

| | |
|--|--|
| Meeting: | Cabinet |
| Date: | 18 December 2008 |
| Subject: | Draft Capital Programme 2009-10 to 2011-12 |
| Key Decision: (Executive-side only) | Yes |
| Responsible Officer: | Myfanwy Barrett: Corporate Director of Finance |
| Portfolio Holder: | Cllr David Ashton, Leader and Portfolio Holder for Strategy, Partnership and Finance |
| Exempt: | No |
| Enclosures: | Appendix 1 – Summary Draft Capital Programme |

Section 1 – Summary and Recommendations

This report sets out the proposed summary capital programme for 2009-10 to 2011-12.

Recommendations:

That Cabinet agrees the draft summary capital programme for 2009-10 to 2011-12.

Reason: (For recommendation)

To ensure that the Council has an approved capital programme for 2009-10 to 2011-12 to enable the programme to be effectively planned.

Section 2: Report

Development of the new programme

1. The Capital programme is under continuing review and the detailed programme will be finalised and reported back to February Cabinet and Council for approval. The draft programme for 2009-12 includes provision for:

- New projects emerging from the Business Transformation Partnership (BTP)
- ICT infrastructure
- Social care establishment improvements
- Whitmore School
- Education modernisation and improvement
- Schools grant funded devolved capital
- General Fund housing projects.
- Public Realm improvements
- Improvements to leisure and cultural facilities
- High priority major works to corporate buildings
- A provision for economic development and regeneration projects
- The HRA Housing Improvement Programme

The draft summary is attached at Appendix 1.

2. The value of the general fund programme is £56m for 2009-10, with external funding of £24m and a net cost to the Council of £32m. The Housing programme for 2009-10 is £7m.

Private Finance Initiative (PFI)

3. The Council is securing the construction of three neighbourhood resource centres for people with learning disabilities. Financial close was March 2008. The construction of the new centres will take place during 2009-10 through the LIFTco, with handover expected around April 2009 and fitting out during April to June 2009. The revenue budget provides for the affordability gap from 2009-10. The capital programme (Adults Services) provides for expenditure on furniture and equipment for the new centres.

Backlog Maintenance

4. The Council has considerable backlog maintenance – the figures from the Asset Management Plan are as follows:

- i) School buildings, £37.8m
- ii) Corporate and Education buildings, £13.3m
- iii) Highways, £153.5m

5. The level of investment contained within this programme does not address the backlog, other than in relation to primary schools, however the Council does

not have the resources to do so in the short term. The BSF programme for high schools will assist with the backlog maintenance in high schools but it is not clear when this additional funding will be forthcoming.

6. Some initial work is being carried out on options for the Council's office space, which may in due course assist with the backlog on civic buildings.

Capital Receipts

7. The capital programme approved in February 2008 had assumed significant capital receipts in respect of disposals at Gayton, Byron and elsewhere in the borough. The "credit crunch" has severely restricted the financial resources available to the commercial property markets, effectively freezing property transactions dependent on borrowing, and/or reducing property values significantly below acceptable normal market value. It is not clear when the market will return to normality and disposals are assumed to be nil in 2008-9 and for 2009-10. For the purpose of forward planning it has been assumed that £5m p.a. will be realised from miscellaneous sales from 2010-11 onwards, although this assumption will need to be kept under review.

Targeted Capital Fund

8. The Department for Children, Schools and Families (DCSF) announced provisional grant allocations last year of £2m in 2009-10 and £6m in 2010-11. This has been included at the announced levels pending final confirmation. It is intended for strategic projects focusing on:

- putting in place diploma provision for 14— to 19-year-olds
- improving poor condition buildings for children with special educational needs and disabilities.

Capital financing

9. The capital programme is funded from a number of sources. These include:

- External Funding in the order of £24m, primarily from the DCSF and Transport for London
- Major Repairs Allowance (Housing Revenue Account)
- Capital Receipts (anticipated to be around £5m from 2010-11)
- Borrowing

10. It is anticipated that the general fund programme will be financed as follows:

Table 1: New borrowing requirement

| | 2009-10 £m | 2010-11 £m | 2011-12 £m |
|---------------------------------|---------------|---------------|---------------|
| Net planned spending | 32 | 27 | 27 |
| Capital Receipts | 0 | 5 | 5 |
| Funded by Borrowing | 32 | 22 | 22 |
| <i>Borrowing Analysis</i> | | | |
| Supported Borrowing (Education) | 6 | 4 | 4 |
| Unsupported Borrowing | 26 | 18 | 18 |
| Total Borrowing | 32 | 22 | 22 |

11. The revenue implications of this new borrowing, in the context of the Council's treasury management activity, are set out below:

Table 2: Revenue Implications of Capital Programme

| | 2009-10 £000 | 2010-11 £000 | 2011-12 £000 |
|------------------------------------|-----------------|-----------------|-----------------|
| Interest | 1,270 | 1,405 | 1,670 |
| MRP | 1,000 | 1,000 | 1,330 |
| Premia, discounts and debt charges | (250) | (250) | (250) |
| Impact of programme slippage | 825 | 0 | 0 |
| Total additional cost | 2,845 | 2,155 | 2,750 |

Assumptions:

- iv) Borrowing is at 4.5% and takes place in the last quarter of the financial year
- v) MRP is at 4% and commences in the year after the expenditure is incurred
- vi) Borrowing to finance projects carried forward from 2008-09 into 2009-10 of £12m.
- vii) Carry forward of 10% assumed from 2009-10 onwards

12. In broad terms the cost of borrowing is 8.5%. However, there is not a direct relationship between the new borrowing required in table 1 and the cost of borrowing (interest and MRP) in table 2. This is because assumptions have been made about programme slippage between years, particularly from 2008-09 into 2009-10, and because the full cost of borrowing does not arise until the year after the expenditure has been incurred.

13. Total planned HRA borrowing amounts to £2m in 2009-10, £1.5m in 2010-11 and £1.5m in 2011-12. The cost of the borrowing is reflected in the housing revenue account.

14. It should be noted that the capital financing costs are based on a number of assumptions about the level of capital expenditure, level of capital receipts, timing of any borrowing, interest rates, and use of the minimum revenue provision. The revenue budget reflects the best estimate based on these assumptions.

Financial Implications

15. Financial matters are integral to the report.

Performance Issues

16. There are no direct implications for individual performance indicators. The capital programme provides the financial resources required to implement a number of the Council's corporate priorities and flagship acts. Monitoring of the approved programme is ongoing and is essential for good financial management. Financial management is a key part of the Use of Resources assessment, Harrow's score for financial management is currently 3 out of 4.

Section 3 - Statutory Officer Clearance

| | | |
|--------------------|-------------------------------------|---|
| Name: Steve Tingle | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 8 Dec 08 | | |
| Name: Hugh Peart | <input checked="" type="checkbox"/> | Monitoring Officer |
| Date: 8 Dec 08 | | |

Section 4 – Performance Officer Clearance

| | | |
|--------------------|-------------------------------------|---|
| Name: Tom Whiting. | <input checked="" type="checkbox"/> | on behalf of the* Divisional Director (Strategy and Improvement) |
| Date: 8 Dec 08 | | |

Section 5 - Contact Details and Background Papers

Contact: Steve Tingle 020 8420 9384 steve.tingle@harrow.gov.uk

Background Papers: None

Appendix 1

| | 2009-10 | | | 2010-11 | | | 2011-12 | | |
|---|---------------|-----------------------------|---------------|---------------|-----------------------------|---------------|---------------|-----------------------------|---------------|
| | £000 Gross | £000 External Funding | £000 Net | £000 Gross | £000 External Funding | £000 Net | £000 Gross | £000 External Funding | £000 Net |
| BTP - Self Financing Schemes | 8,380 | 0 | 8,380 | 5,293 | 0 | 5,293 | 1,880 | 0 | 1,880 |
| Corporate Finance | 3,000 | 0 | 3,000 | 1,650 | 0 | 1,650 | 850 | 0 | 850 |
| Adult Services | 1,400 | 0 | 1,400 | 1,075 | 0 | 1,075 | 700 | 0 | 700 |
| Children Services | 25,285 | -17,675 | 7,610 | 24,773 | -16,935 | 7,838 | 6,000 | 0 | 6,000 |
| Housing Services (General Fund) | 1,603 | -603 | 1,000 | 1,603 | -603 | 1,000 | 1,603 | -603 | 1,000 |
| Community and Environment | 14,030 | -6,130 | 7,900 | 12,948 | -6,048 | 6,900 | 12,900 | -6,000 | 6,900 |
| Place Shaping | 2,100 | 0 | 2,100 | 2,100 | 0 | 2,100 | 9,550 | 0 | 9,550 |
| Programme Overheads and Capitalisation | 965 | 0 | 965 | 665 | 0 | 665 | 565 | 0 | 565 |
| Total General Fund Programme | 56,763 | -24,408 | 32,355 | 50,107 | -23,586 | 26,521 | 34,048 | -6,603 | 27,445 |
| Housing Revenue Account Services (HRA) | 7,000 | 0 | 7,000 | 6,500 | 0 | 6,500 | 6,500 | 0 | 6,500 |
| Total General Fund and HRA | 63,763 | -24,408 | 39,355 | 56,607 | -23,586 | 33,021 | 40,548 | -6,603 | 33,945 |