SECTION 10

THE CAPITAL PROGRAMME 2009/10 to 2013/14

Introduction

10.1 This section up-dates the capital programme position for 2009/10 and sets out proposals for the programme from 2010/11 onwards. The programme includes for the first time projected figures for 2013/14.

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 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 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.

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. The council has been careful to restrict its use of prudential borrowing because of pressures within the Medium Term Financial Strategy.

10.5 The current Administration has adopted the following approach in setting the capital programme in previous years:

a. The level of prudential borrowing has been contained within previously agreed levels;

b. Additional funding has been redirected into priority areas including roads and pavements and CCTV;

c. The allocation to schools is in line with government funding, including both grant and supported borrowing;

d. Support for private sector housing and disabled facilities grant has remained at levels necessary to deliver the private sector housing strategy;

e. There is a central allocation for planned repairs and maintenance to non-schools properties which has been used to address urgent back-log repairs to existing buildings;

f. The council has rationalised its office building portfolio in advance of the development of the Civic Centre, including coming out of leased buildings where possible and purchasing the freehold of Brent House;

g. External funding sources have been used where possible to deliver other priorities including Section 106, the Big Lottery Fund, the Academy programme, and PFI.

10.6 The recession has required that the council reviews its approach. On the one hand, in the short term at least, capital receipts and section 106 receipts will reduce, which limits resources to fund the capital programme. But capital spend by the council also contributes to jobs in the borough both directly through local people employed on capital schemes and indirectly by the spending of those working on schemes – so reducing spending would worsen the recessionary impact. The council also has to consider the longer term impact of recession. The requirement to pay back additional government borrowing in the years following recession will reduce local government funding and require the council to manage within a much tighter resource envelope in future years, as set out in the Medium Term Financial Strategy. It is important therefore that there are not additional long term commitments which cannot be afforded in future years.

10.7 The following short term strategy implemented from 2009/10 onwards is aimed at ensuring continuing delivery of capital schemes and combating the effects of the recession in Brent:

a. The council will continue to fund existing programmes at their current level despite the expected reduction in the short term in capital receipts. Funded schemes within the capital programme often are delayed for a variety of reasons including the need for consultation and problems with obtaining planning permission. In practice therefore our borrowing in any one year is less than the council budgeted for which contributes to underspends on capital financing charges. The intention therefore is to address the shortfall in receipts and available S106 monies by assuming some unavoidable slippage in the capital programme.

b. Where schemes can be delivered, the intention will be to ensure that schemes progress as quickly as they can to ensure money is being spent in the local Brent economy. This will apply to schemes funded from the council's own resources but we will also work with schools to see if school schemes funded from their own devolved resources can be progressed quickly.

c. Funding in areas such as schools asset management works, highways and parks schemes have previously been brought forward from later years of the programme to earlier years in line with requests from central government departments.

d. A combination of prudential borrowing within the HRA and use of HRA revenue reserves was added to the 2009/10 capital programme to allow £3m to be spent on health and safety and other works at South Kilburn.

e. Capacity to spend Disabled Facilities Grant (DFG) is being addressed by growth within the revenue budget for additional surveyor posts. This will allow the programme to proceed faster than it is at the moment, addressing current delays in the programme. There has also been additional government funding for Disabled Facilities Grants which will increase the overall amount spent.

This strategy will have to be reviewed as the impact of spending cuts in central government departments becomes clearer and the next Comprehensive Spending Review is announced.

10.8 The council will also be required to continue consideration of longer term issues that need to be addressed as a result of the economic downturn. These include:

a. The *schools capital programme* where the Children and Families department are continuing to develop a 10 year programme aimed at combining a variety of funding sources, including Building Schools for the Future, Primary Capital programme resources and schools' own resources, 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* the top priority has been identified as the need for a third pool in the north of the borough. There is also a requirement to develop a procurement strategy for Multi Use Games Areas (MUGAs) in the borough.

d. *Libraries* where there has been spending on Harlesden Library and the installation of automated systems across the borough, and there are plans for a new library in the Civic Centre. However, there is no funding identified for improvements to the remainder of the library portfolio.

e. *Parks* where there is a backlog of repairs which is currently being assessed. The proposal is that infrastructure assets such as footpaths, fencing, lighting etc are considered as part of the wider prioritisation of use of mainstream and section 106 funds allocated to other infrastructure assets such as roads and pavements. Relative priorities are currently being assessed. Work required to structures and buildings in parks is being considered as part of the overall asset management plan for the council's property portfolio and urgent works will be funded from resources allocated to the corporate property programme.

10.9 The programme also includes expenditure forecasts for the design and build of the new Civic Centre, including the purchase of the site. These costings remain as initial forecasts and will be subject to amendment as there is more certainty about the nature of the contract. The Resources section of the capital programme does not currently include forecasts for associated capital receipts on buildings such as the Town Hall and 249, Willesden Lane. Resourcing of the scheme is contained within the self funded prudential borrowing calculation.

10.10 This section of the report sets out:

- Forecast outturn spending on the 2009/10 programme, including progress against target outcomes for the programme in 2009/10;
- The proposed 2010/11 to 2013/14 programme, including target outcomes over that period;
- The main risks in the capital programme;
- The policy to be applied to Minimum Revenue Provision.

The 2009/10 Capital Programme

10.11 The revised capital programme for 2009/10 is summarised in Appendix M(i), with details of the programme and changes to it in M(ii). A summary of the revised 2009/10 programme is included in Table 10.1 below.

Table 10.1 Revisions to 2009/2010 Capital Programme since Second Quarter Monitoring

Service Area	**2009/10 position (second quarter) £'000**	**Amended 2009/10 position (third quarter) £'000**	**Variations to 2009/10 position £'000**
Resources			
Grant and External Contributions	(92,210)	(75,620)	16,590
Capital Receipts	(2,276)	(1,400)	876
S106 Funding	(20,289)	(9,078)	11,211
Supported Borrowing	(5,917)	(5,917)	0
Unsupported Borrowing	(17,796)	(8,114)	9,682
Self-funded borrowing	(7,602)	(6,092)	1,510
Total GF Resources	**(146,090)**	**(106,221)**	**39,869**
Housing HRA	(28,352)	(28,352)	0
Total Resources	**(174,442)**	**(134,573)**	**39,869**
Expenditure			
Business Transformation	6,552	4,859	(1,693)
Children and Families	67,327	58,749	(8,578)
Environment and Culture	32,009	23,292	(8,717)
Housing and Community Care – Adults	632	632	0
Housing and Community Care –	8,161	7,663	(498)

Service Area	2009/10 position (second quarter) £'000	Amended 2009/10 position (third quarter) £'000	Variations to 2009/10 position £'000
Housing			
Corporate	17,301	16,078	(1,223)
Allowance for slippage	(4,176)	(5,052)	(876)
Total GF expenditure	**127,806**	**106,221**	**(21,585)**
Housing HRA	28,352	28,352	0
Total Expenditure	**156,158**	**134,573**	**(21,585)**
Net Position	**(18,284)**	**0**	**18,284**

10.12 High level outcomes are set for each of the main elements of the programme each year. Details of the outcomes set for 2009/10 and forecast outturn against these outcomes are included in Appendix M(v).

2010/11 to 2013/14 Capital Programme

Overall programme

10.13 A summary of the proposed capital programme for 2010/11 to 2013/14 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 2010/11 to 2013/14 Capital Programme

Service Area	Amended 2009/10 position (third quarter) £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Resources					
Grant and External Contributions	(75,620)	(57,389)	(65,116)	(48,715)	(32,731)
Capital Receipts	(1,400)	(2,400)	(4,285)	(4,430)	(4,430)
S106 Funding	(9,078)	(3,025)	(8,262)	(11,523)	(16,364)
Supported Borrowing	(5,917)	(4,581)	(4,600)	(4,600)	(4,600)
Unsupported Borrowing	(8,114)	(18,042)	(6,467)	(6,714)	(6,699)
Self-funded borrowing	(6,092)	(20,808)	(48,301)	(36,452)	(17,416)
Total GF Resources	**(106,221)**	**(106,245)**	**(137,031)**	**(112,434)**	**(82,240)**
Housing HRA	(28,352)	(15,714)	(9,284)	(9,284)	(9,284)
Total Resources	**(134,573)**	**(121,959)**	**(146,315)**	**(121,718)**	**(91,524)**
Expenditure					
Business Transformation	4,859	19,713	47,456	36,452	17,416
Children and Families	58,749	59,352	64,089	50,229	37,090
Environment and Culture	23,292	12,271	11,952	13,805	16,378

Service Area	Amended 2009/10 position (third quarter) £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Housing and Community Care – Adults	632	405	0	0	0
Housing and Community Care – Housing	7,663	8,419	7,294	5,548	5,671
Corporate	16,078	10,758	3,859	3,874	3,889
Allowance for slippage	(5,052)	(4,673)	2,381	2,526	1,796
Total GF expenditure	**106,221**	**106,245**	**137,031**	**112,434**	**82,240**
Housing HRA	28,352	15,714	9,284	9,284	9,284
Total Expenditure	**134,573**	**121,959**	**146,315**	**121,718**	**91,524**
Net Position	**0**	**0**	**0**	**0**	**0**

Spending proposals

10.14 The capital programme is based on the previous year's four year capital programme, rolled forward by a year.

10.15 Amendments to the programme against that previously reported reflect:

a. Slippage of funding for schemes from 2009/10.

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

(i) Basic Need Grant – Additional Primary Places of £1.938m in 2010/11 and £12.828m in 2011/12, which will be targeted in conjunction with the Primary Capital Programme allocation.

(ii) Building Schools for the Future (BSF) allocation of £150k in 2010/11, £33.857m in 2011/12, £33.857m in 2012/13 and £17.873m in 2013/14 which will be targeted to meet longer term capital needs and address the requirements for additional pupil places in the secondary school sector. A report to the Executive on 15th February highlighted that the total programme in this phase would cost around £100m. This leaves a potential shortfall of £15m. The report however highlighted proposals to bridge this deficit without a requirement to undertake additional prudential borrowing. Full Council are however asked to recognise that as part of the acceptance process for BSF that any expenditure above the funding allocation will have to be met by the Council.

(iii) Increased Surestart Grant funding of £1.667m in 2010/11.

(iv) Increased Extended Schools Grant funding of £230k in 2010/11.

(v) Environmental Improvement Grant capital allocation of £320k in both 2010/11, which is ring-fenced to works at the Crest Academies.

(vi) Homes and Communities Grant contributing to the provision of affordable housing at St Raphael's Estate of £1.023m in 2010/11 and £1.024m in 2011/12.

c. Up-dated and re-profiled figures on section 106 funding;

d. Additional self-funded expenditure on associated costs of the new civic centre and purchase of the site totalling £2.200m in 2010/11, £47.456m in 2011/12, £36.452m in 2012/13 and £17.416m in 2013/14.

e. The addition of a fourth year – 2013/14 – 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 and ongoing individual schemes, but does not at this stage include any new major schemes.

Resources

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

a. *Grant funded schemes*

New grant funded schemes have been detailed in paragraph 10.15 above.

b. *Capital receipts*

Usable Right to Buy capital receipts have not been changed between 2009/10 and 2013/14. Receipts from non-housing disposals have been reduced by £876k in 2009/10 and £500k in 2010/11. It is not proposed to reduce spending at this stage. Levels of slippage within the programme reflect this and allow the reductions to be managed in the short to medium term but the position will need to be kept under review. Details of the properties included in the disposal programme are included at Appendix M (vi). 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 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, there has been a reduction in the number of agreements being triggered as a result of the economic downturn and a slowing in development. 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. The impact of the recession is still likely to mean that some schemes where receipts have not been triggered do not go ahead. It is also likely to mean fewer s106 agreements are reached.

Table 10.3 S106 Agreement Monies - 2008/09 to 2012/13 Capital Programme

S106 Agreement Monies	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Triggered					
Education	283	233	524	314	210
Environmental Health	71	51	38	25	13
Landscape & Design	480	1	1	1	0
Public art	260	4	3	2	1
Parks	249	228	171	114	57
Planning	865	1	1	0	0
Streetcare	4	128	96	64	32
Sports	812	7	5	4	2
Sustainability Strategy	9	4	3	2	1
Transportation	4,504	25	18	12	6
Environment General	55	0	0	0	0
Housing	1,000	13	10	7	3
Brent into Work	486	175	132	88	44
Total Triggered Agreements	**9,078**	**870**	**1,002**	**633**	**369**
Not Triggered					
Education	0	0	2,949	4,424	7,373
Environmental Health	0	32	64	95	127
Landscape & Design	0	138	276	414	552
Public art	0	35	70	105	140
Parks	0	156	312	469	625
Planning	0	135	271	406	541
Streetcare	0	0	0	0	0
Sports	0	113	225	338	451
Sustainability Strategy	0	4	7	10	14
Transportation	0	1,340	2,681	4,021	5,361
Environment General	0	17	34	52	69
Housing	0	126	253	379	506
Brent into Work	0	59	118	177	236
Total Not Triggered Agreements	**0**	**2,155**	**7,260**	**10,890**	**15,995**
Cumulative S106 Monies	**9,078**	**3,025**	**8,262**	**11,523**	**16,364**

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, the customer service strategy, IT schemes, and funding for the council's civic accommodation strategy, including the Civic Centre.

e. *Other borrowing*

Overall supported and unsupported borrowing levels within the capital programme between 2009/10 and 2013/14 are in line with previously reported and agreed levels. However, the capital programme continues to include a line for forecast slippage in year which totals £3.022m over the period of the programme and eases the pressure on the programme to undertake additional borrowing arising from the reduction in available usable capital receipts and S106 Agreement monies as detailed above.

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. 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 impact on council tax bills of the unsupported borrowing (excluding self-funded borrowing) contained within the proposed capital programme for 2010/11 onwards. Members should note that the high level of unsupported borrowing in 2010/11 results from re-phasing schemes and other resources within the programme.

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

	2010/11 £'000	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**
2010/11 Unsupported borrowing £18.042m (excluding all self funded expenditure)	451	1,280	1,280	1,280
2011/12 Unsupported borrowing £6.467m (excluding all self funded expenditure)	0	162	459	459
2012/13 Unsupported borrowing £6.714m (excluding all self funded expenditure)	0	0	168	476
2013/14 Unsupported borrowing £6.699m (excluding all self funded expenditure)	0	0	0	167
Cumulative unsupported borrowing costs	**451**	**1,442**	**1,907**	**2,382**
Impact on Band D Council Tax – using 2010/11 council tax base of 96,457 of unsupported borrowing	£4.68	£14.95	£19.77	£24.69

Outcomes

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

Capital Programme Risks

10.18 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. 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 taken into account in considering the affordability of the decisions.

10.19 The immediate risks to the capital programme arising from recession – in particular, the impact of reduced levels of capital receipts, triggered S106 Agreements and the bringing forward of capital spending - were set out in the introduction to the chapter. The Capital Board, which is chaired by the Director of Finance and Corporate Resources, will have responsibility for monitoring and managing the overall position and this will be reported to Members as part of the Performance and Finance Review process.

10.20 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.

10.21 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 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.	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.
	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.	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.
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 between £80m and £140m 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

Risk	More detailed description	Measures taken to manage the risk
		ensuring value for money is achieved through procurement; ○ 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: ○ Section 106 funding – although levels of triggered Section 106 have reduced as a result of the recession; ○ Lottery funding, for example for the new Harlesden Library; ○ PFI funding, for example the Affordable Housing PFI; ○ Additional government funding.
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 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, such as the recent successful bid for Basic Need Grant securing an additional £14.766m towards primary school places.

Risk	More detailed description	Measures taken to manage the risk
		Officers from the Children and Families and Finance and Corporate Resources departments are currently developing a 10 year Capital Programme for Schools in Brent analysing need and available resource. This programme is being developed in consultation with the Schools Forum and the head teacher group that works with the council on capital matters to ensure most effective use of both council and school capital resources.
e. Funding for major development programmes	The council's major programmes/projects include the South Kilburn development, the Primary Capital Programme, Building Schools for the Future, new Academies 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.

Minimum Revenue Provision

10.22 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.

10.23 Revised regulations which amend this requirement were issued in 2008.[1] 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.

10.24 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

[1] Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 – SI 2008/404

Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements.

10.25 The guidance distinguishes between borrowing which is supported by the government through the Revenue Support Grant system and other borrowing where councils use their prudential borrowing powers to borrow above the supported borrowing level.

10.26 For borrowing which is supported by the government through the Revenue Support Grant system, authorities are allowed to continue to apply the 4% MRP based on the level of borrowing.[2] The guidance provides councils two options for carrying out this calculation. Option 1, 'the regulatory method', is to continue to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement (CFR), adjusted as set out in the original regulations (Adjustment A'), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year. Option 2, the CFR method, is similar to Option 1 but does not include any adjustments to the CFR.

10.27 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.[3] Option 3, which is 'the asset life method', 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. Option 4, which is the 'depreciation method', 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.

10.28 The policy previously approved and now proposed for continuation in 2010/11 for non-HRA assets is as follows:

a. For supported borrowing, it is proposed that the council continues with the existing method (Option 1). This is in line with assumptions made within the 2008/09 budget and the council's Medium Term Financial Strategy. It also ties in with the basis on which grant is calculated, albeit that so long as the council is on the grant floor, it does not receive the benefit of the additional grant funding. Option 1 leads to a lower level of MRP than Option 2, and avoids the council having to make complex calculations for

[2] Members will note that in practice, as a grant floor authority, Brent does not receive the benefit of this supported borrowing. Nevertheless a figure for supported borrowing is provided each year to the council and it is this figure which will be used in the calculation of the 4% MRP.

[3] The amendment regulations applied to the 2007/08 financial year as well as subsequent years. However, the statutory guidance allowed authorities to apply Option 1 or 2 to prudential borrowing carried out in 2007/08. In practice, the option adopted in the council's 2007/08 accounts for prudential borrowing was Option 1.

all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

b. For prudential borrowing, it is proposed that the council adopts Option 3, '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[4] – 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 10.6.

[4] Purchase of buildings, new construction and purchase of land includes spending related to the provision of additional residential units for rent outside the HRA using prudential borrowing powers.

Table 10.6 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

10.29 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.

10.30 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.