

REPORT FOR: **CABINET**

Date:	22 January 2013
Subject:	Draft Capital Programme 2013-14 to 2016-17
Key Decision:	Yes
Responsible Officer:	Julie Alderson, Corporate Director of Resources
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Proposed and indicative Summary Capital Programmes

Section 1 – Summary and Recommendations

This report sets out the proposed capital programme for 2013-14 and the indicative resources levels for 2014-15 to 2016-17 that forms part of the annual budget review process.

Recommendations:

- That Cabinet approves the draft capital programme, as detailed within Appendix 1, for consultation, with the final version to be presented at the February meeting of Cabinet.

Reason: (For recommendation)

To enable the Council to have an approved capital programme for 2013-14.

Section 2 – Report

Development of the Capital Programme

1. The proposed capital programme has been prepared in the current climate of increased revenue pressures, reduced external funding from Central Government as well as difficult property market conditions (limiting potential capital and s106 planning receipts).

In order to meet the authority's obligations and priorities, and consistent with the approach introduced last year, this has resulted in the consideration of a range of funding and accounting options and inclusion of projects/items over and above the main Capital Programme.

2. The existing capital programme is a three year rolling programme. In order to align with the four year revenue Medium Term Financial Strategy programme totals have been set for four years. There are however significant uncertainties in the level of future capital resources and it is therefore proposed that the programme is detailed in the first year only with an indicative funding level thereafter.

The approved Capital Strategy continues to provide a clear approach to Capital Programme development and requires the incorporation of the corporate priorities and alignment with the Council's Asset Management Plans and Property Strategy, equalities and health and safety implications. The strategy thus results in a greater visibility and accountability of capital programme development.

Service directorates were invited to bid for capital resources, and each proposal requiring Council resources was considered by a Capital Bid Validation panel.

The results were then reviewed by CSB in conjunction with portfolio holders, and the attached draft programme has been produced (Appendix 1).

3. As well as the pressures highlighted in the first paragraph, the capital programme is also constrained by a number of factors:

- Unavoidable spending requirements such as major repairs to the Council's buildings and carriageway and footway resurfacing, and providing school places.
- Restrictions in the way funding can be used e.g. ring fenced funding such as Transport for London and DfE grants for schools.
- The availability of capital receipts
- Limited capacity to fund borrowing. Although there are no specific limits to borrowing in order to fund capital expenditure, since the introduction of the prudential borrowing framework, Councils must however consider the revenue implications in the context of the overall revenue budget commitments in the medium term. Proposals must be

affordable and the revenue resources available to the Council have reduced and are anticipated to continue to reduce in the medium term.

4. The proposed capital programme includes provision for:

- Keeping neighbourhoods clean, green and safe
 - Public Realm improvements
 - Street Lighting Improvements
 - Harrow Green Grid
- Supporting and protecting people who need it most
 - Disabled Facility Grants
 - Empty property and Private Sector initiative grants
 - Schools Expansion Programme
- United and involved communities: a Council that listens and leads
 - Housing Programme
 - Upgrading of People's Network
 - Neighbourhood Investment Scheme
 - Harrow Card
- Supporting our Town Centre, our local shopping centres and businesses
 - Town Centre Improvements
 - Harrow Card
- Other/Combination of priorities
 - Highways Improvements
 - Civic Centre modernisation and development
 - New projects emerging from the Transformation Programme
 - ICT infrastructure to facilitate a number of transformation projects, including mobile and flexible working
 - High priority major works to corporate buildings
 - Headstone Manor Tithe Barn

The Summary Capital Programme is attached at Appendix 1.

5. The gross value of the proposed General Fund programme is £29m for 2013-14, with external funding of £9m and a net cost to the Council of £20m. This is higher than the target envelope of £18m that Directorates were asked to work to. Particular areas that have caused difficulty are Business Transformation where there is additional spend that leads to revenue savings and Public Realm where there is a need to fund infrastructure to mitigate health and safety risks arising from backlog maintenance. There has been an increase in the capital receipts anticipated, compared to the summer of 2012 when the target envelope was set.

In order to meet the authority's obligations and priorities, in the light of considerable financial pressures, and consistent with the approach introduced last year, a range of funding and accounting options have been considered. This has resulted in the inclusion over and above the main Capital Programme of three project areas

- School Expansion Programme - Financing costs of the earlier years to be met by s106 planning resources if insufficient capital grant is available. This is assumed to be £4.9m in 2013-14 but would reduce if the allocation of grant from DfE were greater than the £5.1m assumed.

We routinely negotiate section 106 planning resource (S106) contributions from developers, including specific allocations for additional school places. To ensure we can meet our urgent statutory obligations for the provision of additional school places, we plan to use these S106 contributions to fund the financing costs associated with the borrowings required for the first three years. However, financing costs beyond this initial short-term, providing there are no other changes in appropriate S106 contributions, will be phased in to the Council's MTFs at that time.

- Transformation New Projects with business cases confirming payback within ideally 3 years - any financing implications to be funded from reserves, with reserve reimbursement from subsequent savings.

Approval is sought for £3m pa for any new transformation projects which would achieve savings paying for the project and financing costs within three years. Business cases would still be required to be submitted and approved by Cabinet.

Land acquisition - All financing costs to be capitalised as part of the development cost. £4.5m in 2013/14, comprising £3m expected to be carried forward from the 2012-13 programme but unused plus an additional £1.5m in 2013-14. This would allow for opportunities / developments to be progressed on a timely basis.

Backlog Maintenance

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

- i) School buildings - £58m (excludes academies)
- ii) Corporate, Education and Miscellaneous buildings - £12m
- iii) Highways – in excess of £150m

The level of investment contained within this programme does not clear the full backlog. It should be noted that the Council cannot afford to fully address the backlog in the short-term, however, the Council will do at least what is

necessary in order to comply with health and safety legislation. The programme does include projects which address some of the backlog and also the investment in the civic centre will free up buildings for disposal and hence remove some of the backlog maintenance requirement.

7. ICT Investment

The Council outsourced the provision of IT services to Capita in November 2010. The programme of work allows for improved disaster recovery, increased resilience, flexible working and a scaleable service. As part of this outsourcing there is a significant capital investment in software and equipment. The capital investment under the contract has not progressed as rapidly as originally envisaged and is now anticipated to complete in 2013-14.

The improved IT infrastructure provides a step towards being able to take advantage of more cost effective, flexible and responsive offerings likely to be coming available in the market over the next few years.

8. Business Transformation

In the last seven years the Council has embarked upon an ambitious programme of Transformation in order to help meet the revenue funding gaps it was facing without, as far as possible, adversely affecting frontline services. Indeed, in some cases the transformation has led to improvements in services. These projects normally require capital investment up front in order to realise savings. In 2012-13 there has been continuation of a number of projects approved in 2011-12. Two significant new projects for public realm transformation (PRISM) and mobile and flexible working have recently been approved and are being initiated. The programme for future years includes provision for a number of schemes that are currently at an early stage of development. It is anticipated that these will result in significant revenue savings, however they will only proceed following approved cost justified business cases.

9. Children's Services

Following successful lobbying Harrow received additional funding in 2012-13, giving a total DfE grant allocation of £8m. Future funding levels remains uncertain and the Council is currently assuming that £5.1m of grant funding will be available in 2013-14. The level of grant will not be confirmed by the Government until late January 2013. If grant levels are lower than this the proposed programme will need to be revisited to bring it within the net capital budget for Children and Families, supplemented by £4.9m where the revenue costs can be financed from s106 funding.

There is a potential pressure on the capital programme envelope in 2014-15 of up to £10m dependent on the level of DfE grant received. If insufficient grant is received there could be a need for the Council itself to fund a large element of the school expansion programme required to provide additional primary school places to meet its statutory obligations. Were this to be the case the revenue consequence would be an increase in capital financing

costs of approximately £600k p.a. from 2015-16, which has not currently been provided in the revenue MTFS but is recognised as a risk.

10. Environment and Enterprise

Even in the light of the financial pressures on the programme the initial 2013-14 Environment proposed allocation will be maintained.

This allocation allows for substantial highways works, to address some of the backlog, improvement to the ageing street lighting and drainage infrastructure, as well as taking forward a number of Carbon reduction schemes. Carbon reduction schemes result in savings in both energy costs and carbon costs.

In addition to the main programme items there is provision for £4.5m “below the line” to enable site acquisition for development and later disposal to be taken forward.

The proposed programme in this area is not as large as the Directorate would have liked. A balancing act has been necessary between affordability and ensuring that health and safety risks are addressed. The recently appointed Corporate Director of Environment and Enterprise will be reviewing the programme in detail to ensure that the risks in relation to the infrastructure are addressed.

11. Capital Receipts

The capital programme assumes a programme of property disposals that are expected to raise £12m in 2013-14 and £10m in 2014-15 and thereafter £2m p.a.

12. Housing Revenue Account (HRA)

The HRA Capital Programme will be detailed in a separate report to the February Cabinet.

13. Capital funding

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

- External Funding of the order of £9m in 2013-14 expected to be primarily from the DfE, Transport for London and the Outer London Fund;
- Borrowing;
- Capital receipts;
- s106 planning agreements;
- Major Repairs Allowance (Housing Revenue Account).

It is anticipated that the General Fund programme will be financed as follows:

Table 1: New borrowing requirement

<u>General Fund Programme</u>	2013-14	2014-15	2015-16	2016-17
	£m	£m	£m	£m
Planned spending	29.4	25.3	22.8	22.8
External funding	(9.0)	(7.8)	(7.8)	(7.8)
Capital Receipts	(12.0)	(10.0)	(2.0)	(2.0)
Net Additional Borrowing	8.40	7.50	13.00	13.00

Main General Fund and Other items (maximum impact)

	2013-14	2014-15	2015-16	2016-17
	£m	£m	£m	£m
Planned spending	41.8	25.3	22.8	22.8
External funding	(9.0)	(7.8)	(7.8)	(7.8)
Capital Receipts	(12.0)	(10.0)	(2.0)	(2.0)
Net Additional Borrowing	20.80	7.50	13.00	13.00

The revenue implications of this new borrowing, in the context of the Council's treasury management activity, are set out in the table below. The revenue implications will be factored in to the revenue budget report for 2013-14 to 2016-17 being considered by Cabinet in February. The table below shows for each year what the full year's effect of that year's capital programme and capital receipts are. The table only includes the revenue effects of the programme that is proposed and excludes the revenue implications of previous years' capital programmes. It also excludes the impact of other changes to funding the existing programme e.g. interest rate changes.

Table 2: Capital Financing Implications of Capital Programme

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
MRP		3,027	5,625	7,852
Interest	408	1,516	1,994	2,491
Impact of Capital receipts		-2400	-4,400	-4,800
Total cumulative additional cost	408	2,143	3,219	5,543

The table above reflects the impact of the 2013-14 to 2016-17 programmes to each financial year. There is no MRP impact in 2013-14 as MRP in relation to expenditure in 2013-14 does not commence until 2014-15.

There is no new planned borrowing in respect of the HRA programme. This is because under HRA Reform, the HRA is allowed to keep all of its net income rather than transferring some to the Government. This income will allow the HRA to maintain its capital programme without the need for further borrowing. In addition, the HRA will be at its "borrowing cap" so cannot borrow any more. These issues will be more fully explained in the HRA budget report to February Cabinet.

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.

14. Community Infrastructure Levy

During summer 2013, the Council expects to introduce a local Community Infrastructure Levy (CIL) on new development. Harrow's CIL will be an additional levy on top of the London Mayor's existing Crossrail CIL. The Harrow CIL will be accompanied by an infrastructure delivery plan which will need to set out how receipts from CIL will support the delivery of the infrastructure required to enable investment and growth in the Borough. The CIL regulations require a level of public consultation on the spending of CIL and investors looking at Harrow will equally expect to see a pro-active programme of investment in infrastructure if they are to choose Harrow as a place to invest. Officers from the Planning Division are leading the project, working with colleagues across the Council to develop an appropriate protocol to ensure that there is a single, transparent, infrastructure investment programme for the Council upon which members and the community can comment and "monitor" delivery. For this reason, before spending of CIL receipts takes place, it is expected that public consultation on the infrastructure delivery plan will have had to take place. A full programme of CIL expenditure is therefore only likely to take place from 2014.

15. Governance Structure For Delivery Of The Programme

During 2012-13 the processes and procedures implemented in 2011-12 have continued and will be further developed during 2013-14. The major changes and improvements are as follows:

- Review of the Capital Forum terms of reference and membership;
- Production of a capital strategy - including the introduction of an objective scoring mechanism to prioritise activity within the programme;
- Introduction of procedures to ensure that any new project or scheme required the production of full business cases before the allocation of any capital budgets;

Governance of the Capital Programme in 2013-14 will continue to include monitoring and review by Capital Forum on a monthly basis, with reporting to Cabinet at the end of each quarter.

Financial Implications

16. Financial matters are integral to the report.

Performance Issues

17. There are no direct implications for individual performance indicators. Service Directorates were required to put forward their capital proposals as part of the Council's budget setting process which commenced in the summer of 2012.

Monitoring of the approved programme, including Capital Forum, is ongoing and is essential for good financial management. As well as performing project assessments on completed projects it will be important to develop and track performance measures to ensure that the Council can evidence and demonstrate good value for money (VFM).

Environmental Impact

18. The Council adopted the climate change strategy in September 2009 and set an annual target to reduce corporate and borough carbon emissions by 4% a year.

The Council has to purchase carbon allowances for each tonne of carbon it emits from its corporate buildings and schools. The price of carbon has now been set out for the future and will rise to £16/tonne in 2014/15 and then rise by RPI. Reduced carbon emissions reduce carbon costs as well as reducing energy costs.

Capital expenditure of this scale will have an environmental impact on the Council's operations (and the wider borough). The investment carries the risk of increasing carbon emissions. Hence each proposed project is required to consider their respective carbon impacts and include measures to ensure that the above target is supported.

Some of the projects will specifically support the strategy in terms of mitigation and adaptation.

Risk Management Implications

19. The individual schemes within the programme will either be incorporated within departmental registers or have individual registers. A significant consideration in developing the programme has been the risks arising from not keeping our infrastructure in good order. Not doing so would lead to an increase in health and safety risks and additional costs in replacing assets when they deteriorate too much to repair.

Corporate Priorities

20. Individual projects within the capital programme support the Council's corporate priorities as described in paragraph 4.

Equalities/Legal implications

21. Was an Equality Impact Assessment carried out?

The draft Capital Programme is still subject to amendment and an Equality Impact Assessment will be carried out on the programme before it is presented to Cabinet and Council in February for final decision.

One of the aims of the Capital Strategy is to ensure the responsible allocation of funding in line with the Council's priorities and legislative requirements such as equalities legislation. Equalities implications form part of the way that the projects are prioritised. The officers initial views are that no protected group is adversely affected by the proposals. Following consultation, the impact will be further reviewed before the programme is finalised.

Each project bid proposal required the completion of an Equality Impact Assessment. Also the equalities impact of particular projects should be re-considered based upon latest positions prior to implementation.

Decision makers should have due regard to the public sector equality duty in making their decisions. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as material in the press and letters from residents. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

The relevant protected characteristics are:

- *Age*
- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race,*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

Consultation responses received on this draft programme will be taken into account in drafting the final EIA.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Chief Financial Officer

Date: 11 January 2013

Name: Jessica Farmer on behalf of the
Monitoring Officer

Date: 11 January 2013

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Divisional Director
Strategic Commissioning

Date: 10 January 2013

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker on behalf of
Divisional Director
(Environmental Services)

Date: 10 January 2013

Section 6 - Contact Details and Background Papers

Contact: Steve Tingle Email: steve.tingle@harrow.gov.uk

Background Papers: Capital Strategy – annex 2 to Capital Programme report to Cabinet 9 Feb 2012

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]

Draft Capital Programme 2013-14

Appendix 1

Project Title	Gross £000	External Funding £000	Net £000
Resources:			
ITO Transformation	833	0	833
BTP Hardware Refresh	373	0	373
SAP Minor Developments	100	0	100
Business Transformation Programme - Mobile and Flexible working	1,814	0	1,814
Business Transformation Programme - PRISM	1,520	0	1,520
ICT Infrastructure and Corporate Applications	500	0	500
SAP Interfaces	250	0	250
Resources Total	5,389	0	5,389
Community, Health & Wellbeing:			
Refurbishment of 64 Pinner Road	15	0	15
Stanmore Library - Meeting Room	5	0	5
Leisure Centre Capital Infrastructure	150	0	150
Headstone Manor Tithe Barn	850	0	850
Disabled Facilities Grants	1,710	510	1,200
Mosaic Implementation - Adults and Children's Services	500	0	500
Empty Properties and Private Sector Initiatives grants	200	0	200
Mental Health Supported Housing Repairs	45	0	45
Renovation Grants	70	0	70
Community, Health & Wellbeing Total	3,545	510	3,035
Children and Families			
Schools Expansion Programme Phase I	1,104	604	500
Schools Capital Maintenance	1,350	1,350	0
Special Educational Needs Provision	1,500	1,500	0
Information Technology	800		800
Schools Expansion Programme Phase 2	1,000	1,000	0
Bulge Classes	150	150	0
Amalgamation	500	500	0
Children and Families Total	6,404	5,104	1,300
Environment and Enterprise			
TFL Local Implementation Plan Programme	1,864	1,864	0
Highways Programme	4,790	0	4,790
Flood Defence	350	0	350
Highway Drainage	180	0	180
Street Lighting	1,500	0	1,500
HC Parking Management Programme	300	0	300
Waste & Recycling - CA site improvement and replacement wheeled bins	220	0	220
Parks Buildings	130	0	130
Parks Improvements	250	0	250
High Priority Plan Maintenance Corporate Property	275	0	275
Street Trees - replacement programme	50	0	50
Corporate Accommodation Maintenance	250	0	250

Draft Capital Programme 2013-14

Appendix 1

Project Title	Gross £000	External Funding £000	Net £000
Carbon Reduction - Efficiency projects	250	0	250
Neighbourhood Investment Scheme	210	0	210
Harrow Card	460		460
Outer London Fund- Harrow Town Centre	1,340	1,340	0
St Ann's Road Environmental Improvements	500	0	500
Lowlands Recreation Ground	250	0	250
Green Grid	350	150	200
Pinner Park Farm	500	0	500
Environment and Enterprise Total	14,019	3,354	10,665
Total General Fund	29,357	8,968	20,389

Below The Line Items			
Business Transformation Projects	3,000		3,000
Land acquisition - All financing costs to be capitalised as part of the development cost	4,500		4,500
School Expansion programme funded via s106	4,911		4,911
Total Below the Line	12,411		12,411