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**REPORT FOR: CABINET**

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| <b>Date of Meeting:</b>             | 10 December 2015  |
| <b>Subject:</b>                     | Draft Capital Programme 2016/17 to 2019/20  |
| <b>Key Decision:</b>                | Yes   |
| <b>Responsible Officer:</b>         | Dawn Calvert, Director of Finance   |
| <b>Portfolio Holder:</b>            | Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts  |
| <b>Exempt:</b>                      | No  |
| <b>Decision subject to Call-in:</b> | Yes   |
| <b>Wards affected:</b>              | All   |
| <b>Enclosures:</b>                  | Appendix 1 – Summary of Draft Programme<br>Appendix 2 – Draft Proposed Capital Programme<br>Appendix 3 – Changes from Programme approved in February 2015 |

**Section 1 – Summary and Recommendations**

This report sets out the proposed capital programme for 2016/17 to 2019/20 for consultation.

**Recommendations:**

Cabinet is requested to approve the draft capital programme, as detailed within Appendix 2, for consultation. The final version will be brought back to Cabinet in February with the results of the consultation with final approval

being by Council in February.

**Reason:** To enable the Council to have an approved capital programme for 2016/17 to 2019/20 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 £274m in infrastructure on General Fund and Housing Revenue Account services over the next four years.
2. The proposed capital programme has been prepared in the current climate of increased demand pressures and reduced external funding from Central Government.
3. The existing capital programme is a four year rolling programme with first year approved budgets and the subsequent three years provisional budgets subject to confirmation. The draft programme extends the existing programme by one year, to align it with the four year Medium Term Financial Strategy (MTFS).
4. Service directorates were invited to bid for capital resources, as part of their service proposals for 2016/17 to 2019/20. The starting point for this exercise was a refresh of the existing programme to 2018/19 and the extension of programmes to 2019/20. The proposals were scored using an updated scoring matrix to take account of the council's new priorities and equalities or other statutory duties, and in order to give a higher weighting to projects that generate revenue savings. These were then subject to challenge by officers and members.
5. 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 the need to provide school places for the increasing school 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.
  - The limited availability of capital receipts
  - 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. Proposals must be affordable.

A list of the proposed projects within the programme is detailed in appendix 2.

6. The gross value of the proposed General Fund programme is £85.239m for 2016/17, with external funding of £28.548m and a net cost to the Council of £56.691m.
7. The net programme funded by the general fund is increasing from that approved in February 2015 from £68.500m to £124.754m in the first three years, an increase of £56.254m. A net £20.495m has been added in respect of 2019/20.

### **Backlog Maintenance**

8. The Council has considerable backlog maintenance – the figures from the latest Asset Management Plan are as follows:
  - Corporate, Education and Miscellaneous buildings - £4.38m
  - Highways – £25m

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. The investment that has taken place in the Civic Centre is freeing up buildings for disposal and hence removing some of the backlog maintenance requirement. The substantial investment in schools that is currently taking place is also significantly reducing the backlog.

## **COMMUNITY DIRECTORATE**

### **Environmental Services**

9. There has been reprofiling of a number of projects across the first 3 years. The spend on a project for Harrow on the Hill station has been slipped from the current approved programme. An additional £1.5m has been included in 2016/17 in respect of street lighting, to accelerate the programme for the replacement of street lights. The programme added for 2019/20 totals £9.800m in respect of rolling programmes.
10. The draft programme allows for substantial highways works, to address some of the backlog, improvement to the ageing street lighting and drainage infrastructure. The investment in street lighting will provide the revenue savings needed to meet MTFS targets.
11. The programme also provides for investment in Parks Infrastructure which will create commercial opportunities for the Council.
12. There is provision for a number of Carbon reduction schemes. Carbon reduction schemes result in savings in energy costs.

13. There is provision for a collaboration with the 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 £3m is earmarked for 2018/19, and is aimed at (and conditional upon) leveraging in the significant investment required by GLA/TfL to deliver the project over a series of phases.
14. £0.700m has been included for Trade Waste bins as part of a commercialisation project to generate additional income for Trade Waste.
15. £0.600m has been included for CCTV cameras for traffic enforcement and security purposes.

### **Culture**

16. 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.
17. Provision of £1.5m has been made in 2017/18 for a refit of the Central Library and for Library refurbishments.
18. Provision has been made for a substantial programme of work at Headstone Manor. This is predominantly funded from a successful Heritage Lottery fund award.
19. Provision has been made for £3.8m of work at Harrow Arts Centre to extend and enhance the current provision, including a 2 screen cinema, as a part of the proposal to generate revenue income to enable the new Trust to be self-financing. Cabinet will receive a report in January which will determine the next steps for the Arts Centre.

### **Housing**

20. Council agreed in September 2015 to add £30m to the capital programme, commencing in 2015/16 in respect of a Property Purchase Initiative to reduce the costs to the Council of Homelessness. £7.5m was added to the 2015/16 programme and the balance of the £30m is included in 2016/17 and 2018/19.
21. Provision has been made for Disabled Facility Grants to provide adaptations for vulnerable residents, Improvement Grants and empty Property grants.

## **PEOPLE DIRECTORATE**

### **Schools**

22. The existing programme for Schools includes borrowing of £23.575m. However, on 12 February 2015, the Department for Education announced the latest Basic Need allocations. In addition to the 2017-18 new allocation, the Government allocated "top up" funding in 2015-16 and 2016-17 to distribute £300 million held back for those local authorities with unexpected increases in forecast pupils. Local authorities which reported an increase in their forecast of total pupil numbers for academic year 2017-18 of at least 2% and 250 pupils receive a portion of this funding in 2015-16 and 2016-17, to reflect their unexpected increase in need. Harrow is one of only four London

boroughs to successfully receive top up funding in these years and an increase in allocations over future years, totalling £19.607m, over and above the current notified allocations. This has been applied to the existing capital programme, including £6.1m in 2015-16, reducing the need for borrowing.

23. The proposed programme adds £14.625m of which £13.125m relates to secondary provision and the remainder relates to rolling programmes for bulge classes and capital maintenance. None of this is funded from grant. All of the notified grant allocations up to 2017-18 have been applied to the existing programme including an estimate of funding to be received in 2018-19. There are no further grant notifications anticipated in this period. The net increase in Harrow funded expenditure is £0.525m in 2016-17, £5.25m in 2017-18, £4.725m in 2018-19 and £4.125m in 2019-20. The total of Harrow funded expenditure over the four years is £14.625m.
24. The budget for the existing school expansion programme through to 2018-19 is £124.944m.

### **Phase 2**

25. As at the end of August 2015 there have been significant pressures identified primarily in Phase 2 (SEP2) of the programme. They include items omitted/excluded from the Agreed Maximum Price (AMP) schedules, delays leading to additional costs including Plan B options for works not completed by September 2015 and a number of external unforeseen factors such as UK Power. It is anticipated the worst case scenario forecast figures will not all come to fruition and that the programme will still be affordable within the budget. However, the programme is continually changing and therefore there is still a risk to this budget.
26. This does not include costs for two schools (Priestmead and Aylward) which will be rebuilt as expanded schools as part of the Government's Priority School Building Programme (PSBP) to improve the schools in the worst condition across the country.

### **Phase 3**

27. All Phase 3 (SEP3) schools are on very confined sites within heavily residential areas. Consequently this brings additional challenges to the building programme with enhanced planning requirements mainly around traffic and the size and type of building planning will allow. Furthermore, due to works having to be carried out whilst schools are in occupation means the building process will be longer which impacts on project costs. The current construction market in the UK and in particular in London is extremely buoyant with many construction firms working to capacity and with full order books. Because of this, the cost of construction related materials, labour and professional services are at a premium. This means the current SEP3 budget needs to rise to keep pace with the rising costs of the London construction market. On 17 September 2015 Cabinet approved a virement to the Capital Programme transferring £5.465m of funding from the as yet uncommitted Phase 4 School Expansion Programme to Phase 3 to fund these increasing costs from within the overall approved capital programme.

## **Secondary Provision**

28. In the existing capital programme £0.525m was added for 2018-19 as part of the 2014-15 MTFs process to begin the feasibility process of developing a new secondary school. The previous estimate had been £13.7m over a total of 4 years, starting in 2018-19, which would provide for a 5 form entry secondary school, without a sixth form.
29. At this stage, it is proposed to bring forward the programme of works for additional secondary school provision to 2016-17. This is because the current projections and planning to increase secondary capacity leaves a shortfall of places from 2021 onwards of at least a new school. This will be challenging and potentially lengthy to deliver, and it is considered necessary to begin this process in 2016-17 following the initial scoping work taking place in 2015-16. It may be that the specification for the additional school would need to be adjusted to 6 form entry.

## **Adults**

30. The Adults capital programme reflects in the main Project Infinity (£6.270m), and assumes full utilisation of the Community Capacity grant and an estimated capital funding requirement. The project covers a range of initiatives which seek, in light of the revenue financial challenges, to radically change the way in which care is provided as well as delivering revenue savings detailed elsewhere on the agenda. Commercial opportunities are being explored and the business case (currently being developed) will inform the required levels of capital investment in due course.
31. Investment associated with the social care reforms have been reduced (to £250k) and rephased to 2019/20 in response to the Government announcement to delay the second phase of the Care Act until April 2020.
32. The current programme does not include any provision in relation to integration with Health, and future programmes will update the requirement as the programme develops and identifies what, if any, capital investment may be required.

## **RESOURCES AND COMMERCIAL**

33. The Council outsourced the provision of IT services to Capita in November 2010. This contract ended in October 2015 and the new contractor is Sopra Steria. The provision in the draft programme allows for the anticipated capital expenditure with the new provider. Note there is already a provision of £2.56m for committed Sopra Steria projects as part of the current year budget which will be carried forward to cover expenditure in subsequent years, with most of that occurring in 2016/17.
34. The programme provides for further the continuing enhancement of existing corporate systems.
35. £350k has been included in respect of IT development to support the proposed shared service with Buckinghamshire.
36. £915k has been provided for the last instalment of the loan to West London Waste Authority to finance a new energy from waste facility.

## **REGENERATION**

37. £10.075m has been included in 2016/17 as agreed at the September 2015 Council in relation to site assembly in Wealdstone for the new civic Centre site.
38. £15m has been included for the Gayton road Development as agreed at council in September 2015.
39. £4.85m has been included for the Haslam House redevelopment.
40. Regeneration Development expenditure of £250k p.a. has been included, working towards delivery of a 25 year strategy with specific Capital investment proposals to follow consultation launched in early 2015.
41. There are a number of other regeneration schemes in development. Cabinet received a report on progress in September 2015. The new projects that have not yet been approved have not been included in this draft Capital Programme. The implications of these are currently being worked on for inclusion in the final report on the Capital Programme in February 2016.

## **CROSS CUTTING INVESTMENT IN INFRASTRUCTURE**

42. £5m has been included in 2016/17 for investment across directorates in infrastructure.

### **Capital Receipts**

43. Historically the timing and value of capital receipts has proved difficult to forecast, and have tended to be later than anticipated. In addition the council is moving away from selling property to partnering in developments in order to achieve an ongoing revenue stream. The draft capital programme does not assume any capital receipts in future years. To the extent that capital receipts are actually received, this will enable a reduction in capital financing costs, commencing in the year following their receipt.

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

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

### **Capital Funding**

45. The capital programme is funded from a number of sources. These include:
  - External Funding of the order of £30m in 2016/17, £74m across the four year programme period, 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**

General Fund Programme

|                                 | 2016/17     | 2017/18     | 2018/19     | 2019/20     | Total        |
|---------------------------------|-------------|-------------|-------------|-------------|--------------|
|                                 | £m          | £m          | £m          | £m          | £m           |
| Planned spending                | 85.2        | 69.2        | 38.4        | 24.0        | 216.8        |
| External funding                | -28.5       | -20.1       | -19.5       | -3.5        | -71.6        |
| <b>Net Prudential Borrowing</b> | <b>56.7</b> | <b>49.1</b> | <b>18.9</b> | <b>20.5</b> | <b>145.2</b> |

46. 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 draft revenue budget report for 2016/17 to 2019/20 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**

|              | 2016/17    | 2017/18      | 2018/19      | 2019/20       | 2020/21       |
|--------------|------------|--------------|--------------|---------------|---------------|
|              | £000       | £000         | £000         | £000          | £000          |
| MRP          |            | 2,606        | 5,254        | 7,416         | 9,488         |
| Interest     | 994        | 2,847        | 4,037        | 4,727         | 5,086         |
| <b>Total</b> | <b>994</b> | <b>5,453</b> | <b>9,291</b> | <b>12,143</b> | <b>14,574</b> |

47. The table above reflects the cost in each year of financing 2016/17 to 2019/20 programme. There is no MRP impact in 2016/17 as MRP in relation to expenditure in 2016/17 does not commence until 2017/18.
48. 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.
49. 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)**

50. 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 new or expanded local infrastructure such as schools, transport, green spaces, health and leisure facilities required to support the new development. Harrow's CIL is an additional levy on top of the London Mayor's Crossrail CIL, which is collected by all London Boroughs and passed onto the Mayor. 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.
51. Against an infrastructure bill, estimated to be at least £150m, CIL is expected to account for circa £25-35M by 2026, depending upon the level development permitted and the ability of the development industry to bring new proposals forward. To date Harrow has received total of £403k in CIL. CIL is only payable upon the commencement of the liable development, so there is a time lag between when the Council issues the CIL Liability Notice (generally with the relevant planning permission) and when CIL actually falls due and the Council receives the payment. Additionally, for larger schemes, CIL is paid in instalments over a period of time up to 240 days from the commencement of the development.
52. The CIL pipeline (i.e. the value of CIL liability notices issued to-date but not yet triggered as the liable development has not commenced) currently stands at £6.8M. However, this full amount is unlikely to be received as some developments will not proceed and others may be able to seek relief / exemption from CIL i.e. affordable housing, charitable relief etc. Furthermore, a number of additional exemptions proposed by the Government is likely to further reduce anticipated CIL receipts (for example, the Government's proposed 'Starter Homes' will be exempt from CIL and affordable housing). It is likely that that a significant proportion of the CIL contributions may be made in kind – for example through the provision of new social & community facilities within new developments. 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.
53. Arrangements regarding the governance for allocating and spending CIL receipts are currently being developed. 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 bidding and approval process for all infrastructure projects
  - Consultation with the community on infrastructure delivery (including the obligation to pass at least 15% of Harrow CIL receipts 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

### **Harrow's Infrastructure Delivery Plan (IDP)**

54. 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.
55. The effectiveness of the IDP is in capturing Harrow's future infrastructure improvements and requirements in one place, based on the location and scale of planned development and population increases. 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. It is also a powerful tool for informing the Council's Regeneration Strategy, particularly the development of Council-owned sites.
56. The proposed capital programme for 2016/17 to 2019/20 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.
57. 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. The IDP is currently being updated to take into account higher than anticipated population growth rates and the Borough's increased housing target in the London Plan 2015.

### **Governance Structure For Delivery Of The Programme**

58. 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.
59. Governance of the Capital Programme in 2016/17 will continue to include monitoring and review by Capital Forum and the Corporate Strategic Board on a monthly basis, with reporting to Cabinet at the end of each quarter.

### **Options considered**

60. These are as detailed in paragraph 5.

### **Legal Implications**

61. Under the Financial Regulations paragraph B2 full council is responsible for agreeing the authorities policy framework which are proposed by the cabinet this includes the capital programme.

### **Financial Implications**

62. Financial matters are integral to the report.

### **Performance Issues**

63. 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.
64. 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).
65. Target for spend. It is proposed that a performance target is set of 90% of the approved budget for the programme being spent in 2015/16. 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**

66. 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.

67. 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.
68. Some of the projects will specifically support the strategy in terms of mitigation and adaptation.

## **Risk Management Implications**

69. 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**

70. 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.

71. 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*

72. 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**

73. This report deals with the use of financial resources which is key to delivering the Council's new priorities:
- Making a difference for the vulnerable
  - Making a difference for communities
  - Making a difference for local businesses
  - Making a difference for families

### **Section 3 - Statutory Officer Clearance**

|                        |                                     |   |
|------------------------|-------------------------------------|---|
| Name: Dawn Calvert     | <input checked="" type="checkbox"/> | on behalf of the<br>Chief Financial Officer |
| Date: 30 November 2015 |                                     |   |
| Name: Jessica Farmer   | <input checked="" type="checkbox"/> | on behalf of the<br>Monitoring Officer      |
| Date: 27 November 2015 |                                     |   |

|                                   |   |
|-----------------------------------|---|
| <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:** Steve Tingle, Senior Financial Advisor (Strategic Finance)

Email: [steve.tingle@harrow.gov.uk](mailto:steve.tingle@harrow.gov.uk)

**Background Papers:** None

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

**NOT APPLICABLE**

*[Call-in applies]*