ITEM NO: 17

	Executive 14th November 2005 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

Capital Programme Monitoring

Forward Plan Ref: F&CR-05/06-12

1. Summary

1.1 This report sets out the monitoring position on the capital programme for the first 6 months of 2005/06, and provides information on prudential indicators, in line with arrangements the council has to ensure affordability and value for money of its capital programme.

1.2 The report also sets out the progress on the review of Section 106 usage and balances held.

2. Recommendations

The Executive is recommended to:

2.1 Agree the adjustments to the schools capital programme set out in paragraph 4.5;

2.2 Agree no further schemes will be brought forward to 2005/06 from later years of the schools programme, pending completion of the review of the overall needs for the schools capital programme as part of a wider review of the council's capital programme – paragraph 4.7;

2.3 Agree a 'spend to save' scheme for the refurbishment of Willesden Library, to be funded from additional prudential borrowing – paragraphs 4.8 to 4.10;

2.4 Agree the proposed programme of repairs to address priority 1 schemes identified as part of the recent building surveys carried out as part of the corporate asset plan process – paragraph 4.11 to 4.16;

2.5 Agree other adjustments to the non-schools capital programme set out in paragraph 4.17;

2.6 Note the overall position on the capital programme in paragraphs 4.18 to 4.20;

2.7 Note the risks in Section 5;

2.8 Note the position on the S106 review in Section 6.

2.9 Note the revised position on the Council's Prudential Indicators for 2005/06 in Section 7.

Background

3.1 The capital programme is a four year rolling programme of capital investment. It is focused on the priorities set out in the capital strategy, and the need to invest in existing and new assets.

3.2 The funding of this capital investment is a key factor and the introduction of the new prudential system of borrowing by the 2003 Local Government Act gave new opportunities for councils to assess their requirements for capital spending. Under the accompanying regulations, councils are required to follow the Prudential Code issued by CIPFA, which sets out how councils ensure they use their new freedom responsibly. The code sets out indicators which councils are required to set before the beginning of each year, to monitor during the year, and to report on at the end of each year.

3.3 The 2005/06 capital programme setting process was based on the premise that spending must be maintained at a level which can be funded within previously agreed levels of unsupported borrowing, in order for the programme to remain affordable. This remains one of the key funding strategies for the programme.

3.4 The forecast annual costs of unsupported borrowing to the General Fund revenue budget are £1.907m in 2005/2006, £3.270m in 2006/2007, £4.620m in 2007/2008, and £5.616m in 2008/2009. The cost of unsupported borrowing to the revenue budget is an important prudential indicator which alerts the council to commitments being built up in future years as a result of funding the capital programme at a higher level than would be possible if only supported borrowing, grants, receipts, Section 106 funding, and other contributions were used. These commitments have been taken into account in the medium term revenue budget forecast, and will need to continue to be managed as part of medium term financial planning.

4. Monitoring of the 2005/06 to 2008/09 Capital Programme

4.1 The 2005/2009 Capital Programme was agreed at Full Council on 28th February 2005 and was revised to reflect the 2004/05 outturn at the Executive on 11th July 2005.

4.2 This section of the report up-dates the programme to reflect the latest monitoring information. It focuses particularly on the issue of how to address pressing needs for capital investment in schools. It proposes funding for a 'spend to save' scheme for Willesden Library, linked to the current work being carried out there. It sets out the programme required to address urgent repairs and maintenance needs in non-schools. And it provides an up-date on the latest overall resource position.

4.3 Details of the overall programme are included in Appendix 1. This reflects changes proposed in this section of the report.

Schools issues

4.4 Members are aware of the need for long term investment in Brent schools which was highlighted in the 2005/06 Budget Report to Full Council on 28th February 2005. Demands on capital resources include the need to modernise the SEN service, meet demands for additional schools places, replace hutted class-rooms, meet repairs identified in the schools asset management plan, and ensure curriculum needs are met. The difficulties are compounded by the fact that the council is in later phases of the Building Schools for the Future programme and was unsuccessful in the bid for Targeted Capital Funding for Wembley Manor infant and primary school. The council is currently making representations on the decision on Targeted Capital Funding for Wembley Manor.

4.5 There are competing priorities that need to be addressed through careful management of the programme. As a result, the following changes are needed to the capital programme:

- It is estimated that £1m is required to meet the cost of temporary class-rooms for children who would otherwise be out of school, of which up to £500k will be required in 2005/06. There is provision of £415k in the 2005/06 capital programme for expansion of secondary places, of which £65k is committed. The balance of £350k will be used to fund the additional temporary class-rooms. A further £150k can be funded through a projected under-spend on the schools loan scheme. A total of £500k was allocated to this in 2005/06 but so far only £300k of this has been committed. This will leave £50k of the schools loan scheme funding in 20005/06 uncommitted. Funding of the balance of £500k required for temporary classrooms in 2006/07 will be addressed as part of the 2006/07 to 2009/10 capital programme development process;

- Funding of £535k is required for emergency flat roof replacement at Elsley Primary School, of which £130k is required in 2005/06 and £405k in 2006/07. The requirement for this work was not identified during the Asset Management Plan survey process because the existing surveying techniques only include visual inspection. The AMP survey process will be reviewed to ensure that in future spending requirements such as these are identified at an earlier stage. It is proposed that this spending is funded from existing provision within the schools capital programme for schemes arising from the AMP process although this will mean re-prioritisation of existing schemes;

- £4.5m has been added to the programme for 2006/07 to 2008/09 to reflect spending on the St Mary Magdalen Junior School rebuild following the successful Targeted Capital Fund bid – with an equivalent amount added to resources. There has also been a successful bid for £167k Sport England funding which is being used to fund improvements to sports halls;

- Spending on a number of schemes has had to be re-profiled to take account of government funding announcements, the need for consultation, the need to gain planning permission, and other factors. As a result, a total of £3.467m which it was planned to spend in 2005/06 will now be spent in later years of the capital programme. Details are provided in Annex A to this report;

- Deferral of spending on some schemes has allowed spending on a number of schemes which were included in the 2006/07 programme to be brought forward. Schemes that will cost an estimated £1.053m in 2005/06 have been brought forward. Details are included in Annex B to this report;

- There are also a number of schemes which are currently forecast to spend above the provision within the budget. The forecast total if all claims are met is £1.030m, of which £0.855m is expected to be incurred in 2005/06 and £0.175m in 2006/07, although in practice it is likely to be below this level. Provision for this additional spending has not been included in the revised capital programme but is taken into account in the forecast resource position (see paragraph 4.19 below). The forecast additional spending is offset by reductions on other schemes of £298k and the £200k contingency, leaving a net £357k unfunded in 2005/06; the potential additional spend of £175k in 2006/07 has been set against the 2006/07 contingency which is £300k. The Children and Families Department will need to continue to review these schemes to identify measures to reduce costs. Additional costs that are incurred will have to be funded by revision to the Children and Families capital programme. Details of the additional spending are provided in Annex C to this report.

4.6 These changes to the programme do not address the requirements to provide additional school places in future years nor to meet new unidentified demands for urgent repairs to school buildings. The need to provide for temporary class-rooms to meet the needs of children out of school has reduced the funding available for expansion of school places in the longer term. There is a separate report on this agenda which sets out the issues concerning the provision of a Second Academy in Brent. The council also has to identify funding for land that would be required to enable expansion of the John Kelly Schools with monies the council expects to get under the Building Schools for the Future programme. Additional costs will also need to be incurred to address subsidence at Alperton School.

4.7 These issues will be addressed as part of the development of the 2006/07 to 2009/10 capital programme. In the meantime, the Executive is asked to agree that no further schemes will be brought forward from later years of the programme to 2005/06, pending completion of the review of the overall needs for the schools capital programme as part of a wider review of the council's capital programme.

Willesden Library 'spend to save' scheme

4.8 The prudential framework introduced under the Local Government Act 2003 provides the flexibility for councils to borrow to fund schemes that will yield savings in future years. The council's capital strategy, agreed by the Executive on 12th September 2005 and due to go to Full Council on 28th November 2005, set out the intention that the council would use its prudential borrowing powers to support 'spend to save' schemes or where improvements can be funded within service budgets.

4.9 The Director of Environment and Culture has put forward a proposal to extend the current programme of capital works to Willesden Green Library to fund a range of new facilities at the library including self-issue book terminals, out of hours library facilities, licensed on-line music facilities, PC games and so on.

4.10 The estimated cost of the work would be £416k; the estimated annual savings from the self-service aspect of the library and additional income would be £70k per annum. The library service would be expected to repay the "loan" over a seven year period, including meeting the cost of interest over that period. There would therefore be no net cost to the council's General Fund budget.

Capital repairs programme

4.11 The Capital Strategy and Corporate Asset Plan were considered and approved by members at the Executive meeting of 12th September 2005. As part of that report Members were advised on the outcome of the condition surveys which identified an overall backlog of maintenance for non school premises in the sum of £15.8m.

4.12 Officers have now carried out further investigation into the amount of urgent repairs required over the next 18 months. A total of £3.8m has been identified as Category 1 - urgent repairs - that need to be programmed to be carried out over the next 18 months. These are split between service areas as follows:

- Corporate - £1.9m
- Adult care - £0.4m
- Environment/culture - £1.3m
- Children (non-schools) - £0.2m

In addition Category 2 works of £7.2m and Category 3 works of £4.8m have been identified as being required over the next 2-5 years if the portfolio is to be brought up to an acceptable standard.

4.13 The surveys did not cover mechanical and engineering equipment. In order to provide for this, and allow for the fact that some of the Category 2 and 3 repairs may become more urgent over the next 18months, a contingency of at least £1m is required within the repairs and maintenance programme over the next 18 months.

4.14 There is currently sufficient provision to meet most of the £4.8m of non-schools planned repairs and maintenance over the next 18 months. A reserve of £1m was set aside in the 2004/05 accounts to meet future planned repairs and maintenance requirements. There is at least £1.5m that can be released from R&M revenue budgets to meet planned repairs and maintenance (although sufficient needs to be retained to meet the costs of reactive work). And there is a further £2m which is already built into the capital programme. This leaves a balance of £0.3m that will have to be found from other sources and will be addressed as part of the 2006/07 to 2009/10 capital programme preparation process.

4.15 The cost of the planned repairs and maintenance programme for the current year can be met from within existing revenue and capital resources. It is not at this stage proposed therefore that the £1m in the capital reserve is released. This funding will however be needed for 2006/07 and is being built into the resource assumptions for next year's capital programme.

4.16 The current programme of works assumes that much of the existing accommodation will be replaced by the proposed Civic Centre, and this has been taken into account in the prioritisation of planned repairs and maintenance schemes. There would have to be further consideration given to the works that needed to be prioritised should the Civic Centre scheme not go ahead.

Changes to other parts of the capital programme

4.17 Other changes to the capital programme are as follows:

- Provision of £600k was made in the 2005/06 programme, with a further £400k for 2006/07, for replacement of the Dollis Hill day centre for older people. The lease has been renewed on the existing centre so funding for a replacement facility is no longer required;
- There is additional spending of £8k – over the amount provided in the capital programme - on the Brent House one stop shop scheme. It is proposed to fund this from amounts set aside in the programme for the Queue Management system for one stop shops and the call centre;
- Programmed spending in 2005/06 on transport schemes funded by Transport for London has been increased from £5m to £5.9m to reflect the allocation received.

Overall capital programme position

4.18 The net effect of changes to the 2005/06 to 2008/09 programme is to reduce the level of programmed deficit over the four years of the programme by £1m compared to the position reported in July. This is because of the removal of the funding previously included for a replacement for the older people's day centre at Dollis Hill. A summary of the revised capital programme for 2005/06 to 2008/09 is given in Table 1 below. This shows a surplus of £2.884m in 2005/06 with a deficit of £3.164m in 2006/07, and £1.982m in 2007/08.

Table 1 2005/2009 Capital Programme Position

Programme Detail	2005/06 Revised Capital Programme	2006/07 Revised Capital Programme	2007/08 Revised Capital Programme	2008/09 Revised Capital Programme
	£000	**£000**	**£000**	**£000**
Total Non-HRA Resources	**65,771**	**38,998**	**39,078**	**29,657**
Service Area Expenditure:				
Children and Families	17,146	20,263	19,048	8,528
Environment and Culture	24,905	10,045	9,588	9,600
Housing and Community Care - Adults	531	150	950	350
Housing & Community Care – GF Housing	10,756	9,569	9,269	9,269
Finance & Corporate Resources	2,459	755	825	530
Central Items	7,090	1,380	1,380	1,380
Total Non-HRA Expenditure	**62,887**	**42,162**	**41,060**	**29,657**
Non-HRA (Surplus)/Deficit	**(2,884)**	**3,164**	**1,982**	**0**

4.19 The figures for non-HRA capital programme surplus/deficit assume that resources and spending will be in line with programmed levels. In the July capital programme report, we reported that non-housing capital receipts in 2005/06 were forecast to be £1.158m less than the £1.7m included in the original programme, and that Adults and Social Care were forecasting an underspend of £18k on their Melrose House scheme. In addition, in paragraph 4.5 above we projected a net overspend of £357k against resources in the schools capital programme for 2005/06. The combined effect of these would be to reduce the surplus in the 2005/06 programme from £2.884m to £1.387m and to increase the overall projected deficit in the programme over the period 2005/06 to 2008/09 from £2.262m to £3.759m.

4.20 The figures in this section do not include HRA capital spending. This is estimated at £37.571m in 2005/06, in line with the July forecast. The HRA programme is also currently forecast to be in balance. Combined programmed spending in the General Fund and HRA is £100.440m in 2005/06.

5. RISKS

5.1 The principal risks identified in the programme arise from pressures on the schools programme and the level of planned repairs and maintenance activity the council needs to carry out, ands these have been dealt with above.

5.2 Members also need to be aware that there is a new mechanism for the allocation of housing funding through the Regional Housing Board. These resources were allocated to the council at a rate of 70% per annum of the council's Housing Investment Programme for 2004/2005 and 2005/2006. It has been assumed that this rate will remain constant for the period 2006/2007 to 2008/2009; however, the actual allocation may 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. Initial indications from the Regional Housing Board are that the council's allocation will be less than that assumed in the resource position although this has not yet been fully quantified.

5.3 In addition to the above, ODPM have already indicated the level of funding that will be available to London to fund Disabled Facilities Grant for the next two years. This figure shows a small increase over the current (revised) figure. Whilst this is positive, ODPM have also indicated that they are reviewing the distribution formula that is used in agreeing each London borough's allocation. The current formula takes into account both need and spending performance, and as a result Brent has the largest allocation in London. There is a risk that the revised formula will result in a reduced DFG allocation.

5.4 Capital programme risks are monitored and managed within the service areas and by the Capital Board.

6. S106 Review

6.1 The table below gives the current position on S106 Agreements at 30th September 2005. The table is split into two categories of S106 Agreements:

- 'Triggered' amounts relate to those monies where the schemes are underway and sums negotiated under the S106 Agreements are available and have been received;
- 'Not triggered' amounts relate to those schemes where negotiations on the S106 Agreements have been completed, but the schemes are not yet underway and as such monies are not yet available to be used by the council.

Table 2 Summary of Section 106 Funds

	Transport £000	Other services £000	Total £000
Triggered funds received			
- No discretion in usage	1,850	2,252	4,102
- Some discretion but so far allocated to schemes outside the programme	412	856	1,268
- Allocated to schemes complementing the programme	923	4,364	5,287

Total 'triggered'	**3,185**	**7,472**	**10,657**
Not yet triggered			
- No discretion in usage	8,104	1,308	9,412
- Some discretion but so far allocated to schemes outside the programme	356	878	1,234
- Allocated to schemes complementing the programme	3,314	11,246*	14,560
Total 'not yet triggered'	**11,774**	**13,432**	**25,206**
Grand total	**14,959**	**20,904**	**35,863**

*Members should note that £9m of this sum relates to the S106 agreement on the Quintain development which is provisionally earmarked for schools provision, and will not become available until after the period covered by the current capital programme.

6.2 The Director of Finance and Corporate Resources has been undertaking an ongoing review of S106 agreements since 2003 with regular reports being submitted to the Capital Board, and updates to Executive. The aim is to ensure that all sums generated under S106 agreements are utilised effectively and appropriately by service departments, and that negotiations with developers are undertaken in order to achieve the greatest benefit to the council whilst maintaining the highest level of flexibility in usage.

6.3 The general fund budget has significant pressures in future years as a result of expected changes to the local authority funding regime. One way of reducing these pressures is to reduce borrowing by finding alternative sources of funding, such as using S106 monies to meet the infrastructure needs of the council. Therefore, as part of the 2006/2007 to 2009/10 capital programme setting process, service departments have been requested to identify schemes which can be funded from available S106 sums.

6.4 The Capital Board will continue to review progress on the use of S106 agreement monies and will continue to provide the Executive with updates on the position.

7. Prudential Indicators for 2005/06 and Subsequent Years.

7.1 This section of the report considers the full suite of prudential indicators for the London Borough of Brent as approved by Full Council on 28th February 2005.

7.2 The prudential indicators listed at Appendix 2 include those that are in place to monitor the treasury management aspects of the Council's capital expenditure.

7.3 The prudential indicators are reviewed in line with those areas that Members must have regard to, as follows:

(a) Affordability e.g. implications for council tax and council housing rents.

(b) Prudence and sustainability, e.g. implications for external borrowing.

(c) Value for money, e.g. options appraisal.

(d) Stewardship of assets, e.g. asset management planning.

(e) Service objectives, e.g. strategic planning for the authority.

(f) Practicality, e.g. achievability of the forward plan.

7.4 The arrangements put in place for monitoring prudential indicators are as follows:

- The probable actuals and estimates for all prudential indicators are reported as part of this monitoring report to the Executive.
- Our report to the General Purposes Committee on the unaudited accounts will include details of the outturn on prudential indicators on affordability, capital spending, and external debt. Any amendments during audit will be included in our report to GPC on audited accounts.
- Prudential indicators on affordability and capital spending will continue to be reported in regular capital monitoring reports to the Executive.
- Prudential indicators on external debt and treasury management are monitored daily in Finance and Corporate Resources. The Director and Deputy Director of F&CR review the figures on these indicators on a weekly basis. With the exception of the operational boundary, the limits cannot be breached. Any changes to the limits need to be agreed by Full Council.

7.5 Section 9 of the 2005 Budget Setting Report submitted to Full Council on 28th February gave full details of the Prudential Indicators required to be considered by Members, including full descriptions of what each indicator represents and why Members are required to consider it. If Members wish clarification on any such matters surrounding the Prudential Indicators, please refer to the previous report.

7.6 Appendix 2 to this report gives the full suite of indicators required to be considered by Members. The prudential indicators for capital spending have been amended to reflect the changes outlined in this report. These changes either involve transfers within the existing programme or are matched by additional resources so have no impact on the affordability of the programme. They also do not impact on the council's borrowing limits or treasury management strategy.

8. Financial Implications

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

9. Legal Implications

9.1 Under the Local Government Act 2003 the council is required to determine and keep under review how much money it can afford to borrow. This function must be carried out by full council and cannot be delegated. Regulations made under the Act require the council to have regard to the CIPFA Prudential Code for Capital Finance when setting or revising its borrowing limit and carrying out its capital finance functions under the Act.

9.2 The CIPFA Code sets out requirements concerning matters to be considered when setting or revising the prudential indicators required by the Code.

9.3 The capital programme for the year is agreed by full council as part of the annual budget. Changes to, or departures from, the budget during the year other than by full council itself can only be agreed in accordance with the Scheme of Transfers and Virements contained in the Constitution.

9.4 Under the scheme the Executive approves particular schemes where sums have been allocated for a particular type of work and has power (subject to criteria in the scheme) to:

- Make virements to prevent the overall programme overspending;
- Vire from one set of capital projects to another providing the resources are available and contractual commitments can be met;
- Commit new resources identified during the year to "reserve" projects if there are any or to new projects if there are not.

9.5 The Director of Finance and Corporate Resources is satisfied that the criteria in the scheme are satisfied in respect of the virements and spending proposed in section 5 of this report.

10. Diversity Implications

10.1 There are no specific diversity implications arising from this report.

11. Staffing Implications

11.1 There are no specific staffing implications arising from this report.

Background Information

1. Report from the Director of Finance entitled "2005/2006 Budget and Council Tax" to the Council Meeting on 28th February 2005.

2. Report from the Director of Finance entitled "Provisional 2004/2005 Capital Outturn and 2005/2006 Capital Programme" to the Executive Meeting on 11th July 2005.

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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<u>SUMMARY OF SCHEMES WHERE SLOWER SPEND HAS BEEN ENCOUNTERED</u>

School	2005/2006 Revised Capital Programme £000	2005/2006 Forecast Out-turn £000	2005/2006 Variance Revised to Forecast £000
Wembley Manor Schools – Mobile	150	0	150
Preston Park – Extension	1,480	85	1,395
Wembley Manor Schools – Redevelopment	500	100	400
John Kelly Girls – Building Improvements	800	400	400
Hut Replacement Programme	300	100	200
BSF Capacity Building	40	20	20
SEN Schemes	800	175	625
Kingsbury Green	70	42	28
Lyon Park	80	50	30
Park Lane	27	8	19
Wembley High School	249	49	200
Total	**4,496**	**1,029**	**3,467**

SUMMARY OF AMP SCHEMES BROUGHT FORWARD TO 2005/06

School	2005/2006 FORECAST OUT-TURN £000
Nurseries – Conversions to LST Radiators	20
Oliver Goldsmith – Windows	140
Salusbury Primary School – Roof	220
Salusbury Primary School – Windows	133
Uxendon – Boiler Room	70
Claremont – Windows	70
Kingsbury High School – Roof	23
Kingsbury High School – Windows	80
Wembley High School – Roof	149
Wembley High School – Windows	98
Design works on 2006/07 schemes	50
Total	**1,053**

SUMMARY OF SCHEMES WHERE ADDITIONAL COSTS HAVE BEEN IDENTIFIED

School	REVISED CAPITAL PROGRAMME £000	FORECAST OUT-TURN £000	VARIANCE REVISED TO FORECAST £000
Wykeham Remodelling	682	1,287	605
Childrens Centres	0	200	200
Donnington Remodelling	692	814	122
Preston Manor Windows	115	187	72
Kingsbury High School Platform lift	40	48	8
Wembley High School Roof	140	163	23
Total	**1,669**	**2,699**	**1,030**

The Wykeham Remodelling is a maximum amount and still subject to on-going review of claims.