

Report for: Cabinet

Date of Meeting:	11 th February 2021
Subject:	Final Capital Programme 2020/21 to 2023/24
Key Decision:	Yes - involves expenditure in excess of £1m
Responsible Officer:	Dawn Calvert - Director of Finance and Assurance
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 – Proposed Capital Programme 2020/21 to 2023/24 (including new additions at Appendix 2) Appendix 2 – Net Capital additions to the Capital Programme

Section 1 – Summary and Recommendations

This report sets out the proposed Capital proposals for the financial years 2020/21 to 2023/24

Recommendations:

1. Cabinet is requested to recommend the capital programme, as detailed within Appendix 1, to Council for approval.

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

Section 2 – Report

Capital Programme 2020/21 to 2023/24

1. This report sets out the Council's proposals for Capital investment over the financial years 2020/21 to 2023/24, which provide for significant investment in the General Fund and Housing Revenue Account (HRA).

2. Development of the Capital Programme

Each year as part of the Annual Budget setting process services are requested to put forward proposals for new Capital required for the following 3 years.

3. Generally, the preparation of the 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

4. 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 Community Infrastructure Levy (BCIL) 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.
5. 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.
6. 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%

7. 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.
8. 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 paragraphs 12 and 13 and Table 3, and the capital financing costs in Table 1 will therefore reduce accordingly.

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 (agreed February 2020) is detailed in appendix 2. Table 2 sets out the total proposed Capital Programme.

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

Project Title	2020/21			2021/22			2022/23			2023/24			TOTAL		
	Total Project cost £000	Funding excluding Borrowing £000	Net project cost funded from borrowing £000	Total Project cost £000	Funding excluding Borrowing £000	Net project cost funded from borrowing £000	Total Project cost £000	Funding excluding Borrowing £000	Net project cost funded from borrowing £000	Total Project cost £000	Funding excluding Borrowing £000	Net project cost funded from borrowing £000	Total Project cost £000	Funding excluding Borrowing £000	Net project cost funded from borrowing £000
Total Resources and Commercial Directorate	14,981	100	14,881	14,731	0	14,731	2,550	0	2,550	1,850	0	1,850	34,112	100	34,012
Total People's Directorate	5,010	4,337	674	22,803	22,033	770	9,071	9,071	0	0	0	0	36,885	35,441	1,444
Total Community Directorate	52,271	14,255	38,016	48,092	12,497	35,595	37,663	14,599	23,064	32,465	12,208	20,256	170,491	53,560	116,931
Total General Fund	72,263	18,692	53,571	85,626	34,530	51,096	49,285	23,671	25,614	34,315	12,208	22,106	241,488	89,101	152,387
Total HRA	21,478	20,116	1,362	90,823	44,644	46,179	53,548	21,277	32,271	23,039	13,410	9,629	188,888	99,447	89,441
Total General Fund + HRA	93,741	38,808	54,933	176,449	79,174	97,275	102,833	44,948	57,885	57,354	25,618	31,735	430,376	188,548	241,828

10. The gross value of the General Fund proposed capital programme for 2020/21 to 2023/24 as detailed in Appendix 1 and summarised in Table 2 is **£241.488m**. **£89.101m** of the total is funded by external sources such as grants as well as internal sources such as the Borough Community Infrastructure Levy (BCIL). This leaves a net cost of **£152.387m**. The net cost 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 below 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 there projects have been removed:

- 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).

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 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Net Capital Additions (Appendix 2)	-6,879	3,347	2,404	11,510	10,382
<u>Removal of Invest to save projects</u>					
Resources					
Investment properties	-94,407				-94,407
Community Directorate					
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
Total	125,532	-5,431	-6,510	20,191	117,282

Capital Programme changes and impact on the Revenue Budget

16. The proposed General Fund Capital Programme of £241.488m is funded by borrowing as well as other funding sources such as grants, revenue funding and the Borough Community Infrastructure Levy (BCIL). The total of the other funding sources (excluding borrowing) amounts to £89.101m. Of this total, the element funded by BCIL is £13.558m which is summarised below and set out in Table 7:

- **£2.000m** for Flood Defence and Highways Drainage
- **£0.016m** for Headstone Manor Parks for People project
- **£0.373m** for Playground Infrastructure
- **£3.154m** for the Harrow Arts Centre
- **£0.520m** for Greenhill Library
- **£0.635m** for the Green Grid Programme
- **£3.650m** for the High Street Fund
- **£0.500m** for the Headstone Manor Flood Alleviation Scheme
- **0.900m** for the Wealdstone Major Transport Project
- **£1.760m** for the Wealdstone Future High Street Fund
- **£0.050m** for Sudbury Hill step free access

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

Capital Financing Costs	Annual costs
	£000
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 (14th 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 (in December each year) 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 £8.078m.

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

Financial year	Description	Actual BCIL applied
		£'000
2017/18	Highway projects	4,800
2018/19	Headstone Manor (Parks for People)	284
2018/19	Rayners Lane Triangle project	40
2018/19	Parks Infrastructure (Playground replacement)	545
2019/20	Parks Infrastructure (Playground replacement)	227
2019/20	GGF Round 2 - HAC modular buildings	72
2019/20	Flood Defence	300
2019/20	Highway Drainage	200
2019/20	Green Grid	40
2019/20	New Town Centre Library	1,570
	Total	8,078

24. Table 6 sets out the CIL funding received to 22nd January 2021 showing that £6.652m of BCIL and £1.856m of NCIL is available to date to fund projects from 2020/21 onwards:

Table 6 – CIL Funding available as at 22 January 2021

	BCIL	NCIL	Total
	£'000	£'000	£'000
Balance as at 31.3.2020	5,627	1,683	7,310
20/21 Receipts (up to 22/01/2021 as per SA)	1,025	173	1,198
Total Balance (up to 22/01/21)	6,652	1,856	8,508

25. The projects in the new Capital Programme for 2020/21 to 2023/24, to be funded from BCIL is £13.558m 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

Capital programme commitments:	2020/21	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	£'000	£'000
Flood Defence and Highway Drainage	500	500	500	500	2,000
Headstone Manor (Parks for People)	16				16
Parks Playground replacement	373				373
HAC project GGF Round 2	1,677	1,177			2,854
New Town Centre library	520				520
Green Grid	185	150	150	150	635
High Street Fund	250	1,300	1,100	1,000	3,650
Headstone Manor Flood Alleviation scheme	500				500
Wealdstone Major Transport Infrastructure		900			900
Wealdstone Major Transport Infrastructure project - Liveable Neighbourhood					0
HAC Capital Infrastructure	300				300
Sudbury Hill step free access	50				50
Wealdstone Future High Street Fund				1,760	1,760
Total Commitments	4,371	4,027	1,750	3,410	13,558

26. The total funding currently available of BCIL amounts to £6.652m as set out in Table 6. The total requirement for BCIL funding for the Capital Programme is £13.558m. This means a further £6.906m 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 £1.025m to date this financial year. In order to fund the commitments in the Capital Programme an average of £2.3m is required pa for the next 3 years 2021/22 to 2023/24. Based on years prior to 2020/21 (which has been greatly impacted by COVID-19), achieving £2.3m pa would be 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 or remove them from the Capital Programme. If the

alternative source is borrowing, then this will impact upon future year's budgets as it will increase the cost of borrowing and impact the revenue budget.

Housing Revenue Account (HRA)

The proposed HRA Capital Programme is set out elsewhere on the agenda in more detail but also included in Appendix 1. Any implications from the HRA Capital Programme are funded from the Housing Revenue Account and do not impact upon the General Fund Budget.

Options considered

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

Legal Implications

29. 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

30. 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

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

Performance Issues

32. 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.
33. Monitoring of the approved programme is ongoing and is essential for good financial management.
34. 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

35. Risks included on corporate or directorate risk register? **/No**
36. Separate risk register in place? **/No**
37. The relevant risks contained in the register are attached/summarised below. **n/a**
38. The following key risks should be taken onto account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
------------------	-------------	------------

<p>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.</p>	<p>Two of the key criteria for including projects in the capital Programme are those projects that are needed to ensure that we continue to invest in our capital assets to cover to ensure the Council meets it's requirements for both Life and Limb/Health and Safety requirements and to fulfil the Council's Statutory and legislative duties.</p>	
<p>The cost of the Capital programme is not affordable.</p>	<p>The additional cost of this Capital programme has been factored into the Revenue Budget and is included in the Final Revenue Budget report set out elsewhere on the agenda and is therefore affordable.</p>	
<p>The risk that the required level of BCIL does not materialise.</p>	<p>As the Capital programme is an annual process and the BCIL funding is now included in the report each year and will be kept under review.</p>	
<p>Capital projects being included in the Capital programme where they are funded from additional income to be generated from the project.</p>	<p>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</p>	

Equalities implications / Public Sector Equality Duty

39. 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.

40. 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*

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

42. **Council Priorities**

The Council's Final 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 by the Chief Financial Officer

Date: 01/02/21

Statutory Officer: David Hodge

Signed on behalf of the Monitoring Officer

Date: 01/02/21

Chief Officer: Charlie Stewart

Signed off by the Corporate Director

Date: 03/02/21

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 02/02/21

Head of Internal Audit: Susan Dixon

Signed by the Head of Internal Audit

Date: 02/02/21

Mandatory Checks

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

EqIA carried out: NO - any projects with potential impacts will separately be required to do an impact assessment

EqIA cleared by: N/A

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: None

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

NO