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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	9 December 2021
<b>Subject:</b>	Draft Capital Programme 2022/23 to 2024/25
<b>Key Decision:</b>	Yes Involves expenditure in excess of £1m
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance and Assurance
<b>Portfolio Holder:</b>	Councillor Natasha Proctor - Deputy Leader and 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 – Capital additions to the Capital Programme for 2022/23 to 2024/25

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

This report sets out the draft General Fund capital proposals which have been proposed as part of the 2022/23 budget process.

### **Recommendations:**

1. Cabinet is requested to note the new proposed draft capital proposals, as detailed within Appendix 1, which will be brought back to Cabinet in February 2022 for approval.

The final version of the Capital Programme 2022/23 to 2023/25 will be brought back to Cabinet in February 2022 for recommendation to Council.

**Reason:** To enable the Council to have an approved Capital Programme for 2022/23 to 2024/25.

## **Section 2 – Report**

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

1. The purpose of this draft Capital Programme report is to set out the Council's additional capital proposals for investment over the years 2022/23 to 2024/25 which have been proposed as part of the Annual budget setting process. Additional meaning that these proposals are over and above the existing Capital Programme agreed by Council in February 2021. The final Capital programme report, which will contain new proposals as well as the existing Capital Programme will be presented to Cabinet in February 2022.

### **Capital Programme 2022/23 to 2024/25**

2. As part of the 2021/22 budget process, there was a fundamental review of the Capital Programme where services were asked to take a bottom up approach to the Capital that they needed rather than using historical figures and allocations. As part of last year's review, many schemes previously put into the budget on a cost neutral basis or where they intended to make a net benefit to the bottom line, were removed, along with any revenue savings attached to them.
3. For the forthcoming Capital Programme review it is proposed that new bids should still be based on a bottom up approach, but given the major review which took place last year, the purpose of this report to December cabinet is to focus on the new proposed bids for the further year of 2024/25. The criteria used for the inclusion on new bid 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).

**Cost of the Existing Capital Programme (excluding new proposals)**

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 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.
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 2021/22 to 2023/24 in relation to the Capital Programme agreed in February 2021 and also what proportion of the 2021/22 net revenue budget of £179.4m is made up of Capital Financing costs.

**Table 1 - Capital Financing Costs as % of the Net Revenue Budget as at 2021/22 Budget Setting**

	Capital Financing Costs	Capital financing costs as % of 2021/22 Net Budget
	£m	%
2021/22	32.4	18%
2022/23	37.0	20.6%
2023/24	37.5	21%

7. The capital financing cost of the existing Capital programme 2021/22 to 2023/24 (**agreed at Council last year in February 2021**) is £32.4m in 2021/22 and then increases to £37.5m by 2023/24. These figures also relate to the cost of historic capital programmes.
8. The figures in Table 1, 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. If these costs were removed from the figures in Table 1, it would reduce the overall percentage figure. However, for prudence the figures are included on the basis that the requirement on borrowing is definite but the requirement to generate revenue is not guaranteed.
9. When the Final Capital Programme report is presented to cabinet in February 2022, an updated table will be included which shows the revised capital financing costs for the period 2022/23 to 2024/25, including new capital proposals included in this report.

### Capital proposals put forward 2022/23 to 2024/25

10. The proposed Capital Programme bids for 2022/23 to 2024/25 is detailed in Appendix 1 and summarised in Table 2 below.

**Table 2 – Total Capital Programme 2022/23 to 2024/25**

Summary	2022/23			2023/24			2024/25			Grand 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
Resources	0	0	0	0	0	0	3,550	0	3,550	3,550	0	3,550
Peoples	450	0	450	250	0	250	50	0	50	750	0	750
Community	50	0	50	520	0	520	18714	7349	11365	19284	7349	11935
Total	500	0	500	770	0	770	22,314	7,349	14,965	23,584	7,349	16,235

11. The total of capital bids across the 3 year period amounts to £23.584m of which £7.349m can be funded from a combination of Borough CIL (BCIL), assumed external grants and reserves, which leaves a net figure £16.235m which would require funding from borrowing.

12. Whilst the request was for services to put forward 2024/25 bids, out of the net £16.235m total for all bids, there are 3 bids across 2022/23 and 2023/24 which total £1.270m (£500k 2022/23 and £770k 2023/24) as follows:

- £700k Social Care reform - Capital funding (placeholder) will be used to support the social care reforms. It is likely that DLUHC (formerly MHCLG) will provide funding towards this IT investment required but until the December settlement is announced this cannot be confirmed and therefore capital financing costs have been assumed.
- £500k Climate Emergency - Energy emissions reduction measures – funding exists in the capital programme up to 2022/23 for climate energy related works to contribute to decarbonisation of the Council’s (non-residential) built estate. A bid has been made to continue this work in future years with a bid of £500k in 2023/24. (There is also a £500k bid in 2024/25). The service will review the possibility of funding this from the carbon offset fund or other external funding rather than borrowing

and confirm this between now and the final Capital programme report at the February cabinet.

- £70k for health and Safety works at the Harrow Arts Centre & Headstone Manor Capital Infrastructure. There may be some grant funding available which is not yet known and again this will be confirmed when the Final Capital Programme goes to cabinet in February.

13. The bids for the year 2024/25 total £22.314m of which £7.349m can be funded from a combination of Borough CIL (BCIL), assumed external grants and reserves, which leaves a net figure £14.965m which would require funding from borrowing.

14. The schemes assumed to be funded from BCIL, external grants and reserves which total £7.349m in 2024/25 are as follows:

	£000	
• High streets Fund	£1,000	BCIL
• Flood defence and drainage	£500	BCIL
• Green Grid Programme	£150	BCIL
• Neighbourhood CIL schemes	£500	NCIL
• Disabled Facilities grants	£1,722	*Govt grant
• Transport projects	£1,391	*TFL grant
• Vehicle replacement	£2,086m	Vehicle reserve
<b>Total</b>	<b>£7,349m</b>	

\*The grant is based on 2021/22 levels and subject to confirmation. Figures will need to be reduced or increased accordingly if the grant differs from the estimate.

15. The remaining bids for 2024/25 total a net figure of £14.965m as set out in the attached appendix 1 but summarised at a very high level below:

	£000	£000
Resources IT projects		3,550
Peoples (social care reform)		50
Community		
High Priority works - Corporate sites	650	
Parks Infrastructure	350	
Civic Amenity site Infrastructure	75	
Highways Programme	6000	
Street Lighting	2000	
CPZ Parking schemes	300	
Climate change measures	500	
Breakspear Crematorium	700	
Leisure and Libraries Infrastructure	150	
Harrow Arts Centre & Headstone Manor	20	
Empty Properties Programme	120	
Harrow High Street Fund	500	11,365
<b>Total bids for 2024/25 requiring borrowing</b>		<b>14,965</b>

16. The additional capital financing cost associated with the new proposed Capital bids across all 3 years (which total a net increase in the Programme of £16.325m) is £2m in total in 2025/26. As this year is outside of the current period of the MTFS, this increase needs to be factored into the budget for 2025/26 as part of next year's 2023/24 budget process.

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

<b>Capital Financing Costs</b>	<b>Annual costs</b>
	<b>£m</b>
Minimum Revenue Provision (MRP)	1.6
Interest	0.4
Total Capital Financing Costs	2.0

17. Between now and the submission of the Final Capital Programme report to cabinet in February 2022, there could be refinement of the new capital proposals in Appendix 1 to take account of factors such as any external funding notifications, for example, government grant announcements, further internal departmental reviews etc.

#### **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 between 2017/18 to 2020/21 are set out in Table 5 and total £12.449m. Of this total, £1.582m of schemes remain outstanding as at 31.3.2021 and this has been carried forward as a commitment for 2021/22 and included in Table 7.

**Table 5 – Schemes funded from BCIL up to 2020/21**

Financial year	Description	BCIL	17/18 Actual Exp	18/19 Actual Exp	19/20 Actual Exp	20/21 Actual Exp	Outstanding commitment
2017/18	Highway projects	4,800,000	4,800,000				0
2018/19	Headstone Manor (Parks for People)	300,000		51,293	233,081	15,626	0
2018/19	Rayners Lane Triangle project	40,000		40,000			0
2018/19	Parks Infrastructure (Playground replacement)	545,000		219,138	325,862		0
2019/20	Parks Infrastructure (Playground replacement)	350,000			227,458	122,542	0
2019/20	Harrow Arts Centre - refurbishment & new build	1,150,000			71,737	841,490	236,773
2019/20	Sudbury Hill step-free access	50,000					50,000
2019/20	Flood Defence	300,000			300,000		0
2019/20	Highway Drainage	200,000			199,999		1
2019/20	Green Grid	75,000			39,761	35,239	0
2019/20	New Town Centre Library	2,090,000			1,569,662	520,338	0
2020/21	Headstone Manor (Flood alleviation scheme)	500,000				30,574	469,426
2020/21	Parks Infrastructure (Playground replacement)	250,000				204,329	45,671
2020/21	Harrow Arts Centre - refurbishment & new build	599,000					599,000
2020/21	Harrow Arts Centre Capital Infrastructure	300,000				266,212	33,788
2020/21	Flood Defence	300,000				300,000	0
2020/21	Highway Drainage	200,000				149,607	50,393
2020/21	Green Grid	150,000				150,000	0
2020/21	High Street Fund	250,000				152,733	97,267
<b>Total</b>		<b>12,449,000</b>	<b>4,800,000</b>	<b>310,431</b>	<b>2,967,560</b>	<b>2,788,690</b>	<b>1,582,319</b>

24. Table 6 sets out the CIL funding received to 13<sup>th</sup> September 2021 showing that £5.526m of BCIL and £1.815m of NCIL has been received to date to fund projects from 2021/22 onwards.

<b>Table 6 – CIL Funding available as at 13 September 2021</b>			
	<b>BCIL</b>	<b>NCIL</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance as at 31.3.2021	4,579	1,655	6,234
2021/22 Receipts (up to 13/09/2021 as per SAP)	947	160	1,107
<b>Total Balance (up to 13/09/2021)</b>	<b>5,526</b>	<b>1,815</b>	<b>7,341</b>

25. The projects in the Capital Programme for 2021/22 to 2023/24, to be funded from BCIL is £12.419m as set out in Table 7 which shows the spend over financial years.

<b>Table 7: Schemes funding from BCIL from 2021/22 to 2024/25</b>					
<b>Capital programme commitments</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Harrow Arts Centre - refurbishment & new build	2,013				2,013
Sudbury Hill step-free access	50				50
Headstone Manor (Flood alleviation scheme)	469				469
Parks Playground replacement	46				46
HAC Capital Infrastructure	34				34
Flood Defence and Highway Drainage	550	500	500	500	2,050
High Street Fund	1,397	1,100	1,000		3,497
High Street Fund Phase 2				1,000	1,000
Green Grid	150	150	150	150	600
Wealdstone Major Transport Infrastructure project - Bus improvement	900				900
Wealdstone Future High Street Fund			1,760		1,760
<b>Total</b>	<b>5,609</b>	<b>1,750</b>	<b>3,410</b>	<b>1,650</b>	<b>12,419</b>

26. The total current BCIL available as of 13<sup>th</sup> September amounts to £5.526m as set out in Table 6. The total requirement for BCIL funding to cover the total commitment of the existing capital programme and the new bids set out in paragraph 14) is £12.419m as set out in Table 7. This means a further £6.893m of BCIL is needed between the remainder of this current financial year of 2021/22 and the 3 years 2022/23, 2023/24 and 2024/25.

27. A further sum of £1.6m is expected in the current financial year of 2021/22, which would leave an average requirement of £1.76m pa for the following 3 years in order to fund the commitments in Table 7. Based on years prior to 2020/21 which was impacted by 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 revenue budgets.



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

28. The proposed HRA Capital Programme will be detailed in a separate report to Cabinet in January 2022. 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 2022.

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

RisDescription	Mitigations	RAG Status
<p>A significant consideration in developing the proposals 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 proposals are not affordable.</p>	<p>The additional capital financing costs (borrowing) of these Capital proposals impacts the Revenue Budget in 2025/26 and will be included in Revenue Budget for 2025/26 as part of next year's budget process when the year of 2025/26 will be included in the MTFS. The balancing of the 2025/26 budget will ensure affordability.</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, the availability of BCIL to fund the Capital Programme will be kept under review. Should the level of BCIL not be sufficient then either the schemes can be removed from the programme or funded from an alternative source. If that source is borrowing then the revenue cost of borrowing will need to be included in the revenue budget.</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 were removed from the Capital Programme as part of last year's budget process which has reduced the risk associated with income generation. For those projects which have remained in the Programme, where income generation is necessary to fund the borrowing costs, this income is monitored as part of the monthly budget monitoring process.</p>	

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

40. 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. The officer's initial views are that no protected group is adversely affected by the proposals.
41. 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*

## 42. **Council Priorities**

The Council's new draft Capital proposals for 2022/23 to 2024/25 have been prepared in line with the Council's priorities set out below:

**Improving the environment and addressing climate change**

**Tackling poverty and inequality**

**Building homes and infrastructure**

**Addressing health and social care inequality**

**Thriving economy**

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

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 30 November 2011**

**Statutory Officer: Jessica Farmer**

Signed on behalf of the Monitoring Officer

**Date: 1/12/2021**

**Chief Officer: Charlie Stewart**

Signed by the Corporate Director

**Date: 29 November 2021**

**Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 26 November 2021**

**Head of Internal Audit: Susan Dixon**

Signed by the Head of Internal Audit

**Date: 26 November 2021**

**Mandatory Checks**

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

EqIA carried out: NO as these capital proposals are in the main rolling programme items which will improve the Council's infrastructure and assets.

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](mailto:sharon.daniels@harrow.gov.uk)

**Background Papers: none**

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

**NO**