

**Report for: Cabinet**

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<b>Date of Meeting:</b>	8 <sup>th</sup> December 2022
<b>Subject:</b>	Draft Capital Programme 2023/24 to 2025/26
<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 David Ashton - Portfolio Holder for Finance and Human 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 2023/24 to 2025/26

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

This report sets out the draft General Fund capital proposals which have been proposed as part of the 2023/24 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 2023 for approval. The final version of the Capital Programme 2023/24 to 2025/26 will be brought back to Cabinet in February 2023 for recommendation to Council.

**Reason (for the recommendations):** To enable the Council to have an approved Capital Programme for 2023/24 to 2025/26.

## **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 2023/24 to 2025/26, which have been proposed as part of the Annual budget setting process. Additional means that these proposals are over and above the existing Capital Programme agreed by Council in February 2022. The final Capital programme report, which will contain new proposals as well as the existing Capital Programme, will be presented to Cabinet in February 2023.

### **Capital Programme 2023/24 to 2025/26**

2. The Capital Programme agreed at Cabinet and Council in February 2022 included provision for capital proposals as far as the financial year of 2024/25 and therefore the main focus of this draft Capital Programme report is to include capital proposals for a further year of the MTFs which is up to 2025/26. The criteria used for the inclusion of new bids 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)**

3. The Capital Programme can be funded from a variety of funding sources. Where the Capital Programme is funded from capital grants, external partnership funding, Borough CIL and revenue funding such as reserves; this will not attract any form of capital financing cost and has no impact on the revenue budget. Schemes funded from borrowing will attract a capital financing cost and therefore a direct impact on the revenue budget.

4. Although there are no specific limits to borrowing in order to fund capital expenditure, the Council must be prudent when considering the revenue implications in the context of the overall revenue budget commitments in the medium term, and the Capital Programme must be affordable.
5. Table 1 shows the capital financing cost budgets that are already factored into the existing MTFS from 2022/23 to 2024/25 in relation to the Capital Programme agreed in February 2022 and also 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 2022/23 Net Revenue Budget of £183.3m**

	Capital Financing Budgets	Capital financing costs as % of 2022/23 Net Budget
	£m	%
2022/23	35.0	19%
2023/24	36.1	19.7%
2024/25	36.3	19.8%

6. The capital financing cost of the existing Capital programme 2022/23 to 2024/25 (**agreed at Council last year in February 2022**) is £35.0m in 2022/22 and then increases to £36.3m by 2024/25. These figures include the cost of historic capital programmes.
7. 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.
8. When the final Capital Programme report is presented to cabinet in February 2023, an updated table will be included which will show the revised capital financing costs for the period 2023/24 to 2025/26, which will reflect any changes for additions or savings to capital Financing costs proposed as part of the budget process.

**Capital proposals put forward 2023/24 to 2025/26**

9. The proposed Capital Programme proposals for 2023/24 to 2025/26 is detailed in Appendix 1 and summarised in Table 2 below.

**Table 2 – Total Capital Programme 2023/24 to 2025/26**

Project Title	2023/24			2024/25			2025/26			Grand Total		
	Total Project cost	Funding excluding Borrowing	Net project cost funded from Borrowing	Total Project cost	Funding excluding Borrowing	Net project cost funded from Borrowing	Total Project cost	Funding excluding Borrowing	Net project cost funded from Borrowing	Total Project cost	Funding excluding Borrowing	Net project cost funded from Borrowing
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Total Resources</b>	-	-	-	-	-	-	1,500	-	1,500	1,500	-	1,500
Total Adults	-	-	-	-	-	-	-	-	-	-	-	-
Total Public Health	-	-	-	-	-	-	-	-	-	-	-	-
Total Schools	7,896	7,896	-	-	-	-	-	-	-	7,896	7,896	-
<b>Total People's Directorate</b>	<b>7,896</b>	<b>7,896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,896</b>	<b>7,896</b>	<b>-</b>
Total Environmental Services	-	-	-	-	-	-	11,330	2,391	8,939	11,330	2,391	8,939
Total Inclusive Economy, Leisure & Culture	3,472	517	2,955	216	203	13	1,376	1,000	376	5,064	1,720	3,344
Total Regeneration & Development	300	300	-	275	275	-	1,550	900	650	2,125	1,475	650
Total Housing General Fund	-	-	-	-	-	-	1,722	1,722	-	1,722	1,722	-
<b>Total Place Directorate</b>	<b>3,772</b>	<b>817</b>	<b>2,955</b>	<b>491</b>	<b>478</b>	<b>13</b>	<b>15,978</b>	<b>6,013</b>	<b>9,965</b>	<b>20,241</b>	<b>7,308</b>	<b>12,933</b>
<b>Total General Fund</b>	<b>11,668</b>	<b>8,713</b>	<b>2,955</b>	<b>491</b>	<b>478</b>	<b>13</b>	<b>17,478</b>	<b>6,013</b>	<b>11,465</b>	<b>29,637</b>	<b>15,204</b>	<b>14,433</b>

10. The total of capital proposals across the 3-year period amounts to £29.637m of which £15.204m can be funded from a combination of Community Infrastructure Levy (CIL), external grants/funding, which leaves a net figure £14.433m which would require funding from borrowing.

11. Whilst the request was for services to put forward proposals for 2025/26, there are proposals across 2023/24 and 2024/25 which total a net £2.968m (£2.955m 2023/24 and £13k 2024/25) as follows:

- **Schools** - £7.896m has been added to the capital programme in 2023/24 for SEN and general school improvements, but there is a net nil cost as it is all grant funded and therefore has a nil impact on the revenue budget.
- **Leisure Centre Infrastructure.** £2.968m has been proposed as an addition to the programme (£2.955m in 2023/24 and £13k in 2024/25). This is as a response to condition surveys undertaken at the 3 leisure facilities (Harrow Leisure Centre, Hatch End Swimming Pool, and Bannister Sports Centre) in 2022. The works are either health and safety related or operationally required - a failure to undertake the works will impact the sites' ability to open. This will require council funding and is therefore shown as an increase in borrowing.
- **Biodiversity Net Gains in Harrow** - £575k (£300k in 2023/24 and £275k in 2024/25 - BCIL funded). This is around the strategic use of Council land to facilitate sustainable development, enhance green infrastructure, improve residents' wellbeing and support nature's recover, and investment in the up-front creation of habitat banks, against which developer's statutory biodiversity net gain (BNG) obligations and local plan Environmental Gain obligations may be set. There is no impact on revenue of this proposal.

- **UK Shared Prosperity Fund (UKSPF) – £720k.** (£517k in 23/24 and £203k in 24/25). This fund is managed by the GLA and provides funding – a mix of capital and revenue - directly to London boroughs to deliver projects under the Communities and Place and Supporting Local Business Themes. As this is grant funded, there is no impact on the revenue budget.

12. The total of all proposals across all years is £29.637m of which £15.204m can be funded from a combination of Borough CIL (BCIL) and assumed external grants/funding, which leaves a net figure £14.433m which would require funding from borrowing. The detail of these proposals is set out in Appendix 1 but are summarised below in paragraphs 13 and 14.

13. The schemes assumed to be funded from BCIL and external grants and funding which total £15.204m are as follows:

	£000	
• Schools Capital Improvements	7,896	Govt grant
• High streets Fund	1,000	BCIL
• Flood defence and drainage	500	BCIL
• Green Grid Programme	150	BCIL
• Neighbourhood CIL schemes	500	NCIL
• Biodiversity Net Gains in Harrow	825	BCIL
• Disabled Facilities grants	1,722	*Govt grant
• Transport projects	1,391	*TFL grant
• UK Shared Prosperity Fund (UKSPF)	720	*TFL grant
• Energy emissions reduction measures	500	**S106
<b><u>Total proposals</u></b>	<b><u>15,204</u></b>	

\*The grant is based on 2022/23 levels and subject to confirmation.

\*\* This is specifically the S106 carbon offset fund

14. The remaining bids requiring funding from borrowing and total to a net figure of £14.433m as summarised below:

	£000
Resources IT projects	1,500
<b>Place Directorate</b>	
High Priority works - Corporate sites	650
Parks Infrastructure	350
Civic Amenity site Infrastructure	75
Highways Programme	6000
Street Lighting	2000
CPZ Parking schemes	300
Vehicle Replacement	214
Leisure and Libraries Infrastructure (minor)	150
Leisure Centre Infrastructure (major)	3,134
Harrow Arts Centre & Headstone Manor	60
<b><u>Total proposals</u></b>	<b><u>14,433</u></b>

15. 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 £14.433m) is approximately £1.5m in total which will need to be added to the 2026/27 budget. As this year is outside of the current period of the MTFs, this increase needs to be factored into the budget for 2026/27 as part of next year's 2024/25 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)	0.9
Interest	0.6
Total Capital Financing Costs	1.5

16. Between now and the submission of the Final Capital Programme report to cabinet in February 2023, 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. There will also be consideration of funding proposals in paragraph 14 from BCIL funding given the additional BCIL likely to be available as set out in paragraph 26.

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

17. 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.
18. 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 is known as a Regulation 123.
19. 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.
20. 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.

21. In terms of the Neighbourhood element of CIL (NCIL) a review of the process agreed by the Major Development Panel (November 2017) and Cabinet (December 2017) is currently being undertaken. The scope of the review was presented to the Planning Policy Advisory Panel on 3 October 2022 and the review is expected to be completed and any revised process in place in time for the 2023/24 financial year.
22. 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 2021/22 are set out in Table 5 and total £14.399m. Of this total, £1.776m of schemes remain outstanding as at 31 March 2022 and this sum has been carried forward as a commitment for 2022/23 and included in Table 7.

**Table 5 – Schemes funded from BCIL up to 2021/22**

Financial year	Description	BCIL	17/18 Actual Exp	18/19 Actual Exp	19/20 Actual Exp	20/21 Actual Exp	21/22 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	26,978	209,795
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	0
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	11,201	22,587
2020/21	Flood Defence	300,000				300,000		0
2020/21	Highway Drainage	200,000				149,607	38,067	12,326
2020/21	Green Grid	150,000				150,000		0
2020/21	High Street Fund	250,000				152,733	97,267	0
2021/22	Green Grid	150,000					130,270	19,730
2021/22	Flood Defence and Highway Drainage	500,000					414,953	85,047
2021/22	High Street Fund	1,300,000					568,199	731,801
<b>Total</b>		<b>14,399,000</b>	<b>4,800,000</b>	<b>310,431</b>	<b>2,967,560</b>	<b>2,788,690</b>	<b>1,756,361</b>	<b>1,775,958</b>

23. Table 6 sets out the balance of CIL funding remaining as at 31<sup>st</sup> March 2022, plus CIL received in 2022/23 to 22<sup>nd</sup> October 2022, which shows that £10.457m of BCIL and £2.771m of NCIL is available to fund projects from 2022/23 onwards. The BCIL funding in 2022/23 is much higher than usual as a result of a large receipt of £5.9m and therefore this level of income cannot be assumed for future years as past trends have been for BCIL income to average around £2m pa.

**Table 6 – CIL Funding available as at 22 October 2022**

	BCIL	NCIL	Total
	£'000	£'000	£'000
Balance as at 31.3.2022	4,771	1,812	6,583
2022/23 Receipts (up to 22/10/2022 as per D365)	5,686	959	6,645
<b>Total Balance (up to 22/10/2022)</b>	<b>10,457</b>	<b>2,771</b>	<b>13,228</b>

24. The projects in the Capital Programme for 2022/23 to 2025/26, to be funded from BCIL, are £11.061m as set out in Table 7 which shows the total spend over financial years.

**Table 7: Schemes funded from BCIL from 2022/23 to 2025/26**

New capital bids as part of 23/24 Budget process to be funded from CIL:	2022/23	2023/24	2024/25	2025/26	Total
(N.B. Amount shown in the BCIL element only)	£'000	£'000	£'000	£'000	£'000
Flood Defence and Highway Drainage	500	500	500	500	2,000
Green Grid	170	150	150	150	620
Harrow Arts Centre - refurbishment & new build	809				809
Sudbury Hill step-free access	50				50
Parks Playground replacement	46				46
HAC Capital Infrastructure	22				22
Flood Defence and Highway Drainage	97				97
Harrow High Street Fund	1,832	1,000			2,832
Wealdstone Future High Street Fund		1,760			1,760
Harrow High Street Fund Phase 2			1,000	1,000	2,000
Biodiversity Net Gains in Harrow		300	275	250	825
<b>Total BCIL funding requests</b>	<b>3,526</b>	<b>3,710</b>	<b>1,925</b>	<b>1,900</b>	<b>11,061</b>

25. The total current BCIL available as at 22<sup>nd</sup> October amounts to £10.457m 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 £11.061m as set out in Table 7. This means that only a further £604k of BCIL is needed to fund the full programme as far as 2025/26 and this is likely to be received in 2022/23.

26. Therefore, it is very likely that by the end of 2022/23 there will be sufficient BCIL funding to fund all the projects included in Table 7. Given that BCIL averages £2m pa, it could be anticipated that a further £6m of BCIL would be received in 2023/24 to 2025/26 available to fund existing projects in the capital Programme. This would then lead to a reduction in borrowing costs if schemes currently funded from borrowing could be substituted by BCIL funding instead (subject to confirmation that they are eligible for BCIL funding). Therefore, there will be a review of the current Capital Programme and new proposals submitted to consider which proposals can be funded from BCIL.

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

27. The proposed HRA Capital Programme will be detailed in a separate report to Cabinet in February 2023. 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 2023.

### **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 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 this 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? **Yes/No**
36. Separate risk register in place? **Yes/No**
37. The relevant risks contained in the register are attached/summarised below.  
**Yes/No/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>Proposals put forward by Directorates are not part of an agreed Corporate Asset Management Plan(s) and therefore it is not possible to confirm that the proposals put forward cover the full estate which could lead to an increase in health and safety risks and additional costs in replacing assets if 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 ensure the Council meets its requirements for both Life and Limb/Health and Safety requirements and to fulfil the Council's Statutory and legislative duties. However, there is not an overarching plan for this.</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 2026/27 and will be included in Revenue Budget for 2026/27 as part of next year's budget process when the year of 2026/27 will be included in the MTFS.</p> <p>At this stage it is not possible to provide assurance that the 2026/27 budget will be balanced and hence make the Capital proposals 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 to Cabinet, the availability of BCIL to fund the Capital Programme is kept under review. In normal circumstances, 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. However, for 2022/23 due to one large receipt being received, there is already 95% of the BCIL funding available for all schemes proposed across all 3 years, therefore all schemes will be fully funded by the end of 2022/23 -see paragraphs 25 and 26.</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. The officer's views are that no protected group is adversely affected by the proposals.

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. **Council Priorities**

The Council's new draft Capital proposals for 2023/24 to 2025/26 have been prepared in line with the Council's priorities set out below:

- A council that puts residents first
- A borough that is clean and safe
- A place where those in need are supported

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

### **Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 28/11/2022**

### **Statutory Officer: Caroline Eccles**

Signed on behalf of the Monitoring Officer

**Date: 30/11/2022**

**Chief Officer: Patrick Flaherty**

Signed by the Chief Executive

**Date: 28/11/2022**

**Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 26/11/2022**

**Head of Internal Audit: Susan Dixon**

Signed by the Head of Internal Audit

**Date: 25/11/2022**

## **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**