SECTION 10

THE CAPITAL PROGRAMME 2007/08 to 2011/12

Introduction

10.1 This section up-dates the capital programme position for 2007/08 and sets out proposals for the programme from 2008/09 onwards. The programme includes for the first time projected figures for 2011/12.

10.2 The capital programme is a four year rolling programme. The key drivers of the capital programme are priorities in the Corporate Strategy and condition of assets. These are in turn reflected in the Capital Strategy, 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).

10.3 Key constraints on the capital programme 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: Right to Buy receipts are declining. There are limited opportunities for other non-RTB receipts and often pressure to use them for particular purposes rather than fund the capital programme;

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.

10.4 The Local Government Act 2003 gives the council 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 – 'floor' increase in government grant, together with limits on council tax increases, means the council has to be careful not to build up additional commitments in future years.

10.5 The council has access to other sources of funding – e.g. meeting the need for pupil places through the City Academy programme, PFIs for street lighting, JFS, Willesden leisure centre, and affordable housing, ALMO funding, lottery funding, regeneration funding etc. The council has also changed the way planning gain is negotiated to a standard charge to ensure greater flexibility of use. These additional funding sources need to be taken into account when determining the balance of the programme. For example, Academy 2 will provide places for school children which the council could not afford to fund from its own resources; and Section 106 funding for schools, highways, new public space etc means less funding is required from mainstream resource. There are also promises of future funding, e.g. Building Schools for the Future, which affect the shape of the capital programme.

10.6 The council is also developing its office accommodation strategy in preparation for the provision of a new Civic Centre. A report on the Civic Centre is due to go to the Executive on 18th March 2008. The council needs to be able to secure property which will be required to support delivery of the accommodation strategy and a total of £25m has been included in the 2008/09 capital programme to allow this to happen. Property secured in this way will be on a self-funded basis – with revenue costs offset by reduced leasing costs or additional rental income – and will be subject to a report to the Executive in advance of any property purchase.

10.7 This section of the report sets out:

- Forecast outturn spending on the 2007/08 programme, including progress against target outcomes for the programme in 2007/08;
- The proposed 2008/09 to 2011/12 programme, including target outcomes over that period;
- The main risks in the capital programme.

The 2007/08 Capital Programme

10.8 The revised capital programme for 2007/08 is summarised in Appendix M(i), with details in M(ii).

10.9 The principal changes to the capital programme in 2007/08 since the Second Quarter Performance and Finance Review report to the Executive in December 2007 are as follows:

<u>Children and Families</u>

Reported expenditure on the Children and Families programme **has reduced by a net £740k**, consisting of:

a. Net reduction due to re-phasing of expenditure of £1.073m, which is detailed below:

   (i) St Mary Magdalen's Junior School Rebuild (TCF Funded) - £1.700m from 2007/08 to 2008/09.

   (ii) Individual school scheme commitments carried forward from previous years - £249k from 2007/08 to 2008/09.

   (iii) Barham Window Replacement Phases 1 & 2 - £30k from 2007/08 to 2008/09.

(iv) Alperton School Underpinning - £59k from 2008/09 to 2007/08.

(v) Preston Park Hut Replacement Programme - £100k from 2008/09 to 2007/08.

(vi) New Opportunities Fund Works - £18k from 2008/09 to 2007/08.

(vii) SEN Schemes - £729k from 2008/09 to 2007/08.

b. Programme expenditure increasing by £333k due to:

(i) Additional funding of £300k received from Partnerships for Schools towards Academy 2 project costs up to outline business case stage.

(ii) Additional requirement of £33k to meet costs of the Kilburn Park Extension Rebuild. This is a self funded scheme.

<u>Environment and Culture</u>

Reported expenditure on the Environment and Culture programme **has reduced by a net £1.355m**, consisting of:

a. Programme reducing by £1.461m due to:

(i) A technical adjustment to Estate Access Corridor funding which results in a matching reduction in spending and resources of £1.307m.

(ii) Reduced levels of S106 allocations to the Environment and Culture capital programme of £154k matched by an equivalent reduction in resources.

b. Programme expenditure has increased by £106k due to:

(i) The purchase of additional Sports Centres Fitness Equipment at a cost of £88k. This is a self funded scheme.

(ii) Additional funding of £18k via Planning Delivery Grant for the capitalisation of Environment revenue expenditure.

<u>Housing and Community Care: Housing and Customer Services</u>

Reported expenditure on the Housing and Customer Services programme **has reduced by a net £493k** consisting of:

a. Reduced levels of S106 allocations at £350k.

b. Slippage on the Customer Services Schemes of £143k.

<u>Corporate</u>

Reported expenditure on the Corporate programme **has reduced by a net £935k**, consisting of:

a. Programme reducing by £1.585m due to:

(i) Reduction of £500k due to re-phasing of expenditure, from 2007/08 to 2008/09 on the ICT ‘invest to save’ schemes.

(ii) Funding draw-down required in 2007/08 from the Government Office for London for the South Kilburn New Deal for Communities programme has reduced by £1.085m.

b. Programme expenditure has increased by £650k due to inclusion of the self funded Dollis Hill Day Centre scheme as agreed by Executive on 10th December 2007.

10.10 Total General Fund resources allocated to the programme have reduced by £13.679m since the last monitoring report compared to the net reduction in spending reported in paragraph 10.8 above of £3.523m. The reason for the difference is that the programme reported at the second quarter included a surplus of £10.156m. These resources have now been slipped to 2008/09 which means that the capital programme for 2007/08 is now showing a balanced position.

10.11 A summary of the revised 2007/08 programme is included in Table 10.1 below.

Table 10.1 Revisions to 2007/2008 Capital Programme since Second Quarter Monitoring

Service Area	2007/08 position (second quarter) £'000	Amended 2007/08 position (third quarter) £'000	Variations to 2007/08 position £'000
Resources			
Grant and External Contributions	(52,406)	(47,704)	4,702
Capital Receipts	(6,476)	(5,569)	907
S106 Funding	(10,193)	(6,365)	3,828
Supported Borrowing	(9,914)	(9,914)	0
Unsupported Borrowing	(16,245)	(12,003)	(4,242)
Total GF Resources	**(95,234)**	**(81,555)**	**13,679**
Housing HRA	(22,244)	(22,244)	0
Total Resources	**(117,478)**	**(103,799)**	**13,679**
Expenditure			
Children and Families	33,456	32,716	(740)
Environment and Culture	22,107	20,752	(1,355)
Housing and Community Care – Adults	782	782	0
Housing and Community Care – Housing	17,049	16,556	(493)
Corporate	11,684	10,749	(935)
Total GF expenditure	**85,078**	**81,555**	**(3,523)**
Housing HRA	22,244	22,244	0
Total Expenditure	**107,322**	**103,799**	**(3,523)**
Net Position	**(10,156)**	**0**	**(10,156)**

10.12 High level outcomes are set for each of the main elements of the programme each year. Details of the outcomes set for 2007/08 and forecast outturn against these outcomes are included in Appendix M(v).

2008/09 to 2011/12 Capital Programme

10.13 A summary of the proposed capital programme for 2008/09 to 2011/12 programme is attached as Appendix M(iii), with details of the breakdown of the programme in Appendix M(iv). Table 10.2 provides a high level summary.

Table 10.2 Proposed 2008/09 to 2011/12 Capital Programme

Service Area	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Resources				
Grant and External Contributions	(26,349)	(27,992)	(35,141)	(14,466)
Capital Receipts	(4,280)	(3,816)	(2,185)	(3,700)
S106 Funding	(10,162)	(9,955)	(9,140)	(1,429)
Supported Borrowing	(7,154)	(5,917)	(4,581)	(4,600)
Unsupported Borrowing	(40,221)	(8,448)	(8,128)	(6,616)
Invest to Save	(1,127)	(100)	0	0
Total GF Resources	**(89,293)**	**(56,228)**	**(59,175)**	**(30,811)**
Housing HRA	(14,441)	(7,284)	(7,284)	(7,284)
Total Resources	**(103,734)**	**(63,512)**	**(66,459)**	**(38,095)**
Expenditure				
Children and Families	28,913	29,300	33,509	12,812
Environment and Culture	21,542	14,963	13,025	9,424
Housing and Community Care – Adults	0	0	0	0
Housing and Community Care – Housing	5,524	4,888	4,592	4,896
Corporate	33,314	7,077	8,049	3,679
Total GF expenditure	**89,293**	**56,228**	**59,175**	**30,811**
Housing HRA	14,441	7,284	7,284	7,284
Total Expenditure	**103,734**	**63,512**	**66,459**	**38,095**
Net Position	**0**	**0**	**0**	**0**

10.14 The capital programme is based on the previous year's four year capital programme, rolled forward by a year. The principal amendment is the addition of a provision of £25m in the corporate capital programme for 2008/09 to enable property to be secured as part of the overall accommodation strategy. Use of this provision will be subject to decisions by the Executive following detailed reports setting out the business case for acquisitions. Purchase of property using these funds will be on a self-funding basis, with additional borrowing costs being offset by reduced leasing charges or additional rent income.

10.15 Other amendments reflect:

a. Slippage of funding for schemes from and to 2007/08, as included in paragraph 10.9 above.

b. New grant funded schemes added to the programme, including:

   (i) Replacement for Harlesden Library detailed in the report on the Library Strategy to the Executive in January 2008.

   (ii) Primary Capital Programme allocations of £4.655m in 2009/10 and £7.033m in 2010/11 for the renewal of primary school stock and provision of additional places, although it should be noted that at this stage there is no certainty about how this funding will be provided (grant or supported borrowing) and what it will be allocated to;.

   (iii) Phase 3 Sure Start Grant of £622k in 2008/09, £1.333m in 2009/10 and £720k in 2010/11 for the provision of children centres across the borough.

   (iv) Extended Schools grant of £508k in 2008/09, £538k in 2009/10 and £278k in 2010/11.

   (v) Youth Capital Fund of £154k annually from 2008/09 to 2010/11.

   (vi) Local Authorities Short Break Funding of £140k in 2009/10 and £327k in 2010/11.

   (vii) Safer Stronger Communities Grant of £112k annually from 2008/09 to 2010/11.

   (viii) Harnessing Technology grant of £814k in 2008/09, £869k in 2009/10 and £935k in 2010/11 for the provision of ICT in schools.

   (ix) Additional Targeted Capital Funding of £2.000m in 2009/10 and £6.000m in 2010/11 for investment in 14-19 diplomas, SEN and disabilities.

   (x) The Growth Fund grant of £2.000m in 2008/09 for the delivery of Environment initiatives in line with the bid submission Programme of Development.

c. Up-dated figures on section 106 funding;

d. Self-funded expenditure on Neasden Library scheme using £93k prudential borrowing with the balance of £87k funded using Planning Delivery Grant capital monies.

e. Additional scheme expenditure of £153k in 2008/09 for the provision of a back up generator for the data centre at Brent House.

f. The addition of a fourth year – 2011/12 – to the four year programme which includes rolling programmes, such as highways maintenance, the private sector housing renewal programme, the corporate buildings repairs and maintenance programme but does not at this stage include any new major schemes.

10.16 Resources are also based on those included in the previous year's four year rolling programme. The key changes are set out in the following paragraphs.

Grant funded schemes

10.17 New grant funded schemes have been detailed in paragraph 10.15 above. Most of the new allocations from the Department of Children, Schools and Families (DCSF) are grant funded although there is still uncertainty about whether the Primary Capital Programme – which starts in 2009/10 - will be grant funded or councils will be expected to borrow to fund it.

Capital receipts

10.18 Levels of useable capital receipts have been maintained at previously programmed levels. Details of the properties included in the disposal programme are included at Appendix M (vi). The impact of higher land prices on ability to generate receipts is offset by the decision to achieve a reduction in the unitary charge for the Affordable Housing PFI by allocating council land to the PFI at nil cost.

S106 Funding Agreements

10.19 Table 10.3 below provides the details of estimated Section 106 agreement funds that have been allocated within the planned capital programme. Members should note however that Section 106 funds are only triggered once schemes start on site and therefore timing of receipt of funds is not guaranteed. In addition, the council needs to ensure that all Section 106 agreements are within the legislative framework and that the money is spent in accordance with the provisions of each agreement.

Table 10.3 S106 Agreement Monies - 2007/08 to 2011/12 Capital Programme

S106 Agreement Monies	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Triggered					
Education	1,861	0	0	0	0
Environmental Health	0	41	24	0	0
Landscape & Design	0	330	27	0	0
Public art	0	256	0	0	0
Parks	174	382	41	0	0
Planning	0	727	0	0	0
Streetcare	246	0	0	0	0
Sports	0	618	164	0	0
Transportation	2,000	700	0	0	0
Environment General	0	2	2	1	1
Housing	0	144	108	72	36
Brent into Work	0	350	262	175	87
Estate Access Corridor	1,555	0	0	0	0
Harlesden Library	0	50	0	0	0
Total Triggered Agreements	**5,836**	**3,600**	**628**	**248**	**124**
Not Triggered					
Education	501	1,412	4,500	4,935	525
Environmental Health	0	0	6	37	117
Landscape & Design	0	0	178	232	395
Public art	0	14	136	136	26
Parks	0	33	189	108	0
Planning	0	969	282	0	0
Streetcare	0	0	0	0	0
Sports	0	0	0	0	0
Transportation	0	4,067	3,901	3,242	0
Housing	0	40	80	120	160
Brent into Work	28	27	55	82	82
Total Not Triggered Agreements	**529**	**6,562**	**9,327**	**8,892**	**1,305**
Cumulative S106 Monies	**6,365**	**10,162**	**9,955**	**9,140**	**1,429**

Invest to Save Schemes

10.20 Invest to save schemes include capital spending on the customer contact programme, the conversion of Stag Lane library into an adult care centre, and ICT invest to save schemes. Changes from the previous monitoring report reflect slippage on these schemes.

Borrowing

10.21 Overall borrowing levels within the capital programme, after taking account of slippage from 2007/08, are marginally below previously reported levels. However, this masks a switch from supported borrowing, which in theory is supported through Formula Grant, to unsupported borrowing of approximately £2.9m per annum because of a reduction in supported borrowing approvals from the Department of Children, Schools and Families matched by an increase in grant. Because Brent is at the grant floor there is in practice no difference between the effect of ‘supported’ and ‘unsupported’ borrowing on the budget. Maintenance of borrowing at broadly similar levels to before means that the new grant funding for the schools programme detailed in paragraph 10.15 is on top of existing funding within the schools capital programme.

10.22 Consideration of affordability is one of the critical tests in determining the limit of capital spending under the prudential regime for borrowing set up under the Local Government Act 2003. As set out in the previous paragraph, the fact that Brent is at the grant floor means there is very little difference in the impact of ‘supported’ and ‘unsupported’ borrowing on the council’s overall financial prospects. Nevertheless it is a requirement of the prudential regime that authorities monitor the impact of ‘unsupported’ borrowing on levels of council tax. Table 10.4 shows the cumulative impact of ‘unsupported’ borrowing (excluding self-funded borrowing) on council tax since the introduction of the prudential regime. Members should note that the high level of unsupported borrowing in 2008/09 results from re-phasing schemes and other resources within the programme.

Table 10.4 Impact of Unsupported Borrowing on Revenue Costs/Council Tax

	2008/09 £’000	**2009/10 £’000**	**2010/11 £’000**	**2011/12 £’000**
2004/05 Unsupported borrowing £8.010m (excluding all self funded expenditure)	841	841	841	841
2005/06 Unsupported borrowing £12.046m (excluding all self funded expenditure)	1,265	1,265	1,265	1,265
2006/07 Unsupported borrowing £0m (excluding all self funded expenditure)	0	0	0	0
2007/08 Unsupported borrowing £10.837m (excluding all self funded expenditure)	1,149	1,138	1,138	1,138
2008/09 Unsupported borrowing £15.128m (excluding all self funded expenditure)	514	1,604	1,588	1,588
2009/10 Unsupported borrowing £8.448m (excluding all self funded	0	287	895	887

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
expenditure)				
2010/11 Unsupported borrowing £8.128m (excluding all self funded expenditure)	0	0	276	862
2011/12 Unsupported borrowing £6.616m (excluding all self funded expenditure)	0	0	0	225
Cumulative unsupported borrowing costs	**3,769**	**5,135**	**6,003**	**6,806**
Other borrowing costs	**19,955**	**19,609**	**19,931**	**19,354**
Total borrowing costs	**23,724**	**24,744**	**25,934**	**26,160**
Impact on Band D Council Tax – using 2008/09 council tax base of 94,585 of unsupported borrowing	**£39.85**	**£54.29**	**£63.48**	**£71.96**

Outcomes

10.23 Details of the target outcomes for the programme over the next four years are included in Appendix M(v).

Capital Programme Risks

10.24 The Budget Panel report on the 2007/08 budget asked that the risks in the capital programme addressed in a similar way to risks in the revenue budget. In practice, the nature of the risk is different. On the whole capital spending is easier to control than revenue spending. Capital spending 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. In addition, re-phasing of schemes within the capital programme, which is inevitable because spending for one reason or another will not always fall in the year for which it has been allowed, means that there is usually the ability to meet additional spending within year without increasing the call on resources in that year – although commitments are built up for subsequent years. In the last resort, it is possible under the Local Government Act 2003 to increase borrowing above planned levels to fund spending without a significant short term impact although longer term impacts need to be taking into account in considering the affordability of the decisions.

10.25 Nevertheless there are significant capital programme risks which are less about impact on the short term financial stability of the council but more about the longer term financial impact and the effect on services to residents in Brent. These 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 New Deal for the Communities, the Primary Capital Programme, Building Schools for the Future and the new Civic Centre.

g. Partnership risks.

10.26 Table 10.5 below sets out these risks in more detail and the measures taken to manage them.

Table 10.5 Capital Programme Risks

Risk	More detailed description	Measures taken to manage the risk
a. The impact of borrowing to fund the capital programme on the longer term financial stability of the council.	The prudential borrowing power introduced in the Local Government Act 2003 removed direct government controls over borrowing by councils. Direct control was replaced by indirect control through the prudential borrowing framework which is described in more detail in Section 12 of this report.	The council's medium term financial strategy and the 30 year business plan set out clear assumptions about levels of borrowing which are affordable. The council has been careful to limit borrowing to this amount. In addition, the prudential indicators in Section 12 set limits on the amount of the budget accounted for by borrowing costs.
b. The effect of spending more on some schemes on the ability of the council to deliver other priority	Additional spending on schemes above that allowed for in the programme reduces funding available for other schemes. For most spending programmes, spend	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

Risk	More detailed description	Measures taken to manage the risk
schemes.	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 John Kelly Schools expansion or the Estate Access and Stadium Access Corridors, there is less direct control.	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. Schemes involving land purchase or land compensation are subject to close monitoring by the Capital Board, which is an officer group chaired by the Director of Finance and Corporate Resources. Professional advice on these schemes is provided by the council's head of Property and Asset Management and additional external expertise is brought in where required. If costs are greater than provided for, then decisions need to be taken on re-prioritisation within the programme.
c. 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 between £50m and £100m 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 and 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.
d. 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 – with the introduction of the standard charge

Risk	More detailed description	Measures taken to manage the risk
		providing more ability to target this funding at needs brought about by development in the borough; o Lottery funding, for example for the new Harlesden Library; o PFI funding, for example, for Willesden Leisure Centre and the affordable housing PFI; o Additional government funding, for example, for the Wembley Academy.
e. 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 allocated the full amount of government grant, supported borrowing allocation, and section 106 funding to the schools programme. The 2008/09 programme includes additional grant funding from government without any equivalent reduction in levels of borrowing from council mainstream resources. In addition, schools are able to borrow to fund works on the schools loan scheme. The council is looking at other opportunities, such as in the case of Stonebridge schools, 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 have also been made to government for further additional funding to meet unmet needs. Discussions are also to be held with the Schools Forum about (1) using prudential borrowing charged to the central element of the Schools' Budget to fund additional requirements; and (2) making more effective use of delegated schools capital funding allocations and school balances to meet unmet needs.
	In the case of council housing, the council	The government is proposing introducing freedoms and flexibilities for Arms

Risk	More detailed description	Measures taken to manage the risk
	received significant amounts of funding to reach the decent homes standard but is now only entitled to the major repairs allowance which is not sufficient to ensure the decent homes standard is maintained in the longer term.	Length Management Organisations such as Brent Housing Partnership to be able to access alternative sources of funding to develop the stock. There will be a report to the Executive in the spring on the capital requirements to maintain the housing stock and options to fund these.
f. Partnership risks	The most significant partnership risks relating to capital at present are the Affordable Housing PFI scheme and the development of the second City Academy.	A separate report is included on the February Executive agenda on the City Academy setting out the current position. In relation to the Affordable Housing PFI, most consents have been received, the scheme is affordable and there are no significant outstanding issues. Financial close is targeted for 26th March 2008.
g. Funding for major development programmes	The major programmes/projects on the horizon are South Kilburn New Deal for the Communities, the Primary Capital Programme, Building Schools for the Future, and the Civic Centre project. These programmes/projects each individually present major risks and challenges to the council.	Programme/project boards have been set up to manage each of these projects. There is also a major projects group consisting of senior managers across the council who oversee the development of these projects and ensure that issues that cut across the projects are picked up. The Capital Board also monitors the projects carefully to assess potential impact on the overall capital programme. There is reporting to Members at key stages of these programmes/projects. The additional provision proposed for property acquisitions as part of the overall office accommodation strategy will only be used following detailed reports to the Executive setting out the business case for any proposed acquisitions.