in accordance with the provisions of each agreement. The impact of the recession is likely to mean that some schemes where receipts have not been triggered do not go ahead. It is also likely to mean fewer s106 agreements are reached. The impact of this is likely to be longer term than in the immediate short term.

Table 10.3 S106 Agreement Monies - 2008/09 to 2012/13 Capital Programme

S106 Agreement Monies	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**
Triggered					
Education	374	968	0	0	0
Environmental Health	41	30	37	1	0
Landscape & Design	330	60	0	0	0
Public art	245	0	0	0	0
Parks	515	106	0	0	0
Planning	1,618	0	0	0	0
Streetcare	9	95	71	47	24
Sports	618	164	44	0	0
Sustainability Strategy	0	5	4	3	1
Transportation	3,036	0	0	0	0
Environment General	2	2	1	0	0
Housing	0	372	192	196	266
Brent into Work	25	0	0	0	0
Total Triggered Agreements	**6,813**	**1,802**	**349**	**247**	**291**
Not Triggered					
Education	0	3,531	4,935	2,936	2,936
Environmental Health	0	0	0	116	14
Landscape & Design	0	145	232	236	0
Public art	25	136	136	26	28
Parks	0	124	108	200	170
Planning	78	282	321	241	241
Streetcare	0	0	0	0	0
Sports	0	0	0	0	0
Sustainability Strategy	0	4	7	11	14
Transportation	3,223	3,901	3,242	1,500	863
Environment General	0	5	10	15	20
Housing	0	126	251	377	502
Brent into Work	380	81	0	0	0
Total Not Triggered Agreements	**3,706**	**8,335**	**9,242**	**5,658**	**4,788**
Cumulative S106 Monies	**10,519**	**10,137**	**9,591**	**5,905**	**5,079**

d. *Self-funded borrowing*

Schemes funded from self-funded borrowing include ‘invest to save’ schemes such as automation in libraries, energy conservation schemes for which part funding is from Carbon Trust monies, the customer service strategy, IT schemes, and funding for the council’s civic accommodation strategy, including the Civic Centre.

e. *Other borrowing*

Overall supported and unsupported borrowing levels within the capital programme between 2008/09 and 2012/13 are in line with previously reported and agreed levels. However, the capital programme now includes a line for forecast slippage in year which totals £2.431m over the period of the programme and eases the pressure on the programme to undertake additional borrowing arising from the reduction in available usable capital receipts as detailed in 10.16 above.

Consideration of affordability is one of the critical tests in determining the limit of capital spending under the prudential regime for borrowing set up under the Local Government Act 2003. The fact that Brent is at the grant floor means there is very little difference in the impact of ‘supported’ and ‘unsupported’ borrowing on the council’s overall financial prospects. Nevertheless it is a requirement of the prudential regime that authorities monitor the impact of ‘unsupported’ borrowing on levels of council tax. Table 10.4 shows the cumulative impact of ‘unsupported’ borrowing (excluding self-funded borrowing) on council tax since the introduction of the prudential regime. Members should note that the high level of unsupported borrowing in 2009/10 results from re-phasing schemes and other resources within the programme.

Table 10.4 Impact of Unsupported Borrowing on Revenue Costs/Council Tax

	2009/10 £’000	**2010/11 £’000**	**2011/12 £’000**	**2012/13 £’000**
2004/05 to 2007/08 Unsupported borrowing £28.150m (excluding all self funded expenditure)	2,956	2,956	2,956	2,956
2008/09 Unsupported borrowing £14.370m (excluding all self funded expenditure)	1,523	1,509	1,509	1,509
2009/10 Unsupported borrowing £16.804m	571	1,781	1,764	1,764

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
(excluding all self funded expenditure)				
2010/11 Unsupported borrowing £8.939m (excluding all self funded expenditure)	0	304	948	948
2011/12 Unsupported borrowing £4.382m (excluding all self funded expenditure)	0	0	149	464
2012/13 Unsupported borrowing £4.628m (excluding all self funded expenditure)	0	0	0	157
Cumulative unsupported borrowing costs	**5,050**	**6,550**	**7,326**	**7,798**
Impact on Band D Council Tax – using 2009/10 council tax base of 95,279 of unsupported borrowing	£53.00	£68.75	£76.89	£81.84

Outcomes

10.17 Details of the target outcomes for the programme over the next four years are included in Appendix M(v).

Capital Programme Risks

10.18 Capital expenditure is on the whole easier to control than revenue spending as it is not generally demand led and commitments are only entered into once contracts are let. If it is necessary to reduce spending, it is possible to do so by not letting contracts. In addition, re-phasing of schemes within the capital programme, which is inevitable because spending for one reason or another will not always fall in the year for which it has been allowed, means that there is usually the ability to meet additional spending within year without increasing the call on resources in that year – although commitments are built up for subsequent years. In the last resort, it is possible under the Local Government Act 2003 to increase borrowing above planned levels to fund spending without a significant short term impact although longer term impacts need to be taken into account in considering the affordability of the decisions.

10.19 The immediate risks to the capital programme arising from recession – in particular, the impact of reduced capital receipts and the need to bring forward capital spending - were set out in the introduction to the chapter. The Capital

Board, which is chaired by the Director of Finance and Corporate Resources, will have responsibility for monitoring and managing the overall position. The overall position will be reported to Members as part of the Performance and Finance Review process.

10.20 The underlying capital programme risks are as follows:

a. The impact of borrowing to fund the capital programme on the longer term financial stability of the council.

b. The effect of spending more on some schemes on the ability of the council to deliver other priority schemes.

c. The ability of the council to ensure that it is getting value for money from the spending it carries out on capital schemes.

d. The consequence of unmet needs on services provided in Brent.

e. Meeting capital funding needs for services funded under separate funding regimes, in particular schools and council housing.

f. Funding for major development programmes including South Kilburn, the Primary Capital Programme, Building Schools for the Future and the new Civic Centre.

10.21 Table 10.5 below sets out these risks in more detail and the measures taken to manage them.

Table 10.5 Capital Programme Risks

Risk	More detailed description	Measures taken to manage the risk
a. The impact of borrowing to fund the capital programme on the longer term financial stability of the council.	The prudential borrowing power introduced in the Local Government Act 2003 removed direct government controls over borrowing by councils. Direct control was replaced by indirect control through the prudential borrowing framework which is described in more detail in Section 12 of this report.	The council's medium term financial strategy and the 30 year business plan set out clear assumptions about levels of borrowing which are affordable. The council has been careful to limit borrowing to this amount. In addition, the prudential indicators in Section 12 set limits on the amount of the budget accounted for by borrowing costs. The short term measures for addressing recession in this report – including maintaining spending despite reductions in forecast receipts and bringing forward spending on schemes – will have an impact on borrowing costs in the short term (and this has been built into revenue budget estimates) – but will not have an impact beyond the end of the Medium Term Financial Strategy.

Risk	More detailed description	Measures taken to manage the risk
b. The effect of spending more on some schemes on the ability of the council to deliver other priority schemes.	Additional spending on schemes above that allowed for in the programme reduces funding available for other schemes. For most spending programmes, spend is within the council's control and therefore overspends only occur if controls fail. In other cases, mainly ones that involve land purchase or compensation, such as the John Kelly Schools expansion or the Estate Access and Stadium Access Corridors, there is less direct control.	The council's capital spending controls and project management procedures are aimed at limiting additional costs to schemes in the programme. Schemes which it is proposed to add to the capital programme are subject to officer scrutiny and Member approval. Large schemes have to be approved by the Executive prior to going out to tender and when tenders come back. Smaller schemes are subject to the council's financial regulations and internal control procedures. Schemes involving land purchase or land compensation are subject to close monitoring by the Capital Board, which is an officer group chaired by the Director of Finance and Corporate Resources. Professional advice on these schemes is provided by the council's head of Property and Asset Management and additional external expertise is brought in where required. If costs are greater than provided for, then decisions need to be taken on re-prioritisation within the programme.
c. The ability of the council to ensure that it is getting value for money from the spending it carries out on capital schemes	The council spends between £50m and £100m each year on capital schemes. Achieving value for money is necessary to ensure that the council maximises outcomes from the spending.	Measures taken to manage this risk include: o Prioritisation of schemes as part of the process for putting together the capital programme; o Planned outcomes set for individual programmes and monitored through the quarterly Performance and Finance Review reports and in the annual budget report; o Council procurement procedures ensuring value for money is achieved through procurement; o Project management arrangements for individual schemes.
d. The	There is a limit on the	The council takes a strategic approach to

Risk	More detailed description	Measures taken to manage the risk
consequence of unmet needs on services provided in Brent.	resources the council can use to fund the capital programme. That means that not all needs can be met.	prioritising resources through the development of the Capital Strategy and the four year capital programme. In addition, asset management plans are used to measure unmet need. The council continues to secure resources from other sources including: o Section 106 funding – although levels of section 106 will be affected by the recession; o Lottery funding, for example for the new Harlesden Library; o PFI funding, for example the affordable housing PFI; o Additional government funding.
e. Meeting capital funding needs for services funded under separate funding regimes, in particular schools and council housing.	In the case of schools, the main pressures are the provision of additional pupil places and the need to maintain the conditions of schools. Government funding through grant and supported borrowing is insufficient to meet this.	The council has allocated the full amount of government grant, supported borrowing allocation, and section 106 funding to the schools programme. In addition, schools are able to borrow to fund works on the schools loan scheme. The council is looking at other opportunities to get improvements and expansion of schools as part of wider developments. In addition, the council continues to make use of other funding regimes, such as the Academy programme, to secure government funding. Representations have also been made to government for further additional funding to meet unmet needs. Officers from the Children and Families, and Finance and Corporate Resources departments are currently developing a 10 year Capital Programme for Schools in Brent analysing need and available resource. This programme is being developed in consultation with the Schools Forum and the head teacher group that works with the council on capital matters to ensure most effective use of both council and school capital resources.

Risk	More detailed description	Measures taken to manage the risk
	In the case of council housing, the council received significant amounts of funding to reach the decent homes standard but is now only entitled to the major repairs allowance which is not sufficient to ensure the decent homes standard is maintained in the longer term.	A report on issues affecting longer term funding of revenue and capital spending within the HRA is being considered by the Executive at its February meeting. The council is also currently awaiting the results of the government review of Council Housing Finance, due in the Spring 2009, which is considering greater freedoms and flexibilities in the funding of capital spend on the HRA.
f. Funding for major development programmes	The council's major programmes/projects include the South Kilburn development, the Primary Capital Programme, Building Schools for the Future, and the Civic Centre project. These programmes/projects each individually present major risks and challenges to the council.	Programme/project boards have been set up to manage each of these projects. There is also a major projects group consisting of senior managers across the council who oversee the development of these projects and ensure that issues that cut across the projects are picked up. The Capital Board also monitors the projects carefully to assess potential impact on the overall capital programme. There is reporting to Members at key stages of these programmes/projects.

Minimum Revenue Provision

10.22 The Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the requirement that councils set aside a minimum of 4% of their General Fund capital financing requirement to repay principal on debt, regardless of the length of life of the asset that was being financed.

10.23 Revised regulations which amend this requirement were issued earlier in 2008.[1] Under the new regulations councils are required to set an amount of Minimum Revenue Provision which is 'prudent'. The definition of what counts as 'prudent' is set out in statutory guidance which has been issued by the Secretary of State for Communities and Local Government and which authorities are required to 'have regard' to.

10.24 Under the guidance councils are required to prepare an annual statement of their policy on making Minimum Revenue Provision to Full Council. The

[1] Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 – SI 2008/404

purpose of this is to give Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements.

10.25 The guidance distinguishes between borrowing which is supported by the government through the Revenue Support Grant system and other borrowing where councils use their prudential borrowing powers to borrow above the supported borrowing level.

10.26 For borrowing which is supported by the government through the Revenue Support Grant system, authorities are allowed to continue to apply the 4% Minimum Revenue Provision based on the level of borrowing.[2] The guidance provides councils two options for carrying out this calculation. Option 1, 'the regulatory method', is to continue to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement, adjusted as set out in the original regulations (Adjustment A'), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year. Option 2, the CFR method, is similar to Option 1 but does not include any adjustments to the CFR.

10.27 For new borrowing under the Prudential system, councils are required to adopt from 2008/09 one of two further options for determining a prudent amount of Minimum Revenue Provision.[3] Option 3, which is 'the asset life method', allows councils to make provision for repayment of principal over the estimated life of the asset. This can be done using the 'equal instalment' method, where equal amounts of principal are paid each year, with reducing interest payments as debt is repaid, or the 'annuity' method, which is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset. Option 4, which is the 'depreciation method', involves making Minimum Revenue Provision in accordance with the standard rules of depreciation accounting. This means setting aside an amount each year in line with estimated annual depreciation until the total initial debt is provided for.

10.28 The policy proposed for 2009/10 for non-HRA assets is as follows:

a. For supported borrowing, it is proposed that the council continues with the existing method (Option 1). This is in line with assumptions made within the 2008/09 budget and the council's medium term financial strategy. It also ties in with the basis on which grant is calculated, albeit that so long as the council is on the grant floor, it does not receive the benefit of the additional grant funding. Option 1leads to a lower level of Minimum Revenue Provision than Option 2, and avoids the council having to make

[2] Members will note that in practice, as a grant floor authority, Brent does not receive the benefit of this supported borrowing. Nevertheless a figure for supported borrowing is provided each year to the council and it is this figure which will be used in the calculation of the 4% Minimum Revenue Provision.

[3] The amendment regulations apply to the 2007/08 financial year as well as subsequent years. However, the statutory guidance does allow authorities to apply Option 1 or 2 to prudential borrowing carried out in 2007/08. In practice, the option adopted in the council's 2007/08 accounts for prudential borrowing was Option 1.

complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

b. For prudential borrowing, it is proposed that the council adopts Option 3, 'the asset life method', and that an 'annuity' approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the council gets out of the asset than loading payments at the beginning as would happen under the equal instalment method. It is also considerably easier to understand and more transparent than the depreciation method (Option 4). The proposed asset lives which will be applied to different classes of assets are as follows:

- Vehicles and equipment – 5 to 15 years;
- Capital repairs to roads and buildings – 15 to 25 years;
- Purchase of buildings – 30 to 40 years;
- New construction[4] – 40 to 60 years;
- Purchase of land – 50 years (unless there is a structure on the land with an asset life of more than 50 years, in which case the land would have the same asset life as the structure).

The guidance also requires that the life of the asset is determined in the year in which it is acquired and is not varied subsequently.

The guidance also sets out the approach to be taken to specific expenditure types which do not fall within these general categories, including spending capitalised under directions issued by the Secretary of State, capital grants to other organisations and individuals and so on. Details of the maximum asset life that can be applied in these cases are set out in Table 10.6.

Table 10.6 Asset Life for Specific Assets Set Out in Guidance

Expenditure Type	Maximum Value of Asset Life
Expenditure capitalised by virtue of a direction by the Secretary or State	20 years
Expenditure on computer programs	The life of computer hardware
Loans and grants towards capital expenditure by third parties	The estimated life of the assets in relation to which the third party expenditure is incurred
Repayment of grants and loans for capital expenditure	25 years, or the period of the loan if longer
Acquisition of share or loan capital	20 years
Expenditure on works to assets not owned by the authority	The estimated life of the assets

[4] Purchase of buildings, new construction and purchase of land includes spending related to the provision of additional residential units for rent outside the HRA using prudential borrowing powers.

Expenditure on assets for use by others	The estimated life of the assets
Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	25 years

10.29 These policies do not apply to HRA assets. The duty to make Minimum Revenue Provision in the Local Authorities (Capital Finance and Accounting) Regulations 2003 does not apply to HRA assets.

10.30 Should there be any amendments to the policies set out in this section of the report these will be reported to Full Council at that time.