

| Report for: | Cabinet |
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| Date of Meeting: | 10 February 2022 |
| Subject: | Final Capital Programme 2022/23 to 2024/25 |
| Key Decision: | Yes - involves expenditure in excess of £1m |
| Responsible Officer: | Dawn Calvert - Director of Finance and Assurance |
| Portfolio Holder: | Councillor Natasha Proctor - Deputy Leader and Portfolio Holder for Finance and Resources |
| Exempt: | No |
| Decision subject to Call-in: | Yes |
| Wards affected: | All |
| Enclosures: | Appendix 1 – Proposed Capital Programme 2022/23 to 2024/25 (including new additions at Appendix 2)  Appendix 2 – Additions to the Capital Programme |

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| Section 1 – Summary and Recommendations |
| This report sets out the proposed Capital proposals for the financial years 2022/23 to 2024/25 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 2022/23 to 2034/25. |

# Section 2 – Report

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

1. This report sets out the Council’s proposals for Capital investment over the financial years 2022/23 to 2023/25, which provide for significant investment in the General Fund and Housing Revenue Account (HRA). The focus of this report and the implications relate to the General Fund as the HRA is covered in a separate report elsewhere on this agenda. The HRA Capital Budgets are included in Appendix 1 for completeness.
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 period of the Medium-Term Financial strategy. These “new proposals” therefore represent an addition to the existing Capital Programme agreed by cabinet and Council in the previous February Budget setting. Therefore, this report sets out (in Appendix 2), all new capital being added to the programme over and above that agreed by cabinet in February 2021.

1. The criteria used for the inclusion of new bid remains unchanged from previous years which is for capital to be contained within the following categories:
2. Life and Limb/Health and Safety.
3. Statutory Requirement/legislation.
4. Schemes fully funded by external sources.
5. 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 Capital Programme**

1. 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.
2. 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.
3. Table 1 shows the revised capital financing cost budgets that are factored into the MTFS from 2022/23 to 2024/25 in relation to the Capital Programme that is to be agreed in February 2022 and it shows what proportion of the 2022/23 net revenue budget of £183.3m is made up of Capital Financing costs.

**Table 1 - Capital Financing Costs as % of the Net Revenue Budget for 2022/23 of £183.3m**

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| --- | --- | --- |
|  | Capital Financing Costs | Capital financing costs as % of 2022/23 Net Budget |
|  | £m | % |
| 2022/23 | 35.0 | 19.0% |
| 2023/24 | 36.1 | 19.7.% |
| 2024/25 | 36.3 | 19.8% |

1. The capital financing cost of the existing Capital programme 2022/23 to 2024/25 (**to be** **agreed at Council in February 2022**) is £35.0m in 2022/23 and then increases to £36.3m by 2024/25. These figures also relate to the cost of historic capital programmes.
2. 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.

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

1. The total proposed Capital Programme for 2022/23 to 2024/25 is detailed in Appendix 1. The additions to the Programme, which are over and above what was in the existing Capital Programme (agreed February 2021) is detailed in appendix 2. Table 2 sets out the total proposed Capital Programme.

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



1. The gross value of the General Fund proposed capital programme for 2022/23 to 2024/25 as detailed in Appendix 1 and summarised in Table 2 is **£98.472m.** Of the total cost of £98.472m, **£35.919m** 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 **£62.553m.** The net cost figure is the element of the Programme which requires financing from borrowing.

**Change to the original Capital Programme**

1. Overall, the net increase in the Programme in relation to new proposals is £16.071m as detailed in Appendix 2 and summarised in Table 3. The total of capital bids across the 3 year period amounts to £24.334m of which £8.263m can be funded from a combination of Borough CIL (BCIL), assumed external grants and reserves, which leaves a net figure £16.071m which would require funding from borrowing.

Table 3 – New Proposals for 2022/23 to 2024/25







1. Whilst the request was for services to put forward bids for 2024/25 (on the basis that there is already an existing approved Capital Programme to 2023/24), out of the net £16.071m total for all bids, there are 2 bids across 2022/23 and 2023/24 which total £70k (£50k 2022/23 and £20k 2023/24) , with the remaining £16.001m all relating to 2024/25.



1. Table 4 sets out the changes between the existing Capital Programme (which covers the period 2022/23 to 2023/24) and the proposed programme which extends a further year to 2024/25. The reconciliation below shows that there is a net increase of £14.8m between the 2 Programmes.
2. The reconciliation in Table 4 shows that as well as the net increase in proposals in Table 3 of £16.071m, there has also been a net reduction of £1.238m, which brings the overall increase in the programme down to £14.8m. This reduction of £1.238m will be used to contribute to the £2m saving in the budget on Capital Financing costs included in the Budget report elsewhere on this agenda.

**Table 4 - Changes to the Capital Programme between February 2021 and February 2022**



**New Capital proposals and the impact on the Revenue Budget**

1. The new Capital proposals at Appendix 2 of £24.334m are funded by borrowing as well as other funding sources such as grants, revenue funding and the Borough Community Infrastructure Levy (BCIL). The projects funded by other sources (excluding borrowing) amount to £8.263m as follows:

£000

* Schools Maintenance Grant 2,000 \*Govt grant
* 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
* Climate Control Measures 1,000 Carbon offset Fund

**Total £8,263m**

**\***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.

1. The remaining new Capital proposals bids to be funded from borrowing total a net figure of £16.071m as set out in the attached appendix 1 but summarised at high level below:

£000 £000

Resources IT projects 3,550

**Community**

High Priority works - Corporate sites 650

Parks Infrastructure 350

Civic Amenity site Infrastructure 75

Highways Programme 6,000

Street Lighting 2,000

CPZ Parking schemes 300

Breakspear Crematorium 700

Leisure and Libraries Infrastructure 150

Harrow Arts Centre & Headstone Manor 90

Empty Properties Programme 120

Vehicle Replacement \* 2,086

Community Total 12,521

**Total bids requiring borrowing 16,071**

\*Although this requires borrowing it is financed be a contribution from the Community revenue budget and therefore does not lead to an increase in Capital Financing costs.

**Total Bids impacting the Capital Financing Cost 13,985**

1. The additional capital financing cost associated with the proposed Capital Programme is £1.747m in total. In effect this is the cost of the net increase of £13.985m (£16.071m less £2.086m). As this cost is primarily in relation to 2024/25, the capital financing costs will fall due in 2025/26 which is outside the existing MTFS period. Therefore, £1.747m needs to be factored into the budget for 2025/26 as part of next year’s 2023/24 budget process.

**Table 5 – Additional Capital Financing Implications Proposed Capital Programme**

|  |  |
| --- | --- |
| **Capital Financing Costs** | **Annual costs** |
|  | **£000** |
| MRP | 1,345 |
| Interest | 402 |
| Total Capital Financing Costs | 1,747 |

**Community Infrastructure Levy (CIL) Funding**

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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 6 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 8.

**Table 6 – Schemes funded from BCIL up to 2020/21**



1. Table 7 sets out the CIL funding received to 22nd January 2022 showing that £6.440m of BCIL and £1.969m of NCIL is available to date to fund projects from 2021/22 onwards:

**Table 7 – CIL Funding available as at 20 January 2022**



1. The projects in the new Capital Programme for 2021/22 to 2024/25, to be funded from BCIL is £12.419m as set out in Table 8 which shows the spend over financial years.



1. The total funding currently available of BCIL amounts to £6.440m as set out in Table 7. The total requirement for BCIL funding for the Capital Programme is £12.419m. This means a further £5.979m 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.
2. In order to fund the commitments in the Capital Programme an average of just under £2m is required pa for the next 3 years 2022/23 to 2024/24. Based on years prior to 2020/21 which was impacted by COVID-19, this has been considered a reasonable assumption
3. 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.
4. **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**

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

**Legal Implications**

1. 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**

1. 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**

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

**Performance Issues**

1. 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.
2. Monitoring of the approved programme is ongoing and is essential for good financial management.

**Risk Management Implications**

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

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| --- | --- | --- |
| **Risk Description** | **Mitigations** | **RAG Status** |
| 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. | 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. | Green |
| The cost of the Capital programme is not affordable. | 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. | Green |
| The risk that the required level of BCIL does not materialise. | 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. | Amber |
| Capital projects being included in the Capital programme where they are funded from additional income to be generated from the project. | 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. | Green |

**Equalities implications / Public Sector Equality Duty**

1. 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. The projects proposed in the programme may require full Equality Impact Assessments before they commence.

1. 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:*

* 1. *eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
  2. *advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
  3. *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*

1. **Council Priorities**

The Council’s Final Capital Programme for 2022/23 to 2024/25 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: 2/2/2022**

**Statutory Officer: Caroline Eccles**

Signed on behalf of the Monitoring Officer

**Date: 2/2/2022**

**Chief Officer: Dawn Calvert**

Signed on behalf of the Corporate Director

**Date: 2/2/2022**

**Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 31/01/2022**

**Head of Internal Audit: Susan Dixson**

Signed by the Head of Internal Audit

**Date: 1/2/2022**

**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**