SECTION 9

THE CAPITAL PROGRAMME 2010/11 to 2014/15

Introduction

9.1 This section up-dates the capital programme position for 2010/11 and sets out proposals for the programme from 2011/12 onwards. The programme includes for the first time projected figures for 2014/15. The capital programme in this report is presented in the new council departmental format.

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) but 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 capital funding from the government has previously been of a combination of capital grants and support for borrowing through the formula grant system. For 2011/12 and 2012/13 there is no support for borrowing through the formula grant system. There has been a cut in total capital grants for England in 2011-12 excluding DfE and DEFRA grants of 6.7% with an increase of 0.8% in 2012-13.

Despite the above, the council will continue to be required to continue 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.

9.5 This section of the report sets out:

- Forecast outturn spending on the 2010/11 programme,
- The proposed 2011/12 to 2014/15 programme,
- The main risks in the capital programme,
- The policy to be applied to Minimum Revenue Provision.

The 2010/11 Capital Programme

9.6 The revised capital programme for 2010/11 is summarised in Appendix K(i), with details of the programme and changes to it in K(ii). A summary of the revised 2010/11 programme is included in Table 9.1 below.

Table 9.1 Revisions to 2010/2011 Capital Programme since Second Quarter Monitoring

Service Area	**2010/11 position (second quarter) £'000**	**Amended 2010/11 position (third quarter) £'000**	**Variations to 2010/11 position £'000**
Resources			
Grant and External Contributions	(80,121)	(69,775)	10,346
Capital Receipts	(6,222)	(6,222)	0
S106 Funding	(10,502)	(9,357)	1,145
Supported Borrowing	(6,580)	(6,580)	0
Unsupported Borrowing	(21,444)	(20,110)	1,334
Self-funded borrowing	(22,184)	(21,339)	845
Total GF Resources	**(147,053)**	**(133,383)**	**13,670**
Housing HRA	(9,290)	(10,605)	(1,315)
Unsupported Borrowing	(8,620)	(8,620)	0
Self-funded borrowing	(704)	(902)	(198)
Total Resources	**(165,667)**	**(153,510)**	**12,157**
Expenditure			
Regeneration and Major Projects	110,997	97,828	(13,169)
Children and Families	9,576	9,573	(3)
Environment and Culture	15,904	15,847	(57)
Housing and Community Care – Adults	886	886	0

Service Area	2010/11 position (second quarter) £'000	Amended 2010/11 position (third quarter) £'000	Variations to 2010/11 position £'000
Housing and Community Care – Housing	6,793	6,852	59
Corporate	7,570	7,070	(500)
Allowance for slippage	(4,673)	(4,673)	0
Total GF expenditure	**147,053**	**133,383**	**(13,670)**
Housing HRA	18,614	20,127	1,513
Total Expenditure	**165,667**	**153,510**	**(12,157)**
Net Position	**0**	**0**	**0**

Further detail of the movements on the 2010/11 capital programme will be provided within the Performance and Finance Review 2010/11 – Quarter 3 report which will be submitted to the March meeting of the Executive.

2011/12 to 2014/15 Capital Programme

Overall programme

9.7 A summary of the proposed capital programme for 2011/12 to 2014/15 is attached as Appendix K(iii), with details of the breakdown of the programme in Appendix K(iv). Table 9.2 provides a high level summary.

Table 9.2 Proposed 2011/12 to 2014/15 Capital Programme

Service Area	Amended 2010/11 position (third quarter) £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Resources					
Grant and External Contributions	(69,775)	(49,800)	(19,774)	(17,991)	(17,991)
Capital Receipts	(6,222)	(16,112)	(9,595)	(4,599)	(4,430)
S106 Funding	(9,357)	(8,401)	(11,523)	(16,364)	(7,940)
Supported Borrowing	(6,580)	0	0	0	0
Unsupported Borrowing	(20,110)	(6,076)	(5,541)	(5,526)	(3,730)
Self-funded borrowing	(21,339)	(47,656)	(36,652)	(17,616)	(200)
Total GF Resources	**(133,383)**	**(128,045)**	**(83,085)**	**(62,096)**	**(34,291)**
Housing HRA	(10,605)	(7,000)	(7,000)	(7,000)	(7,000)
Unsupported Borrowing	(8,620)	(1,684)	(1,684)	(1,684)	(1,684)
Self-funded borrowing	(902)	(600)	(600)	(600)	(600)
Total Resources	**(153,510)**	**(137,329)**	**(92,369)**	**(71,380)**	**(43,575)**
Expenditure					
Regeneration and Major Projects	97,828	111,161	66,505	46,189	20,180

Service Area	Amended 2010/11 position (third quarter) £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Children and Families	9,573	631	631	631	631
Environment and Culture	15,847	7,540	7,535	8,250	8,250
Housing and Community Care – Adults	886	1,102	658	0	0
Housing and Community Care – Housing	6,852	4,780	4,780	4,780	4,780
Corporate	7,070	450	450	450	450
Allowance for slippage	(4,673)	2,381	2,526	1,796	0
Total GF expenditure	**133,383**	**128,045**	**83,085**	**62,096**	**34,291**
Housing HRA	20,127	9,284	9,284	9,284	9,284
Total Expenditure	**153,510**	**137,329**	**92,369**	**71,380**	**43,575**
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 new Local Government Settlement announcement.

9.9 Amendments to the programme against that previously reported reflect:

a. Slippage of funding for schemes from 2010/11.

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.

d. The addition of a fourth year – 2014/15 – 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*

Table 9.3, below sets out a comparison of grant notifications under the Government Settlement announcement to previously forecast budget provision.

Table 9.3 Grant Notifications - 2011/12 Forecast to Actual

Funding Source	2011/12 Forecast Programme Allocation £'000	2011/12 Announced Capital Allocation £'000	2011/12 Variance Forecast to Allocation £'000
Basic Need	4,600	7,411	2,811
Modernisation	2,500	0	(2,500)
Locally Co-ordinated Voluntary Aided Programme	1,531	1,529	(2)
Capital Maintenance for LA Maintained Schools	0	4,219	4,219
Devolved Formula LA Maintained Schools	3,333	631	(2,702)
Devolved Formula VA Maintained Schools	1,282	265	(1,017)
Adults Personal Social Services Grant	0	652	652

Members should note that Grants to Voluntary Aided schools are made direct to the schools (passported via the authority) and as such are not included in the capital programme as expenditure cannot be controlled by the Council.

b. *Capital receipts*

Capital receipts have been maintained at existing levels but the position will need to be kept under review. Details of the properties included in the disposal programme are included at Appendix K(v). 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.

c. *S106 Funding Agreements*

Table 9.4 below provides the details of estimated Section 106 agreement funds that have been allocated within the planned capital programme. Members should note that this is currently an indicative profile of expenditure, but a working group is being established by officers from across the spending service areas to provide more accurate forecasting of S106 utilisation. Also 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.

Table 9.4 S106 Agreement Monies - 2010/11 to 2014/15 Capital Programme

S106 Agreement Monies	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Education	233	3,473	4,738	7,583	3,000
Environmental Health	154	102	121	140	100
Landscape & Design	619	277	414	552	200
Public art	299	73	107	141	100
Parks	303	483	583	682	500
Planning	1,001	271	406	542	300
Streetcare	132	96	64	32	100
Sports	759	231	342	453	200
Sustainability Strategy	17	10	13	15	10
Transportation	3,640	2.699	4,033	5,367	3,000
Housing	0	402	386	509	200
Brent into Work	720	249	264	279	200
General	22	35	52	69	30
Total	**7,899**	**8,401**	**11,523**	**16,364**	**7,940**

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 2010/11 and 2014/15 have been reviewed in light of the Local Government Settlement announcement and reductions have been made where possible to ease pressure on the revenue account to meet debt charges. The capital programme continues to include a line for forecast slippage in year which was put in place to 2013/14 to ease the pressure on the programme in prior years. This is not included in 2014/15 forecasts.

Consideration of affordability is one of the critical tests in determining the limit on capital spending under the prudential regime for borrowing set up under the Local Government Act 2003. It is a requirement of the prudential regime that authorities monitor the impact of 'unsupported' borrowing on levels of council tax. Table 9.5 shows the impact on council tax bills of the unsupported borrowing (excluding self-funded borrowing) contained within the proposed capital programme for 2011/12 onwards.

Table 9.5 Impact of Unsupported Borrowing on Revenue Costs/Council Tax

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
2011/12 Unsupported borrowing £6.076m (excluding all self funded expenditure)	182	659	659	659
2012/13 Unsupported borrowing £5.541m (excluding all self funded expenditure)	0	166	625	625
2013/14 Unsupported borrowing £5.526m (excluding all self funded expenditure)	0	0	166	582
2014/15 Unsupported borrowing £3.730m (excluding all self funded expenditure)	0	0	0	112
Cumulative unsupported borrowing costs	**182**	**825**	**1450**	**1978**
Impact on Band D Council Tax – using 2011/12 council tax base of 97,252 of unsupported borrowing	£1.87	£8.48	£14.91	£20.34

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, the Primary Capital Programme, Building Schools for the Future and the new Civic Centre.

9.14 Table 9.6 below sets out these risks in more detail and the measures taken to manage them.

Table 9.6 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 new 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 £150m each 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

Risk	More detailed description	Measures taken to manage the risk
		through procurement; o Project management arrangements for individual schemes.
c. The consequence of unmet needs on services provided in Brent.	There is a limit on the resources the council can use to fund the capital programme. That means that not all needs can be met.	The council takes a strategic approach to prioritising resources through the 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, for example for the Harlesden Library; o PFI funding, for example the Affordable Housing PFI; o Additional government funding, for example Basic Needs Safety Valve.
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. Government funding through grant and supported borrowing is insufficient to meet this.	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 Capital Programme, new Academies and the Civic Centre project. These programmes/projects each individually present major risks and challenges to the council.	The new 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.

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 2011/12 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 (Option 4). 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 9.7.

Table 9.7 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.

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.