SECTION 9

THE CAPITAL PROGRAMME 2012/13 to 2016/17

Introduction

9.1 This section up-dates the capital programme position for 2012/13 and sets out proposals for the programme from 2013/14 onwards. The programme includes for the first time projected figures for 2016/17.

9.2 The capital programme is a four year rolling programme. The key drivers of the capital programme are priorities in the Borough Plan and condition of assets. These are in turn reflected in the 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).

9.3 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. The general market situation means it is not necessarily a good time to sell property 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). However 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. At a time when revenue budgets are being reduced the Council's ability to meet the costs associated with borrowing is significantly limited, unless it enables revenue savings elsewhere in the Council's budget.

9.4 The council continues to be required to consider longer term issues that need to be addressed. These include:

a. The schools capital programme, specifically to meet longer term school capital needs and address the requirements for additional pupil places.

b. The longer term revenue and capital funding needs of council housing.

c. Sports facilities such as the requirement to develop a procurement strategy for Multi Use Games Areas (MUGAs) in the borough.

d. Parks where there is a backlog of repairs.

e. Highways infrastructure.

9.5 This section of the report sets out:

- Forecast outturn spending on the 2012/13 programme,
- The proposed 2013/14 to 2016/17 programme,
- The main risks in the capital programme,
- The policy to be applied to Minimum Revenue Provision.

The 2012/13 Capital Programme

9.6 The revised capital programme for 2012/13 is detailed in Appendix K(i). A summary of the revised 2012/13 programme is included in Table 9.1 below.

Table 9.1 Revisions to 2012/2013 Capital Programme since Second Quarter Monitoring

Service Area	2012/13 position (second quarter) £'000	Amended 2012/13 position (third quarter) £'000	Variations to 2012/13 position £'000
Resources			
Grant and External Contributions	(107,102)	(53,726)	53,376
Internal Contributions	(203)	(1,136)	(933)
Capital Receipts	(28,994)	(23,761)	5,233
S106 Funding	(14,667)	(14,667)	0
Unsupported Borrowing	(10,465)	(9,012)	1,453
Self-funded borrowing	(82,957)	(82,957)	0
Total GF Resources	**(244,388)**	**(185,259)**	**59,130**
Housing HRA	(15,575)	(11,015)	4,560
Grant and External Contributions	(88)	(160)	(72)
Unsupported Borrowing	(3,609)	(1,349)	2,260
Total Resources	**(263,660)**	**(197,783)**	**65,877**
Expenditure			
Regeneration and Major Projects	213,053	154,572	(58,481)
Children and Families	0	883	883
Environment and Neighbourhood Services	17,488	17,488	0
Adults and Social Care	1,552	1,532	(20)
Housing	8,357	6,846	(1,511)
Central	3,938	3,938	0
Total GF expenditure	**244,388**	**185,259**	**(59,129)**
Housing HRA	19,272	12,524	(6,748)
Total Expenditure	**263,660**	**197,783**	**(65,877)**
Net Position	**0**	**0**	0

Further detail of the movements on the 2012/13 capital programme will be provided within the Performance and Finance Review 2012/13 – Quarter 3 report which will be submitted to the March meeting of the Executive.

2013/14 to 2016/17 Capital Programme

Overall programme

9.7 The proposed capital programme for 2013/14 to 2016/17 is attached as Appendix K(ii). Table 9.2 provides a high level summary.

Table 9.2 Proposed 2012/13 to 2016/17 Capital Programme

Service Area	Amended 2012/13 position (third quarter) £'000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Resources					
Grant and External Contributions	(53,726)	(59,699)	(73,465)	(20,825)	(17,361)
Internal Contributions	(1,136)	(900)	(900)	(900)	(900)
Capital Receipts	(23,759)	(9,260)	(19,091)	(6,578)	(10,824)
S106 & CIL Funding	(14,667)	(5,500)	(5,500)	(5,500)	(5,500)
Unsupported Borrowing	(9,173)	(6,730)	(6,973)	(6,973)	(6,973)
Self-funded borrowing	(82,796)	(3,248)	(990)	(200)	(200)
Total GF Resources	**(185,257)**	**(85,337)**	**(106,919)**	**(40,976)**	**(41,758)**
Housing HRA	(11,137)	(14,922)	(10,362)	(10,362)	(10,362)
Grant	(38)	(50)	0	0	0
Unsupported Borrowing	(1,349)	(2,260)	0	0	0
Self-funded borrowing	0	0	0	0	0
Total Resources	**(197,781)**	**(102,568)**	**(117,281)**	**(51,338)**	**(52,119)**
Expenditure					
Regeneration and Major Projects	154,572	68,508	92,204	26,846	27,628
Children and Families	883	0	0	0	0
Environment and Neighbourhood Services	17,489	8,789	8,250	8,250	8,250
Adults and Social Care	1,532	722	737	650	650
Housing	6,845	6,868	5,278	4,780	4,780
Central	3,938	450	450	450	450
Total GF expenditure	**185,257**	**85,337**	**106,919**	**40,976**	**41,758**
Housing HRA	12,524	17,232	10,362	10,362	10,362
Total Expenditure	**197,783**	**102,569**	**117,281**	**51,338**	**52,120**
Net Position	**0**	**0**	**0**	**0**	**0**

Spending proposals

9.8 The capital programme is based on the previous year's four year capital programme, rolled forward by a year, and amended to take account of the provisional Local Government Settlement announcement in December.

9.9 Amendments to the programme against that previously reported reflect:

a. Slippage of funding for schemes from 2012/13.

b. Amended capital grant funding announcements.

c. Reviewed requirements for unsupported borrowing to underpin the capital programme taking into account affordability to the revenue account and levels of forecast capital receipts arising.

d. The addition of a fourth year – 2016/17 – to the four year programme which includes rolling programmes, such as highways maintenance, the private sector housing renewal programme, but does not at this stage include any new major schemes.

Resources

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

a. *Grant funded schemes*

Figures for grant funded schemes have been based on the latest available figures. However, in several cases final allocations have not yet been disclosed, so these figures are estimates and are subject to revision.

b. *Capital receipts*

Capital receipts have been reviewed and capital programme resources amended to reflect the most up to date capital disposals forecasts. The position will continue to be kept under review. 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.

Additional receipts are expected from an increase in sales of Right to Buy properties, but these receipts are difficult to forecast. Legislation requires that these additional receipts are ring fenced to the provision of additional social housing.

c. *S106 and Community Infrastructure Levy Funding Agreements*

The council's Community Infrastructure Levy (CIL) scheme will come into effect in 2013/14. Existing Section 106 (S106) agreements are expected to continue to provide capital funding for a number of years. The capital programme includes an estimate of combined future S106 and CIL income. Members should note that this is currently an indicative profile of expenditure. Members should be aware that Section 106 funds are only triggered once schemes start on site and therefore timing of receipt of funds is not guaranteed, there has been a reduction in the number of agreements being triggered as a result of the economic downturn and a slowing in development.

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, IT schemes, and funding for the Civic Centre.

e. *Other borrowing*

Overall unsupported borrowing levels within the capital programme between 2012/13 and 2016/17 have been reviewed in light of the provisional Local Government Settlement announcement and the revised forecast levels of capital receipts arising in the individual years. Amendments have been made as appropriate ease pressure on the revenue account to meet debt charges.

From 2013-14 to 2016-17, the council’s revenue budget is under significant pressure. In order to help reduce this pressure from 2012-13 the council will flexibly apply its capital resources in order to minimise the cost of borrowing over the medium term. Only where there is a legal obligation for the council to ring-fence specific capital resources to a specific project will capital resources be ring-fenced.

Capital Programme Risks

9.11 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.

9.12 The monitoring and management of the Capital Programme position is reported to Members as part of the Performance and Finance Review process.

9.13 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 and school places.

9.14 Table 9.3 below sets out these risks in more detail and the measures taken to manage them.

Table 9.3 Capital Programme Risks

Risk	More detailed description	Measures taken to manage the risk
a. 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 Academies schemes 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. Establishment of the Regeneration and Major Projects Department to improve the Council's approach to deliver schemes on time and within budget.
b. 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 up to £200m in a 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 are 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.
c. The consequence	There is a limit on the resources the council	The council takes a strategic approach to prioritising resources through the

Risk	More detailed description	Measures taken to manage the risk
of unmet needs on services provided in Brent.	can use to fund the capital programme. That means that not all needs can be met.	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 triggered Section 106 have reduced as a result of the recession; o Lottery funding; o PFI funding, for example the Affordable Housing PFI; o Additional government funding, for example Basic Needs Safety Valve; o CIL – the implementation date is scheduled for 1 July 2013.
d. 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.	The council has previously 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 are also made to government for further additional funding to meet unmet needs.
e. Funding for major development programmes	The council's major programmes/projects include the South Kilburn development, the primary school expansions, new Academies and the Civic Centre project.	The Regeneration and Major Projects Department has been established to improve the Council's approach to delivery of major programmes. Programme/Project Boards have been set up to manage each of these projects. There is reporting to Members at key stages of these programmes/projects.

Risk	More detailed description	Measures taken to manage the risk
	These programmes/projects each individually present major risks and challenges to the council.	

Minimum Revenue Provision

9.15 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.

9.16 Revised regulations which amend this requirement were issued in 2008. Under the new regulations councils are required to set an amount of Minimum Revenue Provision (MRP) 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.

9.17 Under the guidance councils are required to prepare an annual statement of their policy on making MRP to Full Council. The purpose of this is to give Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements.

9.18 For new borrowing under the Prudential system, councils were required to adopt from 2008/09 one of two further options for determining a prudent amount of MRP. One option is 'the asset life method', which 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. An alternative option is the 'depreciation method' which 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.

9.19 The policy previously approved and now proposed for continuation in 2013/14 for non-HRA assets is as follows:

- For prudential borrowing, it is proposed that the council adopts 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. 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 – 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 requirement to make Minimum Revenue Provision does not commence until the asset becomes operational.

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 9.4.

Table 9.4 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
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

9.20 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.

9.21 MRP on finance leases and PFIs is charged using the annuity method. The interest rate used is that implicit to the lease/PFI. The policy for leases and

PFIs has no additional impact on the General Fund as the MRP requirement is regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

9.22 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.

Capital Financing Requirement

9.23 For *capital spending*, the council is required to calculate prudential indicators as follows:

- Planned capital spending on the General Fund and HRA (set out in this chapter);
- The estimated capital financing requirement for General Fund and HRA, reflecting the council's underlying need to borrow. This covers borrowing to fund past capital spending and in-year capital spending.
- HRA Limit on indebtedness reflecting the limit imposed at the time of implementation of self-financing by the Department of Communities and Local Government. This is monitored against the HRA Capital Financing Requirement which should remain below the limit set.

9.24 The issues of prudence and sustainability are closely related to that of affordability. These indicators help to demonstrate that the capital programme is prudent, affordable, and sustainable. Prudential indicators are shown in Table 9.6.

Table 9.6 Prudential Indicators for Capital Spending

	2012/13 £m	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Planned capital spending:					
- General Fund	185.26	85.34	106.92	40.98	41.76
- HRA	12.52	17.23	10.36	10.36	10.36
- Total	197.78	102.57	117.28	51.34	52.12
Estimated capital financing requirement for[1]:					
- General Fund	478.13	477.88	471.17	463.62	456.39
- HRA	136.99	140.60	140.60	140.60	140.60
- Total	615.12	618.48	611.76	604.21	596.99
HRA Limit on Indebtedness:					
- HRA	199.291	199.291	199.291	199.291	199.291

[1] The Capital Financing Requirement estimates in this table are at 31st March of each year.