ITEM NO. 19.

BRENT COUNCIL	**Executive** 13th November 2006 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

2006/07 to 2009/10 Capital Programme Monitoring Report

Forward Plan ref: F&CR-06/07-4

1. Summary

1.1 This report provides monitoring information on the 2006/07 to 2009/10 capital programme. It also provides information on prudential indicators, in line with arrangements the council has to ensure affordability and value for money of its capital programme.

2. Recommendations

The Executive is recommended to:

2.1 Note the overall position on the capital programme in Section 4 of the report;

2.2 Agree that the net effect of amendments to the capital programme identified in Section 4 are utilised to reduce levels of unsupported borrowing;

2.3 Agree, in accordance with the scheme of transfers and virements, the proposed changes to the capital programme detailed in paragraphs 4.3 to 4.9;

2.4 Note the progress on the 'spend to save' scheme for the Vale Farm and Charteris Sports Centres, to be funded from additional prudential borrowing (paragraph 4.6);

2.5 Note the risks in Section 5 of the report;

2.6 Note the revised position on the Council's Prudential Indicators for 2006/07 in Section 6 of the report.

3. Background

3.1 The capital programme is a four year rolling programme of capital investment. It is focused on the priorities set out in the capital strategy, and the need to invest in existing and new assets.

3.2 The funding of this capital investment is a key factor and the introduction of the new prudential system of borrowing by the 2003 Local Government Act gave new opportunities for councils to assess their requirements for capital spending. Under the accompanying regulations, councils are required to follow the Prudential Code issued by CIPFA, which sets out how councils ensure they use this freedom responsibly. The code sets out indicators which councils are required to set before the beginning of each year, to monitor during the year, and to report on at the end of each year.

3.3 The 2006/07 to 2009/10 Capital Programme was set in the context of the decision taken as part of the 2006/07 budget setting process to reduce levels of unsupported borrowing in line with the Medium Term Financial Strategy. This remains one of the key funding strategies for the programme.

4. Monitoring of the 2006/07 to 2009/10 Capital Programme

4.1 The 2006/07 to 2009/10 Capital Programme was agreed at Full Council on 6th March 2006 and was revised to reflect the 2005/06 outturn at the Executive on 17th July 2006. The 2006/07 Capital Programme is summarised in the table below. It details estimated resources and agreed total budgets against a projected outturn. The current forecast shows a balanced position on the programme with a reduced requirement for unsupported borrowing. Full details on a scheme by scheme basis are contained in Appendix 1 to this report.

2006/2007 Revised Budget and Projected Outturn

Programme Detail	2006/07 Capital Programme £000	2006/07 Revised Capital Programme £000	2006/07 July Forecast £000	2006/07 October Forecast £000	Movement July to October Forecast £000
Service Area					
Expenditure:					
Children & Families	20,710	23,305	27,820	24,188	(3,632)
Environment & Culture	10,123	19,055	19,393	19,678	285
H & CC: Adults	600	719	719	509	(210)
H & CC: Housing	8,569	9,363	9,363	9,363	-
Housing – HRA	6,500	9,955	9,955	9,955	-
Corporate	3,285	6,613	6,525	4,612	(1,913)
Total Expenditure	**49,787**	**69,010**	**73,775**	**68,305**	**(5,470)**
Resources:					
Total Resources	**(49,787)**	**(68,950)**	**(73,465)**	**(68,305)**	**5160**
(Surplus)/Deficit	**0**	**60**	**310**	**0**	**(310)**

4.2 The October forecast takes account of those amendments to projected capital expenditure and resources that have been identified by the individual service areas since the last report to Executive on 17th July 2006. Details are set out below.

Expenditure:

Children and Families

4.3 Expenditure on the Children and Families programme **has reduced by a net £3.632m**, consisting of:

- *Net slippage of £4.099m,* which is detailed below:
    - St Mary Magdalen's Junior School Rebuild (£700k) – The approval to proceed to tender letter for this Targeted Capital Fund (TCF) scheme has now been received from the Secretary of State and has required a re-allocation of the approved funding between years.
    - Alperton School Underpinning (£400k) – Delays have occurred due to identification of unforeseen additional costs requiring a review on site. The likelihood is that costs will exceed the contract sum previously reported to Executive but be within the overall allocation within the approved capital programme. There will be a report back to Executive when full details are available.
    - Wembley Manor Re-build and Expansion (£1.759m) – This slippage reflects delays due to consultation on the initial proposals and work by consultants. This slippage does not reflect any further delays that might result from planning issues raised about the proposals (see risks section at paragraph 5.1 below).
    - Wembley High – Extension and Adaptations (£100k) – Remedial works at the site are required and the final account remains outstanding.
    - Asset Management Plan works (£374k) – Reduced spend in this financial year has occurred due to delays on a number of schemes.
    - Hut Replacement works (£200k) – Reduced spend in this financial year has occurred due to delays on a number of schemes.
    - Expansion of School Places (£563k) – Copland School scheme is not yet underway on site and monies have not yet been released for Preston Manor School (see risks section at paragraph 5.1 below).
    - Additional minor elements of slippage identified total a net figure of £3k.
- *Notification of an additional allocation of £69k for Devolved Formula grant available to schools.*
- *Notification of a new Targeted Capital Fund allocation of £398k for vocational and ICT improvements at Jesus and Mary Language College and Cardinal Hinsley RC High School.*

4.4 The report entitled *A Strategy for the Development of Primary and Secondary Schools – Options for Delivering Additional School Places*, elsewhere on this agenda, sets out a summary review of the case for additional primary and secondary school places, and options for the delivery of a strategy for the development of schools. Within this report is a recommendation that the currently uncommitted balance of £500k on the Children and Families *Expansion of Secondary School Places* capital allocation be utilised to provide a full feasibility study and business case to expend the provision of school places. The additional spending is contained within existing resources so there is no impact on overall planned spending or resources.

Environment and Culture

4.5 Expenditure on the Environment and Culture programme **has increased by a net £285k** to meet costs of the Willesden Library project. £157k of this is additional grant funding and £128k is from the capital receipt from disposal of the Grange Museum which is held within the central provision for liabilities. £126k has also been transferred within the Environment and Culture programme from Parks and Cemeteries to Culture to meet a shortfall in funding for the project.

4.6 In addition, planned spending of £166k is proposed on sports equipment for the **Vale Farm and Charteris Sports Centres.** This is line with the decision of the Executive on 17th July 2006 that capital and IT investment would be funded by the council rather than including it as part of the contract. Principal and interest on the prudential borrowing will be charged to the sports service revenue budget and therefore it has no impact on revenue costs to meet unsupported borrowing (see paragraph 4.16 below). There will be a need for further prudential borrowing for IT investment in the Sports Centres but cost estimates are not currently available.

4.7 Members should note that bids are being submitted for grant funding to support the Council's Carbon Reduction strategy.

Housing and Community Care: Adults

4.8 Expenditure on the Housing and Community Care: Adults capital programme **has reduced by a net £210k**. This consists of:

- a £295k transfer to the Corporate programme for the re-provision of services at Brondesbury Road;

  offset by

- additional allocation of grant from the Department of Health for Improving Information Management Grant of £5k in 2006/07 (with a further £175k in 2007/08);
- Transfer of funding of £80k from the corporate provision for liabilities to meet the commitment for works to the Monks Park Adults for Learning Disabilities Kiosk .

Corporate

4.9 Expenditure on the Corporate capital programme has reduced by a net £1.913m, as follows:

- The Council's contribution of £2m to the South Kilburn Regeneration Project will not be required in 2005/06 due to amendments in the projects timetable. Requirements for funding in future years will be dealt with within the forthcoming budget setting process, currently there is a £1m provision in each of the years from 2007/08 to 2009/10.
- Net virements totalling a reduction of £87k have occurred on the Corporate programme as detailed above.

Resources

Capital receipts

4.10 The 2006/07 capital programme, as approved by Full Council on 6th March 2006, included in its resource forecast an amount of £3.0m for capital receipts, with a further £6.0m targeted to the end of 2009/10. This was a challenging target for asset disposals and subsequently there has been slippage of £1.071m, as reported to Executive on 17th July 2006, which has increased the target for 2006/07 to £4.071m. The target excludes receipts which have been allocated for particular purposes which are not included in the capital programme.

4.11 A total of £1.675m has been received so far in 2006/07, including £365k (excluding the £100k interest which is treated as revenue income) from the Gujarati Arya Association (GAA) in return for a long lease on the pavilion at John Billam sports ground. The receipt of £365k is net of £85k for payment for work to the changing rooms and £50k previously received as a deposit., the total gross receipt for this site was £500k. This leaves a total of £2.396m to be achieved in 2006/07.

4.12 Other properties for disposal have been identified but allocation of receipts for other purposes will make achievement of the overall target challenging. Examples include:

- The sale of the three former caretakers' houses at: 73, Dagmar Avenue, 8, Minet Gardens and 1, Attewood Avenue in line with the Executive decision on 23rd August 2006. Agreement has been reached with the PCHA housing association for disposal at a sum of £830k, although the sale still has to be completed. Under the council's disposals rules, up to 30% of the capital receipt (after disposal costs) may be spent on improvements to the fabric of the school, subject to agreement by the Executive. The Executive decision depends on all factors considered relevant including the condition of the school and its needs and overall priorities within the capital programme. In this case the position is complicated by the fact that 1 Attewood Avenue is still classed as a housing property which was subsequently used by the school as a caretaker's property. Any decision to use part of the capital receipt to fund works to the schools will impact on the contribution to achieving the corporate target for capital receipts.
- The separate report on this agenda on *Phase 2 Children's Centre – Capital Programme Approval* proposes use of the caretaker's house at Lyon Park Infant and Junior School as a children's centre. This property had been included in the disposals programme at a value of £250k.
- The land transfer and swap associated with the proposed development of Copland School has been completed and the associated capital receipt of £250k has been received. In line with the decision of the Executive on 23rd May 2005, this receipt is to be applied to the renovation of the Wembley Youth and Community Centre and therefore will not contribute to the overall capital receipts target.
- There are other opposing priorities for a number of sites included within the disposals programme, most notably the potential use of properties within the Housing and Learning Disabilities PFI scheme. Any alternative use of listed sites for other priority needs will result in the loss of any potential capital receipt and thus add risk to the achievement of forecast amounts within the capital programme.

4.13 The Capital Board is closely monitoring achievement of the target receipts. Any shortfall against the target of £4.071m would have to be made up from additional prudential borrowing in the current year, with a higher receipts target for future years. This would have a direct impact on the council's revenue budget in the current and future years.

Other resources

4.14 The level of other resources required to fund the programme and provide a balanced position has reduced by £5.160m primarily as a result of the changes to expenditure detailed above. This includes a reduction of £2.678m in unsupported borrowing in the current year. The table below summarises the changes.

Analysis of Changes to Resource Position for 2006/07

Description	£000
Additional Funding outlined above:	
- Children and Families	(472)
- Environment and Culture	(157)
Application of S106 funding to Estate Access Corridor scheme	(1,482)
Slippage of specific TCF grant funding	700
Re-profiling of Children and Families S106 funding over the four years of the programme	3,893
Reduced requirement for unsupported borrowing	2,678
Net Reduction in Resources	**5,160**

Overall capital programme position

4.15 Changes detailed above, including slippage, mean that future years of the programme have had to be re-profiled. The full four year programme is summarised in the table below, with full details provided at Appendix 1.

2006/2010 Capital Programme Position

Programme Detail	2006/07 Forecast Capital Programme	2007/08 Forecast Capital Programme	2008/09 Revised Capital Programme	2009/10 Revised Capital Programme
	£000	**£000**	**£000**	**£000**
Service Area Expenditure:				
Children and Families	24,188	28,117	14,463	13,090
Environment and Culture	19,678	9,156	9,101	9,201
Housing and Community Care – Adults	509	175	0	0
Housing & Community Care – GF Housing	9,363	8,269	8,269	8,269
Housing - HRA	9,955	18,400	6,500	6,500
Finance & Corporate Resources	4,612	3,355	3,260	3,060
Total Capital Expenditure	**68,305**	**67,472**	**41,593**	**40,120**
Resources:				
Total Resources	**(68,305)**	**(67,472)**	**(41,593)**	**(40,120)**
(Surplus)/Deficit	**0**	**0**	**0**	**0**

4.16 The forecast annual costs of unsupported borrowing to the General Fund revenue budget reported to Executive on 17th July 2006 were: £2.537m in 2006/2007, £3.830m in 2007/2008, £5.007m in 2008/2009, and £5.919m in 2009/2010. Although there has been no change to the out-turn position as a result of the audit of the accounts, the amendments detailed above have varied the levels of required unsupported borrowing over the capital programme, and the forecast annual costs of unsupported borrowing to the General Fund revenue budget now stand at: £2.444m in 2006/2007, £3.628m in 2007/2008, £4.939m in 2008/2009, and £5.732m in 2009/2010. This equates to a reduction of £93k in 2006/07 and £550k across the total period of the capital programme from 2006/07 to 2009/10.

Impact of Unsupported Borrowing on Revenue Costs

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'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)	1,277	1,265	1,265	1,265
2006/07 Unsupported borrowing £9.579m (excluding all self funded expenditure)	326	1,015	1,006	1,006
2007/08 Unsupported borrowing £14.915m (excluding all self funded expenditure)	0	507	1,581	1,566
2008/09 Unsupported borrowing £7.257m (excluding all self funded expenditure)	0	0	246	769
2009/10 Unsupported borrowing £8.369m (excluding all self funded expenditure)	0	0	0	285
Cumulative total	**2,444**	**3,628**	**4,939**	**5,732**

4.17 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.

5. Risks

5.1 Members are alerted to the following potential risks within the 2006/07 Capital Programme. These issues are being constantly monitored and managed within the service areas and by the Capital Board.

- City Academy – There is currently provision of £1m for land purchase within the programme. There is an expectation that new S106 funds will be utilised to at least partly meet the balance of any additional funding requirement. Actual amounts taken will depend on decisions taken on the separate report on this agenda on *Options for delivering additional school places.*
- Preston Manor – Representations have been made to the DfES with regard to the level of additional funding required by the council as a result of the schools successful application under the Popular Schools initiative, to which no response has yet been received. If representations are unsuccessful, the council would have to provide a further £2m, above the £2m already included within the capital programme, for which there is no provision.
- John Kelly Schools – Provision of £5m has been made for purchase of land to allow the re-build and expansion of the schools under the Government's Building Schools for the Future programme. This provision appears adequate, but the valuation has not yet been finalised.

- Alperton School – Unforeseen additional costs have been identified (see above). Whilst the costs of the scheme will now be in excess of the contract sum previously reported to Executive, it is expected they will remain within the overall current capital allocation. However, this cannot be confirmed until the review of costs is completed.
- Wembley Manor Re-build and Expansion – The cost of required amendments to the scheme if current plans are not approved could add approximately £700k to costs. There may also be a requirement to re-tender the scheme, depending on the length of delay.
- The Avenue School – This scheme is to be funded through Targeted Capital Funding for which there is an allocation of £3.420m currently included within 2006/07 of the Children and Families capital programme. However, the proposed merger with Islamia School means the scheme has to be fully revisited. A request has been made to DfES to transfer the approved TCF funding to an alternative scheme.
- Consideration is still being given to the potential need for installation of an emergency generator and other related equipment to ensure business continuity at the recently installed Emergency Control Centre and CCTV operation at Brent House. Options are being evaluated but it should be noted at this stage there could be a need for capital investment of between £140,000 and £350,000. The cost will be primarily determined by the technical specification of any solution and the extent of the area to be safeguarded.

5.2 Capital programme risks are monitored and managed within the service areas and by the Capital Board.

6. Prudential Indicators for 2006/07 and Subsequent Years

6.1 This section of the report considers the full suite of prudential indicators for the London Borough of Brent as approved by Full Council on 6th March 2006.

6.2 The prudential indicators listed at Appendix 2 include those that are in place to monitor the treasury management aspects of the Council's capital expenditure.

6.3 The prudential indicators are reviewed in line with those areas that Members must have regard to, as follows:

- Affordability e.g. implications for council tax and council housing rents.
- Prudence and sustainability, e.g. implications for external borrowing.
- Value for money, e.g. options appraisal.
- Stewardship of assets, e.g. asset management planning.
- Service objectives, e.g. strategic planning for the authority.
- Practicality, e.g. achievability of the forward plan.

6.4 The arrangements put in place for monitoring prudential indicators are as follows:

- The probable actuals and estimates for all prudential indicators are reported as part of this monitoring report to the Executive.
- The report to the General Purposes Committee on the unaudited accounts will include details of the outturn on prudential indicators on affordability, capital spending, and external debt. Any amendments during audit will be included in the report to GPC on audited accounts.

- Prudential indicators on affordability and capital spending will continue to be reported in regular capital monitoring reports to the Executive.
- Prudential indicators on external debt and treasury management are monitored daily in Brent Financial Services. The Director of Finance and Deputy Director of Finance review the figures on these indicators on a weekly basis. Any forecast of a breach of the limits or actual breech of the limits will be reported at the first opportunity to General Purposes Committee. The only exception to this is breaches of the operational boundary on borrowing which will be reported in the next budget monitoring report to the Executive (unless they are sustained in which case they will be reported on an exception basis to General Purposes Committee).

6.5 Section 12 of the 2005 Budget Setting Report submitted to Full Council on 6th March gave full details of the Prudential Indicators required to be considered by members, including full descriptions of what each indicator represents and why members are required to consider it. If members wish clarification on any such matters surrounding the Prudential Indicators, please refer to the previous report.

6.6 Appendix 3 to this report gives the full suite of indicators required to be considered by members. The changes from the indicators reported to Executive on 17th July 2006 are due to reduced spending on the capital programme in 2006/2007, re-phasing of expenditure from 2006/07 to 2007/08, variations to the forecast expenditure in 2006/07 and a reduced requirement for unsupported borrowing as detailed in the previous sections to this report. This has slightly improved the position on affordability with capital financing charges reducing as a proportion of net revenue spending. The table below gives a comparison to the position reported to Executive on 17th July 2006.

Prudential Indicators of Affordability

	2006/07	2007/08	2008/09	2009/10
General Fund capital financing charges as a proportion of net revenue stream: November 2006 Position	8.8%	8.9%	9.4%	9.6%
July 2006 Position	8.8%	9.0%	9.5%	9.7%
Variance	0	(0.1%)	(0.1%)	(0.1%)

7. Financial Implications

7.1 This report is entirely concerned with financial matters in relation to the Council's Capital Programme.

8. Legal Implications

8.1 Under the Local Government Act 2003 the council is required to determine and keep under review how much money it can afford to borrow. This function must be carried out by full council and cannot be delegated. Regulations made under the Act require the council to have regard to the CIPFA Prudential Code for Capital Finance when setting or revising its borrowing limit and carrying out its capital finance functions under the Act.

8.2 The CIPFA Code sets out requirements concerning matters to be considered when setting or revising the prudential indicators required by the Code.

8.3 The capital programme for the year is agreed by full council as part of the annual budget. Changes to, or departures from, the budget during the year other than by full council itself can only be agreed in accordance with the Scheme of Transfers and Virements contained in the Constitution.

8.4 Under the scheme the Executive approves particular schemes where sums have been allocated for a particular type of work and has power (subject to criteria in the scheme) to:

- Make virements to prevent the overall programme overspending;
- Vire from one set of capital projects to another providing the resources are available and contractual commitments can be met;
- Commit new resources identified during the year to “reserve” projects if there are any or to new projects if there are not.

8.5 The Director of Finance and Corporate Resources is satisfied that the criteria in the scheme are satisfied in respect of the virements and spending proposed in section 4 of this report.

9. Diversity Implications

9.1 There are no specific diversity implications arising from this report.

10. Staffing Implications

10.1 There are no specific staffing implications arising from this report.

11. Background Information

11.1 Report from the Director of Finance entitled “2006/2007 Budget and Council Tax” to the Council Meeting on 6th March 2006.

11.2 Report from the Director of Finance entitled “Provisional 2005/2006 Capital Outturn and 2006/2007 to 2009/2010 Capital Programme” to the Executive Meeting on 17th July 2006.

11.3 Any person wishing to inspect these documents should contact Committee and Member Services, Room 106, Brent Town Hall, Forty Lane, Wembley, Middlesex. HA9 9HD. Tel. 020 8937 1353

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