


|   |  |
|---|--|
|  | <p><b>Meeting of the Budget Panel</b><br/> <b>10<sup>th</sup> January 2007</b></p> <p><b>Report from the Director of Finance and Corporate Resources</b></p> |
| For Action  | Wards Affected:<br>All   |
| <p><b>Capital Programme</b></p>   |  |

**PURPOSE**

1. This report provides background information for the item on the agenda on the capital programme.

**BACKGROUND**

2. The capital programme is a four year rolling programme. The starting point for consideration of the 2007/08 to 2010/11 capital programme is therefore the current 2006/07 to 2009/10 capital programme agreed under the previous administration, albeit that it needs to be reviewed to ensure it reflects the priorities of the new administration.
3. 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 (eg 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).
4. Key constraints on the capital programme are as follows:
  - a. Unavoidable capital spending requirements: eg the condition of council's buildings need to meet basic standards, school places need to be provided, roads need to be maintained;
  - b. Restrictions on the way resources are used: eg lottery, TfL, Targeted Capital Fund, devolved capital funding for schools, children centres' grant, disabled facilities grant, other grant funding, and section 106 funding can generally only be used for very specific purposes.
  - c. Limited access to capital receipts: Right-to-Buy receipts are declining. There are limited opportunities for other non-RTB receipts and often pressure to use for them for particular purposes rather than fund the capital programme;
  - 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. Brent's prudential borrowing has been relatively high in past years and this cannot be sustained without an unacceptable impact on the council's revenue budget in the medium term.

5. The council can access/has accessed other sources of funding – eg meeting the need for pupil places through the City Academy programme, PFIs for street lighting, JFS, Willesden leisure centre, and affordable housing, ALMO funding, lottery funding, regeneration funding etc. There are also plans to change the way planning gain is negotiated to a standard charge to ensure maximum flexibility of use. These additional funding sources need to be taken into account when determining the balance of the programme. For example, a new City Academy would mean less funding is required from council resources to meet the need for additional pupil places. Section 106 funding for new public space may mean less mainstream funding is required for parks. There are also funding sources the council is likely to be able to access in future years, particularly in education, but which we do not yet have access to eg Building Schools for the Future.
6. Members have to consider the balance of the programme between main programme areas, taking account of the constraints that exist. The key areas covered by the programme are as follows:
  - a. Schools – most of the funding that the council has discretion about is targeted at school expansion, school replacement (eg huts), and special education needs.
  - b. Environment and Culture - the largest element is TfL funding. There is c.£3m per annum in the programme for roads and pavements and a further £0.8m for parks and leisure. There are additional pressures from urgent works to Bridge Park. There is no funding for libraries apart from health and safety works.
  - c. Housing and Community Care – there is c.£2m per annum for disabled facilities grant (60% grant funded, 40% council match funding), c.£3m per annum for private sector housing renewal, and c.£3m per annum for social housing grant. The latter funding has to be deleted from the programme if sufficient funding is to be available to meet revenue costs to the council of the non-HRA/learning disabilities PFI (ie there needs to be a virement from capital financing charges to PFI funding);
  - d. Corporate – this is focused on addressing the backlog of repairs to the council's corporate property portfolio to meet essential health and safety and other regulatory requirements. It also includes some elements of IT funding, project funding, and the council's capital contribution to the South Kilburn development.

## **DETAILED INFORMATION**

7. The detailed capital programme (existing programme for 2007/08 to 2009/10 rolled forward to include 2010/11) is attached as *Appendix 1*.

## PARAMETERS FOR THE PROGRAMME

### Resources

8. The following resource constraints apply:

- a. Given pressures on the revenue budget, there is limited, if any, scope for any increase to the levels of unsupported borrowing (borrowing above that for which funding provision is made within the local government finance settlement). The table below shows growth built into the revenue budget for unsupported borrowing needed to fund the capital programme:

#### **Impact of Unsupported Borrowing on Revenue Costs**

|  | <b>2006/07<br/>£'000</b> | <b>2007/08<br/>£'000</b> | <b>2008/09<br/>£'000</b> | <b>2009/10<br/>£'000</b> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>2004/05</b><br>Unsupported borrowing £8.010m  | 841                      | 841                      | 841                      | 841                      |
| <b>2005/06</b><br>Unsupported borrowing £12.046m | 1,277                    | 1,265                    | 1,265                    | 1,265                    |
| <b>2006/07</b><br>Unsupported borrowing £9.579m  | 326                      | 1,015                    | 1,006                    | 1,006                    |
| <b>2007/08</b><br>Unsupported borrowing £14.915m | 0                        | 507                      | 1,581                    | 1,566                    |
| <b>2008/09</b><br>Unsupported borrowing £7.257m  | 0                        | 0                        | 246                      | 769                      |
| <b>2009/10</b><br>Unsupported borrowing £8.369m  | 0                        | 0                        | 0                        | 285                      |
| <b>Cumulative total</b>                          | <b>2,444</b>             | <b>3,628</b>             | <b>4,939</b>             | <b>5,732</b>             |
| <b>Impact on Band D council tax</b>              | <b>£25.99</b>            | <b>£38.58</b>            | <b>£52.52</b>            | <b>£60.95</b>            |

- b. The level of usable Right to Buy receipts included in the programme needs to be reduced from £1.750m to £1.250m in 2007/08 and £1.0m in subsequent years to reflect the downturn in RTB sales that has occurred during 2006/07 in comparison with recent years.
- c. There is a £2.0m per annum target for capital receipts derived from disposal of General Fund land and properties. This remains appropriate, but conflicting demands on use of receipts from disposals need to be addressed. Proceeds cannot be used to fund both the capital programme and replacement assets. It is one or the other and sometimes that means difficult choices need to be made.
- d. Use of all S106 Agreement, lottery and other monies should be reflected in the resources element of the capital programme, including clear identification of where these resources are earmarked for specific purposes which would not otherwise have been funded as priorities in the capital programme.

## **Expenditure**

### Children and Families

9. Key issues for Children and Families are as follows:

- a. The extent to which the current capital programme adequately provides for expansion, re-design and re-build requirements, and the link between these requirements and (1) alternative funding sources including the City Academy Programme; and (2) future funding streams promised by central government for primary and secondary schools.
- b. The extent to which, where a re-design scheme is forecast to result in revenue savings, a principle should be adopted that the costs of borrowing for these schemes should be met from the Dedicated Schools Budget subject to headroom being available.
- c. The extent to which schools should be expected to meet maintenance programmes from Devolved Capital Formula allocations (running at £3m per annum) rather than unsupported borrowing.

### Environment and Culture

10. Key issues for Environment and Culture are as follows:

- a. The extent to which the allocations for roads and pavements in both capital and revenue budgets (taking account of mainstream funding, s106 funding, and other funding sources) are sufficient to maintain/improve roads and pavements;
- b. The extent to which funding for the parks services (taking account of mainstream funding, section 106 funding, and other external sources such as the lottery) is sufficient to meet priorities for parks – and the extent to which these are driven by a parks strategy;
- c. Capital funding available to meet the need to maintain and improve libraries;
- d. The extent of funding for key environmental priorities in the corporate strategy.

### Housing and Community Care

11. Key issues for Housing and Community Care are as follows:

- a. The need for revenue funding for the Non HRA/learning disabilities PFI scheme. This will provide up to 300 affordable homes over the next three years but no revenue funding is available to meet elements of cost not met by PFI grant. Virement of funds in the capital programme currently used for social housing grant (which similarly are used to provide affordable homes, albeit at a slower rate) is needed for the council contribution to the PFI to be funded;
- b. The adequacy of provision for private sector renewal and disabled facilities grant to fund priorities set out in the 5 year private sector housing renewal strategy agreed in 2005;
- c. Capital funding associated with the Customer Services Review;

- d. The need, if any, for funding for adult social care over and above funding for building repairs in the corporate repairs and maintenance programme and learning disabilities provision funded through the PFI.

### Corporate

12. The key issue for the corporate programme is adequacy of the funding for corporate repairs and maintenance. Some items fall out of the corporate capital programme, helping to offset loss of Right-to-Buy receipts set out above (para 8(b)), including allocation required for South Kilburn redevelopment (deferred from 2007/08) and the amount required for replacement financial systems.

### **CONCLUSION**

13. The current capital programme, and changes that have been identified, enable the programme to be broadly contained within resources already allocated. There is a reduction in borrowing need in 2007/08 but an increase in subsequent years.

#### **Effect on borrowing of changes in existing programme**

|  | <b>2007/08<br/>£'000</b> | <b>2008/09<br/>£'000</b> | <b>2009/10<br/>£'000</b> | <b>2010/11<br/>£'000</b> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Reduction in RTB receipts (para 8(b))  | +500                     | +750                     | +750                     | +750                     |
| Deferral of South Kilburn contribution (para 12)   | -1,000                   | 0                        | 0                        | 0                        |
| Reduction in financial systems provision (para 12)   | -400                     | 0                        | 0                        | 0                        |
| <b>Impact of changes on borrowing (excluding effect of transfer of borrowing for social housing grant to fund PFI)</b> | <b>-900</b>              | <b>+750</b>              | <b>+750</b>              | <b>+750</b>              |

14. The issues the Executive will need to consider are as follows:
- The level of prudential borrowing that can be sustained and treatment of alternative sources of funding;
  - The extent to which spending priorities in the existing programme meet the needs to spend on capital and the priorities in the Corporate Strategy;
  - The need, if any, for new schemes to be included in the programme to meet these needs/priorities;
  - The need, if any, for changes to prioritisation of the funding and phasing of schemes in the capital programme.

### **Contact Officer**

**Peter Stachniewski**  
**Deputy Director of Finance and Corporate Resources**  
**020 7937 1460**