APPENDIX E

CAPITAL PROGRAMME 2011/12- 2013/14

1. The Capital Programme is concerned with planning for investment in assets and infrastructure necessary to deliver high quality services to residents. Expenditure on services comprises a recurring, revenue element (eg. staff salaries, running costs, contract payments etc) and planned capital investment in assets and infrastructure (e.g. buildings, vehicles etc). Effective service delivery requires these resource elements to be considered together.

2. The Capital Programme agreed by the Council invariably has revenue cost implications.

   - Capital financing may be charged to revenue accounts either in the form of direct contributions to capital expenditure, or as costs of borrowing or other credit arrangements to finance capital expenditure.

   - Building schemes normally carry with them ongoing running costs which in some circumstances cannot be met from existing resources.

   It is therefore not possible to consider the Capital Programme and revenue plans in isolation from each other.

3. Tower Hamlets Capital Programme has traditionally been divided into two elements;

   - Mainstream Programme- which is funded largely from resources allocated by the Government and other funding bodies, and which follows the priorities of those funding bodies, although often with a high level of congruence with local priorities.

   - Local Priorities Programme- which is funded from resources generated by the authority itself, from capital receipts, revenue contributions to capital budgets and prudential borrowing, and is allocated to the Council's own priorities.

4. Issues for the Mainstream Programme

4.1 Government support to the capital programme is subject to annual announcements of funding. Indications are that capital budgets will be under similar pressure to revenue allocations, and this is likely to impact upon the resources available for mainstream programmes.

4.2 In his speech for the emergency Budget, the Chancellor said, "There will be no further reductions in capital spending totals in this Budget. But we will still make careful choices about how that capital is spent. The absolute priority will be projects with a significant economic return to the country". Whilst the decision not to cut capital budgets is encouraging, the second part of the Chancellor's statement suggests that large scale infrastructure projects of national or regional importance may be given precedence over local schemes. It remains to be seen following the Spending Review.

4.3. Some Government funding is allocated in the form of supported borrowing. In previous years, this has resulted in the allocation of additional Formula Grant to fund the borrowing cost. The fact that Tower Hamlets is now at the grant floor, however, means that it will not receive additional funding for supported borrowing. When it comes to setting the capital programme for future years, Members will need to consider whether the authority can afford to borrow this money. In the meantime, General Fund revenue forecasts assume a provision for the estimated cost of supported borrowing.

4.4 The Government's policy remains to "un-ringfence" funding to local authorities as much as possible so it can be allocated to local priorities rather than those set by Government Departments. This applies as much to capital funding as to revenue grants. The authority's past practice has been to allocate mainstream resources to the services for which they were intended. As part of the review of the capital programme, it will be necessary to consider whether capital funding that is unringfenced by the Government should continue to be applied in accordance with its primary purpose or should be reallocated to local priority schemes.

5. Local Priorities Programme

5.1. The Local Priorities Programme is that part of the Capital Programme which is funded through resources generated locally; capital receipts, revenue contributions, section 106 contributions and grants applied for from external bodies such as the National Lottery.

5.2. The level of the capital programme has being sustained at a high level until now largely through the planned realisation of major capital receipts and the use of reserves, but this approach cannot be relied upon in future years and carries a degree of risk.

5.3. Further funding may be available in receipts over the next three years from asset sales listed in the approved Asset Management Plan. This includes Right to Buy income from the sale of Council houses, and the disposal of further sites which have been identified in the Asset Management Plan but have not yet been formally sanctioned by Cabinet. Right to Buy receipts are assumed to continue at recent levels, although there are signs that this is being impacted by the current slow down in housing markets. Further capital receipts are contingent upon other decisions and successful .

6. Other Potential Sources of Funding

6.1 Prudential Borrowing

The Council is empowered to set its own level of borrowing and other credit arrangements to fund capital expenditure, providing that level is affordable, sustainable and prudent. The benefit of prudential borrowing is that it enables an authority to come to its own view as to the appropriate balance between revenue and capital spending, to undertake options appraisal for revenue-intensive and capital-intensive options on a consistent basis, and to borrow for capital purposes as needs arise instead of when Government gives its approval. The Council may decide to fund additional capital expenditure through prudential borrowing where the tests of affordability, sustainability and prudence are met, and where it appears to offer value for money to do so.

Prudential borrowing is only affordable if borrowing costs can be met from revenue funding in the long term. With large scale revenue savings likely to be necessary over the next few years, the capacity for additional borrowing will inevitably be restricted.

Nevertheless, prudential borrowing can be useful in providing finance for schemes and projects which will deliver revenue cost in the medium term. Current policy is that prudential borrowing is restricted to invest to save schemes where ongoing savings are sufficient to fund borrowing costs. In future the pressure will be to restrict prudential borrowing to those projects that offer savings over and above the costs of borrowing.

6.2 Revenue Contributions to Capital Expenditure

The opportunity to use revenue funding in this way is clearly dependent upon the availability of revenue funding. HRA reserves have been used in recent years to fund priority capital projects such as the Overcrowding Strategy, but HRA reserves are now at a level at which further allocations cannot be recommended. Reward grants have also been used, but as part of its measures for grant cuts for 2010/11, Government announced that Local Area Agreement Reward Grants, Local Authorities Business Growth Incentive (LBAGI) and Housing & Planning Delivery Grant allocations would be curtailed in the immediate future.