REPORT FOR: CABINET

Date:	9 February 2012
Subject:	Capital Programme 2012-13 to 2014-15
Key Decision:	Yes
Responsible Officer:	Julie Alderson, Interim Director of Resources
Portfolio Holder:	Councillor Bill Stephenson, Leader of the Council and Portfolio Holder for Finance and Business Transformation
Exempt:	No
Decision subject to Call-in:	No
Enclosures:	Annex 1 – Proposed and indicative Summary Capital Programmes Annex 2 – Capital Strategy FY12/13

Section 1 – Summary and Recommendations

This report sets out the proposed capital programme for 2012-13 and the indicative programmes 2013-14 to 2014-15 and forms part of the annual budget review process.

Recommendations:

- Cabinet approves the Capital Strategy, as laid out in Annex 2, and recommends it to Council.
- The Cabinet recommends the capital programme, as detailed within Annex 1, to Council for approval of the allocations within it.

Reason: (For recommendation)
To enable the Council to have an approved capital programme for 2012-13 to 2014-15.

Section 2 – Report

Development of the Capital Programme

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

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

2. In February 2011, the capital programme was extended to a five year rolling programme and was essentially determined by review of the prior year allocations to each service directorate. Due to pressures outlined above and the increased future uncertainty, the capital programme is now on a three year rolling programme.

A new Capital Strategy (Annex 2 attached) has been devised in order to provide a clear approach to Capital Programme development. The Capital Strategy 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.

Rather than allocating budgets to each service directorate, as done previously, the service directorates were invited to bid for capital resources and each proposal requiring Council resources was considered by Capital Bid Validation panel.

The results were then reviewed by CSB in conjunction with portfolio holders, and the attached proposed programme was produced (Annex 1).

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

- Unavoidable spending requirements such as major repairs to the Council's buildings and carriageway and footway resurfacing.
- 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.

4. The proposed capital programme includes provision for:

- Keeping neighbourhoods clean, green and safe
  - Public Realm improvements
  - Street Lighting Improvements
  - CCTV projects
  - Harrow Green Grid

- Supporting and protecting people who need it most
  - Disabled Facility Grants
  - Affordable Warmth
  - Bentley Day Centre
  - Schools Expansion Programme

- United and involved communities: a Council that listens and leads
  - Housing Programme
  - Upgrading of People's Network
  - Neighbourhood Investment Scheme

- Supporting our Town Centre, our local shopping centres and businesses
  - Town Centre infrastructure projects

- Other/Combination of priorities
  - Highways Improvements
  - Civic Centre modernisation and development
  - New projects emerging from the Transformation Programme
  - ICT infrastructure to facilitate a number of transformation projects, including mobile and flexible working
  - High priority major works to corporate buildings

The Summary Capital Programme is attached at Annex 1.

5. The gross value of the general fund programme is £43.0m for 2012-13, with external funding of £9.7m and a net cost to the Council of £33.3m.

In order meet the authority's obligations and priorities, in the light of considerable financial pressures, a range of funding and accounting options have been considered. This has resulted in the inclusion over and above the main Capital Programme of four items/projects

- School Expansion Programme - Financing costs of the earlier years to be met by s106 planning resources.

  In order to meet the need for increased pupil places a review of options for new builds/expansions has been undertaken. The DfE capital grants are insufficient for the expansion requirement and thus an additional £3.3m in 2012/13 and £4.6m in 2013/14 is anticipated to be required.

  We routinely negotiate section 106 planning resource (s106) contributions from developers, including specific allocations for additional school places. To ensure we can meet our urgent statutory obligations for the provision of additional school places, we plan to use these s106 contributions to fund the financing costs associated with the borrowings required for the first three years. Once the Council's transformation programme is complete there will be headroom in the capital financing budget to accommodate the future years financing costs.

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

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

- Land acquisition - All financing costs to be capitalised as part of the development cost.

  £3m in 2012/13 and £1.5m in each of 2013/14 and 2014/15.
  This would allow all opportunities/developments to be met on a timely basis.

- Refit – To be funded from savings if Corporate property related or reimbursement from Schools if Schools related.

  Maximum of £720k required in 2012/13.

Backlog Maintenance

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

i) School buildings - £56m (excludes academies)

ii) Corporate, Education and Miscellaneous buildings - £12m

iii) Highways – in excess of £150m

The level of investment contained within this programme does not clear the full backlog. It should be noted that the Council cannot afford to fully address the backlog in the short term, however, the Council will do at least what is necessary in order to comply with health and safety legislation. The programme does include projects which address some of the backlog and also the investment in the civic centre will free up buildings for disposal and hence remove some of the backlog maintenance requirement.

7. ICT Investment

The Council outsourced the provision of IT services to Capita in November 2010. The aim was to provide enhanced IT facilities, allowing for improved disaster recovery, increased resilience, flexible working and a scaleable service. As part of this outsourcing there was a significant capital investment in software and equipment that was included in the capital programme. The capital investment under the contract was to take place largely at the end of 2010-11 and through 2011-12, with the remainder in 2012-13. Due to some delays, a number of milestones will only be reached in 2012-13. The improved IT infrastructure is an essential prerequisite to much of the Council's transformation programme.

8. Business Transformation

In the last couple of years the Council has embarked upon an ambitious programme of Transformation in order to help meet the revenue funding gaps it was facing without, as far as possible, affecting frontline services.

In 2011-12 there was the continuation of a number of projects approved in 2010-11 and a new Procurement project was approved and commenced.

These projects normally require capital investment up front in order to realise savings.

The programme for future years includes provision for a number of schemes that are currently at an early stage of development. It is anticipated that these will result in significant revenue savings, however they will only proceed following approved cost justified business cases.

9. Children's Services

The DfE have confirmed the 2012-13 allocation of capital grant totalling £5.1m, which is a £1.7m reduction from 2011-12. The grant is separated between:

- £2.8m for basic need, which is intended to ensure there are adequate school places for increasing pupil numbers, and
- £2.3m for capital maintenance to cover both schools and children's centres.

Latest estimates to meet growth and demand (Schools Expansion Programme) alone for 2012/13 is over £8.1m – a £3m shortfall on total grant allocation and £5.3m on the basic need allocation.

Other capital requirements comprise of SEN, schools maintenance including backlog works and IT requirements.

In order to meet these obligations a further item for the Schools Expansion Programme is noted outside of the main programme (as detailed in paragraph 5).

10. Community and Environment.

Even in the light of the financial pressures on the programme the proposed 2012-13 Community and Environment allocation marks an increase from the 2011-12 allocation and results from the new Capital Strategy (see paragraph 2 and Annex 2).

The allocation allows for substantial highways works, to address some of the backlog, improvement to the aging street lighting, safety improvements from additional CCTVs as well as looking into major Carbon reduction schemes.

11. Capital Receipts

The capital programme assumes a programme of property disposals that are expected to raise £10m in 2012-13, £7.2m in 2013-14 and £2.5m in 2014-15.

12. Housing Revenue Account (HRA)

The HRA Capital Programme is detailed in a separate report also being submitted to the same Cabinet meeting. It is also summarised at the end of Annex 1 to this report.

13. Capital funding

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

- External Funding of the order of £9.7m in 2012-13 is expected to be primarily from the DfE, Transport for London and the Outer London Fund
- Borrowing
- Capital receipts
- s106 planning agreements
- Major Repairs Allowance (Housing Revenue Account)

It is anticipated that the general fund programme will be financed as follows:

Table 1: New borrowing requirement

Main General Fund Programme

	2012-13 £m	2013-14 £m	2014-15 £m
Planned spending	33.0	27.3	25.3
External funding	(9.7)	(9.3)	(7.8)
Capital Receipts	(10.0)	(7.2)	(2.5)
Net Additional Borrowing	**13.30**	**10.80**	**15.00**

Main General Fund and Other items (maximum impact)

	2012-13 £m	2013-14 £m	2014-15 £m
Planned spending	43.0	36.4	29.8
External funding	(9.7)	(9.3)	(7.8)
Capital Receipts	(10.0)	(7.2)	(2.5)
Net Additional Borrowing	**23.30**	**19.90**	**19.50**

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 have been factored in to the revenue budget report for 2012-13 to 2014-15 being considered elsewhere on the 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 excludes the revenue implications of previous years' capital programmes.

Table 2: Capital financing Implications of Capital Programme

	2012-13	2013-14	2014-15	2015-16
	£000's	£000's	£000's	£000's
MRP	0	1,131	1,869	2,587
Interest	78	231	713	1,184
Total additional cost	78	1,362	2,582	3,771

The table above reflects the impact of the 2012-13 to 2014-15 programmes to each financial year. There is no MRP impact in 2012-13 as MRP in each financial year is calculated using relevant spend up to the preceding financial year.
The interest impact in 2012-13 appears low. It is based upon borrowings relevant to the main general fund programme, with the calculation assuming approximate even spend during the year at the internal borrowing rate of 1% p.a.

There is no new planned borrowing in respect of the HRA programme from 2012-13 onwards. 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 further explained in the HRA budget report also within these Cabinet papers.

It should be noted that the capital financing costs are based on a number of assumptions about the level of capital expenditure, level of capital receipts, timing of any borrowing, interest rates, and use of the minimum revenue provision. The revenue budget reflects the best estimate based on these assumptions.

14. Governance Structure For Delivery Of The Programme

The Interim Director Of Finance took over the Chairmanship of the Council's Capital Forum in May 2011. In 2011-12 the following has been undertaken:

- Review of the Capital Forum terms of reference and membership

- Production of a capital strategy - including the introduction of an objective scoring mechanism to prioritise activity within the programme

- Introduction of procedures to ensure that any new project or scheme required the production of full business cases before the allocation of any capital budgets

Governance of the Capital Programme in 2012-13 will include monitoring and review by Capital Forum on a monthly basis with reporting to Cabinet at the end of each quarter.

Financial Implications

15. Financial matters are integral to the report.

Performance Issues

16. There are no direct implications for individual performance indicators. The capital programme provides the financial resources required to implement a number of the Council's priorities and priority actions. Service Directorates were required to put forward their capital proposals as part of the Council's budget setting process which commenced in the autumn of 2011.

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

Environmental Impact

17. 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.

From April 2011, the council will need to purchase carbon allowances for each tonne of carbon it emits from its corporate buildings and schools.

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 projects is required to consider their respective carbon impacts and include measures to ensure that the above target is supported.

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

Risk Management Implications

18. The individual schemes within the programme will either be incorporated within departmental registers or have individual registers

Corporate Priorities

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

Equalities implications

20. Was an Equality Impact Assessment carried out? Yes – see below

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.

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

Decision makers should have due regard to the public sector equality duty in making their decisions. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as material in the press and letter 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*

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Date: 31 January 2012	√	Chief Financial Officer
Name: Jessica Farmer Date: 31 January 2012	√	on behalf of the Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 23 January 2012	√	Divisional Director, Partnership, Development and Performance

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker Date: 20 January 2012	√	on behalf of Divisional Director Environmental Services

Section 6 - Contact Details and Background Papers

Contact: Julie Alderson Email: julie.alderson@harrow.gov.uk

Background Papers: NONE

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in does not apply to any Recommendations that fall in within the remit of Council]*