REPORT FOR: CABINET

Date of Meeting:	6 December 2018
Subject:	Draft Capital Programme 2019/20 to 2020/21
Key Decision:	Yes (involves expenditure in excess of £1m)
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1 – Draft New proposals for Capital Programme 2019/20 to 2020/21 Appendix 2 – Existing Capital Programme for 2018/19 to 2020/21

Section 1 – Summary and Recommendations

This report sets out the new draft General Fund capital programme proposals which have been proposed as part of the 2019/20 budget process and also sets out budgets within the existing Capital Programme between 2018/19 and 2020/21 and requests agreement to the principle of reviewing the Capital Programme for the periods 2019/20 to 2020/21.

Recommendations:

1. Cabinet is requested to note the new draft capital proposals, as detailed within Appendix 1, which will be brought back to Cabinet in February for approval.

2. Cabinet is requested to note the existing Capital programme for 2018/19 to 2020/21, within Appendix 2, with 2019/20 and 2020/21 being brought back to Cabinet in February for approval.

3. Cabinet is asked to agree that the existing Capital Programme for 2019/20 to 2020/21 and new proposals for the Capital Programme (Appendix 1) are reviewed in line with the principles set out in paragraph 18.

4. Cabinet is asked to agree that Community Infrastructure Levy (CIL) funding should be applied firstly to schemes in the existing capital programme as set out in paragraph 26.

   The final version of the Capital Programme 2019/20 to 2020/21 will be brought back to Cabinet in February for recommendation to Council in February.

Reason: To enable the Council to have an approved Capital Programme for 2019/20 to 2020/21.

Section 2 – Report

Development of the Capital Programme

1. Traditionally, the purpose of this draft Capital Programme report is to do the following:

   - Set out the Council's draft additional capital proposals for investment over the next three years 2019/20 to 2021/22 which have been proposed as part of the 2019/20 annual budget setting process and
   - Review the existing Capital Programme budgets agreed as part of the previous year's budget but which need to be amended in order to reflect revised expenditure plans.

2. However, this year a different approach is recommended which will see the Capital programme being limited to 2 years as far as 2020/21, and also to undertake a review of the new and existing proposals in light of the Council's challenging financial position (paragraphs 14 to 18).

3. The final Capital Programme report which will be presented to Cabinet in February 2019 and will show the total Capital Programme for 2019/20 to 2020/21 incorporating the new capital proposals as well as the existing capital budgets which may be subject to some re profiling between years.

New Capital proposals 2019/20 to 2020/21

4. Service directorates were invited to bid for capital resources, as part of their service proposals for 2019/20 to 2021/22. The proposals which have been put forward take into account the council's strategic vision of "Working together to make a difference for Harrow", the Council's priorities and equalities or other statutory duties.

5. In view of the current financial climate and reduced external funding service directorates were asked to limit new capital proposals to the following categories:

   a. Life and Limb/Health and Safety.
   b. Statutory Requirement/legislation.
   c. Schemes fully funded by external sources.
   d. Invest to Save Schemes (the capital expenditure must generate a revenue stream to cover the capital financing costs and make a savings contribution).

Current cost of the Capital Programme

6. The 2018/19 revenue budget in respect of the capital financing cost of the existing Capital programme 2018/19 to 2020/21 is £24.6m. This figure of £24.6m will also relate to the cost of historic capital programmes spent prior to 2018/19 but it does **not** include the cost of the proposals at Appendix 1. £24.6m is approximately 15% of the net revenue budget of £168.9m.

7. Although there are no specific limits to borrowing in order to fund capital expenditure, the Council must be prudent when considering the revenue implications in the context of the overall revenue budget commitments in the medium term and the Capital Programme must be affordable.

8. In the current situation where the revenue budget continues to reduce each year, but capital financing costs increase as a result of increasing the capital programme each year, the proportion of the net revenue budget which funds capital financing costs will increase each year.

9. Table 1 below shows the capital financing costs that are already factored into the existing MTFS from 2018/19 to 2021/22 in relation to the existing and historic capital programmes as a proportion of the 2018/19 net revenue budget of £168.9m.

Table 1 - Capital Financing Costs as % of the Net Revenue Budget

	Capital Financing Costs	Capital financing costs as % of 2018/19 Net Budget
	£m	%
2018/19	24.6	15%
2019/20	32.6	19%
2020/21	33.8	20%
2021/22	35.7	21%

New Capital proposals put forward 2019/20 to 2020/21

10. A schedule of the new proposed projects within the programme for 2019/20 and 2020/21 is detailed in appendix 1 and summarised in Table 2 below:

Table 2 – Summary new Capital bids 2019/20 to 2020/21

	2019/20			2020/21			TOTAL		
	Gross Value £000	External Funding £000	Net Value £000	Gross Value £000	External Funding £000	Net Value £000	Gross Bid Value	External Funding £000	Net Bid Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Resources and Commercial Directorate	**0**	**0**	**0**	**1,000**	**0**	**1,000**	**1,000**	**0**	**1,000**
People									
Adults	0	0	0	0	0	0	0	0	0
Schools	621	621	0	621	621	0	1,242	1,242	0
Total People's Directorate	**621**	**621**	**0**	**621**	**621**	**0**	**1,242**	**1,242**	**0**
Community									
Environmental Services	19,291	291	19,000	11,991	291	11,700	31,282	582	30,700
Community & Culture	945	95	850	2,210	910	1,300	3,155	1,005	2,150
Housing General Fund	932	0	932	1,037	0	1,037	1,969	0	1,969
Regeneration & Enterprise	2,200	430	1,770	1,000	0	1,000	3,200	430	2,770
Total Community Directorate	**23,368**	**816**	**22,552**	**16,238**	**1,201**	**15,037**	**39,606**	**2,017**	**37,589**
Total General Fund	**23,989**	**1,437**	**22,552**	**17,859**	**1,822**	**16,037**	**41,848**	**3,259**	**38,589**

11. The gross value of the proposed General Fund programme is £41.848m, with external funding of £3.259m and a net increase in the programme of £38.589m.

12. When bids were invited for 2019/20 and 2020/21, it was on the basis that they would be either funded from external funding or generate revenue savings which would as a minimum, cover the capital financing costs so

there would be no net revenue impact to the Council as a result of any additional borrowing required.

13. However, after allowing for those schemes which generate a revenue contribution, those schemes which are externally funded and those schemes which could be funded from Borough CIL, there is a residual capital financing cost from the remaining schemes of £1.194m, which is set out in the table below. There is therefore a question over affordability given the existing budget gaps in the Revenue Budget for 2020/21 and 2021/22 of £13.5m and £9.3m.

Table 3 - Capital Financing Implications of New Additions

Capital Financing Costs	**Annual costs**
	£000
Minimum Revenue Provision (MRP)	2,074
Interest	1,158
Total Capital Financing Costs	3,232
Schemes eligible for CIL	(508)
Invest to save income	(1,530)
Net impact on Revenue Budget	**1,194**

Review of the existing Capital Programme and new Proposals

14. Since inviting Directorates to put forward new capital proposals earlier in the year, the Council is now developing principles for defining what Council services in Harrow should look like given the current budget gaps in the Revenue Budget.

15. Therefore, given that a review of all revenue services will take place and also considering the increasing value of capital financing costs as a proportion of the net revenue budget, it is appropriate to carry out the same review and apply some principles to the existing and new Capital Programme proposals. The aim of this review will be to set a revised affordable Capital Programme with reduced capital financing costs which can contribute towards the existing budget gaps in 2020/21 to 2021/22.

16. Services have put forward capital proposals for 2021/22 in addition to those set out at Appendix 1 for 2019/20 and 2020/21. However, the Capital Programme to be agreed as part of the 2019/20 budget setting will only extend as far as 2020/21, and so **there is no** Capital Programme being put forward for 2021/22 as part of this year's 2019/20 budget setting process.

17. The Capital programme for 2021/22 will be considered as part of the next year's 2020/21 budget setting process.

18. Between now and the Final Capital Programme report being presented to cabinet in February 2019, it is the intention to review the new proposals in Table 1, as well as the existing Capital programme for 2019/20 and

2020/21, and to put forward proposals to cabinet for a 2019/20 to 2020/21 Capital Programme that are aligned with the following principles:

1. Is this capital needed to meet a statutory obligation? Also, is the amount requested the minimum requirement?
2. Is this capital required to operate safely? Also, is the amount requested the minimum requirement?
3. Does the capital investment make a net financial contribution to Harrow after accounting for all revenue costs (capital financing costs, implementation costs and any ongoing running costs)?
4. Does the capital investment generate additional external funding?
5. Is this capital requirement essential to sustain the organisation? Also, is the amount requested the minimum requirement?
6. Where a project has already started, can existing contractual arrangements be re-negotiated?

19. The existing Capital Programme for 2018/19 to 2020/21 is set out at Appendix 2 and the 2019/20 and 2020/21 budget will be reviewed in line with the 6 principles set out above:

20. The existing capital programme has been realigned where appropriate for schemes where the original profile of spend has needed amendment, but overall any realigned budgets will total to the same amount, so this is cost neutral in terms of the overall programme. There have also been some other amendments in 2019/20 and 2020/21 as follows:

- An increase in the budget for the expansion of the central depot of £5m in 2020/21. The additional capital financing costs from this additional £5m cost is being financed from additional rental income to be achieved from additional rental and parking spaces.

- There has been a net reduction in the HRA Capital Programme of £1.086m between 2020/21 and 2021/22. This has no capital financing implications for the general fund as it is entirely financed by the Housing Revenue Account.

- The most significant amendment to the existing programme relates to the Regeneration Programme which has been amended to reflect a reset of the programme as set out in the table below with further detail set out in the Regeneration report elsewhere on the agenda.

Table 4 - Revised Regeneration Programme 2019/20 to 2020/21

	2019/20	2020/21	Total
	£	£	£
Feb 2018 Approved Budget	**162,119,729**	**35,534,010**	**197,653,739**
Reduction	**142,426,979**	**30,340,838**	**172,767,817**
Revised Budget Dec 2018	**19,692,750**	**5,193,173**	**24,885,923**

Community Infrastructure Levy (CIL) Funding

21. The Community Infrastructure Levy (CIL) enables the council to raise funds for infrastructure from new development. It is levied on the net increase in floor space arising from new developments and is paid when that development starts. The Community Infrastructure Levy (CIL) is a tool for local authorities to support the development of their area by funding the provision, improvement, replacement, operation or maintenance of infrastructure. However the focus of CIL is on the delivery of new infrastructure to meet and mitigate the impacts of new development in an area.

22. CIL receipts can be used to fund a wide range of infrastructure including transport, schools, health and social care facilities, libraries, play areas, green spaces and sports facilities. Harrow's list of strategic infrastructure requirements known as a Regulation 123 list is shown below:

Regulation 123 List

The following table comprises Harrow Council's Regulation 123 List. It includes the strategic infrastructure that the Council currently considers it is likely to apply CIL revenues to. The Regulation 123 List will be kept under review and may change depending upon the following:

- Changes to local or national funding streams in respect of CIL eligible infrastructure; and
- The requirements of the regulations governing the level of the "meaningful proportion" of CIL that is to be passed to local communities.

Infrastructure currently considered likely to benefit from the application of CIL funding	
Education facilities	Early years, primary and secondary schools
Health services	GPs, acute healthcare
Social care	Supported accommodation
Emergency services	Police, Ambulance and Fire Services
Cultural and community facilities	Libraries and community halls
Improvements to public open space	Parks, natural green space, civic space and green corridors and green grid
Improvements to biodiversity	
Public recreation and leisure facilities	Neighbourhood and Youth Play space, sports and leisure centres, swimming pools and playing pitches
Cemeteries and burial space	
Strategic transport facilities	Roads, buses, cycling, rail and underground
Strategic flood mitigation	

23. Of all CIL monies collected, 85% is used to fund strategic borough wide infrastructure projects, which includes a 5% allowance to cover the administrative costs of CIL. The decisions on where to spend CIL at a borough-wide level is determined by the Council. The remaining 15% is allocated to Neighbourhood CIL (NCIL) and must be spent on projects that have taken account of the views of the communities in which the income was generated and these projects should support the development of the area.

24. Last year, a report was presented to the Major Development Panel (MDP) on 14th November 2017, recommending that the allocation of Borough and Neighbourhood CIL is included as part of the Annual Budget Setting process and included in the Capital Programme report which goes to Cabinet in draft in December (this report) and in February in its final version. The recommendations from the Major Development Panel (MDP)

report were agreed by Cabinet on 7th December 2017 and set out the principles as follows:

(1) the allocation of the Borough Community Infrastructure Levey (CIL) be included as part of the Annual Budget Setting process and included in the Capital Programme report which is presented to Cabinet every year in December (draft budget) and February (final budget);

(2) the allocation of the Borough CIL be informed by the Harrow Local Plan, Infrastructure Delivery Plan, Corporate Priorities and external funding opportunities and have regard to the criteria outlined in Section 7 of the report considered by the Major Developments Panel;

(3) the following approaches to allocating the Neighbourhood CIL be approved:

(i) allocation of 15% of CIL receipts raised in each Ward back to the respective Ward in which it was generated (except where received from within the geographical definition of the Harrow and Wealdstone Opportunity Area), provided there was no neighbourhood plan for that area (if there was, the amount be 25%).

(ii) for CIL received within the geographical definition of the Harrow and Wealdstone Opportunity Area, (which was considered to form a neighbourhood), allocation of 15% of CIL receipts into a combined fund to be spent on projects across the entire area, to reflect that the area contained the greater proportion of strategic development sites within the borough.

(iii) the broad allocation of Neighbourhood CIL be agreed as part of the Capital Programme (based on available funds at the time and allocated as per 3(i) and 3(ii) above), and included in the Capital Programme report which is presented to Cabinet every year in December (draft budget) and February (final budget).

(iv) Once the broad allocation of NCIL is agreed as part of the Capital Programme, individual projects put forward by the relevant Directorates / Ward Members be assessed against the criteria outlined in section 7 of the MDP report (including the extent of consultation and level of community support), with the final decision on what projects were funded from the agreed CIL allocations being delegated to the Divisional Director of Regeneration and Planning, following consultation with the Portfolio Holders for Regeneration and Planning, and Finance and Commercialisation.

25. The Borough CIL element will be used to fund the core Capital programme and can be considered as a funding source for new capital bids as well as existing projects in the Capital programme.

26. In addition to the principles already reached on how CIL funding should be used to fund the capital programme, in light of the budget gaps in future years, it is recommended that CIL should be **first** be applied to any schemes in the existing capital programme rather than applying it to new schemes. The rationale for this is that if applied to schemes that are currently funded from borrowing, by funding from CIL instead, this will reduce the existing capital financing costs and therefore improve the existing budget gaps.

27. In terms of the Neighbourhood element of CIL, a sum of £800k was included in the 2018/19 Capital Programme which was in addition to a sum of £200k which was included for 2017/18. This was a general allocation with the intention being that as schemes are agreed, the budget gets reallocated to the individual projects.

28. Specific projects to be funded by Neighbourhood CIL can be put forward by the relevant Directorates / Ward members and assessed against the criteria outlined in the CIL Allocations report agreed by the Major Development Panel in November 2017. The final decision on what projects are funded from the agreed NCIL allocations will be delegated to the Divisional Director – Regeneration and Planning, in consultation with the Portfolio Holders for Regeneration and Planning, and Finance and Commercialisation.

29. The following table sets out the CIL funding received to date plus allocations made to date, including the provisional items that could be funded from CIL from the new Capital bids set out at Appendix 1.

Table 5 – CIL Funding and Allocations to 30th September 2018.

	CIL Receipt	BCIL	NCIL	Admin
	£	£	£	£
Total receipts up to 31/3/2018	**-10,907,800**	**-8,744,647**	**-1,635,283**	**-527,870**
18/19 receipts (6 months April - Sept 2018)	**-1,630,327**	**-1,304,261**	**-244,549**	**-81,516**
Total Receipts as at Sept 2018	**-12,538,127**	**-10,048,909**	**-1,879,832**	**-609,386**
Allocations made up to 31/3/18	5,021,318	4,800,000	0	221,318
Further Commitments agreed to date	1,604,227	885,000	381,227	338,000
Total Allocations/Commitments to date	**6,625,545**	**5,685,000**	**381,227**	**559,318**
Available balance	**-5,912,582**	**-4,363,909**	**-1,498,605**	**-50,068**
Less Capital Programme from new round	4,000,000	4,000,000		
	-1,912,582	-363,909	-1,498,605	-50,068

30. The Allocation of CIL funding to date amounts to £6.625m. £559k of this relates to the 5% administration allowance. After allowing for this a total of £6.066m has been allocated to fund schemes in the Capital Programme as follows:

Table 6: Schemes funded from CIL to date

Financial year	Description	BCIL	NCIL	Actual or Committed
		£	£	
2017/18	Highway projects	4,800,000		Actual
2018/19	Headstone Manor (Parks for People)	300,000		Committed
2018/19	Good Growth Fund - Lyon Road project mgt		75,000	Committed
2018/19	Rayners Lane Triangle project	40,000		Committed
2018/19	Rayners Lane Triangle project		297	Committed
2018/19	Rayners Lane Triangle project		6,930	Committed
2018/19	Parks Infrastructure (Playground replacement)	545,000		Committed
2018/19	Wealdstone Square		299,000	Committed
Total CIL Assigned		**5,685,000**	**381,227**	

31. After allowing for the allocation of CIL to date, a sum of £4.364m is available as Borough CIL funding and £1.499m for Neighbourhood CIL funding that can be used to fund the new or existing Capital Programme. Having been through the new capital bids presented in Appendix 1, a total of £4m has been identified as being eligible to be funded from BCIL. After applying this sum, £364k of BCIL will be available and £1.499m of NCIL will be available to fund future Capital projects which meet the criteria. The figures in Tables 5 and 6 assume CIL received to 30th September 2018 and so will be higher by the 31st March 2019 as and when further CIL funding is received.

32. The exercise of reviewing where CIL can be applied to the new capital has been carried in this report to give an idea of what the net capital financing costs would be of the new capital proposals if CIL were applied. The final decision on where CIL funding should be applied will be taken once the review of schemes has been made in line with the core offer principles, because even though schemes can be funded from CIL and therefore are no cost to the Council, they will still be subject to the same review to see how they fit with the principles of the core offer.

33. As CIL becomes available in future years it will be applied as a funding source for the Capital Programme.

Housing Revenue Account (HRA)

34. 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. The report sets out the detail, but in summary, the HRA general capital programme has been reduced from £8.6m to £5.45m with the focus being on Health & Safety works and statutory requirements as part of the wider service review aimed as restricting expenditure to essential works only.

Options considered

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

Legal Implications

36. 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

37. Financial matters are integral to the report. The capital financing costs of all capital investment must be provided for within the revenue budget.

Procurement Implications

38. There are no procurement implications arising from this report.

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 of 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 full Equality Impact Assessments before they commence. Following consultation the impact will be further reviewed before the programme is finalised.

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*

45. 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

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… Date: 27/11/18	x	Chief Financial Officer
Name: David Hodge Date: 13/11/18	x	on behalf of the Monitoring Officer

Section 3 – Procurement Clearance

Name: Nimesh Mehta	x	Head of Procurement
Date: 27/11/18		

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: Community Infrastructure Levy (CIL)- Proposed Allocations Process report to Major Development Panel - 14th November 2017

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**NO – CALL IN APPLIES**