



Resources and Public Realm Scrutiny Committee

10 January 2017

Report from the Strategic Director for Resources

For Information

Investment Strategy and Capital Programme

1.0 Summary

- 1.1 This report provides an overview of the whole Capital programme in Brent, current performance and an update on the Investment Strategy. Additional information can be found in the appendices as follows:

Appendix 1 – List of portfolios and headline budget figures

Appendix 2 – List of capital programmes and update

Appendix 3 – Investment Strategy and Action Plan

Appendix 4 – Investment Strategy Action Plan Update: December 2016

Appendix 5 – Cabinet Report on Wholly-Owned Investment Company and Subsidiaries

2.0 Recommendations

- 2.1 The Resources and Public Realm Scrutiny Committee is asked to note:

- the budget for the Capital Programme for 2016/17 of £173.06m, the additional in-year budget growth of £12.18m, the four-year budget from 2016-2020 of £457.5m, and the forecast underspend of £72.53m for 2016/17;
- the main reasons for the expected underspend this year include over optimistic delivery planning, weak capital financial planning, legal, planning and procurement issues;
- that an action plan is being implemented to address the historic underperformance of the Capital Programme, which includes refreshing the governance arrangements and a range of other measures; and

- the progress made in implementing the Investment Strategy.

3.0 Detail

3.1 Brent's Capital Programme consists of a number of portfolios, programmes and initiatives. An overview of these is provided in the table below. A list of the portfolios and the headline budget figures for each can be found in **Appendix 1**. A detailed list of the programmes, projects and initiatives within the Capital Programme and an update can be found in **Appendix 2**. Sections 3.2 to 3.10 provide an update to the programmes and portfolios within the Capital programme, with more detail provided in **Appendix 2**. Sections 3.11 to 3.16 highlight some of the key risks that these individual programmes present to the overall Capital Programme, as well as identifying some broader risks to the Capital Programme. Sections 3.17 to 3.23 focus on providing an update to the Council's Investment Strategy. Sections 3.24 to 3.34 outline additions to the Capital Programme that have been approved by Cabinet subsequent to the budget set and approved in February 2016.

Programme/ Portfolio	Description	End Date
Schools' Portfolio	The portfolio covers a range of primarily expansion projects across primary, secondary and SEN sectors in order to meet the Council's statutory duty to provide school places	Dec. 2019
Housing Portfolio	The portfolio includes a range of programmes to maintain the Council's existing housing stock, progressing the Council's commitment to bringing homes to the agreed investment standard as per the Asset Management Strategy 2013. It also includes the provision of new affordable homes, New Accommodation for Independent Living (NAIL) homes, private rented sector acquisitions and disabled facilities grants, in order to deliver the outcomes set out in the Council's Housing Strategy 2014-2019	May 2021
Estate Regeneration – South Kilburn	The programme includes a number of projects that will deliver the aims of the South Kilburn Master Plan. These will collectively deliver 2,400 new homes (1,200 of which will be made available for existing South Kilburn secure tenants for social rented accommodation), a medical centre, a local primary school, a new, high-quality urban park, improved road network, neighbourhood energy centre and new retail facilities. It also includes redevelopment of the Barham Park Estate.	2026
Highways and Infrastructure	A yearly programme of highways maintenance, footway resurfacing, public realm improvements, road safety and accident reduction measures and initiatives to promote sustainable transport.	Mar. 2017

Estate Regeneration – non-housing	A collection of non-housing projects include the redevelopment of the Bridge Park Leisure Centre, and other smaller initiatives including sports, parks and landscaping	Dec. 2020
Corporate Landlord	A small number of internal, asset maintenance-focused projects including the Civic Centre Development Programme and ICT initiatives.	Mar. 2017

3.2 The following section provides an update on each of the portfolios and programmes.

Schools' Portfolio

3.3 The Schools' Portfolio is made up of four permanent primary expansion programmes, a temporary expansion programme, two secondary school permanent expansion programmes, a schools' asset management programme, a programme to administer government funding to Brent's schools for maintenance, a secondary school rebuild project and a project on improving an outdoor education centre.

3.4 Out of the four permanent primary expansions programmes, Phase 1 has been completed, with school places delivered and occupied. Phase 2 is also complete, with school places delivered and occupied. The Phase 3 permanent primary expansion programme aims to deliver nine forms of entry (1,890 places) across six schools. It is live and is in delivery. Four projects in this phase have been delayed for a variety of reasons and Phase 3 is not expected to be delivered within the currently approved timescales. This has had an impact on forecast expenditure within financial years (an underspend of £25.6m is expected in 2016/17) but the total cost of the programme can still be accommodated within the approved budget. Temporary classrooms have been completed enabling school places to be delivered for the 2016/17 academic year, and similar arrangements will be made for the 2017/18 academic year to mitigate the impact of the delay, where needed. The issues causing the delay were the subject of a Cabinet report in December 2016. This report was approved so officers will now undertake the actions to implement this. The Phase 4 programme aims to deliver six forms of entry across three schools, two of which are to be new free schools. The third is a scheme to develop a new school in South Kilburn. This is in the feasibility stage and has experienced some delays as arrangements across the South Kilburn regeneration area are co-ordinated and the existing schools are consulted on the proposals.

Housing Portfolio

3.5 The Housing Portfolio consists of programmes to increase housing supply through delivery of new and additional affordable housing (including infill development), private rented sector acquisitions and new accommodation for independent living. In addition, there is a programme to improve the Council's existing housing stock.

3.6 This programme has picked up pace and issues with the main contractor having being resolved. It is currently on track to deliver the planned improvements to 1,432 units in 2016/17 within the approved budget. Phases 1 and 2 of the Infill Development Programme and NAIL have experienced delays, with a greater amount of time being taken to complete planning and procurement processes than was originally planned

for. These are now expected to be completed by September 2018, a delay of three months for Phase 1, and three months for Phase 2. As a result, there is expected to be an underspend on the Portfolio in 2016/17 of £31.4m. There will also be a corresponding delay in the realisation of anticipated savings on the NAIL Programme. The Private Rented Sector Acquisitions Programme is progressing well, and is on track to meet its acquisitions target for 2016/17, provided negotiations entered into result in completions.

Estate Regeneration – South Kilburn

- 3.7 This programme covers regeneration of the South Kilburn Master Plan area. The South Kilburn Programme continues in delivery. A review of the Master Plan for the area and engagement with residents is coming to an end. This is expected to extend the timespan, reset the individual projects and bring in a few additional sites, such as Carlton and Granville, William Dunbar House and William Saville House. The review suggests the possibility of delivering an additional 400 residential units. Some of the schemes linked to local amenities, such as the energy centre and the health centre, have experienced delays and overall, the Programme is expected to underspend in 2016/17 by £9.9m, partly due to over optimistic planning. Viability testing for the energy centre is ongoing and delivery of the energy centre is now being managed as part of a corporate project. Engagement with NHS England and local GPs on the health centre is also ongoing. The Woodhouse Urban Park scheme has won a number of awards.

Estate Regeneration and Barham Park Completion

- 3.8 This programmes consists of the Bridge Park Leisure Centre redevelopment, Barham Park estate and some parks, sports and landscaping improvements. Prolonged negotiations with the landowner of the adjacent site on how the scheme might be delivered has delayed getting the scheme onto site. These negotiations have now been concluded. Barham Park is largely complete and is in the final phase of delivery. The Sports and Parks schemes are progressing well and are broadly on target to be delivered by the end of the year. The Landscaping Programme is moving forward, with most projects expected to be delivered by the end of the year, with the exception of one project, which will require implementation across three years.

Highways and Infrastructure

- 3.9 This programme is made up of a range of initiatives, including preventative maintenance, to extend the lifecycle of roads, footway upgrades and public realm improvements, measures to reduce congestion and support regeneration. It is in delivery and on track to deliver its outcomes within budget by the end of 2016/17. It also includes design work on schemes in Alperton, South Kilburn and Burnt Oak Colindale. The implementation of these is dependent on progress within regeneration schemes in those areas, and is currently expected to be delivered in 2017/18. It also includes the street lighting (LED) scheme, which is in the procurement phase and has incurred delays this year (see s3.16).

Corporate Landlord

- 3.10 The programme comprises the smaller initiatives to maintain Council assets. The Civic Centre Development Programme is progressing well and is expected to deliver the majority of its planned improvements for the year. The ICT Programme is in feasibility stage. Longer-term IT priorities are being established and an investment business case is expected to be brought forward in the New Year.
- 3.11 Capital Programme Risks
- 3.12 *Overall Capital Programme* – While progress has been made on delivering the Capital Programme, a significant underspend is expected for 2016/17 of £66m. A number of areas for improvement have been identified to strengthen management of the Programme and improve the historic underperformance, and actions against these are being progressed. In order to strengthen governance at all levels of the Programme, the membership and terms of reference of strategic boards have been reviewed and revised and regular meetings and reporting are being established. Financial forecasting is to be strengthened across the Programme to ensure forecasts are more realistic. Processes for managing change are to be developed and agreed. Current and anticipated delays across the Programme are being reviewed to identify common causes and how these can be better addressed and planned for in the future. Resourcing requirements of the Capital Portfolio Office are to be reviewed to ensure these are adequate to support a programme of this scale. Project Manager skills and capabilities are to be reviewed and appropriately addressed.
- 3.13 *Schools* – On the Schools' Portfolio, the main issue of concern is within the Phase 3 Primary Permanent Expansions Programme. There has been an issue with the main contractor on three of the schemes, resulting in delay and significant underspend for 2016/17. Cabinet has now agreed an alternative approach, which will avoid a potential overspend on the Phase 3 Programme (due to increased contract prices being returned). There is a continued risk that prices, when returned from alternative contractors, will exceed the approved programme budget.
- 3.14 *Housing* – On the NAIL and Infill programmes, delays have been incurred in getting projects onto site and will result in an underspend for 2016/17. On the NAIL schemes, there will also be a delay to the realisation of savings in the Adult Social Care budget. The reasons for this include taking a longer time than expected to complete the planning process, redesign following consultation and lower level of bidder interest. In spite of the expected underspend on the NAIL and BHP Infill Phase 2 programmes in 2016/17, overall there is expected to be an overspend on these programmes, as a result of increasing construction costs, as well as planned costs reflecting average unit costs rather than taking site complexities into account. On the NAIL schemes, officers are reviewing a range of accommodation options to deliver savings in the short to medium-term to mitigate the shortfall in savings.
- 3.15 *Estate Regeneration South Kilburn* – The enterprise hub proposal, linked to redevelopment of the Carlton and Granville sites may require further community engagement and budget provision. An update on this scheme was provided to Cabinet in November 2016. On the Chippenham Gardens site, objections to the compulsory purchase order, which may result in a public inquiry. The budget for the Programme will need to be re-profiled to align with the revised master plan as and when this is adopted.

- 3.16 *Highways and Infrastructure* – Within the street lighting (LED) scheme, delivery has been delayed by about six months due to contract award difficulties, and therefore the overall budget will be underspent in 2016/17 by about £5.6m, although this is expected to be spent in 2017/18. As a result, there will also be a corresponding delay in the realisation of expected savings linked to the scheme. The supply contract has been re-tendered and bids are being evaluated.

Investment Strategy Update

- 3.17 The Council's Investment Strategy was agreed in April 2016 following internal discussions, including a Member development session. For convenience, it is attached as **Appendix 3**. The Investment Strategy was prepared to address a gap in the Council's Planning and Resource Allocation Framework, so as to enable the development of a wider capital programme tailored to meet the Council's emerging Brent 2020 aspirations.
- 3.18 As a new strategy it would have ordinarily have been reviewed about one year after agreement, so this review is timely as it will contribute significantly to that.
- 3.19 At an officer level, the Capital Investment Panel (CIP), reporting in to Corporate Management Team, is the principal group responsible for ensuring delivery of the Investment Strategy. This group is chaired by the Council's Chief Finance Officer. Other attendees are the Council's Operational Directors for Housing and for Regeneration and Planning and the Head of Property, supported by colleagues in the Programme Management Office and from Finance. The membership of the CIP is chosen not to reflect departmental interests but to draw on skills within the Council relevant to investment appraisal, so that when key decisions are taken by CMT and Cabinet they can be confident that a full technical appraisal has been conducted.
- 3.20 It is worth stressing this last point. As the following paragraphs show, the scale of the numbers involved in major capital investments can be very substantial indeed, and it is essential that they are properly validated before decisions are taken. This is all the more significant as capital investments on any significant scale are likely to require borrowing in order to finance them, and so the Council's long-term interest needs to be protected.
- 3.21 The immediate focus of the Investment Strategy was to identify ways to generate reductions in operating expenditure, and it is likely that this will always remain a significant focus. As the Investment Strategy Action Plan shows, this meant that the initial focus was on financing the Temporary Accommodation Reform Plan and establishing an investment company. This latter company - Investing 4 Brent - was approved by Cabinet in November 2016 and held its inaugural board meeting on 20 December 2016. The relevant Cabinet report is attached as Appendix 5.
- 3.22 The Temporary Accommodation (TA) Reform Plan was approved by Cabinet in March 2016. It contains a number of measures to reduce reliance on and the costs of temporary accommodation. The principal link with the Investment Strategy is the acquisition of a private rented sector (PRS) portfolio. By doing this, the Council is able, through its investment company, to act as a responsible landlord and deliver

housing at lower cost than the private sector does. The financial model is predicated on long-term appreciation in property prices and so is not without risk. That said, as the Council can afford to be a long-term investor, these risks are reasonable. To date, 21 properties have been acquired through this strategy, with 53 more at various stages of the purchasing cycle.

- 3.23 The Investment Strategy and Action Plan is set out in **Appendix 3**, and an update on the Action Plan is provided in **Appendix 4** setting out progress against each item. The investments approved since the Strategy was agreed, are discussed in s3.24 – s3.34.

Additions to Capital Programme (Cabinet approvals post budget-setting process)

- 3.24 Cabinet approved an increased budget in May 2016 for **Clock Cottage (£4.1m)**. The goal of this scheme is to house at least 19 people with care and support needs in “New Accommodation Independent Living” (NAIL). This is part of the internal delivery of the larger NAIL Programme that seeks to deliver 529 new homes of ‘accommodation plus’ for people who are assessed as having social care needs and who can no longer be supported to manage in their own home.
- 3.25 While the primary driver of the NAIL Programme is to maximise choice, control and independence of Brent residents with high care and support needs, it will also deliver significant efficiency savings from the Adult Social Care (ASC) Care Home Budget, which accounts for the largest area of ASC spend. This will be achieved through ASC being responsible only for meeting the cost of people’s care and support needs, as opposed to care home provision, where ASC is also responsible for all accommodation costs.
- 3.26 The **Knowles House** Scheme was also approved in April 2016 for **£23.9m**. At the time, it comprised of 85 temporary and 40 new accommodation units for independent living homes and replacement community facilities. This resulted in the termination of the existing leasing arrangements. This fit with the Council’s NAIL and temporary accommodation (TA) programmes and with the wider strategy of self-delivery and retention of assets where it was cost effective or prudent to not rely solely on external partners for service delivery. Since that time, it has been recognised that there were more efficient configurations of the site that would allow for additional units. It is anticipated that such a paper will be coming to Cabinet in the near future.
- 3.27 With clear expectations that TA non-staffing costs were set to rise over the next few years, proposals were presented to Cabinet on 14 March 2016 on the TA Reform Plan. One of the key proposals of the Reform Plan was to develop Council-owned sites, including Knowles House, to provide good quality self-contained TA and to reduce bed and breakfast costs accordingly.
- 3.28 **London Road**, which was approved in Cabinet for **£33m**, subject to final viability testing through planning, is similar to the schemes above. It included 55 TA units, 14 NAIL units and 67 Private Rented Sector (PRS) units. The latter of which fits another of the Council’s strategies to purchase properties with the intent of retaining the assets and using the rental stream to fund the capital spend. These PRS assets, depending on their yield, would either be appropriate for the Wholly-Owned Company, to house homeless households or to ensure the entire scheme is financially viable through

charging market rents. As in many schemes, the Council reserves the right to adjust the tenure, as long as it meets Planning obligations, in order to maximise the social benefits and the financial return.

- 3.29 The expansion of the **Church End** was approved in November 2016 Cabinet. It represented a growth in the underlying budget from **£8.2m to £30.5m**, as the Council moved from supporting development to developing a secondary scheme of 34 units alongside the developer to taking forward the entire site of 99 units. Of the 65 planning consented additional units, 16 are intended as affordable rent, 25 would be shared owners (an intermediate product) and 24 private sale. This shift reflected the aforementioned investment approach of self-delivery but it also reflects the willingness of the Council to recognise an opportunity and take a calculated but appropriate level of risk, such as merging two adjoining schemes.
- 3.30 Since the agreement of the **PRS Private Rented Sector Plan** and the decision by Cabinet in November 2016 to set up an investment company to hold the portfolio, two tranches have been approved. The first for **£10m** was approved in May and has since been spent. The second tranche for **£40m** was approved in November 2016. However, the Council is intent on ensuring that it achieves appropriate yields so that the Council and the investment company are able to repay the principal and the interest. Future tranches, subject to achieving the appropriate level of yield, are anticipated in 2017.
- 3.31 **Ujima House**, which was approved in July 2016, but its purchase price is subject to achieve planning consent. This investment was made in the light of the decision of the Council to develop with the financial support of the GLA the Wembley and Alperton Housing Zones. This investment was made with the appreciation that while it might not produce a large financial return on its own, that it would be a catalyst to help bring forward other developments, with and without partners. The Council is ecumenical as to how the area is developed, except that it produces the maximum social and investment return for the residents of the borough and the Council.
- 3.32 The Council envisaged a rolling programme of acquisition and development of key sites in this area by the Council working with a development partner to provide the new homes, including 200 affordable homes, supported by the Housing Zone Grant. The goal is to significantly accelerate and increase housing delivery by delivering over 600 homes on underused commercial sites and unlock future development potential by creating and attract £200m of private sector investment in housing led mixed-use development. Increasing the proportion of affordable housing and new jobs from new commercial space were other key objectives.
- 3.33 The Council approved **£2m of highway investment** in May 2016 in line with the need to complete urgent works to key roads to ensure that residents continued to experience a high standard of road of pavements.
- 3.34 **Carlton and Granville** came to Cabinet in July 2016 and November 2016, with a total committed approved budget of £1m and a further GLA grant of **£0.75m** obtained to deliver the wider scheme. The goal is to redevelop the Carlton and Granville Centres, maximising the benefit to the community, provide new homes, additional community space and a new Enterprise Hub, while remaining financially viable. The original

report needed revisiting to ensure the plans were fully incorporated within the South Kilburn development and that local residents were fully consulted. This has only strengthened the underlying intent to be ambitious for the benefit of the wider community. Existing monies have been committed to develop the scheme through planning, by which point, clarity around the scale of investment required will be known.

4.0 Financial Implications

- 4.1 There are no direct financial implications arising from the recommendations of this report, although clearly the report has a very substantial financial content.

5.0 Legal Implications

- 5.1 In relation to the various schemes highlighted in this report:

- School Expansion Programme: The Council is under a statutory duty imposed by virtue of the Education Act 1996 - Sections 13 and 14 and requires that the Council contribute towards the spiritual moral mental and physical development of the community by securing that there is efficient education available to meet the needs of the population for its area and that there are sufficient schools available for the area.
- Housing Portfolio: The Care Act 2014 extends the duty of the Council to provide housing and accommodation. Section 8 of the Care Act specifically sets out accommodation as being part of meeting the special needs of its residents. In addition, the Regulatory Reform (Housing Assistance) England and Wales provides the Council with the ability to provide funding towards the repair, improvement and adaptation of existing housing to meet the special needs of its residents such as the disabled or elderly. The Council also has powers to acquire land for the construction of houses, as provided in Section 17 of the Housing Act 1985 and/or develop land for planning purposes in accordance with Section 235 of the Town and Planning Act 1990 to provide accommodation for its residents to comply with its statutory duty under the Care Act.
- The Estate Regeneration – South Kilburn encompasses schemes to deliver new homes in accordance with its powers under the Housing Act 1985. The scheme requires the purchase of land, which will be acquired by agreement or by utilising the Council's compulsory purchase powers in accordance with Section 226 of the Town and Country Planning Act 1990. When using the Council's Compulsory Purchase Powers, the Council must show that there is a compelling case in the public interest that sufficiently justifies interfering with the rights of those with an interest in the land. The Estate Regeneration Bridge Park – This scheme includes a conditional land agreement, which is to be entered into between the Council and the subsidiary company of GMH and Harbrough Investments. The Council has power to dispose of land held for planning purposes under Section 233 of the Town and Country Planning Act 1990 to secure the best use of that land as part of the land deal. The Council will be under an obligation to acquire the additional land being the scrap yard,

which is located adjacent to the Council's land, which is being sold. The Council must attempt to acquire the additional land firstly by agreement, and where this fails, the Council may then use its compulsory purchase powers to obtain the scrapyard as part of the overall scheme. In relation to the Temporary Accommodation Strategy and the various schemes for the building and provision of housing, the Housing Act 1996 places the Council under a duty to allocate homes in accordance with Section 159 of the Housing Act. Accordingly, the Council may allocate housing from its own housing stock, from housing within private ownership, or from housing owned by other Registered Providers. The Housing Act 1996 and the Homelessness Act 2002 provides the statutory underpinning for Councils to tackle homelessness. The Housing Act 1985, Section 1,7 provides powers for the Council to acquire land specifically for the construction of Housing.

6.0 Diversity Implications

6.1 None

7.0 Staffing and Accommodation Implications (if appropriate)

7.1 None

Background Papers

Appendix 1 – List of portfolios and headline budget figures

Appendix 2 – List of capital programmes and update

Appendix 3 – Investment Strategy & Action Plan

Appendix 4 – Investment Strategy Action Plan Update Dec 2016

Appendix 5 – Cabinet Report on Wholly Owned Investment Company and Subsidiaries

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