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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	17 December 2020
<b>Subject:</b>	Draft Capital Programme 2020/21 to 2023/24
<b>Key Decision:</b>	Yes - involves expenditure in excess of £1m
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Portfolio Holder:</b>	Councillor Adam Swersky, Portfolio Holder for Finance and Resources
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Proposed Capital Programme 2020/21 to 2023/24  Appendix 2 – Net Capital additions to the Capital Programme

## **Section 1 – Summary and Recommendations**

This report sets out the draft General Fund capital programme which has been proposed as part of the 2021/22 budget process.

### **Recommendations:**

1. Cabinet is requested to note the draft capital programme, as detailed within Appendix 1, which will be brought back to Cabinet in February 2021 for approval.

The final version of the Capital Programme 2020/21 to 2023/24 will be brought back to Cabinet in February 2021 for recommendation to Council in February.

**Reason:** To enable the Council to have an approved Capital Programme for 2020/21 to 2032/24.

## **Section 2 – Report**

### **Development of the Capital Programme**

1. The purpose of this draft Capital Programme report is to set out the Council's capital proposals for investment over the years 2020/21 to 2023/24 which have been proposed as part of the Annual budget setting process. The final Capital programme report will be presented to Cabinet in February 2021.

### **Capital Programme 2020/21 to 2023/24**

2. Given the current financial situation coupled with the slippage on schemes in previous years, Service Directorates were asked to carry out a review of the Capital Programme using a bottom up approach to ensure the capital programme represents capital investment that is necessary up to financial year 2023/24. The criteria used remains unchanged from previous years which is for capital to be contained within 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).

Generally, the preparation of the draft Capital Programme looks at the 3 years ahead and not the current financial year (2020/21) but in order to fulfil the requirement for a full review, the current financial year of 2020/21 was also included as part of the review, so that services could better set

out the likely spend for the current year given the situation with COVID-19 which put a halt on many Capital projects for several months.

### **Cost of the Existing Capital Programme**

3. The Capital Programme can be funded from a variety of funding sources. Where the Capital Programme is funded from capital grants, external partnership funding, Borough CIL and revenue funding such as reserves; this will not attract any form of capital financing cost and has no impact on the revenue budget. Schemes funded from borrowing, will attract a capital financing cost and therefore a direct impact on the revenue budget.
4. 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.
5. Table 1 shows the capital financing cost budgets that are already factored into the existing MTFs from 2019/20 to 2021/22 in relation to the Capital Programme agreed in February 2020 and also what proportion of the 2020/21 net revenue budget of £174.8m is made up of Capital Financing costs.

**Table 1 - Capital Financing Costs as % of the Net Revenue Budget as at 2020/21 Budget Setting**

	Capital Financing Costs	Capital financing costs as % of 2020/21 Net Budget
	£m	%
2020/21	31.8	18%
2021/22	38.7	22%
2022/23	43.6	25%

6. The capital financing cost of the existing Capital programme 2020/21 to 2022/23 (**agreed at Council last year in February 2020**) is £31.8m in 2020/21 and then increases to £43.6m by 2022/23. These figures also relate to the cost of historic capital programmes.
7. In addition, the figures will also include capital financing costs which relate to projects put into the programme to generate enough revenue to cover their capital financing costs and therefore are cost neutral and do not impact on the revenue budget as a direct cost. Some of these projects totalling approximately £128m are being removed from the Programme as set out in paragraph 12 and Table 3, and the capital financing costs in Table 1 will therefore reduce accordingly.
8. When the Final Capital Programme report is presented to cabinet in February 2021, an updated table will be included which shows the revised capital financing costs for the period 2021/22 to 2023/24.

### **Capital proposals put forward 2020/21 to 2023/24**

9. The proposed Capital Programme for 2020/21 to 2023/24 is detailed in Appendix 1. The list of changes proposed within the programme, which is

over and above what was in the existing Capital Programme is detailed in appendix 2. Table 2 sets out the total proposed Capital Programme.

**Table 2 – Total Capital Programme 2020/21 to 2023/24**

Directorate	2020/21			2021/22			2022/23			2023/24			TOTAL		
	Gross Value £000	External Funding £000	Net Value £000	Gross Value £000	External Funding £000	Net Value £000	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
Resources and Commercial	12,362	100	12,262	17,350	0	17,350	2,550	0	2,550	1,850	0	1,850	34,112	100	34,012
People's	4,990	4,317	674	22,803	22,033	770	9,071	9,071	0	0	0	0	36,865	35,421	1,444
Community	51,849	14,469	37,380	46,774	10,997	35,777	34,293	11,229	23,064	28,886	8,629	20,256	161,802	45,324	116,477
<b>Total General Fund</b>	<b>69,201</b>	<b>18,885</b>	<b>50,316</b>	<b>86,927</b>	<b>33,030</b>	<b>53,897</b>	<b>45,915</b>	<b>20,301</b>	<b>25,614</b>	<b>30,736</b>	<b>8,629</b>	<b>22,106</b>	<b>232,778</b>	<b>80,845</b>	<b>151,933</b>

10. The gross value of the new proposed capital programme for 2020/21 to 2023/24 as detailed in Appendix 1 and summarised in Table 2 is **£232.778m**, with external funding of **£80.845m** and a net programme of **£151.933m**. The net figure is the element of the Programme which requires financing from borrowing.

11. In preparing the proposed Capital Programme, services reviewed the need for investment according to the criteria set out in paragraph 2 and also reviewed a number of schemes which had been included in the Programme on an invest to save basis, but which were no longer feasible and therefore these projects have been removed.

#### **Overall change to the Capital Programme**

12. Overall, the net increase in the Programme is £10.4m as set out in Appendix 2. However, projects which were originally put into the Capital Programme on an invest to save basis and have now been removed or reduced, total a reduction of (£127.7m). Therefore, the net movement is a reduction in the Capital Programme of (£117.3m).

13. The projects that have been removed were either built into the Programme on a cost neutral basis, where the capital financing costs were met by income, or on a net income generating basis, where the scheme should result in a net revenue stream to the Council. The reductions in both capital financing costs and the income streams have also been removed from the revenue budget and included in the draft Revenue budget 2021/22 and MTFs 2021/22 to 2023/24.

14. The Property Acquisition Programme is shown in table 3 as 2 entries as there has been a reduction in the budget of £4.5m and an addition of Right to Buy receipts of £9.873m as a funding resource which has reduced the requirement for borrowing by a total of £14.4m.

15. The following table sets out changes (apart from slippage of projects between years) between the existing Capital Programme (which covers the period 2020/21 to 2022/23) and the proposed programme which extends a further year to 2023/24:

**Table 3 - Changes to the Capital Programme**

	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000
Net Capital Additions (Appendix 2)	-6,879	3,422	2,404	11,435	10,382
<u>Removal of Invest to save projects</u>					
<b>Resources</b>					
Investment properties	-94,407				-94,407
<b>Community Directorate</b>					
Unmanned aerial Vehicles	-400				-400
Development of Vernon Lodge	-9177				-9,177
Probation Centre	-5000				-5,000
Vehicle Acquisitions	-7234	60	136	2731	-4,307
Property Acquisition Programme - budget removed from Programme			-4500		-4,500
Property Acquisition Programme - contribution from Right to Buy receipts and therefore reduction on net cost	-2,435	-8,838	-4550	5,950	-9,873
<b>Total</b>	<b>-125,532</b>	<b>-5,356</b>	<b>-6,510</b>	<b>20,116</b>	<b>-117,282</b>

**Capital Programme changes and impact on the Revenue Budget**

16. The proposed Capital Programme of £232.778m is supported by external funding of £80.845m. £10.736m of the external funding is Borough Community Infrastructure Levy (BCIL). The detail of this £10.736m is set out in Table 7 but summarised below:

- **£2.660m** for the Wealdstone Major Transport Project
- **£2.650m** for the High Street Fund
- **£2.076m** for the Harrow Arts Centre
- **£2.000m** for Flood Defence and Highways Drainage
- **£0.600m** for the Green Grid Programme
- **£0.500m** for the Headstone Manor Flood Alleviation Scheme
- **£0.250m** for Playground Infrastructure

17. The additional capital financing cost associated with the proposed Capital Programme is £694k in total. In effect this is the cost of the net increase of £10.4m. Of the £694k, £470k of this cost is in 2023/24, with a further £224k

increase in 2024/25 which is outside the existing MTFS period. Therefore, a further £224k needs to be factored into the budget for 2024/25 as part of next year's 2022/23 budget process.

**Table 4 – Additional Capital Financing Implications Proposed Capital Programme**

<b>Capital Financing Costs</b>	<b>Annual costs</b>
	<b>£000</b>
2023/24 Impact	470
2024/25 Impact	224
Total Capital Financing Costs	694

### **Community Infrastructure Levy (CIL) Funding**

18. 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.
19. 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.
20. 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.
21. In 2017, the principle was adopted by the Major Development Panel (14<sup>th</sup> November 2017) and recommended to Cabinet 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 (this report) and in February in its final version.
22. In terms of the Neighbourhood element of CIL 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 was delegated to the Divisional Director – Regeneration and Planning\*, in consultation with the Portfolio Holders for

Regeneration and Planning, and Finance and Resources. \*The current delegation is with the Interim Chief Planning Officer.

23. The Borough CIL element is used to fund the core Capital programme. Schemes in the Capital Programme that have been funded by BCIL to 2019/20 are set out in Table 5 and total £9.9m. Of the £9.9m, £1.822m remains outstanding as at 31.3.2020 and will therefore be a commitment on the funding available in Table 6.

**Table 5 – Schemes funded from BCIL up to 2019/20**

Financial year	Capital Project	£	Outstanding commitment
2017/18	Highway projects	4,800,000	0
2018/19	Headstone Manor (Parks for People)	300,000	15,626
2018/19	Rayners Lane Triangle project	40,000	0
2018/19	Parks Infrastructure (Playground replacement)	545,000	0
2019/20	Parks Infrastructure (Playground replacement)	350,000	122,542
2019/20	GGF Round 2 - HAC modular buildings	1,150,000	1,078,263
2019/20	Sudbury Hill step-free access	50,000	50,000
2019/20	Flood Defence	300,000	0
2019/20	Highway Drainage	200,000	1
2019/20	Green Grid	75,000	35,239
2019/20	New Town Centre Library	2,090,000	520,338
2019/20	High Street Fund	0	0
<b>Total</b>		<b>9,900,000</b>	<b>1,822,009</b>

24. Table 6 sets out the CIL funding received to 15<sup>th</sup> October 2020 showing that £6.225m of BCIL and £1.784m of NCIL is available to date to fund projects from 2020/21 onwards:

**Table 6 – CIL Funding available as at 15 October 2020**

	BCIL	NCIL	Total
	£'000	£'000	£'000
Balance as at 31.3.2020	5,627	1,683	<b>7,787</b>
20/21 Receipts (up to 15/10/20 as per SAP)	598	101	<b>747</b>
<b>Total Balance (up to 15/10/20)</b>	<b>6,225</b>	<b>1,784</b>	<b>8,534</b>

25. The projects in the new Capital Programme for 2020/21 to 2023/24, to be funded from BCIL is £10.736m as set out in Table 7 which shows the spend over financial years.

**Table 7: Schemes funding from BCIL from 2020/21 to 2023/24**

<b>New capital bids as part of 21/22 Budget process with CIL request:</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total</b>
(N.B. Amount shown is the CIL element only)	£'000	£'000	£'000	£'000	£'000
Parks Infrastructure (Playground replacement)	250				250
Flood Defence and Highway Drainage	500	500	500	500	2,000
Green Grid	150	150	150	150	600
Headstone Manor (Flood alleviation scheme)	500				500
Wealdstone Major Transport Infrastructure projects - Bus Improvement		900	1,130	630	2,660
Harrow Arts Centre Capital Infrastructure	300				300
Harrow Arts Centre - refurbishment & new build	599	1,177			1,776
High Street Fund	250	1,300	1,100		2,650
<b>Total BCIL funding requests</b>	<b>2,549</b>	<b>4,027</b>	<b>2,880</b>	<b>1,280</b>	<b>10,736</b>

26. The total funding currently available of BCIL amounts to £6.225m as set out in Table 6. The requirement for BCIL funding considering the sum still outstanding from 2019/20 of £1.822m (Table 5) and the new Programme in Table 7 of £10.736m is £12.558m. This means a further £6.333m of BCIL is needed between the remainder of this current financial year of 2020/21 and the 3 years 2021/22, 2022/23 and 2023/24.

27. The impact of COVID-19 has seen the BCIL receipts drop from an average of £2.4m pa to only £598k to date this financial year. In order to fund the commitments in the Capital Programme an average of £2.1m is required pa for the next 3 years 2021/22 to 2023/24. Based on years prior to 2020/21 and the impact of COVID-19, this has been considered a reasonable assumption. If this estimated level of BCIL is not received, then it would be necessary to fund the schemes from other sources. If this is ultimately borrowing, then this will impact upon future year's budgets.

#### **Housing Revenue Account (HRA)**

28. The proposed HRA Capital Programme will be detailed in a separate report to Cabinet in January 2021. Any implications from the HRA Capital Programme are funded from the Housing Revenue Account and do not impact upon the General Fund Budget. The HRA Capital Programme will be included in the Final Capital Programme report going to cabinet in February 2021.

#### **Options considered**

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

#### **Legal Implications**

30. Under the Financial Regulations paragraph B2 full council is responsible for agreeing the authority's 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**

31. 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**

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

### **Performance Issues**

33. 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.
34. Monitoring of the approved programme is ongoing and is essential for good financial management.
35. 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**

36. Risk included on Directorate risk register?  Yes/ No.  
Separate risk register in place?  Yes/ No (The individual schemes within the programme should be incorporated within departmental registers or have individual registers.)

The considerations in terms of risk management are as follows:

- 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.
- The additional cost of this revised capital programme has been factored into the Revenue Budget and is included in the Draft Revenue Budget report set out elsewhere on the agenda and is therefore affordable.
- The risk that the required level of BCIL does not materialise, will be kept under review and is considered annually as part of the annual process.
- A number of projects that were reliant of income generation to fund the capital financing costs have been removed from the Capital Programme which has reduced the risk associated with income generation.

### **Equalities implications / Public Sector Equality Duty**

37. 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.

38. 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*

39. Consultation responses received on this draft programme will be taken into account in drafting the final EIA.

40. **Council Priorities**

The Council's draft Capital Programme for 2020/21 to 2023/24 has been prepared in line with the Council's priorities:

- 1. Improving the environment and addressing climate change**
- 2. Tackling poverty and inequality**
- 3. Building homes and infrastructure**
- 4. Addressing health and social care inequality**
- 5. Thriving economy**

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**

Signed on by the Chief Financial Officer

**Date: 7 December 2020**

**Statutory Officer: David Hodge**

Signed on behalf of the Monitoring Officer

**Date: 7 December 2020**

**Statutory Officer: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 7 December 2020**

**Statutory Officer: Charlie Stewart**

Signed by the Corporate Director

**Date: 7 December 2020**

**Statutory Officer: Susan Dixon**

Signed by the Head of Internal Audit

**Date: 7 December 2020**

### **Mandatory Checks**

*Ward Councillors notified: NO as it impacts on all Wards*

*EqIA carried out: NO*

*EqIA cleared by: N/A - 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](mailto:sharon.daniels@harrow.gov.uk)

**Background Papers: None**

**Call-in waived by the Chair of Overview and Scrutiny Committee**

**NO**