# City of Westminster Cabinet Report

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| **Decision Maker:** | **Cabinet** |
| **Date** | **30 October 2017** |
| **Classification:** | **For General Release** |
| **Title:** | **Capital Strategy Report 2018/19** |
| **Wards Affected:** | **All** |
| **Policy Context** | **To manage the Council's finances prudently and efficiently** |
| **Financial Summary:** | **This report outlines the City Council's Capital Strategy and proposed expenditure and income budgets from 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. It outlines the proposed £2.596bn expenditure budget, funded by £804.3m external funding, £426.3m capital receipts with a £1.366bn net funding requirement from 2017/18 to 2031/32. Funding of the proposed programme, revenue implications, and risks and mitigations are detailed.** |
| **The Report of:** | **Steven Mair, City Treasurer**<br>**Tel: 020 7641 2904**<br>**Email: smair@westminster.gov.uk** |

## 1. Executive Summary

1.1. This report outlines the City Council's capital strategy and proposed expenditure and income budgets from 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. The Council has developed a significant, long-term capital strategy. This report includes the detail of this up to 2022/23 and also summarised information for the General Fund up to 2031/32 to clearly show the full quantum of expenditure commitments during this period. This is to ensure that the benefits the Council intends to deliver through the programme are financially viable in the long-term. The total gross capital spend of the General Fund and HRA between 2017/18 and 2021/22 is £2.434bn.

1.2. This Capital Strategy has been brought forward for review and approval earlier in the year than in previous years to provide an early sight of the Council's capital budgets and how they have moved since the previously approved version. This will facilitate early planning and thus delivery of the programme before final Council approval on 7th March 2018. The forecast numbers within this report for 2017/18 are subject to change during the year and are based on Period 4 forecasts. Any changes and re-profiling will be subject to further reporting and approval during the year.

1.3. The strategic sections of the report provide details on the policy context within which the programme is constructed, and the aims and objectives it is designed to deliver. The report further sets out the governance processes which establish the principles to be followed in agreeing how to invest capital resources and achieve value for money for the Council. Governance processes have continued to evolve over the year to date particularly with the development of the programme management functions and initiatives which are detailed further in Section 5 and 6.

1.4. The Council has a significant capital programme across both the General Fund and the Housing Revenue Account (HRA). This supports the strategic aims of the Council, as defined in its *City for All* programme, with its vision for a city of choice, aspiration and heritage. Capital proposals are considered within the Council's overall medium to long term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects in the revenue budget setting process.

1.5. The General Fund capital programme covers three areas of expenditure. These are:

- Development – these schemes will help the Council achieve strategic aims and generate income (£1.021bn)

- Investment – schemes within this category will help to generate income and increase the diversification of the Council's property portfolio and will be self-funded by creating additional income and efficiency savings (£87.613m)

- Operational – these schemes are related to day to day activities that will ensure the Council meets its statutory requirements (£1,488bn).

These categories are explained in more detail in Section 7 of this report.

1.6. These programme areas will deliver a wide range of benefits to the City, including:

- new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm.

- 1,210 new and replacement Affordable homes are planned to complete by 2022/2023, of these 412 have started on site.

- improved public spaces, transport and other infrastructure to ensure the continued success of the West End as a business, leisure and heritage destination

- improved public realm and pedestrian environment to accommodate safe and efficient travel in the City

- well-maintained, efficiently managed infrastructure, allowing residents, businesses and visitors to enjoy clean, high quality streets

1.7. The report includes a summary overview of proposed budgets which is followed by a more detailed breakdown of the programme by service. This includes an analysis of the changes in the programme from that approved for 2017/18, risks and how these will be mitigated, and the financial implications of the programme.

1.8. The Housing Revenue Account (HRA) capital programme has a value of £794m over the next five years (2018/19 to 2022/23). It is important to note that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption only.

1.9. The changes from the currently approved 2017/18 to 2021/22 General Fund programme can be summarised as occurring for the following reasons:

- New capital schemes which have been added – gross expenditure £75.5m and gross income £54.9m
- Re-profiling of projects already included in the programme - gross expenditure £13.4m and gross income £8.8m
- Removal of projected costs for two projects which have been removed at the planning stage – gross expenditure £21.0m and capital receipt of £24.3m
- Further investment on projects already included in the programme – gross expenditure £275.7m and gross income £274.5m
- Underspends released from the programme of gross expenditure £18.7m and gross income £0.4m

1.10. The projects that have been re-profiled were committed or commenced in 2017/18 and thus had an approved budget. They have been re-profiled for a variety of reasons including delays in the tender process, completion of acquisition/land assembly stages, obtaining planning permission and starting on-site construction.

1.11. The proposed budget is fully funded after Council borrowing, but this does depend on the schemes being delivered on time and within budget. The impact of potential changes in cost and timescale are fully explored in the financial implications of the report, outlined in Section 12. Any increases in expenditure or reductions in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

## 2. Recommendations

**That the Council be recommended:**

2.1. To approve the capital strategy as set out in this report

2.2. To approve the capital expenditure for the General Fund as set out in Appendix A for 2018/19 to 2022/23 and future years to 2031/32.

2.3. To approve the capital expenditure forecasts for the General Fund as set out in Appendix A for 2017/18.

2.4. To note the expenditure forecast for 2017/18 for the HRA as set out in Appendix B.

2.5. To note the capital expenditure for the HRA for 2018/19 to 2022/23 as in accordance with the 30 year HRA Business Plan and as included in Appendix B.

2.6. To note the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in paragraph 12.33

2.7. To approve that in the event that any additional expenditure is required by a capital scheme over and above this approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas.

2.8. To approve that all development and investment projects follow the previously approved business case governance process as set out in paragraphs 6.7 to 6.15 of this report.

2.9. To approve that no financing sources unless stipulated in regulations or necessary agreements are ring fenced.

2.10. To approve that contingency in respect of major projects is held corporately with bids for access to those contingencies to be reviewed by the Capital Review Group (CRG), and thereafter approved by the relevant Cabinet Member and City Treasurer, in the event they are required to fund capital project costs, as detailed in paragraphs 10.43 to 10.44. These total £651.505m from 2017/18 to 2031/32 but include a sum of £450m which is an allowance for general capital expenditure (e.g. highways improvements) in future years beyond 2021/22.

2.11. As approved last year, the Council plans to use capital receipts in 2017/18 to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£9m), the Digital Transformation programme (£2.8m) and a contribution to the pension fund deficit (£10m) under the DCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council's finances by the City Treasurer at year end. Further use of flexible capital receipts to fund the above are also included in the capital programme for these schemes in 2018/19 (the last year to which the Flexible Capital Receipts scheme is available).

2.12. To approve that the financing of the capital programme as set out in paragraphs 12.1 to 12.21 of this report

2.13. To approve that financing of the capital programme be delegated to the City Treasurer at the year end to provide sufficient flexibility to allow for the most effective use of Council resources.

## 3. Reasons for Decision

3.1. The Council is required to set a balanced budget and the capital strategy and subsequent capital programme form part of this process, along with the governance process to monitor and manage the programme

## 4. Policy Context

4.1. The capital strategy is based on the strategic aims of City for All. The City for All programme was refreshed for 2017/18 to include three new priorities. These were:

- Civic leadership and responsibility at the heart of all we do
- Opportunity and fairness across the city
- Setting the standards for a world class city

4.2. In addition, five new programmes have been established to deliver against these priorities which are summarised as follows:

- Civic leadership
- Building homes and celebrating neighbourhoods
- Creating a greener city
- Maintaining a world class Westminster
- A smart council

4.3. The Council has embarked on an ambitious capital programme, with plans to invest £2.596bn in a number of developments throughout the City by the General Fund together with a further £0.794bn by the HRA. Many of these schemes will help to modernise areas of the City, helping to maintain and develop Westminster's reputation as a global centre of tourism, retail, entertainment and business. The examples below show some of the ways this capital investment will contribute to the key strategic aims of City for All in the following ways:

- Westminster City Council in partnership with other public and private sector partners has established the West End Partnership (WEP) to transform the long term performance and success of the West End of London. The West End is the cultural and economic capital of the UK which belongs to and benefits everyone in the UK. It generates greater economic output than anywhere else in the UK with more than £51bn in Gross Value Added per year, 15% of London's economic output. Employing more than 650,000 people, the area generates the largest proportion of taxes with more than £17bn of tax receipts per year.

- The West End is primarily responsible for London's status as the world's most popular visitor destination with more than 31m international visitors spending over £11bn in the West End. The West End is an important gateway to other UK tourist destinations and drives growth across the UK. Oxford Street is also the UK's high street with more than 50m UK based visitors. The West End's success and long term growth cannot be taken for granted and investment is needed to ensure that the West End can continue to compete with its global competitors.

- The WEP has developed an investment programme that will transform the international competitiveness and productivity of the West End and the UK. The WEP programme will unlock growth, attract investment, improve competitiveness, improve air quality, create jobs and generate substantial tax revenues to the Exchequer. Public and private sector funding has already been secured for WEP's priority projects and business cases have been submitted to government to secure the additional funding required to mobilise the programme. Business cases have been submitted for the WEP's priority projects including the £425m transformation of Oxford Street District, the £30m redevelopment of The Strand / Aldwych and the West End Jobs programme. The WEP strongly supports a Tax Incremental Finance mechanism to underpin the long term development and reinvestment across the West End. The three identified priority projects have a funding gap of £320m and we have asked Central Government to consider the business case and funding proposals already with HM Treasury and CLG and provide for the funding requested to progress these as part of the Autumn Budget. The development projects within the portfolio will result in significant investment which will provide residents of Westminster with new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm. This will improve the wellbeing and prosperity of residents as well as delivering broader economic benefits. To offset some of these costs there is provision of broader commercial aspects within the developments which will provide on-going revenue income streams or capital receipts

- A number of large development schemes within the capital programme are planned to deliver 1214 new and replacement affordable homes, with 563 being completed by 2021/22. This will ease the pressure on temporary accommodation. The building of new residential properties is at the heart of giving residents the opportunity to aspire

- Continued investment in the public realm within Westminster creates and preserves spaces where people enjoy living, working and visiting. The investment reflects the pride we take in our role as custodian of the City, protecting our heritage by managing places and spaces that can be enjoyed both now and in the future. Additionally, investment in improving the public realm and pedestrian environment helps to accommodate the safe and efficient movement of growing numbers of people entering and moving around Westminster, managing vehicular traffic and making walking safer and more enjoyable. This creates opportunities for everyone in the city to be physically active.

- The City Council's investment in our core infrastructure of carriageways, footways, lighting and bridges recognises the commitment the Council has to managing the performance, risk and expenditure on its infrastructure assets in an optimal and sustainable manner throughout their lifecycle, covering planning, design, development, operation, maintenance and disposal. This programme ensures our infrastructure is in a safe and reliable condition, is efficiently managed and means our residents and visitors can enjoy clean, high quality streets.

4.4. The above is taking place against a background of austerity and significant reductions in central funding for local government. It is therefore a key aim of the Council's capital strategy that it delivers a return on investment which is financial, such as capital receipts or new revenue streams, or delivering key strategic priorities.

4.5. The Council is a key partner in the development of the Sustainability & Transformation Plan (STP) for the North West London region, which comprises eight London boroughs and Clinical Commissioning Groups (CCGs). These plans will be produced across England, showing how local health and social care services will evolve and become sustainable over the coming years.

4.6. As part of the wider plan, an Estates Strategy is required, which aims to reduce the burden on acute care by devolving care delivered from hospitals to modern, multi-purpose primary care facilities. There will be long term capital implications as a result of the strategy, which is tasked with reducing the capital demand on the NHS.

4.7. This may involve the sale of surplus real estate to fund new primary care facilities, or joint venture development with house builders to ensure delivery of new facilities as well as new housing stock. It will be necessary to investigate new funding models to identify the most appropriate method for raising capital to deliver the strategy. Over the past year in which the Council has been involved in the project, it has become apparent that there are currently no capital projects in planning by Health which are likely to have a direct impact on the capital programme of the Council. Consequently no provision has been made in the capital programme for any such related expenditure. However, this could change as Health's plans develop and pilot schemes elsewhere may demonstrate a new way of working which delivers benefits which are then sought to be replicated more widely. Officers remain engaged with Health on the STP project and will monitor for any changes in the status of the Estates Strategy.

## 5. Governance

### CRG

5.1. The main forum for reviewing all financial aspects of the capital programme is the Capital Review Group (CRG). This group reviews the strategic direction of the programme, ensures outcomes are aligned with City for All, significant projects have a viable Business Case and that Value for Money (VfM) is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.

### Programme Management Office

5.2. The Council is currently in the process of setting up a programme management office (PMO). A steering group has been setup to review the Council's project processes and this involves stakeholders across the Council, including Finance, Procurement and Communications.

5.3. The purpose of the PMO is to provide a stable framework that supports all project teams and stakeholders to improve the probability of successful delivery of projects.

5.4. The key objectives of the PMO include:

- Demonstrate added value through key performance measures.
- Establish a standardised project management process and serve as a centre of excellence and support for the system ensuring continual improvement
- Supplement resources and provide advice for specific project activities such as initial project planning, project monitoring and performance measurement
- Maximise the efficiency of the Capital Programme (oversight, co-ordination of time and risk, resources)
- Administration of certain parts of the process e.g. Project Prioritisation
- Provide quality assurance – regular reviews of key projects will be carried out against standard health checks ensuring verification and transparency of status
- Administrative support for the programme and instil knowledge share and best practice / learning between departments

- Support development of in-house project management skills – by mentoring support, training, apprentices, Project Management Community

5.5. The PMO is on track to be setup for 2018/19, following approval by senior officers and members.

## 6. Project Prioritisation

6.1. To manage the business case and budget setting process, CRG has implemented a process which requires all schemes to complete Capital Programme Submission Request (CPSR) forms. These are reviewed prior to inclusion in the capital programme.

6.2. The CPSR forms have been updated this year in line with the proposed prioritisation framework that is part of the development of the Project Management Office.

6.3. The final governance arrangements for the framework are yet to be agreed but will be fully established in readiness for the next financial year.

6.4. The framework identifies five key themes to assess projects and is in line with the Council's overarching objectives and other key factors that are needed to assess the priority ranking of projects. These themes are explained below:

- Strategic Fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.
- Financial –concerning the financial circumstances for the project, e.g. whether funding is readily available and is affordable
- Legislative and Compliance – whereby the project is needed to meet statutory/legislative requirements.
- Indirect Need – whereby the project is needed because of another scheme or development.
- Risk – whereby the success of the project is dependent on mitigating high associated risks.

6.5. Budget/project managers were asked to score their projects against each theme and the outcome of this scoring was presented to senior officers and members.

The prioritisation process should support the Council in making decisions about which projects to progress, especially in an environment of limited financial and officer resources.

6.6. The process will continue to develop and a group will be setup as part of the PMO to review projects and moderate scoring to ensure they are in line with Council priorities and are deliverable.

**Business Cases**

6.7. The governance of project business cases will vary depending on the type of work that is being carried out. The process was approved by Full Council in the Capital Strategy report of 2nd March 2016. This allows CRG to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme.

**Capital Programme Governance**

6.8. The annual capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council every year. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required in line with financial rules to spend in line with their budget envelopes.

6.9. In previous years this has covered a five year period. However, the Council has now developed an ambitious programme which has longer-term commitments for large development schemes. For this reason, this report covers the period up to 2031/32.

6.10. A key issue in managing the capital programme is in year movements of budgets from one financial year to another. Capital budgets can be re-profiled across years to reflect delays or spend brought forward with appropriate approval. However, re-profiling needs to be managed appropriately to ensure that annual capital forecasts are as accurate as possible as inaccuracies can lead to long term revenue costs – for example if the Council has to borrow more than originally forecast.

6.11. The Council will continually look to ensure that periodic projections during the year are as accurate as possible and where projects do slip, a rigorous process is applied to ensure budget managers are made accountable and gain the relevant approval from CRG to move those budgets into future years with appropriate explanations as to why the project needs re-phasing. For 2017/18 re-profiling reports have been completed for periods 2 and 4.

6.12. The first call on capital resources will be any operational schemes that are required to be in the programme for statutory or legal reasons. In addition, all schemes already contractually committed will be supported and sufficient resources will be provided to enable them to proceed.

Schemes which already have approval will be supported providing they continue to have a viable business case which is delivering to Council priorities.

6.13. There are a number of circumstances where concerns could be raised about a project in the capital programme including where:

- The business case is reviewed and considered to be no longer viable

- The headline cost figure goes beyond the approved figure

- Issues are raised by other stakeholders e.g. in respect of planning

- There is a change in Council priorities

6.14. While these would be discussed by CRG for the purposes of recommending mitigating action, any formal decision making would be through a Cabinet Member report or the Capital Strategy which is approved by Full Council.

6.15. VfM is a key component of all capital projects. All projects must evidence a level of economy, efficiency and effectiveness in order to be approved. Therefore, projects will have to show that all potential options have been considered, and the option that is chosen is cost efficient and effective in achieving the City for All ethos. In order to achieve this, the Council has put in place the following cornerstones:

- **Business case development** – the Council has adopted the Five Case Business Model, which was developed by HM Treasury and the Welsh government specifically for public sector business case development. The business cases for major projects include full option appraisal and links to core strategy to ensure that they are delivering on key Council objectives.

- **Effective financing** – funding options are constantly reviewed to ensure the most cost effective use of the Council's resources. In order to reduce financing costs, many of the major development schemes will deliver significant capital receipts for reinvestment in future projects, thus reducing reliance on external borrowing. Capital receipts are applied to expenditure where it will provide the most financial benefit.

- **Procurement** – robust options and appraisal of procurement routes for projects

- **Risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme and further developments are planned in this area during 2017/18. More detail on the mechanisms the Council has in place to effectively manage and identify risk can be found in Section 11.

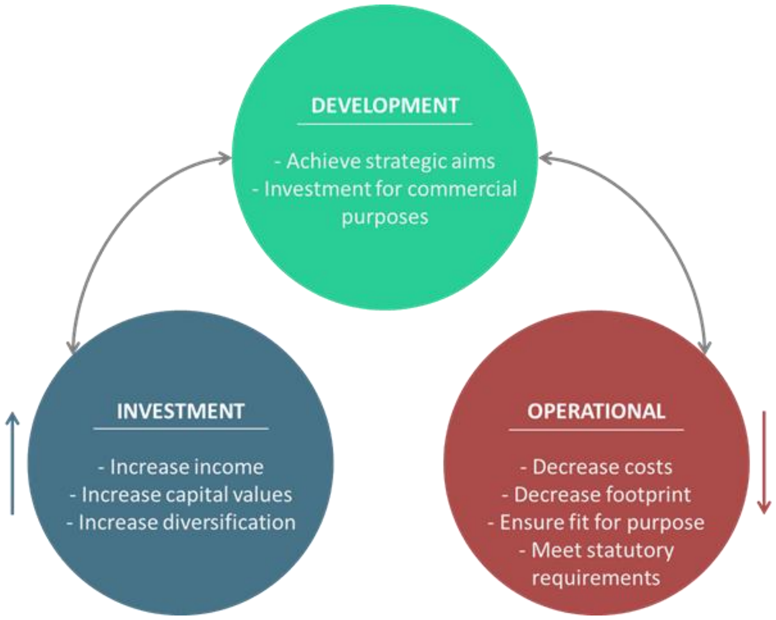
- **Project management** – the development of the Programme Management Office as noted above will continue to strengthen project management in the Council. The PMO will ensure that projects are in line with Council priorities and sufficiently resourced in order to be developed within timescales.

## 7. Overview of Capital Programme and Delivery Strategies

7.1. The Council's capital programme is prioritised into three key areas:

- Development
- Investment
- Operational

7.2. The diagram below provides an overview of these areas




7.3. Development

7.3.1. Development projects are key schemes that directly support the Council's strategic aims, in line with City for All. This includes the long term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration. This will help Westminster's residents and businesses in creating a strong local economy to live and work in, helping to embed the City for All ethos. These factors combined will help to sustain Council services and ensure that Westminster City Council remains at the forefront of public service delivery.

7.3.2. Many of the major development schemes will deliver housing for sale on the open market. This will generate capital receipts for the Council, which will be reinvested in future capital expenditure projects. These are projected to contribute 16% of the funding of the Council's capital programme. The risks associated with reliance on this delivery and funding route are fully explored in Section 11.

7.3.3. The Council will review the best delivery routes for development projects. Different delivery routes for projects largely fall into the following categories: self-develop; joint-venture; or developer led. The self-develop option involves the Council undertaking the project independently and therefore provides the greatest level of potential return but also the greatest cost and exposure to risk. The developer option is the opposite; it usually involves selling the opportunity to a developer resulting in the least return but also the least cost and risk. A joint-venture is a compromise between the two, this can be a good option to limit risk, broaden expertise and capacity on the project whilst still sharing in the returns. In both the latter two options it is likely the Council will have to undertake site assembly and the initial stages of planning before a partner is prepared to enter into an agreement on the opportunity.

7.3.4. Development schemes make up the majority of the gross capital budget at £1.021bn and the majority of capital receipts in the programme, £426.3m, are related to these schemes. The scope of the major development projects is outlined below, organised by Directorate, and full details can be found in paragraph 10.9.1.

7.4. Investment

7.5. One of the key objectives is for the Council to maximise its return on investments and grow income through active management of the investment portfolio. Income through these means will support the on-going financing costs of the capital programme.

7.6. An initial £50m drawdown facility for investment schemes to generate additional income towards future MTP savings and frontline services was approved as part of the previous year's Capital Strategy. Of this a total of £12.397m was invested leaving a balance of £37.613m. For this new Capital Strategy an additional £50m has been added to this budget to produce a total budget including 2017/18 of £87.613m.

7.7. Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment., and will be subject to relevant Cabinet Member approval in line with financial regulations.

7.8. Operational

7.9. The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio.

7.10. The main objectives of the operational element of the capital strategy are to ensure assets meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs and reduce its environmental footprint.

7.11. Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long term assets and avoids incurring significant future costs, essentially spending now to save money in the future

7.12. Operational schemes in the five year capital programme have a total expenditure of £1.488bn. Details of this expenditure and how it is funded can be found in Appendix A.

## 8. Housing Revenue Account

8.1. The expenditure to support this as set out in the five year investment plan is analysed slightly differently to the General Fund as follows:

- HRA major works on the Council's housing stock
- Regeneration and Renewal spend; and
- Other Investment Plans

8.2. Further detail on the HRA capital investment plans is set out in paragraphs 10.16 -10.22

## 9. Summary Capital Programme

9.1. The previous five year capital programme, from 2017/18 – 2021/22, agreed by Full Council on 2 March 2017, can be seen in the table below:

**Table 1: Original five year capital programme 2017/18 – 2021/22**

| | Five Year Plan | | | | | Future Years to 2030/31 | Total |
|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | £000 | £000 |
| **Expenditure** | | | | | | | |
| Adult Services | 632 | 450 | 400 | 200 | - | - | **1,682** |
| Children's Services | 9,566 | 9,663 | 250 | 250 | 250 | - | **19,978** |
| City Management & Communities | 83,793 | 61,624 | 29,423 | 19,771 | 17,299 | - | **211,910** |
| City Treasurer | 39,176 | 38,401 | 22,249 | 25,898 | 33,648 | 43,797 | **203,169** |
| Corporate Services | 2,722 | 4,026 | 2,086 | 1,125 | 525 | - | **10,484** |
| Growth, Planning & Housing | 228,742 | 213,464 | 162,189 | 110,858 | 114,506 | 250,716 | **1,080,474** |
| Policy, Performance & Communications | 1,331 | - | - | - | - | - | **1,331** |
| Estimated future years operational expenditure | - | - | - | - | - | 450,000 | **450,000** |
| **Total Expenditure** | **365,961** | **327,628** | **216,597** | **158,102** | **166,228** | **744,513** | **1,979,028** |
| **Funding** | | | | | | | - |
| External Funding | (126,979) | (117,563) | (30,798) | (43,502) | (4,742) | - | **(323,584)** |
| Capital Receipts | (93,000) | (22,350) | (29,306) | (110,397) | (51,971) | (184,157) | **(491,181)** |
| **Total Funding** | (219,979) | (139,913) | (60,104) | (153,899) | (56,713) | (184,157) | **(814,765)** |
| **Net Funding Requirement** | **145,982** | **187,714** | **156,494** | **4,203** | **109,515** | **560,356** | **1,164,263** |

The current programme has been revised for the following changes:

- Re-profiling from the end of 2016/17 of gross expenditure £24.60m, gross income £7.58m to 2017/18 and gross expenditure of £2.07m and £0.027m income into 2018/19.
- Re-profiling into future years of gross expenditure £22.94m and gross income £15.64m.
- New projects with a value of gross expenditure £20.2m and gross income £15.7m.
- Underspends released from the programme of gross expenditure £8.60m and gross income £0.38m.

The changes are subject to approval by Cabinet Member reports and review at CRG. The effect of these changes by way of a revised total programme can be seen in the table below:

**Table 2: Current approved capital programme 17/18 – 22/23 at Period 4**

| | Five Year Plan | | | | | Future Years to 2030/31 | Total |
|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | £000 | £000 |
| **Expenditure** | | | | | | | |
| Adult Services | 770 | 450 | 400 | 200 | - | - | **1,820** |
| Children's Services | 11,356 | 9,154 | 250 | 250 | 250 | - | **21,259** |
| City Management & Communities | 68,038 | 80,146 | 29,423 | 19,771 | 17,299 | - | **214,677** |
| City Treasurer | 42,500 | 38,401 | 22,249 | 25,898 | 33,648 | 43,797 | **206,493** |
| Corporate Services | 2,326 | 5,099 | 2,086 | 1,125 | 525 | - | **11,161** |
| Growth, Planning & Housing | 254,207 | 216,660 | 164,865 | 110,858 | 114,506 | 250,716 | **1,111,811** |
| Policy, Performance & Communications | 38 | 50 | - | - | - | - | **88** |
| Estimated future years operational expenditure | - | - | - | - | - | 450,000 | **450,000** |
| **Total Expenditure** | **379,234** | **349,960** | **219,273** | **158,102** | **166,228** | **744,513** | **2,017,309** |
| **Funding** | | | | | | | - |
| External Funding | (134,195) | (133,477) | (30,798) | (43,502) | (4,742) | - | **(346,714)** |
| Capital Receipts | (79,750) | (22,350) | (29,306) | (110,397) | (51,971) | (184,157) | **(477,931)** |
| **Total Funding** | (213,945) | (155,827) | (60,104) | (153,899) | (56,713) | (184,157) | **(824,645)** |
| **Net Funding Requirement** | **165,289** | **194,132** | **159,170** | **4,203** | **109,515** | **560,356** | **1,192,664** |

9.2. These budgets have now been re-profiled to reflect up-to-date project planning as part of the budget setting exercise, which when taken alongside the CPSR submissions and updated expenditure and income forecasts, have produced the revised budget below.

**Table 3: Proposed capital programme 2017-18 – 2031/32 at Period 4**

| | Forecast | Five Year Plan | | | | | Future Years to | Total |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2031/32 £000 | £000 |
| **Expenditure** | | | | | | | | |
| Adult Services | 770 | 777 | 400 | 200 | - | - | - | **2,147** |
| Children's Services | 10,847 | 13,279 | 250 | 250 | 250 | 250 | - | **25,126** |
| City Management & Communities | 68,031 | 94,370 | 46,029 | 26,706 | 22,398 | 21,201 | 990 | **279,726** |
| City Treasurer | 42,500 | 38,849 | 26,040 | 18,681 | 17,898 | 21,486 | 486,051 | **651,505** |
| Corporate Services | 2,326 | 6,210 | 975 | 1,125 | 525 | - | - | **11,161** |
| Growth, Planning & Housing | 245,509 | 247,438 | 304,893 | 234,993 | 167,211 | 77,199 | 349,134 | **1,626,377** |
| Policy, Performance & Communications | 38 | 50 | - | - | - | - | - | **88** |
| **Total Expenditure** | **370,020** | **400,973** | **378,588** | **281,955** | **208,282** | **120,136** | **836,175** | **2,596,130** |
| **Funding** | | | | | | | | - |
| External Funding | (125,352) | (177,687) | (187,905) | (135,037) | (83,255) | (51,143) | (43,754) | **(804,133)** |
| Capital Receipts | (79,750) | - | (21,964) | (20,535) | (57,425) | (72,476) | (174,153) | **(426,303)** |
| **Total Funding** | (205,102) | (177,687) | (209,869) | (155,572) | (140,680) | (123,619) | (217,907) | **(1,230,436)** |
| **Net Funding Requirement** | **164,918** | **223,286** | **168,720** | **126,383** | **67,602** | **(3,483)** | **618,268** | **1,365,695** |

9.3. The high-level changes to the in-year 2017/18 programme are:

- The forecast gross expenditure is £370.0m, which is £9.2m lower than the revised budget. The forecast for external funding is £125.3m, £8.8m lower that the approved budget of £134.2m.

9.4. It should be noted that given the long-term nature of some of the larger development schemes, this has profiled some of the budgets into future years beyond the five year programme. These have been reported in the “Future Years to 2031/32” column for completeness and to ensure the budget is approved within the context of the whole capital programme.

9.5. In addition, an assumption of £450m annual expenditure on operational schemes has been included within the contingencies line. This ensures that development and investment schemes are affordable in addition to the annual operational capital expenditure programme.

9.6. The above fully funded position clearly depends on the schemes being delivered on time and within the estimates set out in this report. Any increases in expenditure or reductions in income will need to be compensated for by the relevant project or the consequential revenue impacts funded in full by the individual service.

## 10. Service Analysis

10.1. The following section reviews what is included in the individual capital programmes for each Council directorate from 2017/18 onwards, excluding the assumed £450m operational budget for future years. This section aims to detail what is included and also explain changes to the schemes included within each Directorate portfolio.

### Growth Planning and Housing (GPH)

10.2. Growth, Planning and Housing (GPH) contains the Council's Housing, Investment and Operational Property, Development Planning and Economy & Infrastructure services. For the purposes of this document the HRA is included separately.

10.3. GPH has the largest Capital Programme within the Council, with a proposed net budget of £330m over the five years to 2022/23 and £460m (including future years. This reflects £966m of budgeted expenditure offset by income of £506m, mainly from capital receipts. The changes from the current budget are that:

- Gross expenditure budget for GPH is due to increase from £1.080bn to £1.205bn.
- Income for this period has increased from £536m to £577m.
- Of the forecast external income, £231m is anticipated to be from external funding and £347m from capital receipts.

10.4. On a net basis this is a proposed increase of £90.9m for GPH and this is shown in the table below:

| | Forecast | Five Year Plan | | | | | Future Years | Total |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | to 2031/32 £000 | £000 |
| Expenditure | 239,065 | 195,035 | 190,865 | 117,206 | 95,296 | 35,528 | 331,880 | **1,204,875** |
| External Funding | (71,284) | (52,433) | (56,173) | (10,775) | (6,275) | (6,275) | (27,525) | **(230,740)** |
| Capital Receipts | | | (21,964) | (20,535) | (57,425) | (72,476) | (174,153) | **(346,553)** |
| **Net Funding Requirement** | **167,781** | **142,602** | **112,729** | **85,896** | **31,596** | **(43,223)** | **130,202** | **627,582** |

10.5. The main increases in the net budget are noted below:

- Property Investment Schemes – the budget for this has increased by £50m from £37.6m to £87.6m. This is subject to approval of the Council's investment strategy.
- Carlton Dene – The net budget for this project has increased by £14.8m. The previous budget for this project was based on an

older scheme and this budget has been revised to reflect current options for the site.

- Housing Investment in Discharge of Duty – This is the second phase of this scheme and is a net increase of £13.5m, this is in addition to the £2.7m for phase 1. This is a property investment fund that provides long term sustainable properties for households in housing need.

- The remaining variance is due to smaller increases in various other projects within GPH.

- The increase in contingency budgets is primarily due to the process on the Luxborough Development and Lisson Grove Programme. Therefore a 15% contingency is being held centrally in line with the Council's policy.

**Major Projects (General Fund)**

10.6. The capital programme presented within this report forecasts a gross capital budget of approximately £787m for General Fund projects (both live and potential future projects). With projected income of approximately £411m, giving a net budget of £376m. As well as producing capital receipts, many of these projects will also generate on-going revenue streams.

10.7. The Major Projects team have continued to progress a number of schemes since the last capital programme was approved. Some of the milestones achieved in the last year include approval to appoint a contractor for the Beachcroft site, the approval to progress with the refurbishment of Seymour Leisure Centre (to include a library), approval to progress the Luxborough Development to detailed design and Cabinet approval to progress Huguenot House designs and consult further on the options.

10.8. The Council also has a number of sites under construction with the Moberly, Jubilee phase 1, Sir Simon Milton UTC and the Dudley House Academy and intermediate rental all on site.

10.9. Furthermore, refinement of design work, massing studies and financials has meant a number of projects are now ready to go through the business case process this financial year and next on Huguenot House, Lisson Grove Programme, Carlton Dene and Westmead.

10.9.1. Below is a summary of all the general fund capital projects being managed by Major Projects (unless otherwise stated):

- Dudley House
  The project is now on site and as per the programme. Target completion for the Marylebone Boys School is September 2018 with the intermediate rent accommodation completing in April 2019.
  The project board are currently assessing options for the management of the residential units with the preferred option being the use of an operator model.

- Huguenot House
  Following a Cabinet decision in July a formal consultation will now be carried out with residents on the residential led option with affordable housing. The outcome of this will be reported back to members in February 2018. In addition to this the draft OBC will be progressed and presented to members over the coming months. Expenditure to date has primarily related the spot purchasing of residential properties in the block as they become available.

- Sir Simon Milton UTC
  The works are progressing well and the project remains on track and the school opened in September 2017. The residential units are due to complete in March 2018 and the project is fully funded.

- Seymour Leisure Centre
  A cabinet member report for this project was approved in September 2017 for the refurbishment option which will include the existing sports centre and a library. Procurement of the design team has commenced and an appointment is due next month.

- Leisure Review
  While this potential project remains on hold, officers continue to purchase opportunities where these represent a viable investment and contribute to the site assembly for this project. Properties are purchased as and when they become available. The options for the wider development of the site will continue to be discussed with members in the next financial year.

- Luxborough Development
  Following the approval of a cabinet member report the project will be progressed to a detailed design and an OBC for a revised mixed use development scheme will being developed and is expected to be presented to members in 2017/18.

- Moberly & Jubilee
  The projects at both Moberly and Jubilee are on site and progressing, with anticipated phase 1 practical completion in 2018 with Jubilee Phase 2 to follow.

- Beachcroft (managed by City West Homes)
  Cabinet Member approval has been given for the enabling works to begin with a Full Business Case expected by December 2017. The project is on course to be completed by December 2019 and on budget and is linked to the projects at Westmead and Carlton Dene.

- Westmead/Carlton Dene
  Both these projects are linked to the development at Beachcroft as residents in both these homes have to be decanted to Beachcroft in order for the sites to be redeveloped. Officers have identified the option which maximises the care provision whilst ensuring the final costs to run the project are cost neutral at worst. Architectural massing studies are planning to be undertaken this year, which will further develop the options for the schemes. A paper to CRG is expected at some point in 2017/18.

- Lisson Grove Programme
  The programme aims to provide a more modern office space, however options are being assessed to identify any other opportunities to develop housing or commercial space linked to the programme. An indicative figure has been included in the analysis above, resulting in additional expenditure of £80m (excluding contingencies) on the capital programme which will be subject to further review regarding financing as the business case progresses.

- City Hall
  Whilst this project sits within Corporate Property/Major Projects, it has a specific governance procedure in place to monitor and project manage the process with a programme board and steering group.

  The refurbishment of City Hall on Victoria Street has now commenced. The programme from 2017/18 has a capital budget of £80m (excluding contingency) with the completed scheme delivering increased income streams for the Council from rental income as well as reduced running costs. This decant process has an allocated revenue budget of £22.4m to fund the related costs, which will be funded by flexible capital receipts.

## Corporate Property

10.10. The Corporate Property Capital Programme has an approved budget of £64.7m from 2018/19. This contains schemes of £14.7m in addition to the investment schemes budget of £50m.

10.11. To date during 2017/18, there have been no properties identified which were able to deliver the required returns or the investment schemes budget. As a result no further purchases have been made with this budget since Orange Street in 2016/17.

10.12. The Property team is actively reviewing the market for appropriate opportunities that will provide a good return whilst diversifying the property portfolio.

10.13. The other property projects include both on-going building improvement schemes such as landlord's responsibilities (£6.8m) and the forward management plan (£4.2m), as well as individual projects such as £0.3m for ensuring properties within the investment portfolio are up to the Minimum Energy Efficiency standards (MEEs).

## Housing General Fund

10.14. The Housing General Fund capital programme contains schemes to provide additional affordable housing both in and out of borough. In total there is an expenditure budget of £130.7m offset by external income of £128.4m.

10.15. The Affordable Housing Fund represents Section106 agreements ring fenced monies paid to the Council in lieu of the direct provision of new social housing and is used for the delivery of in borough housing projects by Registered Social Landlords. The fund is also applied to fund HRA and General Fund new affordable housing schemes such as Dudley House. It is used to fund various projects in borough to provide additional housing. Properties are also bought out of borough through a Temporary Accommodation purchases programme which will also be funded through the Affordable Housing Fund.

## Housing Revenue Account

10.16. The HRA capital investment requirement over the next 30 years is £1.864bn, and over the first five years from 2018/19 is £794m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years.

10.17. The programme has been developed to deliver the maximum number of new affordable units within the context of the HRA's current financial constraints. There is a significant increase in the development capacity of both WCC and CWH that accompanies this proposed plan to support these initiatives

The programme is funded over the next five financial years as follows:

| Funding | Total £000 |
|---|---|
| Capital Receipts | 335,961 |
| Right To Buy | 45,308 |
| Grants | 23,563 |
| Affordable Housing Fund(AHF) | 176,661 |
| Revenue Contribution To Capital Outl | 48,338 |
| Major Repairs Reserve(MRA) | 104,655 |
| Borrowing | 59,960 |
| **Total Funding** | **794,446** |

10.18. Key changes between the 2017/18 approved and 2018/19 proposed HRA five-year capital programme budgets are as follows:

- Gross expenditure – overall increase of £94m consisting of:
    - Church Street Phase 2 – increasing £60m, the second stage of the Church Street proposals have been subject to a masterplanning exercise in recent months and local residents and stakeholders are being consulted on the proposals
    - An additional £48m on infill schemes, identifying development opportunities within the existing estate including conversion of disused space such as basements, drying rooms and storage sheds and new build opportunities on underutilised garage sites, car parks and vacant land
    - West End Gate expenditure of £25m
    - Works included in light of Grenfell £20m
    - A reduction in self-financing schemes of £45m
    - Refinements on other schemes
- This increase in expenditure will be funded by:
    - Additional affordable housing fund contributions towards new HRA social and affordable housing schemes of £118m over the five year period

- Capital receipts - an increase of £79m coming from capital receipts brought forward as well as new self-financing disposals offsetting a reduction in anticipated receipts of £78m from Council dwellings disposed of under Right to Buy.
- Capital grant – an additional £23m from the GLA towards the costs of Church street
- Borrowing – an increase of £8m
- Offset by a reduction in revenue and reserves funding of £57m

10.19. HRA reserves – a reduction of £57m contribution from the HRA I&E over the period. The HRA reserves will contribute £153m (19%) of the £794m required to fund the 2018/19 five year capital programme. This will leave accumulated reserves close to the minimum level of £11m during the full five years and beyond of the programme. The reserves level will not generally increase until 2044/45 as any surpluses are assumed to be applied to reduce debt levels in the HRA.

10.20. The proposed HRA investment plans commit and utilise all of the headroom (borrowing limit) and financial capacity within the HRA in the period up to 2025/26. This will result in the HRA reaching the current statutory limit on indebtedness of £334m for HRA borrowing before annual surpluses are used to reduce the debt levels.

10.21. The HRA business plan currently projects that HRA debt will fall steadily over the latter part of the programme and by year 30 the level of debt will be £34m with revenue balances of £36m.

10.22. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, then the need to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund. The range of management options available within the HRA to mitigate any additional risks are set out in section 11.22.

**West End Partnership (WEP)**

10.23. The new capital programme includes a substantial budget for the West End Partnership programme of works of £440m (gross). The majority of this relates to the Oxford Street East at £339m. The OBC for Oxford Street West was submitted in May 2017 followed by the OBC for Oxford Street East in July. DCLG have indicated their support for the funding proposition and have asked for a Full Business Case for the whole of Oxford Street by the end of 2017. The Oxford Street project is fully funded within the programme, primarily from Central Government funding. This is subject to HM Treasury agreement which is expected in the November 2017 budget.

10.24. A summary of the WEP budgets is included below:

| | Forecast | Five Year Plan | | | | | Future Years | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | to 2031/32 £000 | Total £000 |
| Expenditure | 6,444 | 52,403 | 114,028 | 117,787 | 71,915 | 41,671 | 17,254 | **421,502** |
| External Funding | (891) | (48,271) | (109,258) | (113,117) | (67,345) | (35,046) | (16,004) | **(389,932)** |
| **Net Funding Requirement** | **5,553** | **4,132** | **4,770** | **4,670** | **4,570** | **6,625** | **1,250** | **31,570** |
| Expenditure (included in CMC) | 6,422 | 10,735 | 4,586 | 101 | - | - | - | **21,845** |
| External Funding (Included in CMC) | (4,787) | (7,664) | (560) | (510) | - | - | - | **(13,521)** |
| **Net Funding Requirement** | **7,188** | **7,203** | **8,796** | **4,261** | **4,570** | **6,625** | **1,250** | **39,894** |

10.25. Further projects include Strand/Aldwych and the cross cutting themes such as Broadband and Freight. The Strand/Aldwych OBC was submitted in July and will progress to an FBC by the end of October.

10.26. The overall net budget for WEP is £39.893m (including 2017/18 forecasts) and this is mainly due to the WEP General budget and the Council funding for the cross cutting themes.

**City Management & Communities**

10.27. City Management and Communities (CM&C) contains Highways Infrastructure and Public Realm, Sports and Leisure, Libraries and Culture, Public Protection & Licensing, Parking, and Waste, Parks & Cemeteries services.

10.28. As a directorate, this has a significant capital programme. Including 2017/18, gross expenditure within the capital programme totals £279.7m, with external income of £158.2m from a range of third parties.

| | Forecast | Five Year Plan | | | | | Future Years | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | to 2031/32 £000 | Total £000 |
| Expenditure | 68,031 | 94,370 | 46,029 | 26,706 | 22,398 | 21,201 | 990 | **279,725** |
| External Funding | (42,366) | (63,177) | (22,074) | (10,945) | (9,635) | (9,822) | (225) | **(158,244)** |
| **Net Funding Requirement** | **25,665** | **31,193** | **23,955** | **15,761** | **12,763** | **11,379** | **765** | **121,481** |

10.29. The majority of this expenditure comes within Highways Infrastructure and Public Realm, which can be split across the following categories (gross expenditure budget in brackets):

- Planned preventative maintenance and other projects within Highways (£87.1) – all but £3.0m is funded by the Council

- Public Realm Externally Funded (£137.3m) – £123.0m is funded by contributions from third parties
- Transport schemes - (£27.4m) - £23.6m externally funded, largely Transport for London

10.30. Of the remainder of the programme, the main areas of expenditure are:

- Cemeteries and Parks (£1.6m)
- Libraries (£3.3m)
- Sports and Leisure (£8.0m) - £0.9m is funded by external parties
- Public Protection and Licensing (£11.0m) - £7.8m is funded by grant contributions
- Waste (£3.1m)

10.31. The gross expenditure and income contained within the new capital programme is consistent with the capital programme approved in February, which contained £212.0m gross expenditure and £115.6m income from 2017/18 onwards. The gross increase of £67.7m and net increase of £25.3m is all accounted for by the addition of an extra year to the capital programme.

10.32. If the capital programme is compared on a rolling basis then the expenditure requirement has decreased by £0.2m and income has increased by £0.2m. On a net basis the rolling capital programme has decreased by £0.4m.

10.33. There are a number of projects in the capital programme which are either new or where the capital requirement has increased; the most significant of these are detailed below:

| Project Name | Gross budget change in new profile £m | Net budget change in new profile £m | Comment |
|---|---|---|---|
| **Public Realm Schemes** | | | |
| Cross Rail, Bond Street Western Ticket Hall | 3.4 | 0.0 | New submission |
| Villiers Street | 2.6 | 0.5 | New submission |
| Hanover Square | 2.2 | 3.1 | Increase in capital requirement |
| Covent Garden Streetscape Scheme | 2.0 | 0.0 | New submission |
| Strutton Ground | 1.0 | 0.0 | New submission |
| | **11.2** | **3.6** | |

| | | | |
|---|---|---|---|
| **Planned Preventative Maintenance & Other Highways Projects** | | | |
| Piccadilly Underpass Refurbishment | 1.9 | 1.9 | Increase in capital requirement |
| Lighting - Gas Valve Safety Connection System | 1.5 | 1.5 | New submission |
| | **3.4** | **3.4** | |
| **Other** | | | |
| Ultra Low Emission Zone (ULEZ) Compliance – Waste Fleet | 2.1 | 2.1 | New submission |
| Porchester Spa - Main Pool Capital Works | 1.0 | 0.7 | New submission |
| Pedestrian Crossing facilities | 0.9 | 0.5 | New submission |
| Business Processing and Technology Contract - Parking | 0.8 | 0.8 | New submission |
| | **4.8** | **4.1** | |
| **Total** | 19.4 | 11.1 | |

10.34. All increases in the capital programme requirement for individual projects have been offset by reductions elsewhere within the capital programme. These reductions relate to projects with significant spend/substantial completion in 2017/18 (e.g. Bond Street, CCTV Crime and Disorder Estate), or where capital requirements have reduced in future years (e.g. Queensway Streetscape, Disabled Facilities Grant programme).

### Adult Social Care

10.35. The Executive Directorate of Adult Social Care and Public Health has a capital programme which plans to deliver gross works expenditure of £2.1m. Project relating to this are mainly Information and Communications Technology (ICT) and agile working projects with one building refurbishment project at 66 Lupus Street. All of the advised projects for Adult Social Care and Public Health have identified capital grant funding to 100% of the expected expenditure values, which is held on Westminster City Council’s balance sheet.

| | Forecast | Five Year Plan | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Total £000 |
| Expenditure | 770 | 777 | 400 | 200 | | | 2,147 |
| External Funding | (770) | (777) | (400) | (200) | | | (2,147) |
| **Net Funding Requirement** | - | - | - | - | - | - | - |

10.36. This continues the major change to the five year budget from 2016/17 which contained the major projects delivering residential care home replacements at Beachcroft, Carlton Dene and Westmead. These had a value of £55m when transferred to Growth, Planning and Housing along with any earmarked funding. As part of the current five year budget plan, the project at Barnard and Florey Lodges (Carlton Gate) is due to complete in 2017/18. The project at 66 Lupus Street and three of the four ICT projects are forecast to complete in 2018/19 with the final project to complete in 2020/21.

**Children's Services**

10.37. From 2017/18 to 2022/23, the Children's Services capital programme plans to deliver £25.1m of works.

| | Forecast | Five Year Plan | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Total £000 |
| Expenditure | 10,847 | 13,279 | 250 | 250 | 250 | 250 | 25,126 |
| External Funding | (10,041) | (13,029) | | | | | (23,070) |
| **Net Funding Requirement** | 806 | 250 | 250 | 250 | 250 | 250 | 2,056 |

10.38. These can be broadly categorised as follows (gross expenditure budget in brackets):

- non-schools estate rolling programme: planned and reactive building works to non-schools sites (£1.3m)
- schools estate rolling programme: planned and reactive building works to schools sites (£0.7m)
- primary and secondary school expansion projects: expansion projects to increase pupil places (£12.3m)

10.39. The Basic Needs and condition allocation grants are awarded for the purposes for which they are being applied and the programme benefits to the value of £13.4m.

10.40. In comparison to the five year budget set in advance of the 2017/18 financial year, there have been only minor changes to the programme. This has resulted in a £496k reduction in the gross expenditure budget due to the completion of non-school maintenance programmes. The external income budget has not changed, because the related expenditure is funded from council borrowing.

### Corporate Services and Policy, Performance and Communications

| | Forecast | Five Year Plan | | | | | Total |
|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | £000 |
| Expenditure | 2,364 | 6,260 | 975 | 1,125 | 525 | - | 11,249 |
| External Funding | | | | | | | - |
| **Net Funding Requirement** | **2,364** | **6,260** | **975** | **1,125** | **525** | **-** | **11,249** |

10.41. The proposed gross expenditure budget is £11.249m.

10.42. The capital programme has decreased by £0.567m since the original approved capital. The key movement is due to an increase in End User Computing Refresh £0.516m and Digital Transformation £0.161m. However, this is offset by a reduction of £1.243m relating to the Outdoor Media phase 2 project. This project has not started and the expectation is that it will not continue in its current form. If an alternative scheme is established then a request for new capital funding will be requested.

### City Treasurer

| | Forecast | Five Year Plan | | | | | Future Years | Total |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | to 2031/32 £000 | £000 |
| Expenditure | 42,500 | 38,849 | 26,040 | 18,681 | 17,898 | 21,486 | 486,051 | 651,505 |
| Capital Receipts | (79,750) | | | | | | | (79,750) |
| **Net Funding Requirement** | **(37,250)** | **38,849** | **26,040** | **18,681** | **17,898** | **21,486** | **486,051** | **571,755** |

10.43. There has been no change to the City Treasurer’s net capital budget, although there have been amendments to the contingencies and capital receipts in this budget. This is the net impact of additional budgets, and changes to contingency and capital receipts in this budget.

10.44. In line with current financial regulations, no spend on projects will be incurred without appropriate Cabinet Member or Delegated Authority approval. Every scheme ould need to be fully approved.

## 11. Risk Management

11.1. Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.

General Risks – Identification and Mitigation

11.2. General risks are those which are faced as a consequence of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control but mitigations have been developed as part of the business planning and governance process. These risks are set out below along with key mitigations:

11.3. **Interest Rate Risk** – the Council is planning to externally borrow £428.3m as set out in this Capital Strategy over the next five years. Interest rates are variable and a rate rise could increase the cost of servicing debt to a level which is not affordable. To mitigate this, the Council has used interest rate forecasts which include a prudent provision against interest rate rises. These are shown in the table below.

| | 2017/18 (%age) | 2018/19 (%age) | 2019/20 (%age) | 2020/21 (%age) | 2021/22 (%age) |
|---|---|---|---|---|---|
| Assumed Interest Rate | 2.52% | 3.00% | 3.50% | 3.50% | 4.00% |

11.4. In the event that interest rates rose beyond this forecast plus contingency the revenue cost to the Council would increase. A rise of an extra 1% by 2021/22 would cost an extra £4.3m on the full £428.3m borrowed by the end of 2021/22 – rising to £9.2m if rates were 1% higher by 2031/32.

11.5. **Inflation Risk** – construction inflation over and above that budgeted by the Council's professionals and advisors and built into project budgets could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by around £26.0m (£17.9m if external contributions were also inflated). This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signature of contracts with construction companies and developers through fixed price contracts.

11.6. **Change in Law Risk** – Capital schemes need to comply with the latest law and regulations which can change leading to an impact on construction costs. This is mitigated by awareness of pipeline legislative changes and through contingencies.

11.7. **Market Health / Commercial Values** – the Council's capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, generation of capital receipts from property sales in some cases post development, attracting developers to projects based on a potential share of profits and other revenue/capital financial flows. In some cases it is likely that the Council will commit to large projects, property acquisitions or other forms of expenditure on the basis of further business case assumptions about the market value of future asset or economic values. Should market movements mean that these assumptions are inaccurate then the Council may suffer financially. This risk can be mitigated through contingencies in projects.

Management of Project Risks

11.8. Project risks are those which relate to the delivery of capital projects which in many cases can be controlled, influenced or directly mitigated in ways other than making contingencies available. These risks would mostly be related to unforeseen project delays and cost increases which could arise from a range of circumstances. The effective management of these risks is mostly linked to the following strategies:

11.9. **Supplier Financial Stability** – construction companies and developers contracting with the Council would, if they experience financial instability, pose a significant risk. They may not be able to raise finance to cash flow operations, any potential insolvency process could lead to a costly process of changing suppliers without any guarantee of remaining within overall budget, the Council could suffer direct financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.

11.10. **Effective Business Case Development -** the documentation which is required will depend on the project's size. However, for 2017/18 the following types of business cases are required for larger projects:

- Strategic Case – this is where it is confirmed that the project outcomes as scoped align with the strategic objectives of the organisation

- Outline Business Case –sets out the preliminary thoughts regarding a proposed project. It should contain the information needed to help the council make decisions regarding the adoption of the project. It should state envisaged outcomes, benefits and potential risks associated with the project

- Full Business Case - the preparation of the FBC is a mandatory part of the business case development process, which is completed following procurement of the scheme – but prior to contract signature

11.11. **Risk Management** - Projects are required to maintain a risk register. Risk registers are aligned with general guidance on risk review

11.12. **Highlight reporting** - property major projects as an example create monthly highlight reports for all projects to help project board and wider interested parties aware of progress and risks of projects on an on-going basis.

11.13. **Appointment of professional team** - to ensure timely delivery of projects and robust planning and review, the major projects team has enlisted the help of many different internal and external experts. Projects have required assistance considering impacts of national and council policy and planning on project financial feasibility and general deliverability. Also qualified roles have been put in place for key surveying and financial planning roles to give assurance on quality of work and assumptions.

11.14. **Risk of Revenue Write Off** – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off should the scheme in question not progress. This risk is managed through the ongoing review process and development of sound business cases In advance of significant spend being committed.

Contingencies in the Capital Programme

11.15. In the initial stages of development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions or the costs of rectifying or demolishing existing buildings (e.g. the cost of asbestos removal).

11.16. For this reason, the Council has adopted a structured process of identifying and managing contingencies which is in line with guidance issued by HM Treasury. In the initial stages of a project these contingencies are necessarily broad estimates due to the number of unknown factors. As projects progress the unknown factors become clearer and project managers focus on managing these in the most effective way possible, utilising contingencies to do so as needed.

11.17. For 2018/19 it is recommended that a decision be taken to hold contingencies corporately with any release of these funds to be subject to approval from CRG. The value of these contingencies is £104.0m.

11.18. Currently a risk allocation of 20% is being used on new large scale development projects. 15% of this is held corporately and 5% is held against the project.

11.19. This is considered appropriate based on HM Treasury guidance and experience from previous projects. However, once the projects are sufficiently progressed, it is expected that each project will have a fully costed risk register compiled and agreed by the project team. The value of the costed risk register will be used instead of the flat rate of 20%. All projects are working towards this.

**Housing Revenue Account – Risk Mitigation Strategy**

11.20. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, that the options available to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund.

11.21. The funding of the increase in the expected capital programme over the next five years is largely dependent upon the timing and value of asset disposals that underpin the regeneration programme. The reduction in the capacity of the HRA and the potential impact of risk factors requires a strong risk mitigation strategy that can be quickly adopted if any of adverse risks materialise.

11.22. The range of management options available within the HRA to mitigate additional risks are as follows (in no particular order): -

a. Project spend monitoring and management information. It is key that there are early warning indicators for management to be able to identify whether any projects are going to overspend in order to be able assess the impact on the HRA plan.

b. Regular updates to the HRA business plan. Quarterly reviews and updates to the business plan are undertaken, at which point any changes identified in operating or capital project performance can be remodelled to identify the impact and any further mitigation required. The fact that the business plan is updated on an annual basis means that steps can be taken to reprofile or reprioritise elements of the plan well in advance of any peak year. In reality, we would seek to avoid getting too close to the cap in the near term.

c. Utilisation of contingency. The main regeneration schemes each have a certain level of contingency built into the cost of the projects as a buffer against overspend within the project budget. This will be the first port of call for any overspend within a project. Monitoring the use and need for contingency on a project will be important as an indicator of whether a project is going to go over budget. Secondly, the capital programme has a separate contingency budget which has not been specifically allocated any given scheme. This amounts to £17.4m over the next 5 years.

d. Reduce or delay the reinvestment of self-financing capital expenditure. Currently it is assumed that the cash generated through disposal of HRA assets for reinvestment is fully reinvested back into acquiring new stock. There is £50m assumed for reinvestment over the next 5 years. The rate of reinvestment could be slowed so as to avoid the plan going into deficit or exceeding the borrowing limit of £333.8m. The consequence of this strategy would be that a reducing housing stock within the HRA would have a direct impact on the cost of Temporary Accommodation in the General Fund, creating pressures on the rest of the Council to stay within budget.

e. Dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.

f. Increase or accelerate funding drawn from the Affordable Housing Fund (AHF). The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding. However, the AHF currently held by the council is assumed to be fully used over the coming years, and the plan as a whole assumes that further AHF money will be received and used in order to make the whole plan affordable. This would need careful modelling to understand the impact on other schemes assumed to draw from the fund in later years.

g. Transfer schemes from HRA into an alternative vehicle, such as a wholly owned company. This could help the profile of the business plan by moving expenditure from peak years when the borrowing cap is under pressure to another delivery vehicle so that the scheme can still proceed without drawing upon HRA borrowing. This could enable more to be achieved than is currently shown within the plan. It could also generate a capital receipt sooner for the HRA through the transfer of land out of the HRA. The downside would be that this could be removing schemes which would generate longer term benefits in terms of rental income on the affordable housing which was otherwise planned to be retained within the HRA.

h. Re-profile, extend or delay regeneration capital expenditure:

    i. Reprofile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed.

    ii. Reprofile and extend regeneration scheme programmes to be delivered over a longer period, slowing down the rate of spend. This however is likely to be an inefficient way of working and not favourable with development partners.

    iii. Some elements of the plan or certain schemes could be decided to begin or progress only when certain other conditions have been met which assure the financial safeguarding of the plan, such as the level of capital receipts received needing to be met.

    These would need to be modelled so as to demonstrate the impact of not only the deferred expenditure but also the deferred capital receipts arising at the end of the schemes when the income from private sale units comes through.

i. Reduce major works expenditure. This amounts to £199.8m over the next 5 years, £925m over 30 years. However, this could be a risky strategy as the Council has recently signed up to term contracts which gave an indication of a certain minimum level of spend with the suppliers. If these minimum levels were not achieved, the Council could be subject to penalties or compensation which negate or reduce the potential mitigation and impact on the Council's reputation.

j. Increase affordable rents assumed in the new units to be delivered through the regeneration schemes to 80% of market rents. Average rents for new units have been modelled at £150 a week but could be increased up to £187 per week to increase the annual return and total dwellings rent received.

k. Increase HRA rents following the period of 1% reductions to the maximum allowable. At this stage however it is not clear what limitations will be placed on local authorities following this period (i.e. from 1 April 2020). Currently the business plan assumes increases of CPI+1% for the 4 years following before reverting to annual CPI increases. When the 1% reductions legislation came in, this had a significant impact on the HRA plan, as the reductions have a compounding and lasting effect on future years. Reversing this position would have a similar but favourable effect on the plan. Rent policy is only guidance and the only control at present is the limit on Housing Benefit.

l. Lobby for legislative changes such as an increase in the debt cap, reversal of the 1% rent reduction etc. This is not something that the Council can directly change (only try and influence) as it is subject to central government decision making, and could take some time to be implemented if at all. This has already been referenced to in correspondence with government in the aftermath of Grenfell. The cost impact of remedial works in the light of Grenfell is modelled at £25.5m; it is conceivable that the cap could be increased to account for the pressure caused by this previously unforeseen expenditure. At time of writing we have not had a formal response to our communication.

m. The model maintains a minimum reserves balance of £11m, but this in itself is a buffer against overspends and hence acts as a source of mitigation.

Brexit

11.23. In the aftermath of result of the UK's decision to leave the European Union on 23 June 2016 there was an immediate period of volatility caused by uncertainty in the property market. This has since stabilised but the impact on the capital strategy particularly in respect of construction costs and property values will continue to be monitored on an on-going basis.

12. **Financial Implications**

12.1. The Council has proposed a gross General Fund capital programme of £2.596bn. This has to be financed from three key funding sources:

- External Funding (e.g. grants and contributions)
- Internal Funding (e.g. capital receipts)
- Borrowing

**Funding**

12.2. The main sources of external funding, shown in the table below, are via government grants and contributions (from government and external agencies) and Section 106 receipts. These are difficult to forecast on a medium to long term basis, and can be restrictive in terms of the capital schemes they can fund. Many grants, Section 106 receipts and contributions have specific terms and conditions which have to be met for their use. Therefore, any forecasting of external funding for the capital programme has to be done prudently. However, there are no on-going revenue implications of this method of financing. The borrowing in the table below represents total borrowing rather than "external" borrowing, as the use of Council's cash balances will be used to optimise the need to borrow externally.

| Financed By: | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 to 2031/32 | Total |
|---|---|---|---|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| DfE Basic Needs Grant | 8874 | 7,865 | - | - | - | - | - | **16,739** |
| DfE Schools Condition Allocation | 1167 | 2,209 | - | - | - | - | - | **3,376** |
| DCLG Disabled Facilities Grant | 1297 | 1,297 | 1,297 | 1,297 | 1,297 | 1,297 | - | **7,782** |
| DCLG Other Grant (WEP) | - | 44,970 | 97,415 | 101,524 | 56,598 | 25,951 | 4,535 | **330,993** |
| Transport for London (TfL) Grant | 16464 | 18,329 | 7,866 | 2,798 | 294 | - | - | **45,751** |
| Education Funding Agency (EFA) Grant | 14703 | 28,180 | - | - | - | - | - | **42,883** |
| DoH Community Capacity Grant | 777 | 777 | 463 | 200 | - | - | - | **2,217** |
| Other Minor Capital Grants | 150 | 9,762 | 340 | 320 | 300 | 300 | 100 | **11,272** |
| Sport England Grant | 1400 | - | 75 | - | 100 | 250 | 150 | **1,975** |
| Section 106 Contributions | 26124 | 27,651 | 21,004 | 18,148 | 18,416 | 17,095 | 11,469 | **139,907** |
| Section 278 Contributions | - | 15,639 | 3,460 | - | - | - | - | **19,099** |
| Affordable Housing Fund Contributions | 54395 | 20,938 | 55,183 | 10,750 | 6,250 | - | 27,500 | **175,016** |
| Revenue Reserve | - | 70 | 802 | - | - | 6,250 | - | **7,122** |
| **Sub Total** | **125351** | **177,687** | **187,905** | **135,037** | **83,255** | **51,143** | **43,754** | **804,132** |
| Capital Receipts | 79750 | - | 21,964 | 20,535 | 57,425 | 72,476 | 174,153 | **426,303** |
| Borrowing | 164919 | 223,286 | 168,719 | 126,383 | 67,602 | -3,483 | 618,268 | **1,365,695** |
| **Total** | **370020** | **400,974** | **378,588** | **281,955** | **208,282** | **120,136** | **836,175** | **2,596,130** |

12.3. Capital grants and contributions include grants from the Department for Education (DfE) which are provided to ensure that the Council is meeting their statutory requirements of providing school places and ensuring that school buildings are in a good condition. Other grants the Council receives includes TfL grant funding for infrastructure improvements across the City, EFA Grant, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.

12.4. Community Infrastructure Levy (CIL) will predominantly replace the current Section 106 receipts system. Instead of the planning obligations that developers have to make currently, they will now have to pay a charge (levy). The income from this levy will be held corporately and the Council will decide (via an internal governance process) how to allocate these funds to relevant infrastructure projects.

12.5. CIL differs from Section 106 which essentially is a contract between a developer and the Council. However CIL is a levy which the developer is liable to pay if a planning permission is approved and the development is underway post CIL coming into effect. The Council has greater flexibility compared to Section 106 as the developer cannot stipulate any terms.

12.6. The Council will continue to look for innovative ways to fund the capital programme; this could include Tax Increment Financing (TIF) and private sector capital contributions.

12.7. The main sources of internal funding are from capital receipts or revenue in the form of reserves or in-year underspends. The table below shows the internal funding that will be used to fund the proposed capital programme.

| | Forecast | Five Year Plan | | | | | Future | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Years to £000 | Total £000 |
| Capital Receipts | 79,750 | - | 21,964 | 20,535 | 57,425 | 72,476 | 174,153 | **426,303** |

12.8. Capital receipts are generated from the sale of non-current assets, and apart from special circumstances, can only be used to fund the capital programme. The Council holds all capital receipts corporately which ensures they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts. However, in special cases, some capital receipts maybe ring-fenced for the particular services, but this will need approval by CRG.

12.9. It is estimated that the proposed capital programme will be funded via £346.6m worth of capital receipts, primarily through the sale of properties as part of development projects. The use of capital receipts will peak in 2020/21 and in 2022/23 and will be used to reduce the funding gap.

12.10. Although the Council has a disposals programme which aids projections for the funding of the capital programme, the timing and value of asset sales can be volatile. Therefore, asset disposals have to be closely monitored as any in year shortfalls need to be met by increasing borrowing.

12.11. Revenue budgets can be transferred to capital. As this will necessarily impact on revenue budgets this is only used as a source of funding when the capital project will deliver future revenue savings. This allows the Council to generate savings which will mitigate funding reductions in future years. A business case would be required to support revenue funding of a project.

12.12. In March 2016, the DCLG issued statutory guidance on the flexible use of capital receipts, which allows local authorities to use capital receipts to fund the revenue costs for projects which are forecast to generate ongoing savings. This guidance covers the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. The authority has identified two capital projects, Westminster City Hall refurbishment and Digital Transformation, which have significant revenue spend and is seeking approval to part-fund these from capital receipts.

12.13. It is planned to use a further £18m of capital receipts for the revenue costs associated with the refurbishment of Westminster City Hall, £30m to reduce the pension fund deficit, and £3m for the Digital Transformation programme costs. The ability to fund these revenue costs from flexible capital receipts is predicated on the delivery of the planned 2017/18 additional capital receipts.

Borrowing

12.14. Borrowing is a source of funding available to the Council in funding its capital programme. Borrowing can take the form of internal or external borrowing.

| | Forecast | Five Year Plan | | | | | Future | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Years to £000 | Total £000 |
| Borrowing Requirement | 164,918 | 223,286 | 168,720 | 126,383 | 67,602 | (3,483) | | 1,365,695 |

12.15. Internal borrowing is the term used to describe the use of Council resources, such as reserves and cash balances, to finance capital expenditure. In effect, this is capital expenditure not supported by direct funding, external borrowing or any other form of external financing. While this has to be repaid it does not represent a formal debt in the same way as external borrowing.

12.16. This strategy is a prudent use of Council resources. Currently, investment returns are low and counterparty risk is relatively high. Should these balances not be available for internal borrowing, the Council could potentially have to take on long-term external borrowing paying a higher interest rate than could be achieved for a long-term investment.

12.17. External borrowing is the process of going to an external financial institution to obtain money. The Council would generally borrow from the Public Works Loans Board (PWLB) due to their favourable rates for public sector bodies. However, the market is regularly monitored to ensure that rates continue to be competitive.

12.18. A recently introduced debt instrument that could be utilised going forward is the LGA Municipal Bonds Agency. The agency is an independent body with its own governance structure, accountable to its council shareholders and the LGA. It seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities. This agency may offer access to cheaper borrowing and provides a viable alternative to the PWLB.

12.19. Another borrowing option for the Council is through the European Investment Bank (EIB). The EIB offer competitive rates; however there are strict governance processes around any loans that are taken out with the EIB. Therefore the Council would have to clearly set out the reasons for the loan, what it would be used for, and the EIB would then have to decide if this is an appropriate use of their funds. This is becoming a more high profile form of funding with local authorities, for example the London Borough of Croydon recently borrowed from the EIB.

12.20. Development and investment schemes will be required to cover the costs of borrowing through identifying increased income streams or revenue savings in order to fund repayments. To address this, on completion of the scheme the services budget will be reduced by the level of borrowing costs. However for operational schemes, due to the nature of the spend this is unlikely to result in increased income or revenue savings, these will be assessed on a scheme by scheme basis and if appropriate budgeted for corporately.

12.21. The table below gives a summary of the financing of the General Fund capital programme. The largest proportion of funding in the programme comes from borrowing, at 57%. Internal funding from capital receipts make up a further 24%. This is largely from the sale of residential units that will be built as part of a number of development schemes. The remainder will come from various grants and other income sources.

| | Forecast | Five Year Plan | | | | | Future | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Years to £000 | Total £000 |
| External Funding | 125,352 | 177,687 | 187,905 | 135,037 | 83,255 | 51,143 | 43,754 | **804,133** |
| Capital Receipts | 79,750 | - | 21,964 | 20,535 | 57,425 | 72,476 | 174,153 | **426,303** |
| Borrowing | 164,918 | 223,286 | 168,720 | 126,383 | 67,602 | (3,483) | 618,268 | **1,365,695** |
| **Total** | **370,020** | **400,973** | **378,588** | **281,955** | **208,282** | **120,137** | **836,175** | **2,596,130** |

## Revenue Implications

| | Forecast | Five Year Plan | | | | | Future | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Years to £000 | Total £000 |
| Expenditure | 370,022 | 400,973 | 378,587 | 281,955 | 208,282 | 120,136 | 836,175 | **2,596,130** |
| External Funding | (125,352) | (177,687) | (187,905) | (135,037) | (83,255) | (51,143) | (43,754) | **(804,133)** |
| Capital Receipts | (79,750) | - | (21,964) | (20,535) | (57,425) | (72,476) | (174,153) | **(426,303)** |
| **Borrowing Requirement** | **164,920** | **223,286** | **168,718** | **126,383** | **67,602** | **(3,483)** | **618,268** | **1,365,694** |
| Revenue Impacts: | | | | | | | | - |
| Capital Financing Costs | 8,022 | 9,618 | 13,027 | 20,191 | 29,382 | 33,800 | 570,185 | **684,226** |
| Financed by: | | | | | | | | |
| Commercial Income | (512) | (2,022) | (3,381) | (2,812) | (4,040) | (5,488) | (197,541) | **(215,795)** |
| Net Cost | 7,511 | 7,596 | 9,646 | 17,380 | 25,342 | 28,312 | 372,644 | **468,431** |
| Contributions To/From Sinking Fund | 1,557 | 4,772 | 2,722 | (1,809) | (6,124) | (5,541) | 4,423 | **0** |
| **Total Revenue Impact** | **9,068** | **12,368** | **12,368** | **15,571** | **19,218** | **22,771** | **377,067** | **468,431** |
| | | | | | | | | |
| **MTP Budget Assumptions** | **9,068** | **12,368** | **12,368** | **15,571** | **19,218** | **22,771** | **377,067** | **468,431** |

12.22. The financing costs include interest payable and an allocation for repayment of debt (MRP) as a result of the borrowing. The total net revenue costs of the proposed capital programme are expected to be £468.4m by the end of 2031/32.

12.23. The Council aims to maximise its balance sheet assets and as such is able to utilise cash balances derived from working capital (such items as the appeals provision, reserves, affordable housing fund etc.) rather than borrow externally to finance the net cost of the capital programme. This is referred to as “internal borrowing”. Of the £2.596bn gross General Fund capital expenditure, it is anticipated that £0.917.8bn will ultimately need to be borrowed externally.

12.24. The external borrowing is assumed to be PWLB, although other sources of funding will be explored as outlined in this paper. The PWLB interest rate is assumed to increase steadily to 4.5% by 2022/23 and remain at this rate. Every 1% increase in the interest rate will result in an additional £9.2m of revenue cost annually by 2031/32.

12.25. As noted in Section 5, CRG will have a pivotal role in monitoring the cost of funding the programme and ensuring project business cases continue to be viable, and the programme as a whole affordable. Where they assess this not to be the case, action will be taken to bring the programme back to an affordable position.

12.26. MRP is applied where the Council has to set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g. depreciation) in the statement of accounts and has an impact on the Council’s bottom line. MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes. The Council will continue to balance the use of capital receipts, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.

12.27. The Council has an on-going capital programme and will continue to invest in capital projects beyond 2021/22 and will therefore need to ensure that funds are set aside for the future costs of borrowing.

12.28. As part of the closure of the Council's annual accounts the City Treasurer will make the most cost effective and appropriate financing arrangements for the capital programme as a whole. Thus funds will not be ring fenced unless legally required.

12.29. The above revenue implications of the capital programme will be covered through a mixture of efficiency savings, income generation, use of existing budgets and use of reserves.

12.30. The large development schemes, as well as the investment budget, are planned and required to generate an ongoing income stream. The key schemes include Dudley House, Huguenot House and income generated through the investment in the property portfolio.

12.31. The current MTP assumed an average £3.3m annual increase in the cost of financing the capital programme over the next fourteen years. Continuing that policy over the duration of the proposed capital programme, and indexing for inflation, will result in a total revenue budget spend of £473.6m to fund the capital programme

12.32. There is a peak revenue impact over the development period, before the key schemes start generating income and efficiency savings. The peak year revenue impact is 2023/24 and 2024/25 therefore it should be noted that reserves will be required to bridge this gap, before being repaid.

**HRA Financial Implications**

12.33. HRA is subject to a different business planning process that models the HRA capital programme over 30 years. The HRA capital investment requirement over the next 30 years is £1.864bn, and over the first five years £794m. An important distinction compared to other Council capital investment decisions is that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption.

12.34. The Council's latest HRA 30 year business plan focuses upon delivering three key programmes:

- Investment to maintain and improve existing Council-owned homes;
- Delivery of new affordable homes; and
- Implementation of the housing regeneration programme.

12.35. The business plan outlines the proposed HRA investment programme and the context within which the business planning has been undertaken. This includes key assumptions as well as a risk register and proposed management strategies available to mitigate any risk.

12.36. The indicative proposed five year investment plan is broken down between the three main categories of spend: - HRA major works on our own stock, regeneration spend and other investment plans.

12.37. Gross HRA capital expenditure of £794m over the next five years is required to deliver the plans within this investment strategy, including: £200m on works to existing stock; £422m on housing estate regeneration; and £173m on other investment opportunities. This will be funded from £153m of HRA revenue resources, £381m from capital receipts and right to buy sales, £177m from the Councils Affordable Housing Fund together with £60m of new borrowing and a capital grant of £24m.

12.38. A summary of the next five years of the HRA capital investment programme, together with the total planned spend for the 30 year plan is set out in Appendix B to this report.

| | HRA Thirty Year Programme | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 Forecast £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 5 Year Total £000 | 30 Year Plan £000 |
| **Major Works** | | | | | | | | |
| Occupational Theraphy Adaptation | 1,164 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 6,000 | 31,200 |
| Electrical Works & Laterals | 11,959 | 6,783 | 5,729 | 6,012 | 6,499 | 5,383 | 30,406 | 291,247 |
| External Repairs & Decorations | 15,063 | 25,661 | 24,301 | 19,095 | 15,363 | 21,305 | 105,725 | 382,218 |
| Fire Precautions | 1,331 | 4,461 | 1,535 | 1,961 | 120 | 2,200 | 10,277 | 34,976 |
| General | 1,266 | 100 | 50 | - | - | 500 | 650 | 6,113 |
| Kitchen & Bathroom | 819 | 700 | 750 | 700 | 700 | 700 | 3,550 | 26,651 |
| Lifts | 4,248 | 2,700 | 2,000 | 2,000 | 2,000 | 2,000 | 10,700 | 51,061 |
| Major Voids | 3,403 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 12,500 | 76,000 |
| Grenfell | 5,500 | 10,000 | 10,000 | - | - | - | 20,000 | 25,500 |
| **Total Major Works** | **44,754** | **54,105** | **48,065** | **33,468** | **28,382** | **35,788** | **199,808** | **924,967** |
| **Regeneration** | | | | | | | | |
| Cosway Street | 432 | 8,400 | 21,200 | 2,856 | - | - | 32,456 | 32,888 |
| Lisson Arches | 4,141 | 10,560 | 14,042 | 331 | - | - | 24,933 | 29,150 |
| Luton Street | 230 | 2,041 | 6,372 | 5,771 | - | - | 14,184 | 14,361 |
| Parsons North | 1,197 | 14,848 | 11,449 | 437 | - | - | 26,734 | 27,931 |
| Ashbridge | 724 | 6,308 | 6,524 | 190 | - | - | 13,021 | 13,736 |
| Church Street Phase Two | 758 | 8,439 | 13,023 | 96,391 | 26,814 | 56,088 | 200,756 | 309,659 |
| Tollgate Gardens | 7,320 | 9,899 | - | - | - | - | 9,899 | 17,219 |
| Other Estates Regeneration | 17,875 | 33,022 | 28,521 | 9,663 | 13,357 | 15,359 | 99,921 | 157,823 |
| **Total Regeneration** | **32,677** | **93,518** | **101,130** | **115,638** | **40,171** | **71,446** | **421,903** | **602,768** |
| **Other Schemes** | | | | | | | | |
| District Heating Network Scheme | 1,860 | 1,920 | 5,898 | 413 | - | - | 8,231 | 16,993 |
| Edgware Rd | 2,003 | 37 | 6,864 | - | - | - | 6,901 | 8,904 |
| Infill Schemes | 3,043 | 9,269 | 9,818 | 14,950 | 15,250 | 15,250 | 64,537 | 143,391 |
| Self Financing | 14,400 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 50,000 | 115,000 |
| West End | - | - | 12,428 | 10 | 10 | 12,428 | 24,876 | 24,876 |
| Kemp House/Berwick Street | - | 759 | - | - | - | - | 759 | 759 |
| Central Contingency | - | 5,429 | 6,305 | 2,317 | 1,983 | 1,397 | 17,430 | 26,000 |
| **Total Other Schemes** | **21,305** | **27,414** | **51,313** | **27,690** | **27,243** | **39,075** | **172,734** | **335,923** |
| **Total HRA Investment** | **98,736** | **175,037** | **200,508** | **176,796** | **95,796** | **146,310** | **794,446** | **1,863,657** |
| **Funding** | | | | | | | | |
| Capital Receipts | 15420.4 | 53,052 | 81,773 | 98,714 | 41,445 | 60,977 | 335,961 | 522,412 |
| Right To Buy | 8945.2 | 23,169 | 5,775 | 1,643 | 1,638 | 13,083 | 45,308 | 94,605 |
| Grants | 3785 | 23,563 | - | - | - | - | 23,563 | 25,498 |
| Affordable Housing Fund(AHF) | 10433.7 | 17,364 | 38,067 | 51,280 | 21,875 | 48,075 | 176,661 | 325,181 |
| Revenue Contribution To Capital Outl | 39219.7 | 23,958 | 7,002 | 4,227 | 9,907 | 3,243 | 48,338 | 172,066 |
| Major Repairs Reserve(MRA) | 20932 | 20,931 | 20,931 | 20,931 | 20,931 | 20,931 | 104,655 | 627,000 |
| Borrowing | | 13,000 | 46,960 | - | - | - | 59,960 | 96,895 |
| **Total Funding** | **98,736** | **175,037** | **200,508** | **176,796** | **95,796** | **146,310** | **794,446** | **1,863,657** |

** Forecast is based upon P5 forecast, adjusted to include works arising as a consequence of the impact of Grenfell on Council properties, Self-financing is the spend on new affordable housing assets funded by disposals of assets identified as no longer required. This is part of the strategic asset management strategy
MRR is the HRA proxy for depreciation and is available to fund new capital spend

13. **Legal Implications**

13.1. The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's constitution.

Implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Care)

14. **Staffing Implications**

14.1. None specifically in relation to this report

15. **Consultation**

15.1. Consultation and engagement will be carried out on individual schemes with the capital programme.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

*Steven Mair, City Treasurer*
*smair@westminster.gov.uk*
*020 76412904*

**BACKGROUND PAPERS:**

- Capital programme working papers
- Capital Programme Submission Requests for individual projects

**APPENDICES**

**Appendix A1 –** Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Cabinet Member

**Appendix** A2 – Capital Programme 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32 by Chief Officer

**Appendix B** – HRA Capital Programme 2018/19 to 2022/23

# Appendix B - HRA Capital Programme 2018/19 to 2022/23

| | Forecast 2017/18 £'000 | Budget 2018/19 £000 | Budget 2019/20 £000 | Budget 2020/21 £000 | Budget 2021/22 £000 | Budget 2022/23 £000 | 5 Year Total £000 | 30 Year Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Major Works** | | | | | | | | |
| Occupational Therapy Adaptation | 1,164 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | **6,000** | **31,200** |
| Electrical Works & Laterals | 11,959 | 6,783 | 5,729 | 6,012 | 6,499 | 5,383 | **30,406** | **291,247** |
| External Repairs & Decorations | 15,063 | 25,661 | 24,301 | 19,095 | 15,363 | 21,305 | **105,725** | **382,218** |
| Fire Precautions | 1,331 | 4,461 | 1,535 | 1,961 | 120 | 2,200 | **10,277** | **34,976** |
| General | 1,266 | 100 | 50 | - | - | 500 | **650** | **6,113** |
| Kitchen & Bathroom | 819 | 700 | 750 | 700 | 700 | 700 | **3,550** | **26,651** |
| Lifts | 4,248 | 2,700 | 2,000 | 2,000 | 2,000 | 2,000 | **10,700** | **51,061** |
| Major Voids | 3,403 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | **12,500** | **76,000** |
| Grenfell | 5,500 | 10,000 | 10,000 | | | | **20,000** | **25,500** |
| **Total Major Works** | **44,754** | **54,105** | **48,065** | **33,468** | **28,382** | **35,788** | **199,808** | **924,967** |
| **Regeneration** | | | | | | | | |
| Cosway Street | 432 | 8,400 | 21,200 | 2,856 | - | - | **32,456** | **32,888** |
| Lisson Arches | 4,141 | 10,560 | 14,042 | 331 | - | - | **24,933** | **29,150** |
| Luton Street | 230 | 2,041 | 6,372 | 5,771 | - | - | **14,184** | **14,361** |
| Parsons North | 1,197 | 14,848 | 11,449 | 437 | - | - | **26,734** | **27,931** |
| Ashbridge | 724 | 6,308 | 6,524 | 190 | - | - | **13,021** | **13,736** |
| Church Street Phase Two | 758 | 8,439 | 13,023 | 96,391 | 26,814 | 56,088 | **200,756** | **309,659** |
| Tollgate Gardens | 7,320 | 9,899 | - | - | - | - | **9,899** | **17,219** |
| Other Estates Regeneration | 17,875 | 33,022 | 28,521 | 9,663 | 13,357 | 15,359 | **99,921** | **157,823** |
| **Total Regeneration** | **32,677** | **93,518** | **101,130** | **115,638** | **40,171** | **71,446** | **421,903** | **602,768** |
| **Other Schemes** | | | | | | | | |
| District Heating Network Scheme | 1,860 | 1,920 | 5,898 | 413 | - | - | **8,231** | **16,993** |
| Edgware Rd | 2,003 | 37 | 6,864 | - | - | - | **6,901** | **8,904** |
| Infill Schemes | 3,043 | 9,269 | 9,818 | 14,950 | 15,250 | 15,250 | **64,537** | **143,391** |
| Self Financing | 14,400 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | **50,000** | **115,000** |
| Section 106 Acquisitions | - | - | 12,428 | 10 | 10 | 12,428 | **24,876** | **24,876** |
| Kemp House/Berwick Street | - | 759 | - | - | - | - | **759** | **759** |
| Central Contingency | - | 5,429 | 6,305 | 2,317 | 1,983 | 1,397 | **17,430** | **26,000** |
| **Total Other Schemes** | **21,305** | **27,414** | **51,313** | **27,690** | **27,243** | **39,075** | **172,734** | **335,923** |
| **Total HRA Investment** | **98,736** | **175,037** | **200,508** | **176,796** | **95,796** | **146,310** | **794,446** | **1,863,657** |
| **Funding** | | | | | | | | |
| Capital Receipts | 15,420 | 53,052 | 81,773 | 98,714 | 41,445 | 60,977 | **335,961** | **522,412** |
| Right To Buy | 8,945 | 23,169 | 5,775 | 1,643 | 1,638 | 13,083 | **45,308** | **94,605** |
| Grants | 3,785 | 23,563 | - | - | - | - | **23,563** | **25,498** |
| Affordable Housing Fund (AHF) | 10,434 | 17,364 | 38,067 | 51,280 | 21,875 | 48,075 | **176,661** | **325,181** |
| Revenue Contribution to Capital Outlay | 39,220 | 23,958 | 7,002 | 4,227 | 9,907 | 3,243 | **48,338** | **172,066** |
| Major Repairs Reserve (MRA) | 20,932 | 20,931 | 20,931 | 20,931 | 20,931 | 20,931 | **104,655** | **627,000** |
| Borrowing | - | 13,000 | 46,960 | - | - | - | **59,960** | **96,895** |
| **Total Funding** | **98,736** | **175,037** | **200,508** | **176,796** | **95,796** | **146,310** | **794,446** | **1,863,657** |