

Report of: Executive Member for Finance, Performance and Community Safety

Meeting of:	Date:	Ward(s):
Council	5 December 2019	All

Delete as appropriate:		Non-exempt
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SUBJECT: ADDITIONAL INVESTMENT IN THE 2019/20 CAPITAL PROGRAMME

1. Synopsis

- 1.1 This report presents a package of additional investment in the 2019/20 capital programme, totalling £8.602m, to align with expected capital expenditure profiles and enable several key capital projects to progress in the current financial year.
- 1.2 The increased investment in the 2019/20 capital programme will be fully funded from external contributions and capacity in the existing capital financing budget (including underspends/re-profiled expenditure elsewhere in the capital programme).
- 1.3 There will be a further review and increase of the medium-term capital programme as part of the 2020/21 budget setting process.

2. Recommendations

- 2.1 To agree the changes to the capital programme covered in this report and the revised 2019/20 capital programme at **Appendix 1** incorporating these changes.
- 2.2 To note that the medium-term capital programme will be further reviewed and increased as part of the 2020/21 budget setting process.

3. Background

3.1 Following a mid-year review, an increased investment in the 2019/20 capital programme will enable key capital projects to progress in the current financial year and deliver improved outcomes to residents.

4. Summary of Additional Investment in 2019/20 Capital Programme

4.1 The changes to the 2019/20 capital programme included in this report are summarised by directorate in **Table 1** below and detailed at **Appendix 1**.

Table 1: Summary of Changes to 2019/20 Capital Programme

Directorate	Previous 2019/20 Capital Programme £m	Changes included in this report £m	Revised 2019/20 Capital Programme £m
Environment and Regeneration	17.259	5.460	22.719
Housing	114.171	(0.909)	113.262
People	14.007	(0.633)	13.374
Resources	0.000	4.684	4.684
Total	145.437	8.602	154.039

4.2 The decrease in the 2019/20 Housing capital programme is due to a virement of re-profiled expenditure on the new build capital programme (General Fund element) towards the increased current year capital investment in the Environment and Regeneration and Resources directorates. This does not affect the overall resources available to the Housing capital programme over the medium term.

4.3 Overall, the package of additional capital investment included in this report, totalling £8.602m, equates to a 5.9% increase in the 2019/20 capital programme.

4.4 There will be a further review and increase of the medium-term capital programme as part of the 2020/21 budget setting process.

5. Central Library Renovation

5.1 The renovation of the Central Library will provide borough wide benefits to residents, especially families who are developing their literacy skills, the growing number of young people who need a space to study, and residents who are unemployed or in poorly paid employment and wish to return to learning.

5.2 The project is in two phases. Phase 1 works, completed in September 2019, included:

- Refurbishment of the Reference library on the 2nd floor and the creation of a quality study space. This space has increased capacity by 25%;
- New purpose built First Steps Learning Centre on the 2nd floor. This replaces the Learning Centre on the ground floor which was not fit for purpose and utilises previously underused space;
- Redecoration and new flooring in large parts of building.

- 5.3 Phase 2 works will convert the vacated space on the ground floor into an operating base for Tall Stories, and will restore and re-open to the public the beautiful historic entrance on Holloway Road.
- 5.4 Tall Stories is one of the country's leading children's storytelling theatre companies. The charity aims to bring great stories to life, making live performances out of traditional stories, brand new stories and brilliant children's books like The Gruffalo to promote storytelling and reading for pleasure. The operating base for Tall Stories will be a rehearsal room equipped to work on theatrical productions from the initial idea through to full dress rehearsal with set, props, costume and lighting. There will also be an office for the small staff team and a small store for costumes.
- 5.5 The idea behind the Library Service partnership with Tall Stories is that the working space for the theatre company and what the company is making will be the inspiration for free education workshops, behind the scenes tours, open rehearsals and exhibitions, using sets and costumes that bring to life the story the production is based on as well as revealing how a theatrical production is made.
- 5.6 Tall Stories has made an ongoing commitment to deliver free activity, planned and agreed with the library service to meet local priorities. In addition, the charity is contributing capital funding and will pay a rent to the library service.
- 5.7 In summary, when the Central Library building renovation works are completed, historic features such as the entrance on Holloway Road will be restored and enjoyed by our residents. Furthermore, a thoughtful utilisation of vacant space and an innovative new partnership with Tall Stories will significantly increase the quantity and quality of what the library service is able to offer, free of charge to residents and targeting those that need our help the most.
- 5.8 In total, a capital budget of £1.067m is required, of which £0.500m will be funded from existing budgets allocated to the scheme, Section 106 funding and a contribution from Tall Stories, and £0.567m will be funded from capacity within the existing capital financing budget. The required capital budget for this scheme in 2019/20 will be funded by way of a £1.067m capital virement from a forecast £1.700m underspend on the school expansion schemes contingency budget (net nil within the People directorate).
- 5.9 Phase 2 tenders have been received. Prices are currently being checked but the returns are within the planned budget.

6. Extensive Refurbishment of 49-59 Old Street

- 6.1 The project to renovate and upgrade 49-59 Old Street ready for commercial letting has significantly progressed in the current financial year. The extensive refurbishment works have created high quality offices that are expected to generate a fourfold increase in rental income to support the Council's overall revenue budget available to pay for key Council services and mitigate the impact of Government funding cuts and other inflationary and demographic cost pressures. It is anticipated that the eventual occupiers will be tech firms who will enhance employment opportunities in the locality.
- 6.2 Following previous uncertainty around the split between capital and revenue expenditure, the expected total capital cost of the project is £2.423m (£0.714m prior year expenditure

plus £1.709m to be profiled in the current year capital programme). The current year capital programme has been increased by £1.000m for this scheme (funded from capacity within the existing capital financing budget) and the scheme budget has been further increased to the required £1.709m by way of a £0.633m capital virement from the remaining forecast underspend on the school expansion schemes contingency budget (People directorate) and £0.076m re-profiled expenditure on the current year Housing new build capital programme (General Fund element).

- 6.3 The 49-59 Old Street project includes forecast revenue costs of £1.793m in 2019/20. This is funded from the 'capital reserve' (an earmarked revenue reserve) previously set aside for revenue costs associated with capital projects.

7. Cladding Replacement

- 7.1 The revised 2019/20 capital programme also includes a new, earmarked grant funded project (£2.975m) to replace the cladding on the flats leased to a housing trust on the Council-owned Bridge School campus. As well as complying with all fire and health and safety regulations, the new cladding will provide an enhanced insulated and environmentally friendly building.

8. Bunhill Energy Centre Project Phase 2

- 8.1 The Bunhill Energy Centre Project was launched in November 2012 and Phase 2 of the project commenced in 2014. It involves the extension of the existing district heating network and the utilisation of waste heat that is being vented from the tube network and aims to provide heat and power to an estimated 1,500 dwellings in the Bunhill district. It also provides cooling for the tube network simultaneously. Unlike normal electricity production, which wastes up to two thirds of the fuel used to make it, Bunhill Heat and Power uses otherwise wasted heat to heat dwellings and thus is more efficient, cheaper and greener. Phase 2 represents a novel approach to district heating, and as such has required partnership with London Underground Limited (LUL), who own the vent shaft used in the project.
- 8.2 Following a detailed review of this globally unique project, it became clear that the previously approved budget of £9.825m was insufficient to meet the revised scope of the project and the Council's contractual obligations with the construction contractor. The expected project cost is now £16.311m (including prior year expenditure), which indicates that the originally approved budget was insufficient to deliver the project. The variance against budget results from additional construction cost due to several, essential changes to project scope and the additional time required to complete the project (£5.2m); additional specialist advisor costs and project team capacity (£0.6m); and the introduction of project contingency (£0.8m).
- 8.3 The expected project cost includes a contingency of £0.810m. This represents 34% of the remaining planned expenditure on the project and is based on a refreshed set of quantified and weighted risks. This level of contingency is supported by all of the Council's professional advisors, but will be tightly managed and only expensed as required.
- 8.4 The forecast expenditure profile of the additional budget requirement is £5.460m in 2019/20 and £1.026m in 2020/21. In order to progress the project to completion in the current financial year and start to realise the project benefits as early as possible, it is recommended that the 2019/20 capital budget is increased by the required £5.460m. The sources of funding for this budget increase are £4.088m from the Carbon Offset Fund (a form of Section 106 funding, subject to recommendation by the Affordable Energy Board and the Borough

Investment Panel to the Executive which will be requested to approve the allocation at its meeting on 28 November 2019); £0.539m forecast additional external income from the scheme; and £0.833m from re-profiled expenditure on the current year Housing new build capital programme (General Fund element).

- 8.5 The additional capital budget requirement in 2020/21 (£1.026m) will be factored into the revised capital programme to be included as part of the 2020/21 budget report.

9. Implications

9.1 Financial implications:

The changes to the 2019/20 capital programme will be fully funded from external contributions and capacity in the existing capital financing budget (including underspends/re-profiled expenditure elsewhere in the capital programme).

Where the changes are funded from re-profiled expenditure elsewhere in the 2019/20 capital programme, the future year capital programme will be adjusted so that there is no impact on overall resources available for existing projects.

The forecast capital budget requirement in 2020/21 for the Bunhill Energy Centre Phase 2 project (£1.026m) will be factored into the revised capital programme to be included as part of the 2020/21 budget report.

9.2 Legal Implications:

Full council approval is required for changes to the capital programme where the increase or alteration exceeds £1m (Financial Regulations 4.19, 4.22 and 4.24). The Council may approve the revised capital programme 2019/20 subject to being satisfied that the additional financial resources are available.

9.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

This report in itself does not in itself have any direct environmental implications.

9.4 Resident Impact Assessment:

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

This report increases capital investment in the 2019/20 capital programme to enable the progression of key capital projects in the current financial year, but does not in itself have any direct policy implications. These individual capital projects either will have been or will be subject to their own resident impact assessments.

10. Reason for recommendations

10.1 To increase investment in the 2019/20 capital programme to align with expected capital expenditure profiles and enable key capital projects to progress in the current financial year
These projects will deliver the following benefits to residents:

- A renovated Central Library for the use and enjoyment by residents across the borough, including a thoughtful utilisation of vacant space and an innovative new partnership with Tall Stories which will significantly increase the quantity and quality of what the library service is able to offer, free of charge to residents and targeting those that need our help the most;
- The enhancement of local employment opportunities and the generation of a significant rental income from the Council's building at 49-59 Old Street, which will support the Council's overall revenue budget available to pay for key Council services;
- Compliance with all fire and health and safety regulations and enhanced insulation at the flats on the Council-owned Bridge School campus;
- Completion of Phase 2 of the Bunhill Energy Centre, which will provide heat and power to an estimated 1,500 dwellings in the Bunhill district.

Appendices

- Appendix 1 – Revised 2019/20 Capital Programme

Background papers: None

Final report clearance:

Signed by:



Executive Member for Finance, Performance
and Community Safety

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