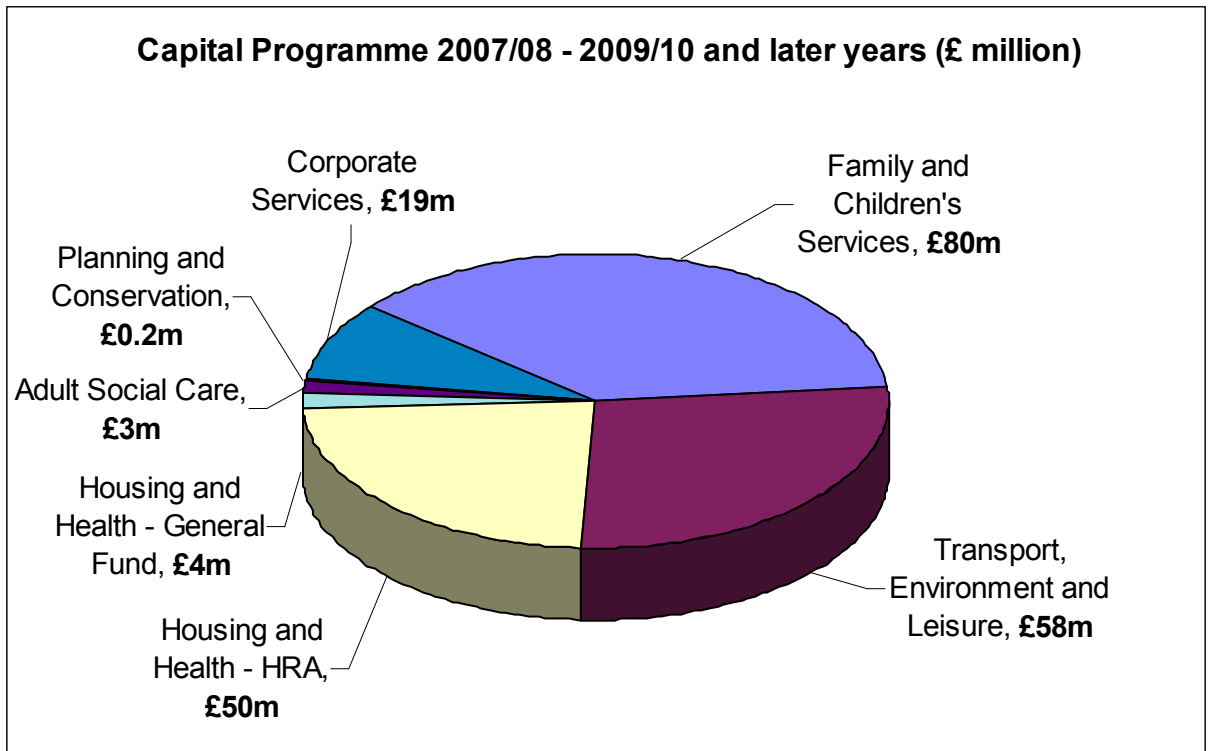


3. CAPITAL PROGRAMME 2007/08 – 2009/10

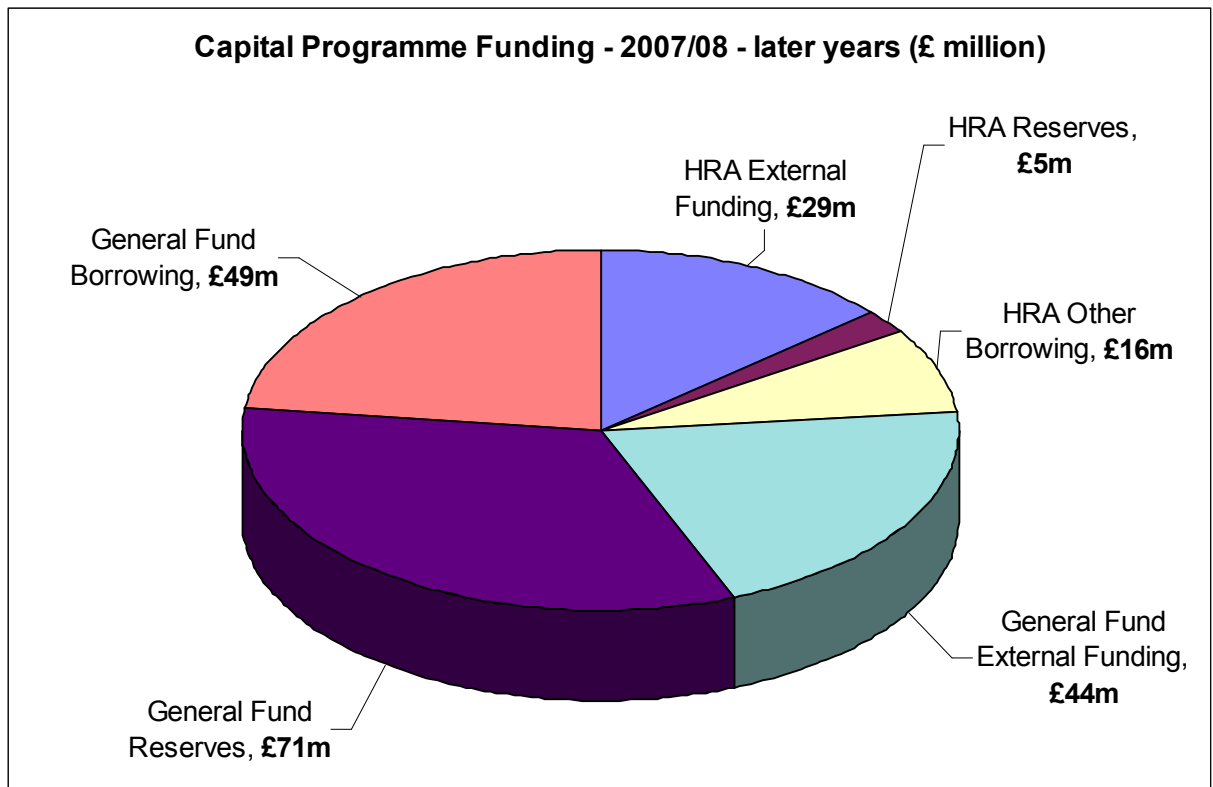
- 3.1 The capital programme proposes investment of £215 million from 2007/08 onwards. This is an ambitious programme which includes a new Holland Park School, the site for a new academy school in Chelsea, improvements to Sloane Square and Exhibition Road, an upgraded Central Library and key projects to renew the Council's street scene and operational buildings.
- 3.2 The programme has been developed in the context of the Council's medium term Capital Strategy and the central borough aim of 'Renewing the Legacy' set out in the Council publication '21 Projects for the 21st Century'. Key projects are also related to service aims, as set out in the Cabinet Business Plan.
- 3.3 The programme is made up of £50 million for housing in the Housing Revenue Account (HRA), and £165 million for assets held by the General Fund.
- 3.4 Assets held by the General Fund are funded 43 per cent from reserves, 27 per cent from external funding and 30 per cent from borrowing.
- 3.5 A breakdown between the Council's main services is shown in **Chart 1** and **Appendix 1** together with all other appendices to be found in the Capital Programme Book.

Chart 1



3.6 Chart 2 analyses the main sources of funding for the programme.

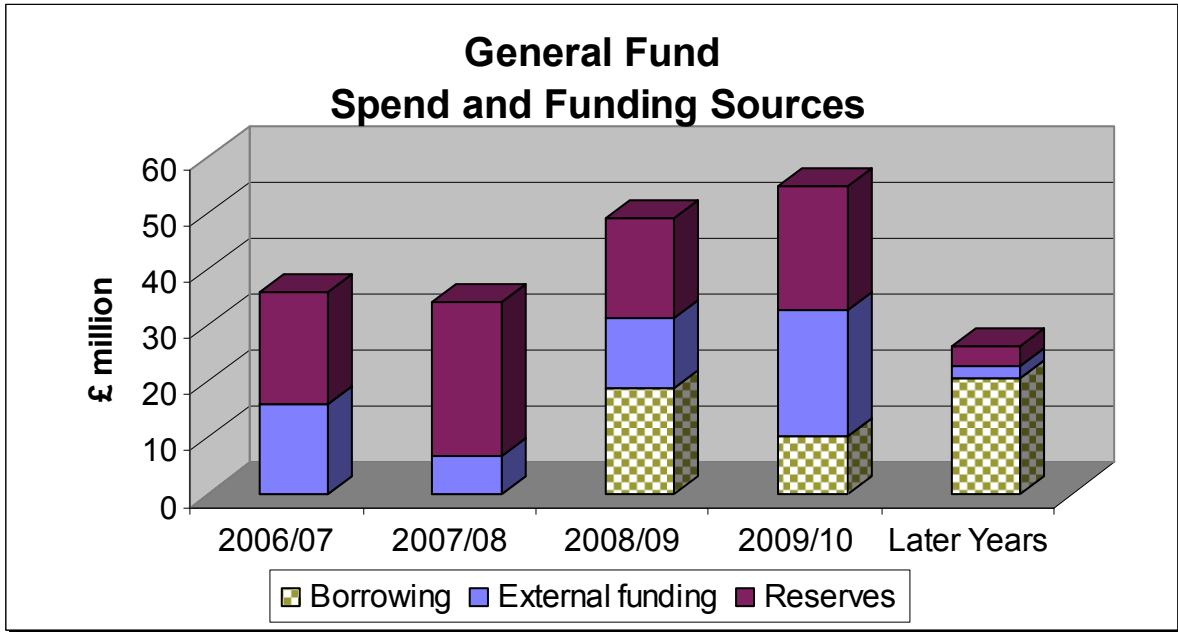
Chart 2



3.7 At least £60 million of potential schemes, that are at initial exploratory stages, have *not* been included at this stage, as they are not sufficiently developed. However they do need to be kept in mind in considering the priorities for calls on resources (see Tables 4 and 5).

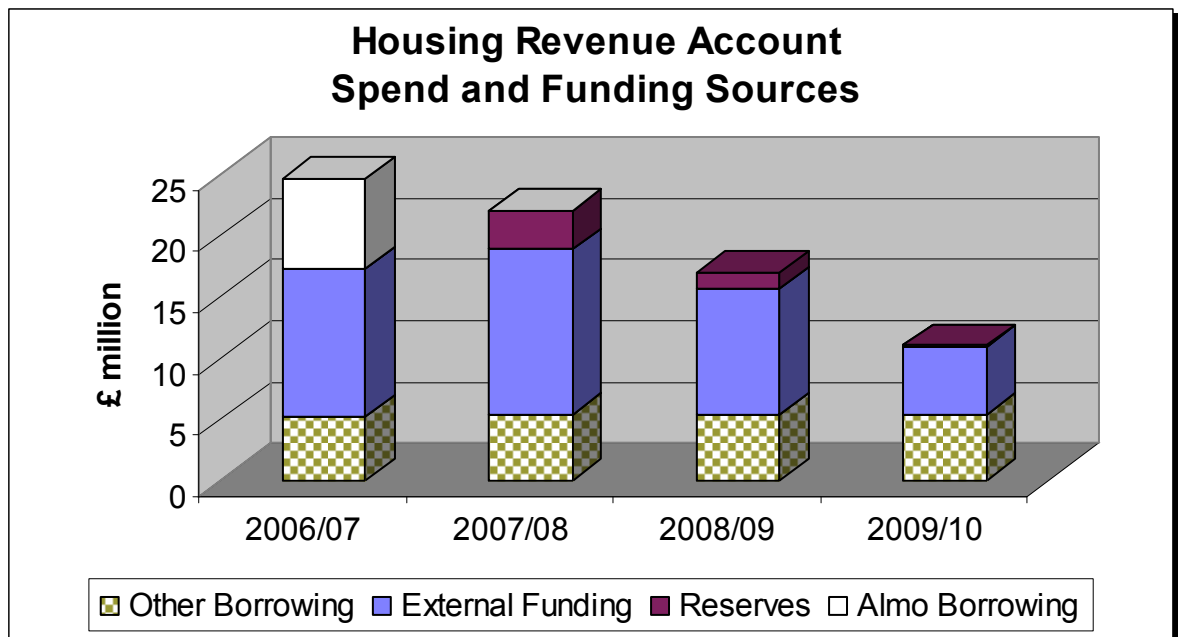
3.8 The General Fund bids assume external funding, from grants and other contributions, of £44 million. The remainder is funded from reserves (£71 million) and borrowing (£49 million). These potential schemes would significantly reduce the Capital Expenditure Reserve which is projected to hold £23 million by the end of 2009/10 (see Table 10). Funding sources for each year are shown in Chart 3.

Chart 3



3.9 The capital programme for the Housing Revenue Account (HRA), managed by the Arm's Length Management Organisation (ALMO) has had £43 million of Decent Homes borrowing allocations over four years, ending in 2006/07. HRA borrowing has been limited to the level subsidised by Government. Funding sources for each year are shown in **Chart 4**.

Chart 4



PLANNING THE PROGRAMME

Planning stages

3.10 The Council's capital ambitions have expanded in recent years, backed by capital reserves and by enlarged borrowing powers. As we have introduced larger and more complex schemes it is clear that the lead time to delivery is much greater than when the programme was dominated by structural repairs. This year, a structured approach has been adopted so that schemes enter the programme only after initial feasibility and exploratory stages have been completed and planning can begin in earnest. This approach is intended to make the programme more robust, to clarify the extent of approval to spend on a project, to enable financing plans to be better matched to payments profiles, and to underpin accountability for the progress of projects.

3.11 Major capital projects go through a life cycle, beginning with appraisal, and ending with post-implementation review. The process for developing the capital programme has been aligned with the

project stages formalised by the Royal Institute of British Architects (RIBA). **Appendix 1** charts how the Borough's projects are expected to progress through our own planning stages, acquiring funding agreement and spending approval.

- 3.12 A feasibility assessment is required to progress a project from appraisal/ concept stage to strategic brief and outline costing stage. It should be noted that there are currently bids to spend £0.5 million on exploratory feasibility, including £0.3 million on education consultants, as well as initial feasibility that is embedded into scheme bids. This excludes estates renewal. It is suggested that from 2008/09 a budget should be set of say £500k a year (met from the capital reserve) to support such feasibility, to be allocated by the Property Strategy Group. We also have existing bids to spend £80k on exploring IT solutions (mainly from Family and Children's Services). It is suggested that the Computer and Communications Advisory Group or the IT Strategy Group could endorse funding for the exploratory phases of IT solutions, were this to be necessary, of up to £100k a year.

THE CAPITAL PROGRAMME

- 3.13 The draft capital programme is further summarised below in **Table 1**. A breakdown by business group is provided in **Appendix 2**, by start year in **Appendix 3** and by service area in **Appendix 4**. **Appendix 5** deals with accessibility projects and **Appendix 6** details the full draft programme. Officers have reviewed the phasing of current schemes and the revised programme reflects anticipated slippage from 2006/07 of about £9 million into later years. In some cases schemes appear in separate phases, especially where there is a commitment to initial stages but later stages have yet to be agreed.

Table 1
Capital Payments by Start Year

Start Year	2007/08	2008/09	2009/10	Later Years	Total Cost
	£m	£m	£m	£m	£m
2006/07 or earlier	15.6	24.9	25.3	18.2	84.0
2007/08	40.7	14.5	6.8	5.6	67.6
2008/09	0	26.8	17.0	2.3	46.1
2009/10	0	0	16.6	0.3	16.9
Total	56.3	66.2	65.7	26.4	214.6

3.14 **Table 2** lists the main individual schemes that are included in the draft programme. Members are asked to agree to each of these being included in the programme, with particular emphasis on new or more expensive schemes. Cabinet is also invited to identify those that it wishes to discuss collectively before individual Cabinet Members commit to a Key Decision. It is suggested that those marked in italics in **Table 2** should be brought back to Cabinet, due to their significance, financially or in terms of impact for the borough. **Table 2** also summarises changes from the programme approved in 2006/07. Schemes starting in 2009/10 are normally new to the programme. The table also shows the status of the expenditure estimates.

Table 2
Main Individual Schemes Costing £1 million or Over

Main Spending Start Year	Business Group/ Scheme	Latest Estimate	Previous estimate	Change in call on Council Funding	Total Call on Council Funding	Status of Budget Stage
		£m	£m	£m	£m	
	<u>Family and Children's Services</u>					
2005/06	Academy Site	11.8	10.8	1.0	11.8	Go
2005/06	Holland Park school	59.9	53.4	6.5	59.9	Plan
2007/08	Central library stage 1 design, stage 2 construct	9	9	0	9	Plan
2007/08	Children's Centre capital	1.1	1.1	0	0	Go
	<u>Transport, Environment and Leisure Services</u>					
2006/07	Sports Centres Planned Maintenance Programme	3.2	3.2	0	3.2	Rolling
2006/07	Worlds End Place	1.3	1.6	-0.3	1.3	Go
2007/08	St Lukes Multi-use Games Area	1.5	1.4	0.1	1.5	Ready
2007/08	NEW York Stone Paving (2007/08 only)	2.7			2.7	Ready
2008/09	Exhibition Road	33.1	35	0	1.7	Plan
2008/09	Golborne Road	1.8	1.8	0	1.6	Plan
2008/09	Sloane Square	5.7	5.5	0.2	3.3	Ready
2008/09	NEW South Kensington Traffic Management	2.5			2.3	Plan
	<u>Housing, Health and Adult Social Care</u>					
2006/07	Elm Park Gardens Basements	4	4.4	From sales	0	Go
2007/08	Housing Revenue Account (HRA)	20.2	19.1	Subsidised	8.3	Rolling
	<u>Corporate Services</u>					
2006/07	Town Hall office and reception phase 1	3.3	2.4	0.1	3.3	Go
2007/08	Canalside House	1	1	External	0	Plan
2007/08	Town Hall offices works (phases 2 and later newly programmed)	10.3	3.1	7.2	10.3	Plan

Table 2 continued
Main Individual Schemes Costing Less Than £1 million

Main Spending Start Year	Business Group/ Scheme	Latest Estimate	Previous estimate	Change in call on Council Funding	Total Call on Council Funding	Status of Budget Stage *
		£m	£m	£m	£m	
	<u>Family and Children's Services</u>					
2006/07	Bevington School	0.4	0.2	0.2	0.4	Ready
2006/07	Central and integrated pupil database	0.4	0.2	0.2	0.4	Plan
2006/07	Oxford Gardens basement new offices	0.4	0.2	0.2	0.4	Ready
2007/08	NEW Children's integrated IT system ph 2	0.6			0.4	Plan
2007/08	NEW St Quintins - adaptations for disabled children	0.8			0.8	Plan
2008/09	<i>Library wireless IT</i>	0.8	0.8	0	0.8	Plan
	<u>Transport, Environment and Leisure Services</u>					
2006/07	Opera seats	0.4			0.4	Ready
2007/08	Denyer Street depot	0.2	0.2	0	0.2	Ready
2007/08	Hans Crescent	0.5	0.3	0.2	0.2	Plan
2007/08	NEW Holland Park adventure playground	0.1			0.1	Ready
2007/08	Holland Park North wall	0.3	0.3	0	0.3	Ready
2007/08	NEW Museums maintenance	0.2			0.2	Ready
2007/08	Opera canopy	0.6	0.4	0.2	0.6	Go
2007/08	Pembroke Rd garages remedial and contractor space	0.6	0.6	0	0.6	Plan
2007/08	St. Lukes Railings	0.3	0.3	0	0.3	Ready
2008/09	Holland Park Borehole Phase 4	0.1	0.1	0	0.1	Ready
2008/09	Old Brompton Rd	0.3	0.3	0	0.3	Plan
	<u>Housing, Health and Adult Social Care</u>					
2007/08	NEW Assessment system for community care	0.8	0.2	0.6	0.8	Plan
2007/08	NEW <i>Edenham demolition</i>	0.6			0.6	Ready
2007/08	NEW Home Care electronic monitoring	0.3			0.3	Plan
2007/08	NEW Person Index Phase 2	0.1			0.1	Ready
2007/08	NEW Piper House external works	0.2			0.2	Ready
2007/08	NEW Travellers site	0.6			0.1	Ready
	<u>Corporate Services</u>					
2007/08	NEW CRM IT System	0.5			0.5	Plan
2007/08	Server and disk consolidation	0.5	0.5	0	0.5	Go
2008/09	Council Offices - Air conditioning	0.3	0.3	0	0.3	Rolling

- 3.15 In addition to named schemes, cash limited rolling programmes are included in **Table 3**. In some cases the programme now refers to named projects for 2007/08 where these form particularly significant elements of the annual allocation (e.g. social services premises). We expect to adjust some future projects where they are linked to estimates of external funding grant allocations (e.g. Transport for London).
- 3.16 We have traditionally invited and received bids for these programmes, (such as structural road maintenance, parks maintenance, or premises improvements at schools and social services establishments), at similar levels each year. But amounts are scalable and Members can readily change the balance between these amounts and purposes, or substitute named schemes for recurrent allocations if that is where priorities lie.

Table 3
Rolling Programmes

Programme relating to:	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Schools (including Family and Children's Access Works)	2,170	2,640	2,046	974
Other Family and Children's Services	305	175	215	200
Highways Maintenance and Other Transport*	978	597	827	827
Parks	100	1,335	140	500
Waste Management and Leisure	468	1,405	1,461	664
Street Scene Improvements	200	500	500	1,000
Housing Disabled Facilities and Private Sector Renewal	731	780	780	780
Housing Non HRA	210	235	235	235
HRA Regeneration	169	250	250	250
Adult Social Care - Premises Improvements and Maintenance	264	0	120	250
Planning and Conservation Local Enhancement Schemes	0	0	30	50
Building Maintenance and Accommodation Strategy	225	548	1,201	532
Total	5,820	8,465	7,805	6,262

* All Car Parking Reserve (CPR) and Transport for London (TfL) funded

- 3.17 In reviewing the existing programme and looking ahead to the new programme year of 2009/10 there are a number of projects that deserve special mention due to their size, complexity or financing issues:

Family and Children's Services

- a) Holland Park School – a decision point will arise after planning permission.
- b) Chelsea Academy – the Council may be called upon to contribute a share of any eventual cost overruns or temporary accommodation to achieve a 2009/10 opening.
- c) Central Library – a design is being worked up consistent with a total project cost of around £9 million.
- d) The draft programme includes £0.8 million to be spent at St Quintin's Children's Centre, to adapt it as a resource for children with disabilities. This is complementary to the closure of Little House. At this point plans have not been finalised, but the scheme is included because its urgency suggests it will be ready during 2007/08. There are no immediate plans for a new purpose-built Little House, but the scheme has been retained for the longer term in the list of potential schemes (**Table 5**) at an outline cost of £1.4 million, which was the previously budgeted figure.

Transport, Environment and Leisure Services

- e) Exhibition Road – the Council's future funding for this £33 million scheme is still budgeted at £1 million. The project did not gain Big Lottery finance and alternative funding is currently being sought including a bid to the Heritage Lottery Fund for the tunnel. There are options to reduce the scale of the proposal if funding is not available. However the size of the Council's commitment to the scheme is still uncertain, including the level of its risk from cost overruns if funders offer cash limited finance.
- f) Sloane Square – the scheme is worked up but depends on the consultation process. Transport for London (TfL) would need formally to confirm continuing interest if the current scheme is pursued.
- g) The Parks strategy rolling programme previously agreed at £0.5 million a year is now bunched into 2008/09.

Budget Status

- 3.18 All schemes require a funding release before they can commit expenditure, normally through a Key Decision. The detailed project list in **Appendix 6** colour codes as green those individual schemes in 2007/08 that are already assumed to have authority to spend.

This includes those that have already achieved a Key Decision and those delegated to officers, as too small to require a Key Decision. Rolling programmes (coloured orange) are also treated as having a budget release for the financial year immediately ahead, so that officers can commit expenditure as schemes are ready throughout the year. Also marked in yellow are allowances for feasibility expenditure. It is now proposed that these should be managed by the Property Strategy Group, and the IT Strategy Group overseen by the Computer and Communications Advisory Group. The programme includes a global provision for feasibility costs in future years. Schemes with no colour in 2007/08 require further work before approval to commit expenditure.

PIPELINE AND POTENTIAL SCHEMES

- 3.19 Because of the expectation that schemes should not enter the programme unless they have achieved at least the stage of outline proposal, there are a number of bids that are still in the 'antechamber'. **Table 4** represents pipeline schemes that have passed initial appraisal. **Table 5** are those that are still broadly at appraisal or concept stage. These can include some that have been worked on previously but are now back to the drawing board. The Cabinet guidelines set in July expected new schemes prior to 2009/10 to be included only through rephasing or substitution.
- 3.20 The schemes show when Executive Directors would like to see them happen. It is theoretically possible to move quickly through the scheme preparation stages, but experience suggests that anything not in detailed planning by now will struggle to achieve expenditure in 2007/08. In most cases it will therefore be possible to update the programme in the next annual cycle. Any that urgently need to come forward during the year can be considered by Cabinet as the year progresses.

Table 4 Pipeline/ Strategic Brief/ Outline Costing (Stage 2)

Project	Value	Timeline aspiration
Family and Children's Services		
North Kensington Library	£0.3m	2008/09
Brompton Library	£0.2m	2007/08
Chelsea Library	£0.1m	2009/10
Westway Offices remodelling	£0.2m	2007/08
Oxford Gardens adolescent teams centre	£0.3m	Addition to current project
Transport, Environment and Leisure Services		
Leighton House Rebuild Perrin Wing	£3m	2008/09
Chelsea Sports Centre - option 1	£18m	2010
Albert Bridge Restoration	£9.4m	2009/10
Albert Bridge Painting and Lighting	£1.0m	2010/11
Brompton Cemetery		Assumes management, no capital

**Table 5
Appraisal/ Concept (Stage 1)**

Family and Children's Services		
Centre for children with disabilities	£1.4m	Little House rebuild; Long term
Development of primary school stock	?	Building Schools for the Future
Housing, Health and Adult Social Care		
Trellick Tower Garage site	?	
Housing Stock Options	?	
Transport, Environment and Leisure Services		
Notting Hill Gate initiative	£5.1m	
Ladbroke Grove route study	£1.3m	
Chelsea Town Hall remodelling	£20m?	
Kensington water play area	£0.7m	

3.21 Clearly these projects represent a very large potential call on resources. As the funding section shows, some form of queuing, rationing or substitution will be necessary in order to bring them in.

COMPLEMENTARY POLICY ISSUES

3.22 The Council's Environment Strategy promotes sustainability in design and construction projects (Theme 5). In commissioning studies, operational, financial, environmental sustainability and whole-life costs should be required as a design priority, and long-term social benefits should be identified before schemes are approved for inclusion in the capital programme.

3.23 The Equalities Strategy includes the "*Aim to improve the accessibility of buildings within the borough*". The Strategy commits the Council to:

- commissioning access audits that consider physical and communication barriers for all disabled people from qualified experts for all of the Council's existing facilities and buildings by March 2008
- ensuring that the new Town Hall reception improves the environment for disabled people - including counters at the right height for wheelchair users, automatic doors, disabled toilets and toilets with baby changing facilities for men and women
- addressing the need for clear inclusive access policies that consider people's diverse needs and aim to break down unnecessary barriers and exclusions, in a manner that benefits the entire community, in our Local Development Framework

- requiring applications for both outline and full planning permissions to be accompanied by a Design and Access Statement in all developments (except those meeting strict criteria specified in our planning guidance) from August 2006 onwards
- issuing all licensed premises in the Borough with free disability awareness raising material, produced by DisabledGo in partnership with Mencap, the Royal National Institute for the Deaf, the Royal National Institute for the Blind, MIND and the British Council of Disabled People, by March 2007.

Our targets to measure success are:

- i) increase the proportion of qualifying buildings that are accessible to all to 25 per cent in 2006/07; 28 per cent in 2007/08; and 30 per cent in 2008/09, as measured by the national performance indicator – Best Value Performance Indicator 156
- ii) increase the percentage of Council buildings with public areas that have completed costed access audits and are taking follow-up action to 75 per cent by March 2007, and 100 per cent by March 2008 – Royal Borough Performance Indicator 3205
- iii) increase the percentage of qualifying buildings that offer either 'good' to 'excellent' accessibility or alternative ways for users to access services to 60 per cent by 2006/07, as measured by our local performance indicator 3206.

From April 2007, we will expand the list of qualifying buildings assessed under our local performance indicator to include other Council-owned buildings that we consider to have public access - including some education buildings that are excluded from the national performance indicator - and update our improvement targets accordingly.

3.24 In parallel, Housing, Health and Adult Social Care Overview and Scrutiny Committee Sub-Group recently published its review of access for disabled people. This registered disappointment that less than half the Council's buildings met our local indicator for access, while only a quarter meet the more stringent measure based on modern building regulations. The latter reflects, in some cases, the listed nature of our buildings. The Sub-Group recommended closer coordination of disability access across Business Groups (possibly through the Facilities Management Group), championed by a Cabinet Member, and the utilisation of a centralised budget.

3.25 In total, spending on access issues across the Council is estimated at £1.3 million directly in 2007/08 in the capital programme. This is

supplemented by larger schemes that will improve service accessibility, e.g. the Customer Service Centre and the Central Library refurbishment, and by revenue expenditure on smaller schemes. **Appendix 5** identifies the Council's overall position on disability access in its buildings and potential improvements deriving from the Capital Programme.

SUMMARY OF BIDS AND FINANCING THE PROGRAMME

3.26 The total capital spending and funding sources for all Business Groups from 2007/08 onwards, are summarised in **Table 6** below.

Table 6
Summary of Business Group Bids and Funding Sources

Service	2007/08 £'000	2008/09 £'000	2009/10 £'000	Subtotal £'000	Later Years £'000	TOTAL £'000
Family and Children's Services						
External Resources *	3,674	1,607	859	6,140	0	6,140
Internal Cash Funding	737	819	0	1,556	3,519	5,075
Corporate Funding	7,922	21,737	24,607	54,266	14,712	68,978
Total Family and Children's Services	12,333	24,163	25,466	61,962	18,231	80,193
Housing and Health						
External Resources	14,172	10,503	5,849	30,524	0	30,524
Internal Cash Funding	3,233	1,354	50	4,637	0	4,637
Corporate Funding	6,305	6,155	6,155	18,615	135	18,750
Total Housing and Health	23,710	18,012	12,054	53,776	135	53,911
Adult Social Care						
External Resources	415	0	0	415	0	415
Internal Cash Funding	358	0	0	358	0	358
Corporate Funding	1,098	1,001	360	2,459	0	2,459
Total Adult Social Care	1,871	1,001	360	3,232	0	3,232
Housing, Health and Adult Social Care						
External Resources	14,587	10,503	5,849	30,939	0	30,939
Internal Cash Funding	3,591	1,354	50	4,995	0	4,995
Corporate Funding	7,403	7,156	6,515	21,074	135	21,209
Total Housing, Health and Adult Social Care	25,581	19,013	12,414	57,008	135	57,143
Planning and Conservation						
External Resources	20	20	0	40	0	40
Internal Cash Funding	25	30	50	105	0	105
Corporate Funding	70	0	0	70	0	70
Total Planning and Conservation	115	50	50	215	0	215
Transport, Environment and Leisure Services						
External Resources	1,685	9,882	20,532	32,099	2,300	34,399
Internal Cash Funding	6,265	6,850	3,634	16,749	0	16,749

Corporate Funding	4,790	1,731	664	7,185	117	7,302
Total Transport, Environment and Leisure Services	12,740	18,463	24,830	56,033	2,417	58,450
Corporate Services						
External Resources	1,000	0	0	1,000	0	1,000
Internal Cash Funding	2,970	1,488	632	5,090	33	5,123
Corporate Funding	1,603	3,023	2,332	6,958	5,589	12,547
Total Corporate Services	5,573	4,511	2,964	13,048	5,622	18,670
All Business Groups						
External Resources	20,966	22,012	27,240	70,218	2,300	72,518
Internal Cash Funding	13,588	10,541	4,366	28,495	3,552	32,047
Corporate Funding	21,788	33,647	34,118	89,553	20,553	110,106
Total All Business Groups	56,342	66,200	65,724	188,266	26,405	214,671

Notes

* Includes Dedicated Schools Grant within Family and Children's Services. Corporate Funding includes borrowing, ALMO resources and Usable Capital receipts. Internal Cash Funding includes the Car Parking Reserve and Capital Expenditure Reserves. External Resources includes capital grant and contributions.

External Resources

General Capital Receipts

- 3.27 Capital receipts can be used to fund the programme to the extent that they are not required to be paid to the Government under the 'pooling' arrangements for Housing receipts. The amount payable in respect of non-dwelling receipts may be reduced if the council determines that the receipt is re-invested in affordable housing (i.e. towards the HRA capital programme of £22 million for 2007/08).
- 3.28 The funding proposed assumes that receipts are applied in the year following receipt. In addition, some specific 'earmarked' capital receipts are directly tied to individual schemes or purposes, (such as Elm Park Gardens basement refurbishment) while it is our policy to retain receipts from the sale of freeholds for new freehold acquisitions. The use of capital receipts reduces the borrowing requirement. The expected non-earmarked receipts, and their proposed use, are shown in **Table 7**. The capital receipt from Holland Park School should also be available, possibly phased, at a point from 2008/09.

Table 7
Capital Receipts

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Balance b/f	2.0	1.3	2.2	2.2

Add receipts in year	1.3	0.9	0.9	0.9
Less used to fund capital expenditure	-2.0	0.0	-0.9	-0.9
Balance c/f	1.3	2.2	2.2	2.2

Capital Grants

- 3.29 Expenditure in the capital programme that is conditional on external funding has been set in line with the latest information about resources. Some further revisions may be necessary as further announcements are made. Some funding for schools capital expenditure is now rolled into the Dedicated Schools Grant, which is assumed to increase approximately in line with funding increases for schools in later years. Details of other specific grants are shown in **Table 8**.

Table 8
External Grant Funding Sources

Sources of External Grant Funding/Contributions	2006/07	2007/08	2008/09	2009/10	Later Years	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Disabled Facilities Grant (CLG)	210	210	210	210	0	840
Gypsy and Travellers Site Grant (CLG)	0	450	0	0	0	450
Health Authority Contribution	733	415	0	0	0	1,148
Improving Information Management (DoH)	0	50	0	0	0	50
Integrated Children's Systems Grant (DfES)	0	147	0	0	0	147
Learning and Skills Council	46	0	0	0	0	46
Lottery	718	100	0	4,000	0	4,818
Major Repairs Allowance - HRA	11,308	11,894	8,650	5,639	0	37,491
Performance Standards Fund (DWP)	159	0	0	0	0	159
Planning Delivery Grant (CLG)	0	20	20	0	0	40
Standards Fund Grant (DfES)	1,271	1,444	833	46	0	3,594
Sure Start Grant (DfES/DWP/DH)	1,202	1,101	0	0	0	2,303
Transport for London	820	1,517	5,482	2,732	800	11,351
Youth Opportunities Fund (DfES)	69	45	0	0	0	114
Contributions from Other Local Authorities	0	48	900	900	0	1,848
Other Contributions	166	1,170	100	0	0	1,436
External Funding Sources to be determined*	0	0	3,400	12,900	1,500	17,800
Total	16,702	18,611	19,595	26,427	2,300	83,635

* Exhibition Road

Note that CLG is the Department for Communities and Local Government

Internal Cash Funding

Reserves

3.30 Where there are appropriate earmarked reserves available to fund individual schemes they have been used.

3.31 Some £33 million of additional Council funding would be required for pipeline schemes not yet included in the programme and shown in **Table 4**, albeit the amounts are very speculative. Much of this will fall into payment years after 2010/11. In addition there are potential additional resource claims on existing plans, such as Exhibition Road. In order to be able to contemplate these options, we have retained, as a **corporate guideline**, a minimum of £15 million in the Capital Reserve and £20 million in the Car Parking Reserve as at the end of 2009/10.

Car Parking Reserve

3.32 Over the next three years £17.4 million of the Car Parking Reserve is planned to be used to fund the capital programme. The forecast reserve balance is shown in **Table 9**. The projection takes account

of the impact of the proposed introduction of the Congestion Charge from early 2007.

**Table 9
Car Parking Reserve Movements**

Description	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Surplus from On Street Parking	22.5	21.5	21.4	21.1
Funding of Revenue Expenditure	-17.4	-17.9	-18.4	-19.0
Net movement - revenue	5.1	3.6	3.0	2.1
Funding of Capital Expenditure *	-4.8	-6.8	-9.6	-6.4
Total movement - revenue and capital	0.3	-3.2	-6.6	-4.3
Balance Brought Forward	36.3	36.6	33.4	26.8
Balance Carried Forward	36.6	33.4	26.8	22.5

* 2008/09 and 2009/10 includes additional York Stone paving approved annually (not in Capital Programme).

Capital Expenditure Reserve

3.33 The other main source of funding of the non-HRA capital programme is the Capital Expenditure Reserve (CER), which has been built up from previous revenue contributions. The projection assumes that an additional contribution of £8 million is made to the Reserve from 2006/07 savings.

3.34 The capital programme funding assumes that we use the Capital Expenditure Reserve ahead of borrowing subject to retaining at least £15 million for allocation to pipeline and future projects. Under the current prudential borrowing rules it is no longer necessary to take up annual government borrowing approvals to avoid losing them. There is however, a residual risk that the Government may cap local government borrowing increases in future years for macro economic reasons.

**Table 10
Capital Expenditure Reserve**

Capital Exp Reserve	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Balance Brought Forward	56.3	57.3	44.5	37.7
Contributions In	13.5	5.5	3.5	3.5
Used	-12.5	-18.3	-10.3	-18.2

Balance Carried Forward	57.3	44.5	37.7	23.0
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Corporate Funding

3.35 **Table 11** sets out the amounts that have been announced by the Government as borrowing that will be supported through the grant system. As the Council's grant level is largely determined by the grant floor or by scaling back our increases to fund others' floor levels, there is no pound for pound relationship. This is a benchmark for the Council's investment plans, rather than a limit. The figures emphasise that capital spending outside Education and Housing needs to rely on external funding or the council's own resources. Given the relatively low amounts, the Council's financing requirement is expected to draw on prudential borrowing (i.e. not supported by notional government grant) for bridging finance to rebuild Holland Park school, unless this is financed directly by concurrent capital receipts.

Table 11
Supported Borrowing

Service Block	2006/07 £'000	2007/08 £'000
Education	2,907	3,078
Housing	5,100	5,100
Adult Personal Social Services	126	127
Children's Personal Social Services	29	29
Mental Health Services	142	138
Other	11	11
Sub Total	8,315	8,483
ALMO funding for HRA	7,344	0
Total	15,659	8,483

Summary

3.36 The total funding, subject to any amendments to the programme, is shown in **Table 12**. Total spending less capital grants and contributions, use of reserves and capital receipts leaves a balance to be funded from borrowing (the "capital financing requirement").

Table 12
Total Funding

General Fund	2007/08 £'000	2008/09 £'000	2009/10 £'000	Later Years £'000	Total £'000
Total Expenditure	34,247	49,203	54,685	26,305	164,440
<i>Less Funded From:</i>					
Capital Grants and Contributions	6,717	10,945	20,788	2,300	40,750
Net Balance (Council Funding)	27,530	38,258	33,897	24,005	123,690
Use of Specific Reserves and Direct Revenue Funding	3,544	2,307	632	3,552	10,035
Use of Car Park Reserve	6,811	6,880	3,684	0	17,375
Usable Capital Receipts	0	900	900	0	1,800
Use of Capital Expenditure Reserve	16,438	8,651	17,664	0	42,753
Use of Dedicated Schools Grant	737	774	813		2,324
Net Capital Financing Requirement	0	18,746	10,204	20,453	49,403

Housing Revenue Account	2007/08 £'000	2008/09 £'000	2009/10 £'000	Later Years £'000	Total £'000
Total Expenditure	22,095	16,997	11,039	100	50,231
<i>Less Funded From:</i>					
Capital Grants and Contributions	11,894	8,650	5,639	0	26,183
Specific Capital Receipts	1,618	1,643	0	0	3,261
Net Balance (Council Funding)	8,583	6,704	5,400	100	20,787
Use of Specific Reserves and Direct Revenue Funding	3,233	1,354	50	0	4,637
Net Capital Financing Requirement	5,350	5,350	5,350	100	16,150

AFFORDABILITY AND REVENUE COST

3.37 The principal revenue effect of the programme on the General Fund is the loss of interest as reserves are used up, followed by rising financing charges once borrowing is incurred again in 2008/09 and later years. Borrowing adds interest costs, and a further statutory minimum four per cent provision for debt repayment, which impacts on the following year. Without additional borrowing our debt servicing costs could reduce as we set aside annual amounts to repay debt.

3.38 The borrowing requirement, known as the Capital Financing Requirement (CFR) resulting from the proposed capital programme, is set out in **Table 13**.

Table 13
Capital Financing Requirement (CFR) movements

Year	Fund	Opening Balance £'000	Net CFR change - new borrowing £'000	Less Statutory MRP £'000	Less Voluntary MRP £'000	Closing Balance £'000
2006/07	Housing Revenue Account	162,317	12,613	0		174,930
	General Fund	60,608	0	-2,092	-3,297	55,219
	Total	222,925	12,613	-2,092	-3,297	230,149
2007/08	Housing Revenue Account	174,930	5,350	0		180,280
	General Fund	55,219	0	-1,877	-5,994	47,348
	Total	230,149	5,350	-1,877	-5,994	227,628
2008/09	Housing Revenue Account	180,280	5,350	0		185,630
	General Fund	47,348	18,746	-1,562	-5,669	58,863
	Total	227,628	24,096	-1,562	-5,669	244,493
2009/10	Housing Revenue Account	185,630	5,350	0		190,980
	General Fund	58,863	10,204	-2,023	-4,698	62,346
	Total	244,493	15,554	-2,023	-4,698	253,326

Statutory Minimum Revenue Provision is the 4 per cent Minimum Provision required under the Capital Regulations. Voluntary MRP provision has been made to cover ex-ILEA debt, short life assets and a provision to reduce overall indebtedness. The figure may be reviewed for continued affordability in future years.

3.39 **Table 14** shows how the Capital Financing Requirement estimate for *additional* borrowing has changed between the new three-year programme and the one agreed in February 2006.

Table 14
Capital Financing Requirement

Description	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
General Fund				
Capital Financing Requirement - new programme	0	0	18,746	10,204
Capital Financing Requirement - previous programme	0	0	18,746	
Change from previous programme	0	0	0	10,204
Housing Revenue Account				
Capital Financing Requirement - new programme	12,613	5,350	5,350	5,350
Capital Financing Requirement - previous programme	12,698	5,350	9,534	
Change from previous programme	-85	0	-4,184	5,350
Total				
Capital Financing Requirement - new programme	12,613	5,350	24,096	15,554
Capital Financing Requirement - previous programme	12,698	5,350	28,280	0
Change from previous programme	-85	0	-4,184	15,554

3.40 **Table 15** shows the affordability of the capital programme for the General Fund, in terms of the marginal impact on the Council Tax and the share of the total budget taken up by capital financing costs. This is compared to the equivalent figures in the current capital programme, with the impact slipping back in tandem with slippage in expenditure. However, in the next three years the impact of new capital spending for the General Fund can be absorbed within the revenue budget by varying the voluntary MRP.

Table 15
Affordability for the General Fund

Summary	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Interest on historic external borrowing	4,436	3,804	3,433	3,578
Statutory Minimum Revenue Provision (MRP) @4%	2,092	1,877	1,562	2,023
Voluntary MRP - accelerated for short life assets	524	719	727	727
Interest on new borrowing (cumulative)	0	0	375	954
Interest loss on use of reserves (cumulative)	624	1,795	2,911	3,907

Total Financing Cost	7,676	8,195	9,008	11,189
Increase in net cost over previous year	794	519	813	2,181
Year on Year Band D equivalent increase (£)	8	5	8	22
2005/06-2007/08 Capital Programme				
Previously Projected Band D equivalent incr (£)	8	7	7	
Variation in Band D cost i.e. draft budget compared to previous years estimated increase (£)		-2	1	22
Ratio of financing cost to revenue budget	4.7%	4.9%	5.2%	6.3%

- 3.41 **Table 15** shows that the 2007/08 Band D increased cost of the programme is slightly less than anticipated last year. This is due to rephased expenditure, lower long-term interest rates and the increase in the Council Tax base. 2009/10 is a new year included in the three-year programme.
- 3.42 In approving the last three year capital programme Cabinet indicated that when the ratio of financing cost to budget requirement exceeded 6.7 per cent, this should be a 'trigger' to consider more carefully the affordability of the capital programme. **Table 15** shows that the budget has been kept within this threshold. All else being equal the ratio will reduce once the capital receipt from the sale of the housing site at Holland Park School is available.
- 3.43 The revenue impact on the HRA depends on subsidy levels, and the programme may need to be trimmed back in future years if it puts too much pressure on expenditure given the statutory constraint on rent increases. The ratio of financing cost to budget for the HRA is as follows:-

2006/07	2007/08	2008/09	
2009/10			
30.20 %	31.34 %	32.32%	31.03%

There is no impact on rent levels as a result of the HRA capital programme, due to the rent increase restrictions in place and the fact that expenditure is fully subsidised. Borrowing in excess of subsidy must be absorbed by reductions elsewhere if rent limits are held firm. Affordability for the Housing Revenue Account is secured by aligning the amount borrowed with the HRA subsidy for financing costs. The Council no longer makes a provision to repay debt in the HRA, previously set at 2 per cent. To do so would require the HRA to divert expenditure from its major repairs.

- 3.44 The report on the Treasury Management Strategy for 2007/08, elsewhere on the agenda, describes how finance for the capital programme will be raised and sets the related Treasury Management Prudential Indicators.

LEGAL AND PERSONNEL ISSUES

- 3.45 The capital programme includes a number of schemes to upgrade and improve the buildings portfolio of business groups. This will benefit the built environment for both service users and staff.

DIVERSITY IMPLICATIONS

3.46 The establishments within the Royal Borough provide opportunities for various users with a wide range of backgrounds and abilities. The Council's Equality Scheme Action Plan commits the Council to improve the accessibility of the buildings in the borough. The capital programme therefore includes a number of schemes designed to achieve these improvements. Implications of individual projects are included in the Capital Budget Reports submitted to Overview and Scrutiny Committees or will be included in more detail in relevant key decision reports.

RECOMMENDATIONS

The Council is recommended to:

- (i) Approve the capital programme of expenditure and its funding, subject to confirmation of any external resources where relevant, as summarised in the Capital Programme Book;
- (ii) Note that where external funding is not yet certain, any scheme approved will be subject to review, in the event that the confirmed external funding is not forthcoming to the extent assumed in the budget;
- (iii) Agree the principle that exceptional exploratory funding for feasibility should be managed by the Property Strategy Group and Computer and Communications Advisory Group, drawing down resources from the Capital Expenditure Reserve, up to a reviewable limit of £500k and £100k for 2007/08 and subject to agreement with the Cabinet Member for Finance and Property. This is set out in paragraph **3.12**;
- (iv) Agree that in commissioning work, from feasibility onwards, operational, financial, environmental sustainability and whole-life costs should be considered as a priority, and that long-term social benefits should be identified before schemes are approved for inclusion in the capital programme. This is set out in paragraph **3.22**;
- (v) Note the grading applied to the accessibility to buildings, as set out in **Appendix 5**;
- (vi) Note the potential and pipeline schemes currently excluded for the programme, as set out in **Tables 4 and 5**, and to agree any that should not be progressed for now, or any that are the highest priority to progress quickly;

- (vii) Determine that non Right-to-Buy housing receipts (if any) be set against eligible expenditure of £22 million in the HRA capital programme, as set out in paragraph **3.27**;
- (viii) Agree to retain a minimum of £15 million in the Capital Reserve and £20 million in the Car Parking Reserve at the end of 2009/10, as set out in paragraph **3.31**;
- (ix) Agree the Capital Financing Requirement as a result of the proposed capital programme as set out in paragraph **3.38**;
- (x) Agree the affordability of the revenue impact of the programme on the Council Tax and for the Housing Revenue Account, as set out in paragraphs **3.37 to 3.44**.

**FOR
DECISION**