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**REPORT FOR: CABINET**

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| <b>Date of Meeting:</b>                 | 8 December 2016   |
| <b>Subject:</b>                         | Draft Capital Programme 2017/18 to 2019/20  |
| <b>Key Decision:</b>                    | Yes<br>Involves expenditure in excess of £1m  |
| <b>Responsible Officer:</b>             | Dawn Calvert, Director of Finance   |
| <b>Portfolio Holder:</b>                | Councillor Adam Swersky, Portfolio Holder<br>for Finance and Commercialisation  |
| <b>Exempt:</b>                          | No  |
| <b>Decision subject to<br/>Call-in:</b> | Yes   |
| <b>Wards affected:</b>                  | All   |
| <b>Enclosures:</b>                      | Appendix 1 – Draft of Proposed<br>New(additions) to Capital Programme<br>2017/18 to 2019/20<br><br>Appendix 2 – Draft of revisions to the<br>Existing Capital Programme 2016/17 to<br>2019/20 |

## **Section 1 – Summary and Recommendations**

This report sets out the new draft General Fund capital programmes which have been proposed as part of the 2017/18 budget process and also sets out budgets within the existing Capital Programme which have been re-profiled between 2016/17 and 2019/20 and where virements are proposed between projects.

### **Recommendations:**

1. Cabinet is requested to note the new draft capital proposals, as detailed within Appendix 1 which will be brought back to Cabinet in February for approval,
2. Cabinet is asked to approve the amendments to the budgets set out in Appendix 2.

The final version of the Capital Programme 2017/18 to 2019/20 will be brought back to Cabinet in February for recommendation to Council in February.

**Reason:** To enable the Council to have an approved capital programme for 2017/18 to 2019/20 and to enable preparation work to be undertaken for future years.

## **Section 2 – Report**

### **Development of the Capital Programme**

1. The purpose of this draft Capital Programme report is to set out the Council's draft additional capital proposals for investment over the next three years 2017/18 to 2019/20 which have been proposed as part of the Annual budget setting process. It also sets out the existing Capital Programme budgets which need to be re-profiled between years and between projects between 2016/17 to 2019/20 in order to reflect revised expenditure plans.
2. The final Capital programme report which will be presented to Cabinet in February 2017 will show the total Capital Programme for 2017/18 to 2019/20 incorporating the new capital proposals as well as the reprofiling of existing capital budgets set out in this report.

### **New Capital proposals 2017/18 to 2019/20**

3. The new capital proposals have been prepared in the current climate of increased demand pressures and reduced external funding from Central Government.

4. Service directorates were invited to bid for capital resources, as part of their service proposals for 2017/18 to 2019/20. The proposals were reviewed taking into account the council's strategic vision of "Working together to make a difference for Harrow", the Council's priorities and equalities or other statutory duties.
5. In addition to reduced external funding from grants etc, flexibility in the capital programme is also constrained by a number of factors:
  - Unavoidable spending requirements such as the need to provide school places for the increasing school age population and major repairs to the Council's buildings and carriageway and footway resurfacing.
  - Restrictions in the way funding can be used e.g. ring fenced funding such as Transport for London and DfE grants for schools.
  - A 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 and the Capital Programme must be affordable.

A list of the new proposed projects within the programme is detailed in appendix 1 and summarised in Table 1 below:

Table 1

| <b><i>New Capital Proposals 2017/18-2019/20</i></b> |                |                |                |                |               |
|---|----------------|----------------|----------------|----------------|---------------|
| <b>Service Area</b>                                 | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> | <b>TOTAL</b>  |
|   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>  |
| Resources   |                | 1,700          | 1,700          | 1,700          | 5,100         |
| Adults  |                | 3,898          | 0              | 0              | 3,898         |
| Children  | -1,864         | 750            | 6,000          | 0              | 4,886         |
| Environmental Services                              | 0              | 6,300          | 15,300         | 15,300         | 36,900        |
| Cultural Services                                   | 0              | 1,470          | 377            | 1,053          | 2,900         |
| Housing General Fund                                | 0              | 9,200          | 6,200          | 200            | 15,600        |
| <b>Total General Fund</b>                           | <b>-1,864</b>  | <b>23,318</b>  | <b>29,577</b>  | <b>18,253</b>  | <b>69,284</b> |

6. These provide for a very substantial net investment of £69m in infrastructure on the General Fund services over the next three years in line with the Medium Term Financial Strategy. The gross value of the proposed General Fund programme is £74.190m, with external funding of £4.906m and a net increase in the programme of £69.284m.
7. Between now and approval of the Final Capital Programme by Cabinet in February 2017, the draft capital proposals set out in Appendix 1 will be reviewed and given further consideration as to whether they are included in the Final Capital programme 2017/18 to 2019/20.

## Capital Funding for the New Capital Additions

8. It is anticipated that the new capital additions to the General Fund programme will be financed from additional borrowing. The revenue implications of this new borrowing, in the context of the Council's treasury management activity, are set out in table 2 below. The revenue implications are factored in to the draft revenue budget report for 2017/18 to 2019/20 being considered by Cabinet elsewhere on this agenda. The table only includes the additional revenue effects of the programme that is proposed and excludes the revenue implications of previous years' capital programmes which are already accounted for in the current MTFS.

**Table 2: Capital Financing Implications of New Additions**

| Capital Financing Costs              | 2017/18    | 2018/19      | 2019/20      |
|--------------------------------------|------------|--------------|--------------|
|                                      | £000       | £000         | £000         |
|                                      |            |              |              |
| <b>Total MRP</b>                     | <b>0</b>   | <b>1,090</b> | <b>2,620</b> |
|                                      |            |              |              |
| <b>Total Interest</b>                | <b>215</b> | <b>757</b>   | <b>1,283</b> |
|                                      |            |              |              |
| <b>Total Capital Financing Costs</b> | <b>215</b> | <b>1,847</b> | <b>3,903</b> |

9. The table above reflects the total cost in each year of financing the 2017/18 to 2019/20 additions to the programme. The incremental revenue budget increases included in the MTFS for each year is as follows: £215k 2017/18, £1.632m 2018/19 and £2.056m 2019/20.
10. There is no MRP impact in 2017/18 as MRP in relation to expenditure in 2017/18 does not commence until 2018/19.
11. It should be noted that the capital financing costs are based on a number of assumptions about the level of capital expenditure, timing of any borrowing, PWLB interest rates (current rates used at time of writing the report) and asset lives used in estimating of the minimum revenue provision. The revenue budget reflects the best estimate based on these assumptions and will be reviewed and refined as part of the Final Budget Report which will be presented to Cabinet in February 2017.

### **Re-profiling of existing Capital programme budgets**

12. The starting point for this exercise was a refresh of the existing programme to 2019/20 by re-profiling budgets between 2016/17 and 2019/20 to reflect the latest estimated spending plans. The impact is neutral across the 4 years and all capital financing costs are already included in the revenue budget. Table 3 sets out the movement between the financial years with the detail set out in Appendix 2:

Table 3

| <b>Summary Budget Re-profiling 2016/17-2019/20</b> |                |                |                |                |              |
|--|----------------|----------------|----------------|----------------|--------------|
| <b>Service Area</b>                                | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> | <b>TOTAL</b> |
|  |                | <b>000</b>     | <b>000</b>     | <b>000</b>     | <b>000</b>   |
| Schools  | 3,003          | -10,773        | 840            | 6,930          | 0            |
| Environmental Services                             | 0              | 1,600          | 0              | -1,600         | 0            |
| Cultural Services                                  | 1,004          | -550           | -454           | 0              | 0            |
| <b>Total General Fund</b>                          | <b>4,007</b>   | <b>-9,723</b>  | <b>386</b>     | <b>5,330</b>   | <b>0</b>     |

### Explanation for re-profiling of Capital Budgets

#### Schools

13. There has been re-profiling of a number of projects across 2016/17 to 2019/20. The position with the school projections reported to Cabinet in July 2016, indicate that the demand for secondary school places is lower than previously expected and there will be a shortfall at a later stage than anticipated, from 2022. It is therefore proposed to slip £5.250m of Secondary provision funding from 2016-17 and 2017-18 into 2019-20. In addition £4.2m of SEN funding will also be slipped from 2017-18 into 2018-19 and 2019-20 as this programme is still being developed.

#### Environmental Services

14. There are proposed amendments of £1.6m as follows:
- Street lighting – the programme is being accelerated to replace old lamp columns with LED lights to achieve revenue savings on energy and maintenance. The existing street lighting £500k budget is being brought forward into 2017/18 from 2019/20. However, it is also proposed that a further £1m is re-allocated from the Highway Programme to Street Lighting in 2019/20. Significant investments in Highway Programme over the last couple of years and in the current year provide an opportunity to reduce capital spend in this area in 2019/20.
  - A number of commercial projects under Phoenix are underway. A number of unused/underused parks buildings are being converted to generate rental income. It is anticipated that more parks buildings will be refurbished during 2017/18 and therefore a re-allocation of £200k to Parks Infrastructure from the Highway maintenance programme is proposed.

#### Cultural Services

15. There is £1.004m which has been reprofiled between 2016/17 to 2018/19 in relation to the Bannister Sports Centre project. Section 106

funding of £1m has recently been received as part of the Kodak site redevelopment, for improvements at Bannister Sports Centre to compensate for the loss of playing pitches. The intention is to use this funding as match funding for other external funding applications. Feasibility studies and the development of building plans will be required before progressing to construction works, and it is anticipated that the majority of S106 funding will not be spent until 2018/19. It is therefore proposed that the budget is re-profiled as follows: £50k in 2016/17; £50k in 2017/18 and £904k in 2018/19 respectively.

## **HOUSING REVENUE ACCOUNT (HRA)**

16. The proposed HRA Capital Programme is detailed in a separate report to Cabinet elsewhere on this agenda. Any implications from the HRA Capital Programme are funded from the Housing Revenue Account and do not impact upon the General Fund Budget.

## **Options considered**

17. A number of capital proposals are considered during the budget setting process.

## **Legal Implications**

18. Under the Financial Regulations paragraph B2 full council is responsible for agreeing the authorities policy framework which are proposed by the cabinet and this includes the capital programme. Under B41 the Director of Finance is responsible for producing an annual capital strategy for Cabinet to recommend to Council.

## **Financial Implications**

19. Financial matters are integral to the report. The capital financing costs of all capital proposals must be included in the revenue budget.

## **Performance Issues**

20. The capital programme proposed represents a significant investment by the Council in infrastructure. This will have an impact on a range of performance indicators across the Council's services.
21. Monitoring of the approved programme, is ongoing and is essential for good financial management.
22. It is proposed that a performance target is set of 90% of the approved budget to be spent in year. Having approved an investment programme it is important that the programme is then substantially delivered in the planned timeframe, in line with member priorities.

## **Risk Management Implications**

23. 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.

## **Equalities implications / Public Sector Equality Duty**

24. 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 officer's initial views are that no protected group is adversely affected by the proposals. A number of the projects proposed in the programme will require full Equality Impact Assessments before they commence. Following consultation the impact will be further reviewed before the programme is finalised.

25. 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*

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

## **Council Priorities**

The Council's vision is:

**Working Together to Make a Difference for Harrow**

This report deals with the use of financial resources which is key to delivering the priorities of the Harrow Ambition Plan:

- Build a Better Harrow
- Be More Business-Like and Business Friendly
- Protecting the most Vulnerable and Support Families.

### Section 3 - Statutory Officer Clearance

|                       |                                     |  |
|-----------------------|-------------------------------------|--|
| Name: Dawn Calvert... | <input checked="" type="checkbox"/> | Chief Financial Officer                  |
| Date: 28.11.16.       |                                     |  |
| Name: Jessica Farmer  | <input checked="" type="checkbox"/> | on behalf of the *<br>Monitoring Officer |
| Date: 28.11.16        |                                     |  |

|                                   |   |
|-----------------------------------|---|
| <b>Ward Councillors notified:</b> | <b>NO, as it impacts on all Wards</b>   |
| <b>EqIA carried out:</b>          | <b>NO</b>   |
| <b>EqIA cleared by:</b>           | Any projects with potential impacts will separately be required to do an impact assessment. |

### Section 4 - Contact Details and Background Papers

**Contact:** Sharon Daniels, Head of Strategic and Technical Finance (Deputy S151)

Email: [sharon.daniels@harrow.gov.uk](mailto:sharon.daniels@harrow.gov.uk)

**Background Papers:** None

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| <b>Call-In Waived by the Chairman of Overview and Scrutiny Committee</b> | <b>YES/ NO / NOT APPLICABLE*</b>   |
| <i>(for completion by Democratic Services staff only)</i>                | <i>* Delete as appropriate<br/>If No, set out why the decision is urgent with reference to 4b - Rule 47 of the Constitution.</i> |