SECTION 10

10. THE CAPITAL PROGRAMME 2005/06 to 2009/10

Introduction

10.1 This section up-dates the capital programme position for 2005/06 and sets out proposals for the programme from 2006/07 onwards. The programme includes for the first time projected figures for 2009/10.

10.2 The capital programme is a four year rolling programme. It is based on the 2005 Capital Strategy, agreed by Full Council on 28th November 2005.

10.3 The programme is developed on the basis of an assessment of priority capital spending needs and the resources available to fund them. The spending needs were set out in the Capital Strategy as:

- improving the condition of the council's existing assets, including council housing, schools, non-school buildings, and highways and pavements;
- meeting increasing demand in the borough for school places, accommodation for homeless people, adaptations to homes for people with disabilities; and.
- ensuring that council assets are fit for purpose.

10.4 The introduction of prudential borrowing powers in the Local Government Act 2003 has given the council more freedom to fund capital spending, but only if the capital charges that result are affordable, prudent and sustainable. Details of the prudential indicators used to measure this are provided in section 12 below. Section 7 above set out the medium term financial prospects for the council – the relatively low level of growth in government support, together with limits on council tax increases, means the council has to be careful not to build up additional commitments in future years. This is reflected in the level of prudential borrowing used to support the capital programme which is lower than previously planned.

10.5 Current levels of investment in the council's capital assets are high by historical standards. But not all priorities can be met and careful consideration has therefore had to be given to how schemes can be phased in such a way that they can be afforded within available resources. There may however be circumstances during the course of the year where it becomes necessary to bring forward spending from later years of the programme, subject to costs being contained within existing resources (ie because slippage has been identified in other parts of the programme or additional capital resources are identified). This flexibility is particularly important in the case of the schools programme, which is large and fluid, and in the parks programme, where flexibility is needed to ensure maximum take-up of external funding opportunities.

10.6 The forecast annual costs of unsupported borrowing to the General Fund revenue budget are £1.785m in 2005/06, £2.602m in 2006/2007, £3.900m in 2007/08, £5.075m in 2008/09 and £5.989m in 2009/10. 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, capital receipts, Section 106 funding, and other contributions were used. These commitments have been taken into account in the medium term forecast, and need to be managed as part of medium term financial planning.

10.7 The proposed capital programme is included in Appendix M. Appendix M((i) shows the revised programme for 2005/06, including comparisons with the position reported to the Executive on 14th November 2005. Appendix M(ii) sets out the proposed 2006/07 to 2009/10 programme, including a summary of the programme and details for individual service areas. Appendix M(iii) gives details of planned disposals over the period of the programme. Estimated usable capital receipts, including General Fund receipts, usable Right to Buy receipts, and ex-GLC/London Residuary Body receipts are £4.835m in 2005/06, £5.245m in 2006/07, and £3.950m in each of the three subsequent years.

10.8 Members are asked to agree (i) revisions to the 2005/06 capital programme; and (ii) the proposed capital programme and resources for 2006/2007 onwards. The options available to Members include:

- Adding or deleting schemes from the proposed programme;
- Changing the overall level of spending in the programme;
- Reviewing and revising the resource assumptions, including amendments to the proposed disposals programme.

Any proposed changes to the overall level of unsupported borrowing required to fund the programme would have to take account of the impact on capital financing charges in the 2006/07 budget, the financial forecast for future years, and the prudential indicators.

The 2005/06 Capital Programme

10.9 The revised capital programme for 2005/06 is attached as Appendix M(i).

10.10 The principal change to the capital programme in 2005/06 is funding allocated to schools. A decision was taken at the Executive on 14th November 2005 not to bring forward schemes from future years pending a review of funding needed to address longer term pressures in the schools capital programme, including provision of additional school places, purchase of the land for expansion of the John Kelly schools and provision of a second Academy in Brent, and works to address subsidence at Alperton School. The result is that approximately £3m of capital resources allocated to schools in 2005/06 is available to carry forward to fund the 2006/07 to 2009/10 programme.

10.11 This reduced spending in the programme, together with a £2.8m surplus reported in November, means that prudential borrowing in 2005/06 is £6m less than originally planned. This lower level of borrowing is reflected in reduced capital financing charges in 2005/06 (see section 4 on the 2005/06 probable outturn), and has also reduced capital financing charges required in 2006/07.

10.12 A summary of the revised 2005/06 programme is included in Table 10.1 below.

Table 10.1 Revisions to 2005/2006 Capital Programme since November

Service area	**2005/06 position (Nov 2005) £'000**	**Amended 2005/06 position £'000**	**Variations to 2005/06 position £'000**
Resources			
Grant and External Contributions	(21,040)	(21,040)	0
Capital Receipts	(4,400)	(4,835)	(435)
S106 Funding	(4,527)	(4,527)	0
Capital Funding Account	(16,001)	(16,001)	0
Supported Borrowing	(6,310)	(6,473)	(163)
Unsupported Borrowing	(13,493)	(7,430)	6,063
Total GF Resources	**(65,771)**	**(60,306)**	**5,465**
Housing HRA	(37,571)	(37,571)	0
Total Resources	**(103,342)**	**(97,877)**	**5,465**
Expenditure			
Children and Families	17,146	14,130	(3,016)
Environment and Culture	28,714	29,149	435
Housing and Community Care – Adults	531	357	(174)
Housing and Community Care – Housing	10,756	10,756	0
Corporate	5,740	5,914	174
Total GF expenditure	**62,887**	**60,306**	**(2,581)**
Housing HRA	37,571	37,571	0
Total Expenditure	**100,458**	**97,877**	**(2,581)**
Net Position	**(2,884)**	**0**	**2,884**

2006/07 to 2009/10 Capital Programme

10.13 The proposed capital programme for 2006/07 to 2009/10 programme is attached as Appendix M(ii), with a summary in Table 10.2 below.

Table 10.2 Proposed 2006/07 to 2009/10 Capital Programme

Service area	**2006/07 £'000**	**2007/08 £'000**	**2008/09 £'000**	**2009/10 £'000**
Resources				
Grant and External Contributions	(16,171)	(17,582)	(13,841)	(12,601)
Capital Receipts	(5,245)	(3,950)	(3,950)	(3,950)
S106 Funding	(1,688)	(1,888)	0	0
Capital Funding Account	0	0	0	0
Supported Borrowing	(7,866)	(8,125)	(8,410)	(8,700)
Unsupported Borrowing	(12,317)	(12,312)	(8,892)	(8,369)
Total GF Resources	**(43,287)**	**(43,857)**	**(35,093)**	**(33,620)**
Housing HRA	(6,500)	(18,400)	(6,500)	(6,500)
Total Resources	**(49,787)**	**(62,257)**	**(41,593)**	**(40,120)**
Expenditure				
Children and Families	20,710	22,827	14,463	13,090
Environment and Culture	10,123	9,406	9,101	9,201
Housing and Community Care – Adults	600	0	0	0
Housing and Community Care – Housing	8,569	8,269	8,269	8,269
Corporate	3,285	3,355	3,260	3,060
Total GF expenditure	**43,287**	**43,857**	**35,093**	**33,620**
Housing HRA	6,500	18,400	6,500	6,500
Total Expenditure	**49,787**	**62,257**	**41,593**	**40,120**
Net Position	**0**	**0**	**0**	**0**

10.14 Details of proposed programmed spending in each service area are included in Appendix M(ii). Key issues for each area are set out below:

Children and Families

- Although the overall programme has been contained within previously allocated resources, there has had to be re-prioritisation to fund new demands on the programme;
- Provision has been made for the purchase of land for the expansion of the John Kelly Technology Colleges, land for the Academy, and underpinning at Alperton School;
- The current estimate is that a total additional 15 forms of entry are needed at secondary level and six at primary level by 2014. The proposed Academy will provide an additional six forms of entry at secondary school level and two forms of entry at primary school level. In addition, the four

year capital programme includes a total of £3.9m for additional secondary places – sufficient to secure another 2 forms of entry at existing schools – and the Wembley Manor scheme will add one form of entry at primary level. There is the potential for an additional four forms of entry through the Building Schools for the Future programme – two at the John Kelly Technology Colleges and two at Queens Park school – but the timing is uncertain. There will also be funding from the Quintain section 106 agreement but only when the development is complete and houses sold. In addition, the council is holding discussions with DFES about potential alternative funding sources;

- Funding for the special needs review has been re-profiled over a longer period, although work on the Pupil Referral Unit at Chalkhill will be able to go ahead. It may be possible to bring forward other elements of the programme subject to there being sufficient funding to meet borrowing costs within the Dedicated Schools Budget central expenditure limit (from 2007/08);
- The school loans scheme will continue but no provision has been made for council contributions to new schemes. Schools will have to fund the full borrowing costs from their own budgets;
- Works funded as part of the asset management plan have had to be reduced and council contributions will only cover Priority 1 works. Other works will have to be funded from devolved capital budgets, reserves or the school loans scheme;
- No mainstream council funds have been provided for Phase 2 of the children's centres programme. Capital costs for these will have to be met out of the capital grant from DFES which is £4.2m over two years, 2006/07 and 2007/08. A separate report on children's centres is due to go to the Executive in March. This will address both capital and revenue budget issues associated with children's centres.

Environment and Culture

- A total of £3m per annum (£12m over the four year programme) has been allocated from mainstream capital funds to roads and pavements. This is in addition to Transport for London funds (£5.5m in 2006/07) and section 106 monies. The highways programme will be reported to the Executive in March;
- Parks and cemeteries – a total of £700k per annum (£2.8m over the four year programme) has been allocated to this programme. This includes money from the John Billam capital receipt and funding for work at Roe Green Park. Additional funding is available from section 106 monies and external funders, including the lottery. The phasing of work may require some expenditure planned for later years to be brought forward to 2006/07. This will be achieved by either re-phasing other schemes within the parks programme or identifying schemes elsewhere within the capital programme that can be slipped to later years;
- Sports and leisure – the allocation to Bridge Park has been set at £625k in 2005/06 and 2006/07. This funding will meet essential works needed to

keep Bridge Park open. Further funding will be considered in the context of the overall sports strategy. Funding for capital works to Vale Farm and Charteris will be met through prudential borrowing, the costs of which will be funded within the revenue budget for these centres (ie self-funded prudential borrowing). Funding for sports facilities in parks will be from the parks capital allocation;

- Libraries – capital funding for repairs and maintenance is within the corporate property allocation (see below). The council will be looking at opportunities to use lottery and other external sources of funding to secure future improvements to libraries.

Housing and Community Care

- Learning disability residential facilities – replacement of existing residential facilities is included within the affordable housing PFI. Contract award is due in January 2007.
- Other residential and day care facilities – £130k has been included for repairs to Knowles House. Other capital funding for repairs and maintenance is within the corporate property allocation (see below). Future developments will depend on the on-going review of day and residential care for adults;
- A project to allow re-configuration of accommodation for adult social work teams is included. This will release buildings for disposal;
- Funding for the private sector renewal strategy and disabled facilities grant is £5.6m in 2006/07 and £5.3m in subsequent years (a total of £21.5m over four years). This will be used to deliver the Private Sector Housing Strategy 2005-2010 agreed by the Executive on 15th August 2005;
- A further £3m per annum (£12m over the four year programme) has been allocated to fund social housing grants to housing associations. This is sufficient to fund 30 additional average family size properties each year and is in addition to the 300 permanent and 150 temporary homes that will be delivered through the affordable housing PFI scheme.
- There are opportunities for the council to deliver additional affordable housing through compulsory purchase and award of grant as part of the private sector housing strategy. Members are asked to agree that the Director Housing and Community Care has flexibility to transfer funds between the private sector renewal programme and the social housing grant programme in order to achieve best value for money from these funds;
- HRA capital spending has been assumed to be £6.5m per annum (£26m over four years), in line with the £6.5m allocated by government through supported borrowing (SCE(R)) in 2006/07. Spending in future years will depend on the level of the government's allocation. The 2007/08 programme includes spend of £11.9m for Granville New Homes, as part of the South Kilburn Development, which will be funded from prudential borrowing within the Housing Revenue Account.

Corporate

- £1m per annum (£4m over the four years of the programme) has been provided to make a contribution toward non-housing capital costs incurred as part of the redevelopment of South Kilburn. This is in addition to the funding for Granville New Homes and the revenue contribution within central items for South Kilburn (see Appendix F);
- £1.5m per annum (£6m over the four year programme) has been provided to meet asset management needs of the non-school property portfolio. This will be supplemented by repairs and maintenance funds within service area revenue budgets and funding within central revenue items for the accommodation strategy (see Appendix F). Spending will be in line with needs identified within the corporate asset plan agreed by the Executive on 12th September 2005, up-dated for the results of the most recent annual property surveys. Allocation of resources will also take account of decisions of the future accommodation strategy, including the provision of a new civic facility within Wembley and the development of neighbourhood and remote working.
- Funding has also been provided for a replacement financial system. Currently the council has a number of different financial systems which has an impact on information available at corporate and service level and limits the council's ability to streamline financial processes. Total provision for this is £650k.

10.15 Of the £43m planned spend on the General Fund capital programme in 2006/07:

- about £20m is funded from borrowing (£8m supported and £12m unsupported);
- a further £18m from grants and section 106 funding; and
- the balance of just over £5m from capital receipts (£3m non-Right-to-Buy, £1.75m RTB, and £0.5m London Residuary Body and other receipts).

10.16 The £3m from non-RTB receipts is an increase of £2m compared to what was previously included in the programme for 2006/07. In addition, non-RTB receipt targets of £2m have been included in each of the subsequent years of the programme. Achievement of these targets will mean that there is a presumption that properties that become surplus will be sold for cash receipts. If there are proposals to use them for alternative public use – including for example, disposing at below best value to housing associations – then the cost of this will need to be factored into the capital programme. A schedule of properties that have been identified for potential inclusion in the disposals programme is attached as Appendix M(iii).

10.17 In addition to allocations within the capital programme set out in Appendix M(ii), allocations may be made during the financial year for 'spend to save' schemes. These are where prudential borrowing can be used to fund capital spending which will lead to spending reductions or additional income generation and the cost of borrowing is less than existing costs. The council is currently bidding to be included in Phase 4 of a scheme run by the Carbon Trust to help councils and other businesses to reduce carbon emissions. It is likely that the council will have to make capital investments but the cost of borrowing to fund these will be more than offset by energy savings that result. Proposals to use prudential borrowing in this or similar ways will be subject to approval by the Executive.

Revenue Costs Associated with the Capital Programme

10.18 Consideration of affordability is one of the critical tests in determining the limit of capital spending under the new prudential regime for borrowing.

10.19 Table 10.3 below summarises the impact of unsupported borrowing to fund the capital programme on capital charges incurred by the council and council tax levels.

Table 10.3 Impact of Unsupported Borrowing on Revenue Costs/Council Tax

	2006/07 £'000	**2007/08 £'000**	**2008/09 £'000**	**2009/10 £'000**
2004/05 Unsupported borrowing £13.842m (excluding all self funded expenditure)	1,454	1,454	1,454	1,454
2005/06 Unsupported borrowing £6.864m (excluding all self funded expenditure)	729	721	721	721
2006/07 Unsupported borrowing £12.317m (excluding all self funded expenditure)	419	1,306	1,293	1,293
2007/08 Unsupported borrowing £12.312m (excluding all self funded expenditure)	0	419	1,305	1,293
2008/09 Unsupported borrowing £8.892m (excluding all self funded expenditure)	0	0	302	943
2009/10 Unsupported borrowing £8.369m (excluding all self funded expenditure)	0	0	0	285
Cumulative total	**2,602**	**3,900**	**5,075**	**5,989**
Impact on Band D Council Tax – using 2006/07 council tax base of 94,047	£27.67	£41.47	£53.96	£63.68

10.20 Unsupported borrowing of £11.9m has been included for in the HRA capital programme for 2007/08 to meet costs relating to Granville New Homes as part of the South Kilburn Regeneration scheme. It is envisaged that this project will operate in a manner similar to an 'Invest to Save' scheme with the cost of borrowing being met from an increased rental income flow over future years, so there are no net additional costs to be met from general increases in rents.