

Report for: Cabinet

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

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.

3. 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:
 - 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 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 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

	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%

7. 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.
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.

Capital proposals put forward 2022/23 to 2024/25

9. 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

Project Title	2022/23			2023/24			2024/25			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 Resources and Commercial Directorate	2,550	0	2,550	1,850	0	1,850	3,550	0	3,550	7,950	0	7,950
Total Schools	2,000	2,000	0	9,071	9,071	0	0	0	0	11,071	11,071	0
Total People's Directorate	2,000	2,000	0	9,071	9,071	0	0	0	0	11,071	11,071	0
Community Directorate	0	0	0	0	0	0	0	0	0			
Total Environment	15,802	6,791	9,011	16,856	5,750	11,106	14,702	2,541	12,161	47,360	15,082	32,278
Total Cultural Services	200	0	200	170	0	170	170	0	170	540	0	540
Total Housing General Fund	7,792	1,722	6,070	7,792	1,722	6,070	1,842	1,722	120	17,426	5,166	12,260
Total Regeneration, Enterprise and Planning	8,710	1,600	7,110	3,915	1,500	2,415	1,500	1,500	0	14,125	4,600	9,525
Total Community Directorate	32,504	10,113	22,391	28,733	8,972	19,761	18,214	5,763	12,451	79,451	24,848	54,603
Total General Fund	37,055	12,114	24,941	39,654	18,043	21,611	21,764	5,763	16,001	98,472	35,919	62,553
Total HRA	34,124	28,838	5,286	69,920	22,188	47,732	44,317	23,642	20,675	148,361	74,668	73,693
Total General Fund + HRA	71,179	40,952	30,227	109,574	40,231	69,343	66,081	29,405	36,676	246,833	110,587	136,246

10. 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

11. 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

Project Title	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
Total Resources	-	-	-	-	-	-	3,550	-	3,550	3,550	-	3,550
Total People's Directorate	2,000	2,000	-	-	-	-	-	-	-	2,000	2,000	-
Total Community Directorate	50	-	50	520	500	20	18,214	5,763	12,451	18,784	6,263	12,521
Total General Fund	2,050	2,000	50	520	500	20	21,764	5,763	16,001	24,334	8,263	16,071

12. 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.

13. 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.

14. 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

	Gross Budget	External Funding	Net Budget	Gross Budget	External Funding	Net Budget	Gross Budget	External Funding	Net Budget	Total Gross Budget	Total External Funding	Total Net Budget
	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25	2022/23 to 2024/25	2022/23 to 2024/25	2022/23 to 2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Original General Fund Capital Programme agreed by Cabinet in February 2021	49285	23671	25614	34315	12208	22107	0	0	0	83600	35879	47721
Total General Fund Capital Programme to agreed by Cabinet in February 2022	37055	12114	24941	39654	18043	21611	21764	5763	16001	98473	35920	62553
Movement between 2021 and 2022 agreed Programmes	-12230	-11557	-673	5339	5835	-496	21764	5763	16001	14873	41	14832
<u>Analysis of the Movement</u>												
Addition of New bids from Appendix 2	2050	2000	50	520	500	20	21764	5763	16001	24,334	8,263	16,071
Realignment of Schools Capital Programme between years (grant funded)	-9071	-9071	0	9071	9071	0	0	0	0	0	0	0
Climate Emergency - Energy emissions reduction measures - substitute borrowing with available Carbon offset fund		250	-250	0	0	0	0	0	0	0	250	-250
Disabled Facility Grant - Reduction of planned spend to be capped at grant	-389	84	-473	-432	83	-515	0	0	0	-821	167	-988
Property Acquisition Programme - 2021/22 onwards , there is no availability to use RTB 1-4-1 receipts due to changes in legislation.	-2,550	-2,550	0	-2,550	-2,550	0	0	0	0	-5,100	-5,100	0
Wealdstone Major Transport Infrastructure project: Liveable Neighbourhood. This multiple-year project was originally included in 2021/22 Capital Programme with total anticipated external funding from TfL of £3.84m in total. TfL funding has been adversely affected by the COVID-19 pandemic. Following its funding review, no funding is allocated for this Liveable Neighbourhood project. Therefore the budget originally profiled in 2022/23 (£2.27m) and 2023/24 (£1.27m) is removed from the capital programme.	-2270	-2270	0	-1270	-1270	0	0	0	0	-3,540	-3,540	0
Total Movement	-12230	-11557	-673	5339	5834	-495	21764	5763	16001	14873	40	14833

New Capital proposals and the impact on the Revenue Budget

15. 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.

16. 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 by 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**

17. 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

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 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

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
Total		12,449,000	4,800,000	310,431	2,967,560	2,788,690	1,582,319

24. 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

	BCIL £'000	NCIL £'000	Total £'000
Balance as at 31.3.2021	4,579	1,655	6,234
2021/22 Receipts (up to 20/01/2022)	1,861	314	2,175
Total Balance (up to 20/01/2022)	6,440	1,969	8,409

25. 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.

Capital programme commitments	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000
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
Total	5,609	1,750	3,410	1,650	12,419

26. 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.

27. 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

28. 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.

29. 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

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

Legal Implications

31. 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

32. 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

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

Performance Issues

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

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:

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.	Amber

	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.	
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

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. 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.
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 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 Dixon

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

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee - NO