
REPORT FOR: CABINET

Date of Meeting:	21 February 2019
Subject:	Final Capital Programme 2019/20 to 2020/21
Key Decision:	Yes - involves expenditure in excess of £1m
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1 – Total Capital Programme 2019/20 to 2020/21 – (including new Capital additions in Appendix 2) Appendix 2 – New Capital Additions 2019/20 to 2020/21

Section 1 – Summary and Recommendations

This report sets out the proposed Capital programme proposals for the financial years 2019/20 and 2020/21.

Recommendations:

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 2019/20 to 2020/21.

Section 2 – Report

Development of the Capital Programme

1. This report sets out the Council's proposals for Capital investment over the period 2019/20 to 2020/21, which provide for significant investment over the next 2 years in the General Fund and Housing Revenue Account.
2. Traditionally, the Capital Programme covers a period of 3 years, however given the existing budget gaps in the revenue budget for 2020/21 and 2021/22, the Capital Programme is limited to 2 years. The Capital programme for 2021/22 will be considered as part of the next year's 2020/21 budget setting process.

New Capital proposals 2019/20 to 2020/21

3. Service directorates were invited to bid for capital resources, as part of their service proposals for 2019/20 to 2020/21. The proposals which have been put forward take into account the council's strategic vision of "Working together to make a difference for Harrow", the Council's priorities and equalities or other statutory duties.
4. In view of the current financial climate and reduced external funding service directorates were asked to limit new capital proposals to 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 as a minimum and ideally make a savings contribution too).

Current cost of the existing Capital Programme

5. The 2018/19 capital financing budget for the existing Capital programme up to 2018/19 is £24.6m. This figure of £24.6m will also cover the cost of

historic capital programmes spent prior to 2018/19. £24.6m is approximately 15% of the net revenue budget of £168.9m.

6. 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.
7. In the current situation where the revenue budget continues to reduce each year, but capital financing costs increase as a result of increasing the capital programme each year, the proportion of the net revenue budget which funds capital financing costs will increase each year.
8. Table 1 below shows the capital financing costs that for the period 2018/19 to 2021/22. The costs relate to the existing and historic capital programmes as a proportion of the 2018/19 net revenue budget of £168.9m.
9. These are the gross capital financing costs. A number of proposals in the capital programme have been put into the programme to generate a return on the investment or as a minimum to cover their capital financing costs. Therefore, there will be income budgets included in the revenue budget which would offset these gross capital financing costs set out in Table 1.

Table 1 - Capital Financing Costs as % of the Net Revenue Budget

	Capital Financing Costs	Capital financing costs as % of 2018/19 Net Budget
	£m	%
2018/19	24.6	15%
2019/20	32.5	19%
2020/21	33.6	20%
2021/22	37.9	22%

Review of the existing Capital Programme and new Proposals

10. A review of the Capital Programme was carried out in order for the Programme to be aligned with principles being developed to help define what Council services in Harrow should look like in the future, given the current significant budget gaps in the Revenue Budget for 2020/21 and 2021/22.
11. The aim of this review being to set a revised affordable Capital Programme. The principles used are as follows:
 1. Is this capital needed to meet a statutory obligation? Also, is the amount requested the minimum requirement?
 2. Is this capital required to operate safely? Also, is the amount requested the minimum requirement?
 3. Does the capital investment make a net financial contribution to Harrow after accounting for all revenue costs (capital financing costs, implementation costs and any ongoing running costs)?
 4. Does the capital investment generate additional external funding?
 5. Is this capital requirement essential to sustain the organisation? Also, is the amount requested the minimum requirement?

6. Where a project has already started, can existing contractual arrangements be re-negotiated?

New Capital proposals put forward 2019/20 to 2020/21

12. The new capital proposals have been reviewed in line with the principles in paragraph 10 and those proposed to be included for 2019/20 and 2020/21 are summarised in the following table and detailed in appendix 2:

Table 2 – Summary new Capital bids 2019/20 to 2020/21

	2019/20			2020/21			TOTAL		
	Gross Value £000	External Funding £000	Net Value £000	Gross Value £000	External Funding £000	Net Value £000	Gross Value £000	External Funding £000	Net Value £000
Resources and Commercial Directorate	25,000	0	25,000	3,000	0	3,000	28,000	0	28,000
People									
Schools	1,674	1,674	0	621	621	0	2,295	2,295	0
Total People's Directorate	1,674	1,674	0	621	621	0	2,295	2,295	0
Community									
Environmental Services	3,691	641	3,050	6,991	541	6,450	10,682	1,182	9,500
Community & Culture	2,338	2,138	200	572	572	0	2,910	2,710	200
Housing General Fund	932	0	932	0	0	0	932	0	932
Regeneration & Enterprise	1,750	650	1,100	1,000	900	100	2,750	1,550	1,200
Total Community Directorate	8,711	3,429	5,282	8,563	2,013	6,550	17,274	5,442	11,832
Total General Fund	35,385	5,103	30,282	12,184	2,634	9,550	47,569	7,737	39,832
Housing revenue Account	6,723	0	6,723	30,626	0	30,626	37,349	0	37,349
Total General Fund + HRA	42,108	5,103	37,005	42,810	2,634	40,176	84,918	7,737	77,181

13. The gross value of the proposed General Fund additions to the programme is £47.569m, which after allowing for external funding of £7.737m, provides a net increase in the programme of £39.832m.
14. When bids were invited for 2019/20 and 2020/21, it was on the basis that unless they were life and limb/Health and Safety or were essential to sustain the organisation, they would be either funded from external funding or generate revenue savings which would as a minimum, cover the capital financing costs so there would be no net revenue impact to the Council as a result of any additional borrowing required.
15. A large number of the schemes proposed are included on the basis of generating a revenue contribution, some are externally funded and some can be funded from Borough CIL and Neighbourhood CIL. However after taking this into account there is a residual capital financing cost from the remaining schemes of £293k which will fall in 2020/21. The following table sets out the gross capital financing costs and then shows as set out in the table below.

Table 3 - Capital Financing Implications of Changes and Additions to the Capital Programme

Capital Financing Costs	Annual costs
	£000
Minimum Revenue Provision (MRP)	1,825
Interest	1,105
Total Capital Financing Costs	2,930
Savings in capital financing costs in existing Programme by funding from CIL	(259)
Savings in capital financing costs in existing Capital Programme from additional external funding in Schools	(150)
Savings in capital financing costs in existing Capital Programme from removal of schemes	(100)
Invest to save income from schemes	(2,128)
Net impact on Revenue Budget	293

Existing Capital Programme

16. As well as being reviewed in line with the principles set out in paragraph 11, the existing capital programme has also been realigned where appropriate for schemes where the original profile of spend has needed amendment. Overall any realigned budgets will total to the same amount, so this is cost neutral in terms of the overall programme. There have also been some other amendments in 2019/20 and 2020/21 as follows:

- An increase in the budget for the expansion of the central depot of £5m in 2020/21. The additional capital financing costs from this additional £5m cost is being financed from additional rental income to be achieved from additional rental and parking spaces.
- £1.5m of the current programme for 2019/20 in relation to Schools has had £1.5m of external funding now included which reduces the net cost to the programme by £1.5m and provides savings in capital financing costs of £150k pa as set out in Table 3.
- A total reduction in the programme between 2019/20 and 2020/21 totalling £560k for the following items which provides a saving in capital financing costs of £100k pa:
 - (1) £250k has been removed in 2019/20 from the Adults Programme for funding to support the implementation (including building new information system(s) to support the requirements including self-assessment tools) in relation to the Care Act. As the Care Act has been delayed this funding is not required in 2019/20. Funding will be sought pending further guidance on when the Care Act will be announced.
 - (2) £38k has been removed from the Programme for Green Gyms in 2020/21. Any future requirements for Green Gyms should be met

from NCIL and there is a budget in the programme available to be allocated to projects as they are agreed.

- (3) There is £150k in the programme for Green Grid improvements in 2019/20 and 2020/21 currently fully funded from borrowing. The sum available to be funded from Council borrowing has been reduced to £75k in each year with the expectation that NCIL be used where appropriate for any other projects which would be eligible for NCIL funding. This saves £150k in total.
- (4) Removal of improvement grants budgets in the Housing General Fund of £52k in 2019/20 and £70k in 2020/21 as these budgets are spent on Disabled Facilities Grants for which a budget already exists.
- The other most significant amendment to the existing programme relates to the Regeneration Programme which has been amended to reflect a reset of the programme as set out in the report to Cabinet in December 2018 and as summarised in the table below:

Table 4 - Revised Regeneration Programme 2019/20 to 2020/21

	2019/20	2020/21	Total
	£	£	£
Feb 2018 Approved Budget	162,119,729	35,534,010	197,653,739
Reduction	142,426,979	30,340,838	172,767,817
Revised Budget Dec 2018	19,692,750	5,193,173	24,885,923

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 known as a Regulation 123 list is shown below:

Regulation 123 List

The following table comprises Harrow Council's Regulation 123 List. It includes the strategic infrastructure that the Council currently considers it is likely to apply CIL revenues to. The Regulation 123 List will be kept under review and may change depending upon the following:

- Changes to local or national funding streams in respect of CIL eligible infrastructure; and
- The requirements of the regulations governing the level of the "meaningful proportion" of CIL that is to be passed to local communities.

Infrastructure currently considered likely to benefit from the application of CIL funding	
Education facilities	Early years, primary and secondary schools
Health services	GPs, acute healthcare
Social care	Supported accommodation
Emergency services	Police, Ambulance and Fire Services
Cultural and community facilities	Libraries and community halls
Improvements to public open space	Parks, natural green space, civic space and green corridors and green grid
Improvements to biodiversity	
Public recreation and leisure facilities	Neighbourhood and Youth Play space, sports and leisure centres, swimming pools and playing pitches
Cemeteries and burial space	
Strategic transport facilities	Roads, buses, cycling, rail and underground
Strategic flood mitigation	

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. A report was presented to the Major Development Panel (MDP) on 14th November 2017, recommending 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 is agreed by Council each year in February. The recommendations from the Major Development Panel (MDP) report were agreed by Cabinet on 7th December 2017 and set out the principles as follows:

(1) *the allocation of the Borough Community Infrastructure Levy (CIL) be included as part of the Annual Budget Setting process and included in the Capital Programme report which is presented to Cabinet every year in December (draft budget) and February (final budget);*

(2) *for Neighbourhood CIL it was agreed that :*

(i) *allocation of 15% of CIL receipts raised in each Ward back to the respective Ward in which it was generated (except where received from within the geographical definition of the Harrow and Wealdstone Opportunity Area), provided there was no neighbourhood plan for that area (if there was, the amount be 25%).*

- (ii) *for CIL received within the geographical definition of the Harrow and Wealdstone Opportunity Area, (which was considered to form a neighbourhood), allocation of 15% of CIL receipts into a combined fund to be spent on projects across the entire area, to reflect that the area contained the greater proportion of strategic development sites within the borough.*
- (iii) *the broad allocation of Neighbourhood CIL be agreed as part of the Capital Programme (based on available funds at the time and allocated as per 3(i) and 3(ii) above), and included in the Capital Programme report which is presented to Cabinet every year in December (draft budget) and February (final budget).*
- (iv) *Once the broad allocation of NCIL is agreed as part of the Capital Programme, individual projects put forward by the relevant Directorates / Ward Members be assessed against the criteria outlined in section 7 of the MDP report (including the extent of consultation and level of community support), with the final decision on what projects were funded from the agreed CIL allocations being delegated to the Divisional Director of Regeneration and Planning, following consultation with the Portfolio Holders for Regeneration and Planning, and Finance and Commercialisation.*

21. The Borough CIL element will be used to fund the core Capital programme and can be considered as a funding source for new capital bids as well as existing projects in the Capital programme.
22. In addition to the principles already reached on how CIL funding should be used to fund the capital programme, in light of the budget gaps in future years, it is recommended that CIL should be **first** be applied to any schemes in the existing capital programme rather than applying it to new schemes. The rationale for this is that if applied to schemes that are currently funded from borrowing, by funding from CIL instead, this will reduce the existing capital financing costs rather than acting as cost avoidance mechanism on new proposals.
23. In terms of the Neighbourhood element of CIL, a total budget is held in the Capital Programme in 2018/19 of £960k. This was a general allocation with the intention being that as schemes are agreed, the budget gets reallocated to individual projects.
24. 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 will be delegated to the Divisional Director – Regeneration and Planning, in consultation with the Portfolio Holders for Regeneration and Planning, and Finance and Resources.

25. The following table sets out the total CIL funding received to date plus allocations made to date which have previously been included in the Capital Programme up to 2018/19 as at December 2018:

Table 5 – CIL Funding and Allocations to 30th December 2018.

	CIL Receipt	BCIL	NCIL	Admin
	£	£	£	£
Total receipts up to 31/3/2018	-10,907,800	-8,744,647	-1,635,283	-527,870
18/19 receipts (9 months April - Dec 2018)	-2,371,501	-1,897,201	-355,725	-118,575
Total receipts as at Dec 2018	-13,279,301	-10,641,848	-1,991,008	-646,445
Allocations made up to 31/3/18	5,021,318	4,800,000	0	221,318
Commitments agreed to date	1,604,227	885,000	381,227	338,000
Total Allocations/Commitments to date	6,625,545	5,685,000	381,227	559,318
Available balance	-6,653,756	-4,956,848	-1,609,781	-87,127

26. The allocation of CIL funding to date amounts to £6.625m. £559k of this relates to the 5% administration allowance. After allowing for this a total of £6.066m has been allocated to fund schemes in the Capital Programme as follows:

Table 6: Schemes funded from CIL as at February 2019

Financial year	Description	BCIL	NCIL	Actual or Committed
		£	£	
2017/18	Highway projects	4,800,000		Actual
2018/19	Headstone Manor (Parks for People)	300,000		Committed
2018/19	Good Growth Fund - Lyon Road project mgt		75,000	Committed
2018/19	Rayners Lane Triangle project	40,000		Committed
2018/19	Rayners Lane Triangle project		297	Committed
2018/19	Rayners Lane Triangle project		6,930	Committed
2018/19	Parks Infrastructure (Playground replacement)	545,000		Committed
2018/19	Wealdstone Square		299,000	Committed
Total CIL Assigned		5,685,000	381,227	

27. Table 5 shows that after allowing for the allocation of CIL to date of £5.685m, a sum of £4.956m is available as Borough CIL funding and £1.610m for Neighbourhood CIL funding that can be used to fund the new or existing Capital Programme. Having been through the existing Capital Programme and new capital bids presented in Appendix 1, a total of £4.840m of schemes have been identified as being eligible to be funded from BCIL. After applying this sum, £116k of BCIL and £1.610m of NCIL will be available to fund future Capital projects which meet the criteria. The figures in Tables 5 and 6 only account for CIL received to 30th December 2018 and so will be higher by the 31st March 2019 as and when further CIL funding is received.

28. The decision on where CIL funding should be applied has been taken in a way that maximises the savings in capital financing costs. The application has also taken account of schemes which score highly in accordance with the principles set out in paragraph 11.
29. The following schemes make up the £4.840m of BCIL funding to be utilised:

Existing Capital Programme

- Highway drainage £400k - £200k each in 2019/20 and 2020/21
- Central Library refit £1.590m – all in 2019/20
- Flood Defence £600k - £300k each in 2019/20 and 2020/21

New Proposals

- Additional funding for Central Library refit £500k – all in 2019/20
- Harrow Arts Centre £1.150m – all in 2019/20
- Playground works £600k - £350k in 2019/20 and £250k in 2020/21.

30. To date only £381k of NCIL has been allocated, which means that £1.6m of NCIL remains unapplied. There are assumptions that a number of schemes in the existing and new capital programme will proceed on the basis that they can be funded from NCIL and have only been included in the programme on that basis. The schemes are as follows:

- Green Grid Programme - £75k assumed to be funded from NCIL out of a total of £150k. (In the existing Capital Programme – see paragraph 16 (3))
- Refurbishment of 3 libraries (Pinner, Roxeth and Wealdstone) - £150k requirement in 2019/20 and 2020/21 is assumed as being funded from NCIL. (New proposals)
- High Street Fund – the total scheme is in the programme at £1.75m of which £200k of Council funding is included. The rest will be funded from a combination of external funding, mainly NCIL and future BCIL, subject to eligibility. (New proposals)

31. As further CIL income becomes available in future years it will be applied as a funding source for future Capital Programmes.

Housing Revenue Account (HRA)

32. The proposed HRA Capital Programme is detailed in a separate report to Cabinet elsewhere on this agenda. Any implications from the HRA Capital Programme are funded from the Housing Revenue Account and do not impact upon the General Fund Budget. The Budget report on the Housing Revenue Account elsewhere on this agenda sets out the detail, but in summary, the HRA capital programme has increased by £37.3m for 2019/20 and 2020/21 mainly in connection with the proposed new build programme including Grange Farm, Gayton Road and a broader spectrum of units across the Borough.

Options considered

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

Legal Implications

34. Under the Financial Regulations paragraph B2 full council is responsible for agreeing the authorities 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

35. 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

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

Performance Issues

37. 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.
38. Monitoring of the approved programme is ongoing and is essential for good financial management.
39. 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

40. The individual schemes within the programme will either be incorporated within departmental registers or have individual registers. 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.

Equalities implications / Public Sector Equality Duty

41. 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. A number of the projects proposed in the programme will require full Equality Impact Assessments before they commence. Following consultation the impact will be further reviewed before the programme is finalised.
42. 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*

43. Consultation responses received on this draft programme will be taken into account in drafting the final EIA.

Council Priorities

The Council's vision is:

Working Together to Make a Difference for Harrow

This report deals with the use of financial resources which is key to delivering the priorities of the Harrow Ambition Plan:

- Build a Better Harrow
- Be More Business-Like and Business Friendly
- Protecting the most Vulnerable and Support Families.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert...	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 05/02/19		
Name: David Hodge	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 08/02/19		

Section 3 – Procurement Clearance

Name: Nimesh Mehta



Head of Procurement

Date: 05/02/18

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	Any projects with potential impacts will separately be required to do an impact assessment.

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: [Community Infrastructure Levy \(CIL\)- Proposed Allocations Process report to Major Development Panel - 14th November 2017](#)

Call-In Waived by the Chairman of Overview and Scrutiny Committee

NOT APPLICABLE – as the decision is reserved to full Council