

REPORT FOR: **CABINET**

Date of Meeting:	12 December 2013
Subject:	Draft Capital Programme 2014-15 to 2017-18
Key Decision:	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Tony Ferrari (Portfolio Holder for Finance)
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Proposed Capital Programme

Section 1 – Summary and Recommendations

This report sets out the proposed capital programme for 2014-15 to 2017-18 for consultation.

Recommendations:

Cabinet is requested to: approve 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: To enable the Council to have an approved capital programme for 2014-15 to 2017-18 and to enable preparation work to be undertaken for future years.

Section 2 – Report

Development of the Capital Programme

1. This report sets out the Council's proposals for Capital investment over the next four years. These provide for a very substantial investment of £248m in infrastructure on General Fund and Housing Revenue Account services.
2. The proposed capital programme has been prepared in the current climate of increased revenue pressures, reduced external funding from Central Government as well as current property market conditions which are still more difficult than they were at the start of the world economic crisis. This limits the scope to receive capital and s106 planning receipts.
3. The existing capital programme is a one year detailed programme with an indicative envelope for the subsequent three years. In recognition of the need to plan ahead in relation to multi year programmes and to enable preparation work to be undertaken for future years' projects the programme proposed covers four years.
4. 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.
5. Service directorates were invited to bid for capital resources. A sophisticated ranking process was used in order to prioritise the capital bids received from departments against the available capital envelope.
6. This ranking was then reviewed by a sub-group of the Capital Forum and the following amendments were made:
 - Council funding of £1.739m in respect of Social Care IT developments was reduced in anticipation of future govt grant announcements
 - A number of bids were scaled back to allow the overall programme to fit within budget. These were Street Lighting, highways, Leisure and libraries infrastructure, Parks buildings and corporate IT systems.
 - Two large items of capital were removed again to allow the overall programme to fit within budget (Replacement of Hatch End swimming pool and expenditure to develop the Harrow Arts Centre).

This re-prioritisation was reviewed by the Corporate Strategy Board and lead members.

7. As well as the pressures highlighted in the first paragraph, flexibility in 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 do so in the medium term.

8. The proposed capital programme includes provision in the following priority areas:

- **Cleaner:** A borough where our streets are cleaned regularly and our parks and green spaces are places to enjoy.
 - Parks improvements
 - Green grid
 - Street trees
 - Parks buildings
 - Parks litter bins
 - Neighbourhood investment schemes
 - Flood defence
- **Safer:** Work with police to make Harrow even safer
 - Improved street lighting
 - CCTV crime reduction cameras
- **Fairer:** Harrow is a place where our hard working residents can bring up their families knowing they will have fair access to opportunity.
 - Primary and secondary school expansion programme
 - Disabled facilities grants
 - Renovation grants
 - Empty property grants and private sector initiatives
- **Other/Combination of priorities**
 - Highways Improvements
 - Civic Centre modernisation and development
 - ICT infrastructure to facilitate a number of transformation projects, including mobile and flexible working
 - High priority major works to corporate buildings
 - Leisure and Libraries capital infrastructure

The Summary Capital Programme is attached at Appendix 1.

9. The gross value of the proposed General Fund programme is £61.7m for 2014-15, with external funding of £45.4m and a net cost to the Council of £16.3m.

Backlog Maintenance

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

- School buildings - £30m
- Corporate, Education and Miscellaneous buildings - £11.3m
- Highways – £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.

Environment and Enterprise

11. Despite the financial pressures the Council faces the proposed programme for Environment and Enterprise allows for a modest increase compared to 2013-14.

12. This allocation allows for substantial highways works, to address some of the backlog, improvement to the ageing street lighting and drainage infrastructure.

13. The programme also provides for investment in Parks improvements and Parks buildings and for the replacement of Parks litter bins.

14. There is provision for a number of Carbon reduction schemes. Carbon reduction schemes result in savings in both energy costs and carbon costs.

15. There is provision for a collaboration with GLA/TfL on a project to enhance the quality and safety of Harrow on the Hill station and bus station including provision of step free access. The Council contribution of £3.1m, mainly earmarked for 2017-18 but with early design costs in 2014/15, is aimed at (and conditional upon) leveraging in the significant investment required by GLA/TfL to deliver the project over a series of phases.

Children's Services

16. Harrow is facing a significant pressure on places for both primary pupils and secondary pupils and also needs to expand its SEN provision. There is also a £30m maintenance backlog. Provision for addressing the pupil place requirements in schools and commencing to address the maintenance backlog is included within the proposed programme.

17. It is anticipated that the cost will be fully met from Government grant.

18. We have received grant or had funding confirmed by the DfE for £63m so far against the programme total expenditure of £73.7m. It is anticipated that the balance will be met from future grant allocations of Basic Need and Capital Maintenance.

Community, Health and Wellbeing

19. The programme provides for a targeted programme of improvements to the Council's leisure and library facilities. There will be ongoing contractual commitments around the replacement of Lifecycle gym equipment which will need to be included in future planning years.

20. The Government's reforms of Health and Social Care require significant investment in IT systems to support them. Provision for this has been included, with an assumption that 50% of the costs will be supported by grant. There is a further scheme not included in the draft programme which is still under consideration. Should the grant funding not be allocated as anticipated the schemes will be funded within overall available resources.

21. Provision has been made for Disabled Facility Grants to provide adaptations for vulnerable residents.

ICT Investment

22. 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 has been a significant capital investment in software and equipment. The capital investment under the contract has not progressed as rapidly as originally envisaged but is now anticipated to complete in 2013-14.

23. The programme provides for further enhancement of systems and for refreshing the IT infrastructure and corporate systems.

Capital Receipts

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

Housing Revenue Account (HRA)

25. The HRA Capital Programme is detailed in a separate report to Cabinet elsewhere on this agenda.

Capital Funding

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

- External Funding of the order of £44m in 2014-15, primarily from the DfE and Transport for London;
- Borrowing;

- Capital receipts;
- s106 planning agreements in relation to specific schemes;
- Direct Revenue Financing (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>	2014-15	2015-16	2016-17	2017-18
	£m	£m	£m	£m
Planned spending	61.7	46.9	38.4	36.0
External funding	(45.4)	(27.1)	(21.3)	(19.6)
Capital Receipts	(12.0)	(12.0)	(2.0)	(2.0)
Net Prudential Borrowing	4.30	7.80	15.10	14.40

27. 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 are factored in to the revenue budget report for 2014-15 to 2016-17 being considered by Cabinet elsewhere on this agenda. 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

	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000
MRP		214	431	1,988
Interest		201	422	1,192
Total	0	415	853	3,180

28. The table above reflects the impact of the 2014-15 to 2017-18 programmes to each financial year. There is no MRP impact in 2014-15 as MRP in relation to expenditure in 2014-15 does not commence until 2015-16. The Council as at 28th November had cash balances of £148m and as such it is very likely that for 2014-15 any borrowing would be made internally (That is to say from our own cash balances rather than taking on an additional external loan).

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 are more fully explained in the HRA budget report to this meeting.

29. 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.

Harrow's Community Infrastructure Levy (CIL)

30. Harrow's CIL came into effect on 1st October 2013 and enables the Council to levy a charge on certain types of new development to help fund improvements to local infrastructure such as schools, transport, green spaces, health and leisure facilities. Harrow's CIL is an additional levy on top of the London Mayor's existing Crossrail CIL. The Harrow CIL is underpinned by the Infrastructure Delivery Plan (IDP) which sets out the infrastructure required to enable investment and planned growth in the Borough. Against an infrastructure bill, estimated to be at least £150m, CIL is expected to account for circa £20-30m, depending upon the level development permitted and the ability of the development industry to bring new proposals forward. In this context, CIL is additional top-up funding, but is not the primary source of funding for infrastructure and, even with CIL funding, there will still remain a funding gap that requires choices and priorities to be made.

31. To date, no firm arrangements have been made regarding the governance for spending CIL receipts. Based upon experience with tariffs previously, officers consider that the most transparent and appropriate means of managing infrastructure delivery in future, is through a single but expanded and dynamic IDP process that addresses the following requirements:

- Long (10 year+) and short term (1-3 year) strategic infrastructure delivery programmes
- A clear and transparent approval process for all infrastructure projects
- Consultation with the community on infrastructure delivery (including the obligation to pass CIL to the local communities impacted by development)
- Engagement with the development industry about priorities and capacity, including their potential role in assisting delivery
- Effective monitoring of progress against the infrastructure plans and the effective implementation of the spatial vision for the borough set out in the adopted Local Plan

32. Over the coming months, officers from Planning and Finance will work up options and approaches to the resolution of the many issues to do with the effective delivery of infrastructure in Harrow, and will engage members in these discussions before reporting back to Cabinet in Spring 2014.

Harrow's Infrastructure Delivery Plan (IDP)

33. The IDP identifies the types and quantum of social, physical and environmental infrastructure required to support development and growth within the Borough to 2026, and sets this out in a detailed delivery plan. In particular it:

- § Provides a benchmark of existing infrastructure provision, identifying how well existing needs are met;

- § Identifies what new infrastructure is being planned as well as future infrastructure requirements to support existing population change as well as the new housing and employment growth planned for through the Council's Spatial Strategy;
- § Provides an indication of the potential costs and means of funding the required infrastructure through public funding, developer contribution and other sources;
- § Establishes responsibilities for delivery of individual projects, when and where infrastructure will be provided, and provides a basis for collaborative and effective working between stakeholders.

34. The effectiveness of the IDP is in capturing Harrow's future infrastructure improvements and requirements in one place. As such, the IDP represents the beginning of a long-term (10 year) capital works programme for the Council, providing an overarching framework for the consideration of a coordinated programme of delivery across all service areas and rational basis for the evaluation and prioritisation of individual project bids for capital investment.

35. The proposed capital programme for 2014-15 – 2017-18 will deliver a number of the infrastructure improvements identified in the IDP. Going forward, closer alignment of the capital programme to the delivery against the IDP will significantly aid in Council's communication of a clear and coherent picture around its strategic investment choices and decisions.

36. However, it is not intended that the IDP be a static document, rather it will be subject to periodic review and updated as necessary to take account of improvements already delivered, new population projections, changes in demands for different infrastructure provision, development completions and changes in service delivery and/or service funding. Such information will routinely be feed-in from the various service areas, enabling the IDP to provide a 'top-down' approach to Council's strategic decision-making about its future investment in capital improvements alongside other funding initiatives and property disposals.

Governance Structure For Delivery Of The Programme

37. The processes and procedures implemented surrounding the governance of the capital programme have continued to be developed. All capital projects are now included in VERTO, the Council's project management system.

38. 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.

Options considered

39. These are as detailed in paragraph 6.

Legal Implications

40. Included in the body of the report.

Financial Implications

41. Financial matters are integral to the report.

Performance Issues

42. 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.

43. 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).

44. Target for spend. It is proposed that a performance target is set of 90% of the approved budget for the programme being spent in 2014-15. Having approved an investment programme it is important that the programme is then substantially delivered in the planned timeframe, in line with member priorities.

Environmental Impact

45. 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.

46. 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.

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

Risk Management Implications

48. 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

Was an Equality Impact Assessment carried out? Yes

49. 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 effected 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.

50. 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*

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

Section 3 - Statutory Officer Clearance

Name: Simon George.....	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: ...2 December 2013.....		
Name: Jessica Farmer.....	<input checked="" type="checkbox"/>	on behalf of the* Monitoring Officer
Date: 18 November 2013.....		

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap.....	<input checked="" type="checkbox"/>	on behalf of the* Divisional Director Strategic Commissioning
Date: ...30 November 2013.....		

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker.....	<input checked="" type="checkbox"/>	on behalf of the* Corporate Director (Environment & Enterprise)
Date: 12 November 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

*(for completion by Democratic
Services staff only)*

YES/ NO / NOT APPLICABLE*

** Delete as appropriate.*

*If No, set out why the decision is
urgent with reference to 4b - Rule
47 of the Constitution.*