

SECTION 9

9. THE CAPITAL PROGRAMME 2004/2005 to 2008/2009

Introduction

- 9.1 This section up-dates the capital programme position for 2004/2005 and sets out proposals for the programme from 2005/2006 onwards. The programme includes for the first time projected figures for 2008/2009.
- 9.2 The capital programme is a four year rolling programme. It is based on the capital strategy which reflects capital required to deliver the council's priorities and the existing state of the council's assets.
- 9.3 The proposals in this section maintain spending at a level which can be funded within previously agreed levels of unsupported borrowing.¹ To achieve this, work has been carried out to identify how new priorities can be contained within total resources available to the programme. This has involved reviewing the availability of resources that can be carried forward from 2004/2005, up-dating resource assumptions for 2005/2006 and beyond, and identifying existing schemes for which funding is no longer required.
- 9.4 The proposals result in a balanced programme in 2004/2005 and 2005/2006. However, there is a deficit of £2.505m in 2006/2007 and £1.982m in 2007/2008. This is considered manageable given the overall spending within the General Fund capital programme - £39.5m in 2006/2007 and £38.7m in 2007/2008 – and the fact that the resource assumptions for those years will need to be reviewed during next year. There will however be no scope for new schemes to be added in those years unless existing schemes are taken out.
- 9.5 For 2008/2009, spending on rolling programmes of work, including for example the highways and footways programmes, has been included in the programme. In order to balance 2008/2009, we have set proposed unsupported borrowing at £3.639m. This is considerably lower than in 2004/2005 to 2007/2008 to reflect the fact that unsupported borrowing at current levels is intended to catch up on the back log of repairs and maintenance and is not affordable in the medium to long term. Further work will need to be carried out to develop the capital programme for 2008/2009 and subsequent years, taking account of the likely reduction in available resources from then on.
- 9.6 The largest challenge within the General Fund capital programme is the funding of the education capital requirements. There is a need to fund new

¹ The March 2004 budget set unsupported borrowing at £13.842m for 2004/05, £12.927m in 2005/06, £13.134m in 2006/07 and £12.300m in 2007/08.

school places, particularly in the Wembley area, in advance of Section 106 monies becoming available from the Quintain development. In addition, the government's decision not to include Brent in Wave 2 or 3 of Building Schools for the Future means the council has to make decisions about what it needs to fund in advance of money becoming available for Building Schools for the Future. The proposals in this section involve a combination of measures, including funding education schemes at a level that exceeds the government's allocation of supported capital expenditure, rescheduling schemes in the existing capital programme, and only including those schemes that are the highest priority.

- 9.7 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 estimate for 2005/2006 is £183k less than the £2.090m included on the First Reading debate report to full Council on 29th November 2004, as a result of reduced levels of interest paid on the council's debt. 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 forecast in section 7, and need to be managed as part of medium term financial planning.
- 9.8 The proposed capital programme is included in Appendix H. Appendix H(i) shows the forecast outturn for the 2004/2005 capital programme, including comparisons with the monitoring position reported to the Executive on 15th November 2004. Appendix H(ii) sets out the proposed 2005/2006 to 2008/2009 programme, including a summary of the programme and details for individual service areas. In order to give a complete picture of the programme, the figures for the forecast outturn for the 2004/2005 programme are included. Appendix H(iii) gives details of planned disposals over the period of the programme. Estimated capital receipts, including General Fund receipts, usable Right to Buy receipts, and ex-GLC/London Residuary Body receipts are £5.055m in 2004/2005, £4.400m in 2005/2006, and £1.950m in each of the three subsequent years.
- 9.9 Members are asked to note the forecast outturn for the capital programme in 2004/2005 and agree the proposed capital programme and resources for 2005/2006 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 2005/2006 budget (section 5), the financial forecast in section 7, and the prudential indicators in section 11.

The 2004/2005 Capital Programme

9.10 The forecast outturn for 2004/2005 is attached as Appendix H(i). The projected surplus has increased from £1.502m² in the report to the Executive on 15th November to £6.112m now. This improvement is the combination of changes to the existing programme of existing schemes – with current year’s spending deferred to 2005/2006 – and improvements in resources.

9.11 Most of the revisions to programmed spending arise from re-phasing of existing programmes. This has allowed £4.448m to be added to resources available for 2005/2006 (see below). Table 9.1 summarise the revisions to the forecast outturn for the 2004/2005 capital programme since November.

Table 9.1 Revisions to 2004/2005 Capital Programme since November

Service area	2004/05 position (Nov 2004) £m	Re-phasing to 2005/06 £m	Other adjust'ts £m	Revised 2004/05 position £m
Education, Arts and Libraries	20.141	(2.487)	(1.718) ³	15.936
Environment	15.841	(0.705)	0.936 ⁴	16.072
Social Services	1.945	(0.700)	(0.088) ⁵	1.157
Housing General Fund	11.606	-	-	11.606
Corporate Services	4.627	(0.556)		4.071
Central items	7.074	-	1.250 ⁶	8.324
Total GF programme	61.234	(4.448)	0.380	57.166
Housing HRA	27.764	-	-	27.764
Total programme	88.998	(4.448)	0.380	84.930

² This is after taking account of the net impact of closure of 2003/2004 capital accounts which increased the projected surplus in 2004/2005 from £330k to £1.502m

³ For EAL, the £1.718m consists of:

- Removal of an allocation of £2m self-funded spending for the schools’ partnering scheme which has not been used in the current year. This is matched by an equivalent reduction in resources;
- The transfer of £250k from Social Services to EAL in respect of Family Resource and Children’s Centres schemes; and
- £32k additional funding needed for the BETS Scrapbank Project.

⁴ For Environment, the adjustment is the £936k it is forecast will be spent on the Stadium Access Corridor in 2004/2005.

⁵ For Social Services, the other adjustments are:

- The transfer of £250k to EAL (see above);
- Addition of £162k for social care mental health services, matched by an equivalent increase in Supported Capital Expenditure (Revenue).

⁶ For central items, there is an increase in projected spending of £1.250m on the Estate Access Corridor, although this is partially offset by an additional contribution from LoBEG (part of Transport for London) of £600k.

9.12 Table 9.2 below sets out revisions to forecast resources since November. There has been a net increase of £542k from £90.500m in November to £91.042m now.

Table 9.2 Revisions to 2004/2005 Resources since November

	£m
2004/2005 forecast resources at November 2004	90.500
Less:	
➤ Reduction in funding required for self-funded education schemes	(2.000)
➤ Reduction in estimated General Fund receipts from £3.758m to £1.105m	(2.653)
Sub-total	85.847
Add:	
➤ Increase in estimated usable right to buy receipts from £1.700m to £3.750m	2.050
➤ Additional Supported Capital Expenditure for mental health services	0.162
➤ LoBEG contribution towards the Estate Access Corridor	0.600
➤ Stadium Access Corridor resources to be used in 2004/2005	0.936
➤ Capital grant towards the cost of disabled facilities grants	1.247
➤ Local Authority Social Housing Grant Transitional Compensation	0.200
Revised 2004/2005 forecast resources	91.042

9.13 The net impact of the changes since November is to increase resources available in 2004/2005 by £5.782m⁷.

2005/2006 to 2008/2009 Capital Programme

9.14 The proposed 2005/2006 to 2008/2009 programme has been developed on the basis that unsupported borrowing would be retained at levels agreed as part of the 2004 revenue budget process. Additions to programmed spending have therefore had to be matched by deletion or reduction of spending on existing schemes. To aid this process, it is proposed that, where spending planned for 2004/2005 is either not going ahead or spending on the scheme is re-phased, the resources released is added to the 2005/2006 capital programme. This has allowed an additional £4.448m to be added to programmed spend in 2005/2006.

⁷ The net increase in resources in 2004/2005 includes the effect of a £1.172m improvement following audit of 2003/04 accounts.

- 9.15 The proposed programme for 2005/2006 to 2008/2009 is attached at Appendix H(ii) (with the revised forecast outturn for 2004/2005 shown for comparison purposes).
- 9.16 The proposed level of overall capital programme spending and resources is set out in Table 9.3 below. The principal reason for the reduction in programmed General Fund spending in 2005/2006 compared to 2004/2005 is the amount of slippage included in the 2004/2005 programme. Members were determined to address this in 2004/2005 and agreed processes to ensure spending caught up. The catch up in 2004/2005 is effectively one-off.

Table 9.3 Capital Spending and Resources, 2005/2006 to 2008/2009

	Forecast outturn	Recommended capital programme			
	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
General Fund spending	57.166	49.927	39.545	38.660	28.377
HRA spending	27.764	40.471	16.224	6.224	6.224
Total spending	84.930	90.398	55.769	44.884	34.601
General Fund resources	(63.278)	(49.927)	(37.040)	(36.678)	(28.377)
HRA resources	(27.764)	(40.471)	(16.224)	(6.224)	(6.224)
Total resources	(91.042)	(90.398)	(53.264)	(42.902)	(34.601)
Surplus carried forward	(6.112)	0	0	0	0
Deficit – to be funded	0	0	2.505	1.982	0

Programmed Spending in 2005/2006

- 9.17 Total estimated capital spending in 2005/2006 is £90.398m compared to £52.320m in the report to the First Reading debate, which was based on spending agreed for 2005/2006 as part of the 2004 budget process. Most of the growth is in the HRA allocation, following notification from ODPM of the ALMO Round 2 top-up and Round 4 allocations. The other significant changes are the inclusion of planned spending on the Stadium Access Corridor of £7.316m in 2005/2006 in the Environment programme and £2.625m devolved capital allocation to schools.

9.18 Table 9.4 below shows the changes at service area level between the First Reading debate figures and now.

Table 9.4 Revisions to Capital Programmes in 2005/06 since November

Service area	2005/06 position (Nov 2004) £m	Re-phasing to 2005/06 £m	Other adjust'ts £m	Revised 2005/06 position £m
Education, Arts and Libraries	9.489	2.487	3.600 ⁸	15.576
Environment	10.275	0.705	8.031 ⁹	19.011
Social Services	2.308	0.700	(1.852) ¹⁰	1.156
Housing General Fund	10.069	-	0.050	10.119
Corporate Services	0.690	0.556	0.014	1.260
Central items	2.725	-	0.080	2.805
Total GF programme	35.556	4.448	9.923	49.927
Housing HRA	16.764	-	23.707	40.471
Total programme	52.320	4.448	33.630	90.398

9.19 Detailed analyses of the programmes for individual service areas are attached as annexes to Appendix H(ii). The principal issues are set out below.

Education, Arts and Libraries

9.20 Education has been the most difficult aspect of developing the 2005/2009 capital programme for the following reasons:

- From 2006/2007, schools' revenue budgets are to be ring-fenced. The council's grant funding will from 2006/2007 only meet non-schools' costs. The result is that revenue costs of any capital spending on schools over and above supported capital expenditure (i.e. spending that the government will grant fund) will have to be met out of non-schools funding from 2006/2007 onwards. Supported capital expenditure for education is projected to be £5.866m in 2005/2006, £10.055m in 2006/2007, and £10.359m in 2007/2008. This is significantly less than the identified need to spend on schools.
- The council was not included in either Wave 2 or 3 of the Building Schools for the Future programme, largely as a result of levels of exam success in Brent. As a result, much needed capital funds will not be available in the short to medium term.

⁸ The EAL other adjustments includes an additional allocation of £0.975m for priority schemes together with £2.625m of government capital allocation to schools that was not included in the First Reading papers.

⁹ The Environment other adjustments includes an additional allocation of £715k for priority schemes together with £7.316m of spending on the Stadium Access Corridor that was not included in the First Reading papers.

¹⁰ The Social Services other adjustments are principally the result of deletion of works to Knowles House from the programme.

- Funding for additional school places expected through the Quintain Section 106 agreement will only be available once developments start to be completed. The school places however need to be developed in advance of the work being completed.
- 9.21 The proposed allocation for EAL of £15.576m in 2005/2006 is £3.197m more than the £12.379m¹¹ of resources available from re-phasing 2004/2005 schemes, supported capital expenditure (SCEs), Section 106 funding, and devolved capital allocations to schools. The balance is being funded through other non-education resources, including capital receipts and unsupported borrowing.
- 9.22 The proposed programme includes funding for the rebuild and expansion of Wembley Manor School, provision of additional secondary places, reshaping Special Education Needs provision, and carrying out building improvements at the John Kelly schools, in addition to priority hut replacement and building conditions work. The council has sought DFES approval for Building Schools for the Future funding for rebuild and expansion at the John Kelly schools and, if that funding becomes available, £1.3m will be released from improvement works for the John Kelly schools planned for 2005/2006 and 2006/2007. It will however mean that funding will have to be identified to meet the cost of land needed for the extension.
- 9.23 The proposals also include £500k per annum for the schools partnering scheme (agreed by the Executive on 15th November 2004) whereby schools can use unsupported borrowing to fund works to schools and receive match funding from other sources. £500k per annum is less than previously proposed and reflects the need to fund other priorities within the programme. Nevertheless, the opportunity remains for schools to fund much needed works mainly from their own resources where these cannot be prioritised within the overall capital programme.
- 9.24 It is also likely that additional resources over and above those provided within the capital programme will be needed for expansion of pupil places. The council will be looking to use other sources of funding to boost provision of additional places, including Section 106 funding as it comes on stream.

Environment

- 9.25 The Environment programme has had to be re-prioritised to enable funding of the organic waste collection service and other equipment related to improvements in the waste service. Most of this can be funded from deletion of lower priority schemes. However, in order to protect the funding provided for pavements and roads, an additional £515k has been allocated to the Environment programme compared to the First Reading debate allocation. In

¹¹ The £12.379m of education resources are made up of £2.487m carry forward from 2004/2005, £5.866m SCEs in 2005/2006, £1.401m Section 106 funding, and £2.625m devolved capital allocation.

addition, a further £200K has been added to the Environment programme to enable capitalisation of roads and pavements spending in the Environment revenue budget.

- 9.26 The largest element of change in the Environment capital programme since the First Reading debate is inclusion of £7.316m planned spending on the Stadium Access Corridor in 2005/2006 (over and above the £936k planned in 2004/2005). Total programmed spending of £8.252m is funded by a combination of Single Regeneration Budget, London Development Agency, and Section 106 funding. This scheme has significant risks, which were previously reported to Members, and will need to be monitored closely during its completion.

Social Services

- 9.27 The Social Services programme previously included provision for spending on Knowles House older people's home. Alternative mechanisms for funding the works needed to Knowles House are being looked at and therefore this provision has been removed from the capital programme.
- 9.28 Social Services have separately proposed capital spending of £500k to fund the provision of office space for the adults' team at Willesden Hospital. Growth in revenue budget provision of £80k per annum to meet the costs of this has been provided within the 2005/06 revenue budget. Means of meeting the capital cost on a self-funded basis are currently being investigated and therefore no provision has been included in the programme at this stage.
- 9.29 The reduced resources required for Social Services have enabled increased funding for Education and Environment set out above.

Programmed Spending for 2006/2007 to 2008/2009

- 9.30 The capital programmes in the annexes to Appendix H(ii) include programmed spending for 2006/2007 to 2008/2009. Programmed spending is £2.505m more than forecast resources in 2006/2007 and £1.982m more in 2007/2008. For 2008/2009, spending on rolling programmes has been included at levels in previous years' programmes. This produces a requirement for unsupported borrowing of £3.639m.
- 9.31 The position on spending and resources in 2006/2007 to 2008/2009 will have to be reviewed during 2005/2006 to ensure they reflect both spending needs and affordability.

Resources for 2005/2006 to 2008/2009

9.32 Resources available to fund the capital programme are shown in Appendix H(ii). Table 9.5 shows the principal movements in resources available in 2005/2006 compared to estimated resources at the time of the First Reading debate.

Table 9.5 Revisions to Resources in 2005/2006 since November

	£m
2005/06 General Fund resource estimate at November 2004	35.556
Less:	
➤ Unsupported borrowing to meet budget deficit	(7.291)
Sub-total	28.265
Add:	
➤ Increase in estimated supported capital expenditure/grant income	0.488
➤ Increase in estimated usable receipts (from £0.5m to £4.4m, of which £2.5m are Right-to-Buy and £1.9m are other receipts)	3.900
➤ Section 106 funding for education	1.401
➤ Devolved capital allocation for schools	2.625
➤ Stadium Access Corridor resources	7.316
➤ Increase in 2004/2005 surplus brought forward	5.782
➤ Self-funded unsupported borrowing schemes	0.150
Revised 2005/2006 General Fund resource projection	49.927
Add:	
➤ 2005/2006 HRA resource estimate at November 2002	16.764
➤ Additional HRA resources following ALMO phase 2 top up and phase 4 allocations	23.707
Revised projection of overall resources in 2005/2006	90.398

9.33 There are still some resource uncertainties for 2005/2006. For example, the capital grant allocation from Transport for London has not been announced. The projection of £5m in 2005/2006 matches the amount received in 2004/2005. Any change in the allocation would need to be matched by changes to planned spending from the allocation.

9.34 Resources in 2005/2006 also depend on capital receipts generated. The forecasts include £1.7m of receipts from the corporate property disposals programme, £200k of ex-GLC/London Residuary Body receipts, and £2.5m of usable Right-to-Buy receipts. Appendix H(iii) lists the planned corporate property disposals in 2005/2006.

9.35 Resources for later years of the programme have also been amended. The amendments take account of government announcements of supported capital expenditure for 2005/2006 (which include projections for future years),

capital grant and capital receipt projections, and the inclusion of projections for devolved capital allocations to schools. Increases in projected resources have reduced projected deficits in 2006/2007 and 2007/2008. These were previously £4.744m and £3.373m but have come down to £2.505m and £1.982m respectively. The unsupported borrowing shown in Appendix H(ii) of £13.134m in 2006/2007 and £12.300m in 2007/2008 is in line with previously agreed levels.

- 9.36 The unsupported borrowing of £3.639m for 2008/2009 is the amount required to balance the programme in that year. This is considerably lower than in 2004/2005 to 2007/2008 but reflects the fact that unsupported borrowing at current levels is intended to catch up on the back log of repairs and maintenance and is not affordable in the medium to long term. Further work will need to be carried out to develop the capital programme for 2008/2009 and subsequent years, taking account of the likely reduction in available resources from then on.

Revenue Costs Associated with Forecast Capital Programme

- 9.37 Consideration of affordability is one of the critical tests in determining the limit of capital spending under the new prudential regime for borrowing.
- 9.38 Table 9.6 below summarises the impact of unsupported borrowing to fund the capital programme on capital charges incurred by the council and council tax levels.

Table 9.6 Impact of Unsupported Borrowing on Revenue Costs/Council Tax

	2005/06 £000s	2006/07 £000s	2007/08 £000s	2008/09 £000s
2004/05 Unsupported borrowing £13.842m (excluding all self funded expenditure)	1,467	1,453	1,453	1,453
2005/06 Unsupported borrowing £12.927m (excluding all self funded expenditure)	440	1,370	1,357	1,357
2006/07 Unsupported borrowing £13.134m (excluding all self funded expenditure)	0	447	1,392	1,379
2007/08 Unsupported borrowing £12.300m (excluding all self funded expenditure)	0	0	418	1,304

Table 9.6 (Cont.)

	2005/06 £000s	2006/07 £000s	2007/08 £000s	2008/09 £000s
2008/09 Unsupported borrowing £3.639m (excluding all self funded expenditure)	0	0	0	123
Cumulative total	1,907	3,270	4,620	5,616
Impact on Band D Council Tax – using 2005/06 council tax base of 92,879	£20.53	£35.20	£49.74	£60.47

- 9.39 The estimated prudential costs in 2005/2006 to 2007/2008 are less than those set out in the First Reading report to full Council on 29th November. At that stage they were forecast at £2.090m in 2005/2006, £3.928m in 2006/2007 and £5.518m in 2007/2008. The reduced amount required for 2005/2006 is included in revised estimates for central items in section 5 and Appendix F. The reductions in 2006/2007 and 2007/2008 are reflected in financial forecasts in section 7.
- 9.40 There is currently no unsupported borrowing in the HRA. However, there will be a need in future years to undertake unsupported borrowing in the HRA to provide appropriate resources to finance the South Kilburn Regeneration Project. £10m has been included for this in the HRA capital programme for 2006/2007. 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.