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|  London Borough of Harrow logo |

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| REPORT FOR: | CABINET |
| Date of Meeting: | 15 February 2024 |

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| Subject: | Final Capital Programme 2024/25 to 2026/27 |
| Key Decision: | Yes |
| Responsible Officer: | Sharon Daniels, Interim Director of Finance and Assurance |
| Portfolio Holder: | Councillor David Ashton - Portfolio Holder for Finance and Human Resources |
| Exempt: | No |
| Decision subject to Call-in: | Yes  |
| Wards affected: | All |
| Enclosures: | Appendix 1 – Proposed Capital Programme 2024/25 to 2026/27 (including new additions in Appendix 2)Appendix 2 – Additions to the Capital Programme |

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| Section 1 – Summary and Recommendations |
| This report sets out proposals for the capital programme for the financial years 2024/25 to 2026/27. Recommendations: Cabinet is requested to:1. Note the Capital Programme, as detailed within Appendix 1, and recommend it to Council for approval.

Reason (for recommendations): To enable the Council to have an approved Capital Programme for 2024/25 to 2026/27. |

# Section 2 – Report

**Capital Programme 2024/25 to 2026/27**

1. This report sets out the Council’s proposals for capital investment over the financial years 2024/25 to 2026/27, which provide 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 has already been covered in a separate report at the Cabinet meeting in January 2024. The HRA Capital Budgets are included in Appendix 1 for completeness.

**Development of the Capital Programme**

1. The Capital Programme agreed at Cabinet and Council in February 2023 included provision for capital proposals for 2023/24 to 2025/26. Although it is the intention to maintain a 3-year Capital Programme, it is considered that the 3rd year of the Programme, in this case 2026/27, is too far ahead for any detailed investment proposals to be developed in order to provide accurate capital budget estimates. In addition, the capital financing costs arising from 2026/27 capital proposals will not be incurred until 2027/28 which falls outside the period of the 2024/25 Medium Term Financial Strategy (MTFS).
2. As detailed in the Draft Capital Programme 2024/25 to 2026/27 report (December 2023 Cabinet), a review was undertaken on the existing Capital Programme and the outcome of which was used to refresh the programme by re-profiling existing budgets where applicable into 2026/27 to form a 3-year Capital Programme in the MTFS. Any new capital allocation for 2026/27 will form part of the 2025/26 budget and MTFS process. The review has also identified a reduction of £2.1m in the existing Capital Programme (£1.65m in 2023/24 and £450k in 2024/25 to 2025/26).
3. Since the preparation of the Draft Capital Programme 2024/25 to 2026/27 report, new capital proposals have been developed and therefore will be included in the Final Capital Programme. These are detailed in a separate section in this report. Appendix 2 sets out all new capital proposals being added to the programme over and above that agreed by Cabinet in February 2023.
4. The criteria used for the inclusion of new capital bids remain unchanged from previous years which is for capital to be contained within the following categories.
5. Life and Limb/Health and Safety
6. Statutory Requirement/legislation
7. Schemes fully funded by external sources
8. Invest to Save Schemes (the capital expenditure must generate a revenue stream to cover the capital financing costs and make a savings contribution)
9. In addition, with the approval of the Council’s Corporate Plan, capital investment in the borough aims to support the delivery of our priorities to residents and businesses. The Corporate Plan includes a number of flagship actions, many of which will be supported by the investment in the Final Capital Programme.
10. A council that puts residents first
* Investment in IT to deliver organisational efficiencies and improvements in residents experience on IT channels.
* Investment in Regeneration Programme to deliver new homes including affordable ones as part of the Harrow Strategic Development Partnership.
1. A borough that is clean and safe
* Investment in parks infrastructure to achieve Green Flag status on further parks and open spaces, to enhance biodiversity and to deliver flood defence and water quality schemes.
* Investment in highways, street lighting and transport to improve our road and cycling network.
* Investment in Housing retrofit decarbonisation programme to improve energy efficiencies of our council homes.
1. A place where those in need are supported
* Investment in Property Acquisition Programme to provide better housing for homelessness.

**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), S106 funding (developer contributions) 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 2024/25 to 2026/27 in relation to the Capital Programme that is to be agreed in February 2024 and it shows what proportion of the 2024/25 net revenue budget of £202.6m is made up of Capital Financing costs.

**Table 1 - Capital Financing Costs as % of the Net Revenue Budget for 2024/25 of £202.6m**

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| --- | --- | --- |
|  | Capital Financing Costs | Capital financing costs as % of 2024/25 Net Budget |
|  | £m | % |
| 2024/25 | 33.1 | 16.3% |
| 2025/26 | 34.1 | 16.8% |
| 2026/27 | 36.0 | 17.8% |

1. The capital financing cost of the Capital Programme 2024/25 to 2026/27 (**to be** **agreed at Council in February 2024**) is £33.1m in 2024/25 and then increases to £36.0m by 2026/27. These figures include 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 2024/25 to 2026/27**

1. The total proposed Capital Programme for 2024/25 to 2026/27 is detailed in Appendix 1 and summarised in Table 2. The additions to the Programme, which are over and above what was in the existing Capital Programme (agreed February 2023) are detailed in Appendix 2.

**Table 2 – Total Capital Programme 2024/25 to 2026/27**



1. The gross value of the General Fund proposed Capital Programme for 2024/25 to 2026/27 as detailed in Appendix 1 and summarised in Table 2 is **£70.613m.** Of the total cost, **£23.965m** 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 **£46.648m.** The net cost figure is the element of the Programme which requires financing from borrowing.

**Change to the original Capital Programme agreed in February 2023**

1. Overall, the net increase in the Programme in relation to new proposals is £20.619m as detailed in Appendix 2 and summarised in Table 3. The total of capital proposals across the 3-year period amounts to £23.319m, of which £2.700m can be funded from external grants, which leaves a net figure £20.619m which would require funding from borrowing.

**Table 3 – New Capital Proposals for 2024/25 to 2026/27**



1. The new proposals are profiled across 2024/25 and 2025/26, as £12.573m and £10.746m respectively.
2. The new capital proposals are summarised below.

**Property Acquisition Programme PAP (Housing General Fund) £20.619m**

The Council has previously delivered the PAP to help alleviate the budget pressure on temporary accommodation. Since 2015, around 170 properties have been bought within and near Harrow to house homeless families.

It is proposed to extend the PAP to purchase further 50 properties. Total capital costs are estimated at £20.619m (£9.873m in 2024/25 and £10.746m in 2025/26). The capital financing costs of this investment are assumed to be met from savings in the temporary accommodation budget, resulting in a cost neutral position.

At the time of this report, external grants are being explored to part fund this project. The outcome of funding applications is not yet known. The authority to commence this project will be subject to a further cabinet report confirming any grant funding towards the project costs and an updated financial model to reflect that.

**Schools Condition Allocation (SCA) £2.700m**

The SCA capital grant is provided by the Department for Education to help local authorities maintain and improve the condition of maintained school buildings and grounds. Funding is announced annually, and is usually notified in late February or early March prior to the start of the new financial year. In 2023-24 the grant is £2.700m, therefore it is proposed to add an additional £2.700m to the 2024-25 Capital Programme in order that maintenance to buildings is not impacted. The final grant allocation will be reported to Cabinet in the new financial year and the Capital Programme will be updated.

As the capital cost is fully funded from external grant, the project will not increase capital financing costs.

1. Table 4 sets out the changes between the existing Capital Programme (which covers the period 2024/25 to 2025/26) and the proposed programme which extends a further year to 2026/27. The reconciliation below shows that there is a net increase of £20.169m between the 2 Programmes which is the total of the additions in Appendix 2 (£20.619m) minus the capital saving (£450k) arising from the review of the existing Capital Programme undertaken during the financial year. There has also been some movement between years where some existing capital projects have been realigned between financial years to better reflect when the spend will take place.

**Table 4 - Changes to the Capital Programme between February 2023 and February 2024**



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

1. The new capital proposals in Appendix 2 of £23.619m are funded by borrowing as well as other sources (government grants).
2. The projects funded by other sources (excluding borrowing) amount to £2.700m as follows:
* Schools Condition Allocation £2.700m Govt grant
1. The remaining new project to be funded from borrowing totals £20.619m.
* Property Acquisition Programme (PAP) £20.619m
1. The additional capital financing cost associated with the proposed Capital Programme is £543k in 2025/26, increasing to £1.134m in 2026/27. As the PAP is an invest to save initiative, the capital financing cost is assumed to be funded from revenue savings on the temporary accommodation budget. Therefore this will not increase the net revenue budget requirement. A saving target of the equivalent amount has been included in the MTFS to reflect cost neutrality.

**Table 5 – Additional Capital Financing Costs of the Proposed Capital Programme and funding source**



**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. 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.
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 (capital and revenue) should support the development of the area.
4. In 2017, the principle was adopted by the Major Development Panel (14th November 2017) and Cabinet (7th December 2017) 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 its final version in February (this report). In agreeing the Borough CIL allocations process, Cabinet also indicated that this should be informed by the Harrow Local Plan, Infrastructure Delivery Plan (IDP), corporate priorities and external funding opportunities.
5. In this regard, a new Local Plan is currently being prepared and this will be informed by an updated IDP (due mid-2024). The IDP will provide an up to date assessment of infrastructure required to support the development envisaged in the new Local Plan, including the increased housing targets set by the London Plan. In this context, it is considered prudent not to fully allocate current BCIL balances / anticipated receipts as the forthcoming IDP may identify infrastructure needs that would benefit from BCIL to ensure timely provision.
6. In terms of the Neighbourhood element of CIL (NCIL) a review of the process was undertaken during 2022/23, and the outcomes and recommendations were presented to Cabinet in February 2023. A new process of NCIL allocation and project delivery is now in place.
7. The Borough CIL element is used to fund the core Capital Programme where projects relate to infrastructure to support development in accordance with CIL Regulations. Schemes in the Capital Programme that have been funded by BCIL between 2017/18 to 2022/23 are set out in Table 6 and total £18.176m. Of this total, £2.076m of schemes remain outstanding as at 31st March 2023 and this sum has been carried forward as a commitment for 2023/24 and included in Table 8. Therefore, for the period covering 2017/18 to 2022/23, BCIL of £16.100m has been used to fund the Capital Programme.

**Table 6 – Schemes funded from BCIL up to 2022/23**



1. Table 7 sets out the balance of CIL funding remaining as at 31st March 2023, plus CIL received in 2023/24 to 10th January 2024, which shows that £9.967m of BCIL and £3.063m of NCIL is available to fund projects in Table 8, from 2023/24 onwards.

**Table 7 - CIL Funding available as at 10 January 2024**



1. The projects in the Capital Programme covering the period 20223/24 to 2026/27, to be funded from BCIL totals £6.471m. In addition, there are revenue projects of £627k being funded from BCIL, resulting in total BCIL funding commitments of £7.044m. These are set out in Table 8 below.

**Table 8 - Schemes funded from BCIL from 2023/24 to 2026/27**



1. The total BCIL available as at 10th January 2024 amounts to £9.967m as set out in Table 7. The total requirement for BCIL funding to cover the total commitments of the Capital Programme and other revenue projects is £7.044m. This means that there is uncommitted BCIL funding of £2.923m available for further eligible projects at the time of writing this report.
2. Given that BCIL averages £2m per annum, a further estimated £6m could be received in the 3 years from 2024/25 to 2026/27 which would be available to either fund existing projects in the Capital Programme or could be used for future Capital Programme additions. In the case, where schemes currently funded from borrowing could be substituted for BCIL funding instead, this would then lead to a reduction in borrowing costs. As detailed in paragraph 25, considerations should also be given on the allocation of BCIL funding while the updated IDP and Harrow Local Plan are being prepared.
3. With any source of capital funding, if the estimated level is not received, then it would be necessary to fund the schemes from other sources or remove them from the Capital Programme. If the alternative source is borrowing, then this will impact upon future year’s budgets as it will increase the cost of borrowing and impact the revenue budget.

**Housing Revenue Account (HRA)**

1. The proposed HRA Capital Programme was approved by Cabinet in January 2024 and is included in Appendix 1 for completeness. 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 review of the current Capital Programme was undertaken during the budget settling process. The outcomes form the basis for preparing the Final Capital Programme 2024/25 to 2026/27. A number of capital proposals were considered during the budget setting process before finalisation on which would be taken forward. As detailed in paragraph 5, capital proposals were assessed to determine if they met the criteria to be included in the Capital Programme. This assessment results in the proposed Capital Programme that addresses these criteria. The capital proposals also support the delivery of flagship actions included in the Corporate Plan. The proposals in this report are to enable the Council to have an approved Capital Programme for 2024/25 to 2026/27.

**Legal Implications**

1. Under the Council’s Constitution, Part 4K - Financial Regulations, paragraph B2 states that Full Council is responsible for agreeing the authority’s policy framework which is proposed by the Cabinet and this includes the Capital Programme. Under paragraph B41 in the Financial Regulations, the Chief Finance Officer (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 into account when agreeing the recommendations in this report:

|  |  |  |
| --- | --- | --- |
| **Risk Description**  | **Mitigations**  | **RAG Status**  |
| 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. | * 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.

  | **AMBER** |
| The cost of the Capital Programme is not affordable. | * The additional capital financing costs (borrowing) of the Capital proposals are included in the 3 year MTFS up to 2026/27. There is no new capital proposal for 2026/27 that impacts the Revenue Budget in 2027/28.
 | **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 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, as set out in paragraph 30, the BCIL already received is more than sufficient to fund the commitments in the Final Capital Programme 2024/25 to 2026/27.
 | **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. Initial views are that no protected group is adversely affected by the proposals in this report. 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. 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 (to a limited extent)*

**Council Priorities**

1. The Council’s Final Capital Programme for 2024/25 to 2026/27 has been prepared in line with the Council’s priorities:
* 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: Sharon Daniels**

Signed by the Chief Financial Officer

**Date: 18/01/2024**

**Statutory Officer: Paresh Mehta**

Signed on behalf of the Monitoring Officer

**Date: 23/01/2024**

**Chief Officer: Alex Dewsnap**

Signed by the Managing Director

**Date: 22/01/2024**

**Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 19/01/2024**

**Head of Internal Audit: Neale Burns**

Signed on behalf of the Head of Internal Audit

**Date: 22/01/2024**

**Has the Portfolio Holder(s) been consulted? Yes** [x]

## 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: Jessie Man**, Interim Head of Strategic and Technical Finance (Deputy S151), jessie,man@harrow.gov.uk

**Background Papers:** None

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