
REPORT FOR: CABINET

Date of Meeting:	16 February 2017
Subject:	Final Capital Programme 2017/18 to 2019/20
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No
Decision subject to Call-in:	No, as the decision is reserved to Council
Wards affected:	All
Enclosures:	Appendix 1 – Proposed Capital Programme 2017/18 to 2019/20 Appendix 2 – New capital additions (included within Appendix 1) 2017/18 to 2019/20

Section 1 – Summary and Recommendations

This report sets out the proposed Capital programme for the financial years 2017/18 to 2019/20

Recommendations:

1. Cabinet is requested to recommend the capital programme, as detailed within Appendix 1, to Council for approval

Reason: To enable the Council to have an approved capital programme for the period 2017/18 to 2019/20.

Section 2 – Report

Development of the Capital Programme

1. This report sets out the Council's proposals for Capital investment over the period 2017/18 to 2019/20. These provide for very substantial investment over the next 3 years in the General fund and Housing Revenue Account.
2. The proposed Capital Programme has been prepared in the current climate of increased demand pressures and reduced external funding from Central Government.
3. 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 and other statutory duties.
4. 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, 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 the Department of Education 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.
5. Capital proposals were considered against the following criteria:
 - The proposal is required for evidenced legislative or regulatory reasons
 - The proposal generates sufficient income to cover capital financing costs with a sufficient degree of certainty. If the scheme does not cover financing costs immediately, it will need to generate a return for the general fund in later years in excess of financing costs
 - The proposal addresses a well-defined strategy to deliver an administration priority.

6. The draft Capital Programme report presented to Cabinet in December 2016 included a schedule of proposed additions to the Capital Programme between 2017/18 and 2019/20 which would be subject to further review and consideration during December and January, prior to inclusion in this Final Capital Programme report in February 2017. The proposals have been reviewed against the criteria above and a number of the original proposals which had a start date of 2018/19, have been removed where it was felt that they would benefit from more work being carried out and then be represented as part of the 2018/19 Capital Programme budget process.
7. A list of the new proposed projects within the programme is detailed in appendix 2 and summarised in Table 1 below:

Table 1

<i>New Capital Proposals 2017/18-2019/20</i>				
Service Area	2017/18	2018/19	2019/20	TOTAL
	£'000	£'000	£'000	£'000
Resources	1,700	1,700	1,700	5,100
Adults	5,350	0	0	5,350
Environmental Services	6,310	13,410	6,130	25,850
Cultural Services	1,470	377	1,053	2,900
Housing General Fund	9,230	6,746	0	15,976
Total General Fund	24,060	22,233	8,883	55,176

8. These provide for a very substantial net investment of £55.2m 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 £61.566m, with external funding of £6.390m and a net increase in the programme of £55.176m.

The new capital proposals are set out at Appendix 2.

Resources

9. Information Technology (IT) – an additional £1.7m per annum capital is being proposed for each year between 2017/18 and 2019/20. This is to cover the refresh of devolved applications, maintain external compliance and to support the deployment of new applications.

Adults

10. Sancroft care home - £5.1m is being proposed for 2017/18. This capital is being added into the Capital Programme, however, a separate future cabinet report will be required which sets out the business case to support the capital expenditure.

11. Mentis project - £250k is proposed in 2017/18 to support the Mentis Pilot project. Capital investment is required to convert and adapt a building. This £250k expenditure will not be released until a business case is provided to support the capital expenditure.

Community Directorate

12. Highways and Roads - £4.8m is proposed to improve the Highways infrastructure. This funding is split £2.4m in 2017/18 and £2.4m in 2018/19. The £4.8m will be funded from Community Infrastructure Levy (CIL) income and does not incur any additional capital financing costs. 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.
13. 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. The Council has already received approximately £4.2m CIL income to date for the years 2015/16 and 2016/17. It is anticipated that the further £0.6m CIL funding required to fund this Highways and Roads expenditure, will be received in 2017/18 to 2018/19.
14. Street Litter Bins - £300k pa is proposed for the 3 years 2017/18 to 2019/20 to provide an adequate number of street litter bins.
15. Depot redevelopment - £24.2m is proposed over the three year period 2017/18 to 2019/20 for the redevelopment of the Central depot. This proposal is subject to the business case being agreed by Cabinet in a separate future cabinet report. The business case will set out the proposal to consolidate and intensify the existing depot and make efficient use of the facility, improve office and welfare facilities for staff as well as maintaining revenue income and also generate additional revenue income for the Council. It is anticipated that the additional revenue income will cover the running costs of the depot and capital financing costs of the £24.2m capital expenditure. The current budget includes the Capital financing costs of the depot and also the anticipated revenue income to cover the costs, so it is cost neutral to the budget.
16. Vernon Lodge - £750k for roof works in 2017/18. There are alternative proposals being looked at for Vernon Lodge. If no other alternative use is proposed then there will be a requirement to replace the roof, but this will only be committed to once other alternatives have been ruled out.
17. Central Library refit - £1.3m is required in 2018/19 and 2019/20 for the library refit.
18. Harrow Arts Centre - £1.6m is required from 2017/18 for the roof at the Arts Centre.
19. Disabled Facilities Grants - £530k pa from 2017/18 to 2019/20 which is all externally funded.

20. Empty property grants and Empty property initiative – £976k grants and funding across 2017/18 to 2019/20 to help to get empty properties back into use.
21. Extension to the Property Purchase Initiative - £15m across 2017/18 to 2018/19. This is an extension to the previous 100 homes property initiative and provides funding for a further 50 properties to be purchased on the open market for the Council to use as Temporary accommodation, providing good quality temporary accommodation.

Capital Funding for the New Capital Additions

22. 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 Final 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
Total MRP	0	1,014	1,879
Total Interest	295	862	1,238
Total Capital Financing Costs	295	1,876	3,117

23. 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: £295k 2017/18, £1.581m 2018/19 and £1.241m 2019/20.
24. There is no MRP impact in 2017/18 as MRP in relation to expenditure in 2017/18 does not commence until 2018/19.
25. 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.

The Capital programme 2017/18 to 2019/20

26. The final Capital programme report submitted to Cabinet and Council in February each year sets out spending plans for the period of the MTF5 so usually 3 or 4 years. Once the Capital Programme is agreed by Cabinet and Council in February each year, the Capital programme is reviewed as part of the Annual Budget Setting process. This gives Directorates the opportunity to re-align the Capital Programme agreed in the previous February with their latest estimates of the spending profile of the projects.
27. The impact of re-profiling of spending between years is cost 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 detailed Capital Programme provided in Appendix 1 which also includes the additions set out separately in Appendix 2:

Table 3: Capital Programme 2017/18 to 2019/20

	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000
Total Capital Programme approved in Feb 2016.	81,212	29,517	29,564	140,293
Amendments made during 2016/17	-722	1,110	-2,030	-1,642
Revised 2016 Capital Programme excluding Regeneration amendments	80,490	30,627	27,534	138,651
Amendment to Regeneration Capital Programme on 24th May 2016 Cabinet	59,445	114,200	110,220	283,865
Amendment to Regeneration Capital Programme - 19th January 2017 Cabinet	-37,640	83,420	-28,582	17,198
Total Regeneration Capital Programme amendment	21,805	197,620	81,638	301,063
New Capital Additions 2017/18 to 2019/20	24,060	22,233	8,883	55,176
Total Capital Programme 2017/18 to 2019/20	126,355	250,480	118,055	494,890

28. The total Capital Programme set out in Appendix 1, incorporates the Regeneration Programme (see paragraphs 29 to 33) and the new capital additions (see paragraphs 7 to 21). There were also some reductions made in 2016/17 which are a total net reduction of £1.642m across the period 2017/18 to 2019/20. The £1.642m relates to a reduction in the HRA Capital Programme which has no impact on the General Fund Budget. In addition, there has been a £6m reduction in 2018/19, which relates to Schools where the Basic Needs Funding allocation originally assumed in 2018/19 will now not be received and therefore the programme has been reduced accordingly. This is cost neutral to the budget as both the grant and expenditure have been reduced.

Regeneration Capital Programme

29. The Capital Programme for 2016/17 to 2019/20 agreed by Cabinet and Council in February 2016 included initial Capital Budgets for the Regeneration programme covering 2016/17 to 2017/18 of £43.6m. There was a subsequent report to Cabinet in May 2016, which increased the budget as set out below:

	2016/17	2017/18	2018/19	2019/20
Total expenditure	£16,655,000	£83,770,000	£114,450,000	£110,220,000

30. A further report was submitted to Cabinet in January 2017 setting out the revised Capital Programme required for the Regeneration programme and this will be the budget included within the Capital Programme for approval at this Cabinet meeting. The revised Expenditure profile is as follows:

	2017/18	2018/19	2019/20
Total Expenditure	£46,129,847	£197,870,141	£81,637,958
Previous budget	£83,770,000	£114,450,000	£110,220,000
Variation	-£37,640,153	+£83,420,141	-£28,582,042

31. The following Table below sets out the movement and amendments to the Regeneration Capital Programme between February 2016 and February 2017:

Table 4

	2016/17	2017/18	2018/19	2019/20	TOTAL
Regeneration	Net Value £000	Net Value £000	Net Value £000	Net Value £000	Net Bid Value £000
Regeneration Agreed Feb 2016	19,058	24,325	250	0	43,633
Amendments 24th May 2016 Cabinet	-2,403	59,445	114,200	110,220	281,462
Total Capital Budgets May 2016	16,655	83,770	114,450	110,220	325,095
Amendments 19th January 2017 Cabinet	0	-37,640	83,420	-28,582	17,198
Total Capital Budgets January 2017	16,655	46,130	197,870	81,638	342,293

32. Expenditure requirements over the financial years 2017/18 to 2019/20 are estimated at £325m, to be funded through a combination of land receipts and new borrowing. The total cost of the Regeneration programme is anticipated to be in the region of £349m over the period 2016/17 to 2021/22, with land receipts in the region of £108m being generated to help fund the cost of works.
33. The net retained debt at the end of the programme is estimated to be £241m. Aside from years 3 and 4 of the programme, the cost of servicing the debt is covered by the rental income from the programme which also yields a new financial return for the Council. The costs in years 3 and 4 will be covered by the MRP provision set aside for this purpose.

Capital Receipts

34. The Property Disposal Programme was submitted to Cabinet on 17th November 2016. The asset management strategy adopted for the review requires that surplus properties and those not meeting the Investment Strategy criteria are to be proposed for disposal to maximise capital receipts which can be used to fund service improvements across the Council. For the financial years that begin on 1 April 2016, 1 April 2017 and 1 April 2018, Local Authorities can use capital receipts to fund expenditure that is incurred to generate on going revenue savings in the delivery of public services and / or transform service delivery to reduce costs and / or transfer service delivery in a way that reduces costs or demand in future years. It is estimated that £3m will be received in 2016/17 and this can then either be applied as part of the capital receipts flexibility that the Government has provided or else applied to fund mainstream capital expenditure from 2016/17 onwards.

HOUSING REVENUE ACCOUNT (HRA)

35. 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

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

Legal Implications

37. 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

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

Performance Issues

39. 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.
40. Monitoring of the approved programme, is ongoing and is essential for good financial management.
41. It is proposed that a performance target is set at 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

42. 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

43. 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 separate Cabinet reports and full Equality Impact Assessments before they commence.

44. 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*

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: 6 February 2017		
Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 2 February 2017		

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	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

Background Papers: None

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in does not apply as the decision is reserved to Council]</i>
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