

# LONDON BOROUGH OF BRENT

MEETING OF THE EXECUTIVE - 12 JULY 2004

## REPORT FROM THE DIRECTOR OF FINANCE

FOR: ACTION/INFORMATION

NAME OF WARD(S)

ALL

Above  Below

Confidential Line

**REPORT TITLE: 2003/2004 CAPITAL BUDGET OUTTURN AND 2004/2005 CAPITAL BUDGET MONITORING REPORT**

FP REF. BFS-03/04-76

### 1. SUMMARY

- 1.1 This report sets out the provisional outturn for the 2003/2004 Capital Budget and reviews the latest position on the 2004/2005 budget. It also highlights significant issues for future years.

### 2. RECOMMENDATIONS

The Executive is recommended to:

- 2.1 Note the provisional outturn for the 2003/2004 programme.
- 2.2 Agree that all usable capital receipts received in 2003/2004 be applied to fund capital expenditure per Section 60 Part IV of the Local Government and Housing Act 1989.
- 2.3 Agree the Revised Budget in respect of the 2004/2005 Capital Programme as per paragraph 7.8.
- 2.4 Note the deficit that is forecast on the 2004/2005 Capital Programme, and that this will be closely monitored and reported to Members if it appears that action will be required to balance the Programme at 31<sup>st</sup> March 2005.
- 2.5 Agree that usage of the capital receipt arising on the John Billam Sports Pavilion, as per paragraph 7.13 will be considered when this is received.
- 2.6 Confirm and agree the decisions of the Capital Board made to date, as per paragraph 7.11.

### 3. FINANCIAL IMPLICATIONS

- 3.1 This report is entirely concerned with financial matters in relation to the Council's Capital Programme.

#### 4. STAFFING IMPLICATIONS

4.1 There are no direct staffing implications from this report.

#### 5. LEGAL IMPLICATIONS

5.1 None specific.

#### 6. DIVERSITY IMPLICATIONS

6.1 This report has been subject to screening and officers believe that there are no diversity implications.

#### 7. DETAIL

##### 7.1 2003/04 Provisional Outturn

The figures in Table 1 present a provisional outturn for the entire 2003/2004 Capital Programme including Supplementary Credit Approval (SCA) and grant funded programmes. The surplus carried forward is subject to change as the outturn is verified and audited. The surplus is carried forward in the capital funding account.

**TABLE 1 - 2003/2004 BUDGET AND PROVISIONAL OUTTURN**

Programme Detail	2003/04 Revised Budget £m	2003/04 Provisional Outturn £m	Variance (Under)/ Over £m	Estimated Commitment C/fwd £m
<b>Resources:</b>				
Basic Credit Approval	15.074	15.074	0	
Supplementary Credit Approval	11.688	13.326	1.639	
Capital Funding Account	5.373	7.217	1.844	
Capital Receipts Brought Forward	0.034	0.034	0	
Capital Receipts in Year	8.495	9.004	0.509	
Revenue Account Contributions	4.000	5.576	1.576	
Section 106	1.963	0.009	(1.954)	
Grant Income	22.103	21.293	(0.809)	
<b>Total Resources</b>	<b>68.729</b>	<b>71.534</b>	<b>2.805</b>	
<b>Service Area Expenditure:</b>				
Education, Arts and Libraries	12.145	9.996	(0.096)	(2.053)
Environment	12.517	10.965	(0.827)	(0.725)
Social Services	0.498	0.708	0.210	0
Housing	31.328	32.649	1.605	(0.284)
Corporate Services	2.441	0.657	0.168	(1.952)
<b>Total Service Expenditure</b>	<b>58.929</b>	<b>54.975</b>	<b>1.060</b>	<b>(5.014)</b>

**Central Items:**

Retentions	0.117	0	(0.117)	
Surestart	0.043	0.001	0	(0.042)
Deferred Purchase	0.675	0.659	(0.016)	
RCCO Capitalisation	0	0.325	0.325	
St Martin's Church Hall	0.315	0.302	(0.013)	
Property Leases	0.700	0	0	(0.700)
Grange Road Acquisition	0.140	0	0	(0.140)
Elm Road Car Park Lease	0.250	0	0	(0.250)
Provision for Liabilities	0.900	0.886	(0.014)	
Acorn Estate	0	0.161	0.161	
SRB Programmes	3.683	4.709	1.025	
<b>Total Central Items</b>	<b>6.823</b>	<b>7.043</b>	<b>1.351</b>	<b>(1.132)</b>
<b>Overall Total Expenditure</b>	<b>65.753</b>	<b>62.018</b>	<b>2.412</b>	<b>(6.146)</b>
<b>(Surplus)/Deficit</b>	<b>(2.976)</b>	<b>(9.515)</b>	<b>(0.393)</b>	<b>(6.146)</b>

7.2 As the above table shows the provisional outturn surplus has increased by £6.539m. This is mainly due to expenditure variations and slippage in the main Service Areas, plus additional receipts and contributions. The table also accounts for an overspend in Social Services and a re-profiling of the Estate Access Corridor budget.

7.3 The movement on the 2003/2004 Capital Programme can be summarised as follows:

**TABLE 2 – MOVEMENT ON THE PROGRAMME**

	<b>£m</b>
Revised Budget Surplus	(2.976)
Additional Receipts and Contributions	(2.805)
Slippage Carried Forward to 2004/05	(6.146)
Increased Capital Expenditure	2.412
<b>Provisional Outturn Surplus</b>	<b>(9.515)</b>

The expenditure commitments (slippage) carried forward of £6.146m will be funded by the provisional outturn surplus carried forward.

7.4 The provisional surplus is £9.515m. The commitments carried forward amount to £6.146m. Resources at the year-end are therefore £3.369m, of which £2.976m was assumed in the 2004/2005 Budget Setting process, the balance of £0.393m remains unallocated and is reflected in the surplus shown in Table 2.

7.5 Provisional gross capital receipts achieved in year amount to £22.441m. Of these £9.004m are usable to fund capital expenditure with the balance to be set aside for debt redemption.

7.6 Under Section 60 of Part IV of the Local Government Housing Act 1989, a determination has to be made before the 30 September that all usable receipts received in 2003/2004 are applied in one of the following ways, or a combination of both:

- To meet expenditure incurred for capital purpose; or
- As a provision to meet credit liabilities (i.e. to repay debt).

In accordance with the Full Council's decision on 1 March on the Programme, the Director of Finance has determined that in view of the need to fund this year's programme, all usable receipts will be used to fund capital expenditure.

7.7 Members should be aware that all figures at this stage are only provisional. They will be subject to change as a result of the 2003/04 external audit and other closing of account adjustments.

### 7.8 2004/2005 Capital Budget Monitoring

The 2004/2005 Capital Programme is set out in Table 3 below. It details estimated resources and agreed total budgets against a projected outturn. The current position shows a balanced programme before the issues referred to in paragraph 7.10 are taken into account.

**TABLE 3 - 2004/2005 REVISED BUDGET AND PROJECTED OUTTURN**

Programme Detail	2004/05 Original Budget £m	2004/05 Revised Budget £m
<b>Resources:</b>		
Supported Borrowing – General Fund	6.900	6.900
Grant Income – General Fund	10.145	10.145
Supported Borrowing – HRA	27.764	27.764
Capital Funding Account	2.308	2.008
Capital Programme Surplus	12.308	9.515
Capital Receipts in Year	5.258	5.658
Section 106	1.600	3.483
Unsupported Borrowing – General Fund	16.259	16.259
<b>Total Resources</b>	<b>82.542</b>	<b>81.732</b>
<b>Service Area Expenditure:</b>		
Education, Arts and Libraries	19.664	14.707
Environment	15.069	15.795
Social Services	1.771	1.698
Housing – General Fund	11.990	11.924
Housing – HRA	27.764	27.764
Corporate Services	2.627	4.241
<b>Total Service Expenditure</b>	<b>78.885</b>	<b>76.129</b>

**Central Items:**

Retentions	0.300	0.300
Provision for Liabilities	0	0.850
Grange Road Acquisition C/fwd	0.140	0.140
Deferred Purchase	0.659	0.659
Surestart	0	0.042
Elm Road Car Park Lease C/fwd	0.250	0.250
Property Leases (Slippage)	0	0.700
Estate Access Corridor	2.308	1.291
<b>Total Central Items</b>	<b>3.657</b>	<b>4.232</b>
<b>Overall Total Expenditure</b>	<b>82.542</b>	<b>80.361</b>
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>(1.371)</b>

7.9 The Resources forecast includes a £5.658m budget for capital receipts. This is a very challenging target for asset disposals and any slippage on disposals will require compensatory resources or savings to be found.

7.10 The revised budget position takes account of:

- Changes to resources and expenditure as a result of the 2003/04 provisional outturn.
- The allocation of resources by the April meeting of the Executive.
- The reduction on the Housing Capital Programme, due to the Supporting People capital scheme (£300k) being met from the Housing Investment Plan. These funds have been provisionally carried forward to 2005/06 to provide a contingency for the forecast increase in the Disabled Facilities Specified Capital Grant. This is as per the recommendations from the Housing Capital Programme 2003/04 and 2004/05 Scheme Approval report submitted to Executive on 26 April 2004.
- Reductions on the Corporate Services Capital Programme as reported to Capital Board in relation to the withdrawal of the Willesden Lane Boiler Conversion (£45k) and Brent House Annexe Toilets Refurbishment (£75k) schemes and the reduced requirement of £50k for the Town Hall Cashiers Remodel. The £45k arising from the Willesden Lane Boiler Conversion scheme will not be available for reallocation as this was to be self funded.
- A reduction in the Social Services budget of £73k to reflect the recovery of the overspend in the 2003/04 outturn position.
- The re-profiling of the Estate Access Corridor budget.

7.11 The 2004/05 budget included a group of projects under a category of "More Information Required". As a result of presentations and submissions made to the Capital Board the following decisions have been made to date:

- Approve scheme commencement on the basis of further information submitted for: Queue Management System at One-Stop-Shops and Call Centres (£45k), Brent House One-Stop-Shop Refurbishment (£150k) and Town Hall Cashiers Remodel (reduced to £50k).

- Include the savings on the Corporate Services Capital Programme in the Revised Budget 2004/05 as detailed at paragraph 7.10 above.

## 7.12 Estate Access Corridor

Following on from the position set out above, a number of issues have arisen which need consideration by the Executive. The Estate Access Corridor has been the subject of several reports to the Executive. The project has significantly overspent on its original budget allocation and an update to the Capital Board has identified the requirement for further expenditure projected at £2.300m. Inclusion of this additional expenditure will move the 2004/05 Capital Programme into a deficit position of £0.929m, see Table 4 below.

**TABLE 4 – SUMMARY OF PROJECTED DEFICIT ON 2004/05 CAPITAL PROGRAMME**

	<b>£m</b>
Revised Surplus on 2004/05 Programme	(1.371)
Additional Expenditure requirement on Estate Access Corridor	2.300
<b>Projected Deficit on 2004/05 Programme</b>	<b><u>0.929</u></b>

At this stage in the financial year, particularly given experience of expenditure slippage in past years, this is a very provisional estimate. However, at the end of each financial year the Capital Programme must be balanced, Members would be asked to consider the following options to eliminate any deficit:

- (i) Make reductions to the existing Capital Programme to keep expenditure within the overall resource limits.
- (ii) It is possible to make a Revenue Contribution to Capital Outlay to increase the resources within the programme but these are not currently available within the Revenue Budget.
- (iii) Undertake additional borrowing under the Prudential Framework to meet the additional expenditure. This would be affordable in Year 1 (2004/05) as the cost of borrowing to the revenue account is relatively small and projected savings on the debt charges budget would fund the charges. However, this would have a more significant impact in future years and would be the first call on resources in 2005/2006 and future years. The estimated cost of borrowing is shown in Table 5 below.

**TABLE 5 – REVENUE COSTS OF ADDITIONAL PRUDENTIAL BORROWING**

	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cost of Borrowing	0.038	0.112	0.108	0.108

It is recommended that no immediate decision is made until we have more up to date information in the next monitoring report.

## 7.13 John Billam Sports Pavilion

As part of the Cemetery and Mortuary Service and Parks Service Capital Programme 2004/2005 report submitted to the Executive on 14<sup>th</sup> June 2004, a capital receipt of £500k was identified from the John Billam Sports Pavilion. A prior decision by the Public Services Deciding Committee (17<sup>th</sup> January 2001) had agreed that this be re-invested in the boroughs playing fields and a number of schemes to utilise this sum were put forward. The Executive deferred the decision on the use of this capital receipt until consideration had been given to the contents of this report with an overall position statement.

The current Disposals Programme does not include this asset and as such this sum is not included in the forecast capital receipts for 2004/05. Members should note that a commitment has already been made against this capital receipt to the value of £85k for the re-purchase of the changing facilities at John Billam Sports Ground.

Members have 3 main options for the use of the remainder of the capital receipt arising from the John Billam Sports Pavilion (£415k). This receipt has still to be paid to the Council:

- (i) agreeing to the identified schemes going ahead.
- (ii) reducing the deficit on the 2004/2005 Capital Programme; or
- (iii) defer the decision until a later date when an updated position on the Capital Programme can be considered and we are sure we have secured the receipt.

The last option is currently recommended.

## 8. POTENTIAL PRESSURES ON THE PROGRAMME

8.1 Members are alerted to the following issues within the 2004/2005 and beyond Capital Programmes.

### 8.1.1 Corporate

The Control of Asbestos at Work Regulations 2002 has laid down new requirements for the management of the Council's buildings to prevent exposure to asbestos by employees, contractors and the public. Corporate Property has instigated a programme of surveys of all buildings utilised by the Council and a budget to meet the costs of these surveys was included in the 2004/2005 Capital Programme. Any cost of remedial works will need to be contained within existing budgets where contingency budgets exist.

### 8.1.2 Education, Arts and Libraries

A report entitled Capital Investment 2004/2005: Allocation of Education, Arts and Libraries Capital Funding was submitted to Executive on 24<sup>th</sup> May 2004. It advised the Executive of the capital funding available for EAL in 2004/2005 and future years and asked that the Executive recommended its allocation to Full Council. It was based on a combination of Asset Management Plan priorities and hut replacement schemes.

This report also made reference to the Special Education Needs Best Value Review and a consultation exercise is being undertaken on some of its recommendations. It was recognised that this may have an impact on future year's programmes.

Also it has recently been acknowledged, as the population of the Borough continues to rise, there is a need to provide additional school places. This may require new schools for which no specific provision has been made in the Programme.

### 8.1.3 Environment

The Executive has received a number of reports on the progression of the Stadium Access Corridor scheme. There is an update on tonight's agenda. There remains a number of budget issues to be resolved, but the main risk is that upon progression the project overspends. Any overspending, above the contingency set for the scheme, is likely to have to be met by the Council and no provision has been made for this.

### 8.1.4 Housing

The new mechanism for the allocation of housing funding through the Regional Housing Board and the new Pooling Requirements on Capital Receipts were referred to in the budget setting report but are worthy of restating here as additional information is now available. Each of these matters is covered in more detail in the paragraphs below.

The Capital Programme includes a reduction in the allocation of Housing resources. These resources are allocated to the Council by the Regional Housing Board (RHB) who will allocate only 70% per annum of the Council's Housing Investment Programme for 2004/2005 and 2005/2006. Guidance from ODPM to RHB's, issued in June 2004, does not require any minimum level of support to local authorities. An allocation of 50% has been assumed for 2006/2007 and 2007/2008 but the actual allocation could be less. It should also be noted that a large element of the allocation received is ringfenced to support expenditure on the Housing Revenue Account only, thus reducing the level of support available to the General Fund.

The Local Authorities (Capital Finance and Accounting) (England) Regulations [S.I. 2003/3146], made under the Local Government Act 2003, lay down new requirements for the pooling of capital receipts from the sale of housing assets. These new requirements can briefly be summarised as follows:

- The regulations require all or part of a capital receipt from sales of housing land, defined as any land, house or other building held within the Housing Revenue Account (HRA) immediately prior to disposal, to be paid to the Secretary of State. This replaces the requirement under the 1989 Act for a proportion of such receipts to be set aside against credit liabilities.
- 75% of capital receipts arising from the disposal of a dwelling through Right to Buy must be pooled. This applies to disposals and to the principle element of



repayments on mortgages granted by the authority for Right to Buy or other purchases of HRA properties.

- Other receipts, including the disposal of mortgage portfolio's can be offset against a Capital Allowance, but where they are pooled the proportions are 75% for dwellings and 50% for all other HRA assets.

## **9. CONCLUSION**

The report sets out a forecast deficit on the current year's programme due to rising costs on the Estate Access Corridor. It also highlights challenges in future years in the later sections.

Members need to be aware that although the Prudential Regime does offer greater flexibility to fund capital expenditure it is heavily regulated and it cannot be the answer for all investment requirements. Ultimately the Government retains the power to limit local authority borrowing if it believes national economic objectives are being undermined by high levels of capital spending.

## **10. BACKGROUND INFORMATION**

1. Report from the Director of Finance entitled "2004/2005 Budget and Council Tax" to the Council Meeting on 1 March 2004.
2. Executive Papers, 14<sup>th</sup> June 2004.

Any person wishing to inspect these documents should contact Committee and Member Services, Room 106, Brent Town Hall, Forty Lane, Wembley, Middlesex. HA9 9HD. Tel. 020 8937 1353

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