

LONDON BOROUGH OF HARROW

Meeting:	Cabinet
Date:	17 February 2004
Subject:	Medium Term Capital Budget Strategy & Capital Investment Plan
Key decision:	Yes
Responsible Chief Officer:	Executive Director, Urban Living Executive Director, Business Connections
Relevant Portfolio Holder:	Finance, Human Resources and Performance Management Planning, Development, Housing and Best Value
Status:	Part 1
Ward:	All
Enclosures:	None

1. Summary/ Reason for urgency (if applicable)

- 1.1 The purpose of this report is to seek approval to make changes in management of the capital programme to confirm fixed elements of this years programme, and the 'Prudential Borrowing' indicators.

2. Recommendations

Cabinet are asked to :-

- 2.1 Agree the improvements to capital programme management set out in 6.1 (a) to (c)
- 2.2 Agree the delegations as follows: -
6.1 c) ii) Invest to Save Fund - Executive Director, Business Connections in consultation with the Portfolio holder.
6.1 c) iii) Small Projects/ New Innovations fund - Executive Director, Business Connections.
- 2.3 Agree development of the project plan set out in 6.2
- 2.4 Confirm the fixed capital programme in 6.3
- 2.5 Recommend to Council the 'Prudential Borrowing' Indicators for approval.

REASON: To improve the management and delivery of the Capital Programme whilst operating under the new 'Prudential Borrowing' indicators

3. **Consultation with Ward Councillors**

3.1 None

4. **Policy Context (including Relevant Previous Decisions)**

4.1 Cabinet agreed on 18th February 2003 to approve the approach to management and monitoring of the capital programme and its extent for 2003/4. Cabinet in July also received budget guidelines which included a move to three year capital programmes. Throughout this year the new 'Prudential Borrowing' indicators have emerged from the Government. From these the Council must integrate as far as possible its capital and revenue spending plans. For these reasons the Council should move forward from its position at this time last year to ensure greater effectiveness in its Capital Programme development and delivery.

5. **Relevance to Corporate Priorities**

5.1 These recommendations relate to all of the Corporate Priorities

6. **Background Information and options considered**

6.1 The following key tasks should be undertaken to ensure sound management of the capital programme in line with both Government requirements and best practice:-

- a) 'Fast tracking' of the 2004/5 capital programme in order to minimise 'slippage' throughout the year. 'Fast tracking' will involve acceleration of the programme by engaging professional resources in the normal manner to prepare suitable project briefs, project design and project delivery, but doing so both as early as possible in the financial year and with significantly more schemes in progress at any one time than at present.
- b) By November 2004 members to receive a three year, needs based proposed capital programme with an element of consultation built in together with identified revenue consequences linked to revenue budget proposals
- c) Establishment of the following Capital funds to provide flexibility in development of the programme, and engender innovations in capital investment opportunities : -
 - i) Feasibility Studies Fund - £500,000 (funded from capital programme).
 - ii) Invest to Save Fund - £500,000 (individual business cases to be approved by Executive Director Business Connections in consultation with the Portfolio holder) - self financing in terms of consequential year on year revenue effects.
 - iii) Small Projects/ new innovations fund - £250,000 (individual business cases up to £25,000 to be approved by Executive Director Business Connections).
 - iv) For 2004/5 only £50,000 for development of outline business cases for projects seen as urgent/opportune to develop, but which are not part of the

agreed 2004/5 capital programme. Outline Business Cases for capital projects will form part of the Medium Term Budget Strategy, and be revenue funded for subsequent years.

- v) Confirm that in respect of acquisitions and disposals professional fees will form part of the total costs, or will be netted off against the gross receipt.

6.3 Confirm the following fixed aspects of the programme for 2004/5:

- i) Transport for London £4.011 million
- ii) Education £3.455 million
- iii) Disabled Facilities Grants £667,000
- iv) Improvement Grants £1.2 million

6.4 Recommend for approval to Council the 'Prudential Borrowing' indicators set out in Appendix I which the Council needs to follow in complying with good practice.

6.5 Note that a further report will be presented to Cabinet in March proposing a detailed Capital Programme for 2004-05.

7. **Consultation**

7.1 None

8. **Finance Observations**

8.1 All included within the body of the report

9. **Legal Observations**

9.1 Prudential Borrowing compliance is the Councils Section 151 Officer's responsibility. The relevant legislation is set out in Appendix 1 of the report.

10. **Conclusion**

10.1 More effective delivery of a medium term needs based capital programme will make a significant contribution to the development and support of services to the community provided by the Council.

11. **Background Papers**

11.1 Prudential Borrowing Regulations ODPM - 10 December 2003
Prudential Borrowing Guidelines from CIPFA – November 2003
Councils Capital Programme 2003/4

12. **Author**

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APPENDIX 1

Note: the Council Tax Band D rates quoted in this appendix are provisional at this stage and may be subject to change when the revenue budget is finalised.

Prudential Indicators

1. The Local Government Act 2003, has replaced the existing regime set out in Part IV of the Local Government and Housing Act 1989, with the Prudential Code for Capital Finance with effect from 1 April 2004. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent, sustainable, and follow good practice. The Section 151 Officer has to recommend to Council a series of indicators in relation to the above. This sets out the proposed indicators for the Council.
2. **To demonstrate that each authority fulfils these objectives the Code sets out a number of indicators and factors that must be considered. Set out below are the indicators which must be approved at the same time as the council's revenue and capital budgets are set.**

Capital Expenditure

2. The actual capital expenditure that was incurred in 2002-03 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are shown in Table 1. The current capital programme has recently been reclassified to reflect the revised departmental structure, the actual for 2002-03 is not available in this format and therefore totals only are shown.

Table 1**CAPITAL EXPENDITURE**

	2002-03 £000 Actual	2003-04 £000 Estimate	2004-05 £000 Estimate	2005-06 £000 Estimate	2006-07 £000 Estimate
Approved Programme					
Business Connections		3,235			
Chief Executive's		125			
People First		6,409	2,331		
Urban Living - Housing (non HRA)		1,617	1,916		
Urban Living – Other		12,159	4,794	489	213
Organisational Development		0			
Capitalisation		1,914			
Total non HRA	15,801	25,459	9,041	489	213
HRA	5,441	6,380	3,087		
Total	21,242	31,839	12,128	489	213
ADDITIONAL EXPENDITURE FUTURE YEARS					
Specific Funding Items					
Transport for London			4,010	4,010	4,010
Education Grant Funding			1,588	1,588	1,588
Housing Revenue Account (HRA)					
Major Repairs Allowance			3,660	3,687	3,719
Rev Contrib to Capital Outlay			873	825	1,210
Borrowing (£12m in total)					
Supported			4,674	4,674	4,674
Unsupported			7,326	7,326	7,326
Capital Receipts					
General Fund			1,700	2,300	1,000
Right to Buy			2,200	1,650	1,100
Sub total	21,242	31,839	38,159	26,549	24,840
Over programming at 15% of additional expenditure			3,905	3,909	3,694
Total Proposed Programme	21,242	31,839	42,064	30,458	28,534

Ratio of Financing Costs to Net Revenue Stream

4. The financing costs of the council include interest payable in respect to borrowing, finance leases and other long-term liabilities and the minimum revenue provision or its successor under the new legislation. Netted off against these expenses is interest earned on investments. In order that comparisons may be made between authorities the Prudential Code states that figures should be taken directly from a council's accounts and balance sheets.

5. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2002-03 are:

	2002-03	2003-04	2004-05	2005-06	2006-07
	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	4.5%	4.3%	4.0%	4.1%	4.1%
HRA	31.3%	25.8%	26.4%	29.0%	28.1%

6. Estimates of the end of year Capital Financing Requirement for the authority for the current and future years and the actual Capital Financing Requirement at 31 March 2003 are:

As at 31 March	2003	2004	2005	2006	2007
	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	77,989	81,509	90,249	98,639	106,694
HRA	27,878	21,650	22,050	22,450	22,850

7. In day-to-day cash management no distinction can be made between revenue cash and capital cash, meaning that external borrowing can arise as a result of the combined financial transactions of the authority and not simply those that arise from capital expenditure. In contrast, the Capital Financing Requirement measures the council's underlying need to borrow purely for capital purposes. In accordance with best practice, the council does not associate borrowing with particular items or types of expenditure. The Cabinet approves a treasury management strategy on an annual basis and has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Services'.
8. The Band D Council Tax that would result for the 2004-05 from the totality of the capital and revenue plans recommended in the Budget report is £1,041. With respect to the HRA the average weekly rent that would result for 2004-05 is £77.42.
9. Forward estimates for the Band D Council Tax for 2005-06 and 2006-07 are £1,074 and £1,105 respectively, and for the HRA the average weekly rent would be £79.51 and £81.65. These forward estimates are not fixed and do not commit the council. They are based on the Council's existing commitments, current plans and the totality of the capital and revenue plans recommended in this budget report. There are no known significant variations beyond this timeframe that would result from past events and decisions or the proposals in this budget.
10. The estimate of the incremental impact of the capital investment decisions proposed in this report, over and above capital investment decisions that have previously been taken by the council are:

	2004-05	2005-06	2006-07
Band D Council Tax	£2.19	£10.07	£17.95
Average weekly housing rents	£1.50	£1.52	£1.54

Borrowing

11. The Code includes the following as a key indicator of prudence:

“In order to ensure that over the medium term borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.”

12. In respect of its external debt, it is proposed that Cabinet recommends to Council that it approve the following Authorised Limits for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. When approving these limits it is also recommended that authority be delegated to the Council's Chief Finance (Section 151) Officer to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority, always providing that the total limit for the year is not exceeded.

Authorised Limit for External Debt

	2003-04	2004-05	2005-06	2006-07
	£m	£m	£m	£m
Borrowing	228	206	222	238
Other long term liabilities	<u>n/a</u>	<u>3</u>	<u>6</u>	<u>6</u>
Total	228	209	228	244

13. The limit shown for 2003-04 is that reported to Cabinet at its meeting on 18 February 2003 approved under the previous system of capital controls.
14. These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the body of this report, for capital expenditure and financing. The Limits are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom to allow for operational management e.g. unusual cash movements. Plans for capital expenditure, estimates of the Capital Financing requirement and estimates of cash flow requirements for all purposes have been taken into account.
15. Cabinet is also asked to recommend to Council approval of the following Operational Boundary for external debt for the same time period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit, but excludes the additional headroom included to allow for example for unusual cash movements. The Operational Boundary represents a key management tool for in year monitoring by the Chief Finance Officer. As with the Authorised Limit figures for borrowing and other long term liabilities are separately identified. When approving these limits it is also recommended that authority be delegated to the Council's Chief Finance (Section 151) Officer to effect movement between the separately agreed limits for borrowing and other long term liabilities, in a similar to fashion to the Authorised limit. Any such changes will be reported to Cabinet at the earliest opportunity following the change.

Operational Boundary for External Debt

	2003-04	2004-05	2005-06	2006-07
	£m	£m	£m	£m
Borrowing	205	179	195	211
Other long term liabilities	<u>n/a</u>	<u>3</u>	<u>6</u>	<u>6</u>
Total	205	182	201	217

The limit shown for 2003-04 is that reported to Cabinet at its meeting on 18 February 2003, excluding the allowance made for short term debt.

16. The Council's actual external debt at 31 March 2003 was £163.0m with additional long-term liabilities of £0.1m.
17. In making its recommendations to Council with regard to this report Cabinet is asked to note that the Authorised Limit determined for 2004-05 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.