



## City of Westminster Cabinet Report

<b>Decision Maker:</b>	<b>Cabinet</b>
<b>Date</b>	<b>20 February 2017</b>
<b>Classification:</b>	<b>For General Release</b>
<b>Title:</b>	<b>Capital Strategy 2017/18 to 2021/22, forecast position for 2016/17 and future years forecasts summarised up to 2030/31</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>To manage the Council's finances prudently and efficiently</b>
<b>Financial Summary:</b>	<b>This report outlines the City Council's capital strategy and proposed expenditure and income budgets from 2017/18 to 2021/22, forecast position for 2016/17 and future years' forecasts summarised up to 2030/31. It outlines the proposed £2.130bn General Fund expenditure budget, funded by £398.379m external funding, £494.817m capital receipts with a £1.237bn net funding requirement from 2016/17 to 2030/31. Funding of the proposed programme, revenue implications and risks and mitigations are detailed.</b>
<b>The Report of:</b>	<b>Steven Mair, City Treasurer Tel: 0207 641 2904 Email: <a href="mailto:smair@westminster.gov.uk">smair@westminster.gov.uk</a></b>

## 1. Executive Summary

- 1.1 This report outlines the City Council's capital strategy and proposed expenditure and income budgets from 2017/18 to 2021/22, forecast position for 2016/17 and outlines future years' forecasts summarised up to 2030/31. The Council has developed a significant, long-term capital strategy. This report includes the detail of this up to 2021/22 and also summarised information up to 2030/31 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.
- 1.2 Section 3 of the report provides 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, in sections 4 and 5, 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.
- 1.3 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 account of the revenue implications of the projects in the revenue budget setting process.
- 1.4 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 (£925.22m);
  - **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 (£50.00m)
  - **operational** – these schemes are related to day to day activities that will ensure the Council meets its statutory requirements (£1,155.20m).

These categories are explained in more detail in section 5 of this report.

- 1.5 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;
  - 969 new and replacement affordable homes are planned, with 345 being located within the Council's regeneration and infill sites;
  - 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.
- 1.6 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 in 2016, risks and how these will be mitigated, and the financial implications of the programme.
- 1.7 The Housing Revenue Account capital programme has a value of £701m over the next five years (2017/18 to 2021/22), which was presented to Cabinet for approval on 12<sup>th</sup> December 2016.
- 1.8 The changes from the currently approved 2016/17 to 2020/21 General Fund programme are detailed in paragraph 7.5 Overall, a net £625m would be added to the programme if all projects are approved.
- 1.9 In addition, some projects have been reprofiled, 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. These changes have no net impact on the overall cost of the programme.
- 1.10 The proposed budget is fully funded, but this depends on the schemes being delivered on time, within budget and capital receipts being generated as anticipated. The impact of potential changes in cost and timescale are fully explored in Section 10 of the report. Any increases in expenditure or reductions in external funding will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

## **Recommendations**

### **That the Council be recommended:**

- 1.11 To approve the capital strategy as set out in this report
- 1.12 To approve:
  - 1.12.1 The capital expenditure for the General Fund as set out in Appendix A1 and A2 for 2017/18 to 2021/22;
  - 1.12.2 The capital expenditure for the General Fund as set out in Appendix A1 and A2 for Future Years;
  - 1.12.3 The revised capital expenditure budgets for the General Fund as set out in Appendix A1 and A2 for 2016/17 forecasts; and
  - 1.12.4 The expenditure forecast for 2016/17 for the HRA as set out in paragraph 10.6.5.
- 1.13 To approve the capital expenditure for the HRA for 2017/18 to 2021/22 as approved in the 30 year HRA Business Plan and as included in paragraph 10.6.5.
- 1.14 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 10.6.
- 1.15 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
- 1.16 To approve the revised terms of reference of the Capital Review Group (CRG) as included in Appendix B. The changes are outlined in paragraph 4.2
- 1.17 To approve that all General Fund projects follow the business case governance process as set out in section 4 of this report and in Appendix C.
- 1.18 To approve the roll forward of the unspent balance of £12.5m for investment schemes into 2017/18 and the drawdown of the second £25m tranche of funding for investment schemes. This will be available subject to a full assessment of all proposed investments to ensure they have a business case and provide value for money for the Council, and approval by the City Treasurer and CRG.

- 1.19 To approve that no financing sources unless stipulated in regulations or necessary agreements are ring fenced
- 1.20 To approve that a sum of £12m is held for schemes not yet identified which are fully funded by external grants and/or contributions by a minimum of £10m leaving the Council to potentially fund a net £2m, as described further in paragraphs 8.2.50 – 8.2.51
- 1.21 To approve that contingency is held corporately, with projects required to bid for them in the event they are required to fund capital project costs. Bids would be reviewed and approved or rejected by the Capital Review Group. The value of these contingencies is £105.1m
- 1.22 To note the proposed use of new capital receipts under the freedoms of the Flexible Capital Receipts regulations to fund revenue spend on City Hall, Digital Programme and Pension Deficit Recovery, and leading to future on-going savings. This proposal will be recommended for approval in the Budget Setting and Council Tax Report
- 1.23 To approve that the financing of the capital programme be delegated to the City Treasurer as part of routine quarterly closure of accounts process.

## **2. Reasons for Decision**

- 2.1 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

### 3. **Policy Context**

3.1 The capital strategy is based on the strategic aims of City for All. This has three clear priorities for the 2017/18, each of which are underpinned by robust delivery programmes:

- The Council will place a renewed focus on how the council supports the interests of residents whilst also recognising the very important role the city's businesses play in creating economic prosperity.
- The Council will place a particular focus on supporting the aspirations of families in the city.
- As a global city with 24 hour demands that place particular pressures on our residents and businesses the Council will lead by example, setting the standard and working closely with partners to help deliver a world class city.

3.2 The Council has embarked on an ambitious capital programme, with plans to invest £2.130bn in a number of developments throughout the City. 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:

- 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 which are partially funded by the Affordable Housing Fund (AHF) are planning to deliver 969 new and replacement affordable homes by 2021/22, of which 345 will be located with the Council's regeneration and infill sites. 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.
- the West End partnership is a partnership between the public and private sectors, this came together to create a shared vision for the West End, delivering a set of transformational projects. The West End is the most dynamic and diverse city centre in the world. Without investment in its public spaces, transport and other infrastructure, investors will become attracted to better business environments elsewhere - particularly in the context of Brexit

challenges. The Council is in discussions with Government to explore ways of funding these aspirations given the significant wider economic benefits.

- 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 Council's investment in 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 the infrastructure is in a safe and reliable condition, is efficiently managed and means residents and visitors can enjoy clean, high quality streets
- the Investment Property Review will result in significant investment which will provide residents of Westminster with modern leisure facilities, helping to tackle obesity and encourage healthier lifestyles. This is a key component in offering choice to residents about the type of lifestyle they lead. The review will additionally maximise the value of leisure sites by delivering significant commercial income opportunities.

- 3.3 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 financial return on investment, such as capital receipts or new revenue streams, or delivering key strategic priorities.
- 3.4 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 next five years.
- 3.5 The Council is leading on the Estates Strategy 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.

- 3.6 In October 2016 a revised STP was submitted to NHS England. Over next four years from 2017/18 to 2020/21, the cumulative gross capital requirement is £845m of which £410m is expected to be financed from disposals (£384m) or other funding sources (£26m). The net capital requirement is £435m. The Estates Strategy will aim to focus on acute reconfiguration proposals, development of primary care estate and local services hubs and mental health capital investments. The financial consequence for Westminster is being worked on and will be appropriately reported as this is analysed and refined.
- 3.7 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.



#### **4. Governance**

- 4.1 The main forum for reviewing financial, risk and governance 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 is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.
- 4.2 The Terms of Reference for the CRG are included in Appendix B. These have been refined for the coming year to reflect the publication of revised Council Financial Regulations, to reflect changes in the way contingencies are managed and to refine the business case and budget setting process that the Council follows.
- 4.3 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.
- 4.4 Governance of project business cases will vary depending on the type of work that is being carried out. This process was approved by Full Council in the Capital Strategy report of 2nd March 2016, and is included for reference in Appendix C. This allows CRG to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme.
- 4.5 If the capital programme is over committed once all CPSRs from services have been received, then a process of prioritisation will be required which may result in some projects not being funded within the current budget. This does not preclude the service from re-submitting the CPSR in future years when more funding may be available.
- 4.6 The annual capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council in March of 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 regulations to spend in line with their budget allocations.
- 4.7 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 2030/31.
- 4.8 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.

- 4.9 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 2016/17 re-profiling reports have been completed for period 3 (including brought forward of some 2015/16 variances) and period 7.
- 4.10 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. Remaining resources will be prioritised to deliver key Council priorities and City for All objectives.
- 4.11 There are a number of circumstances where concerns could be raised about a project in the capital programme including:
- 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
- 4.12 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.
- 4.13 Value for money 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 appraisal. 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 minimise 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

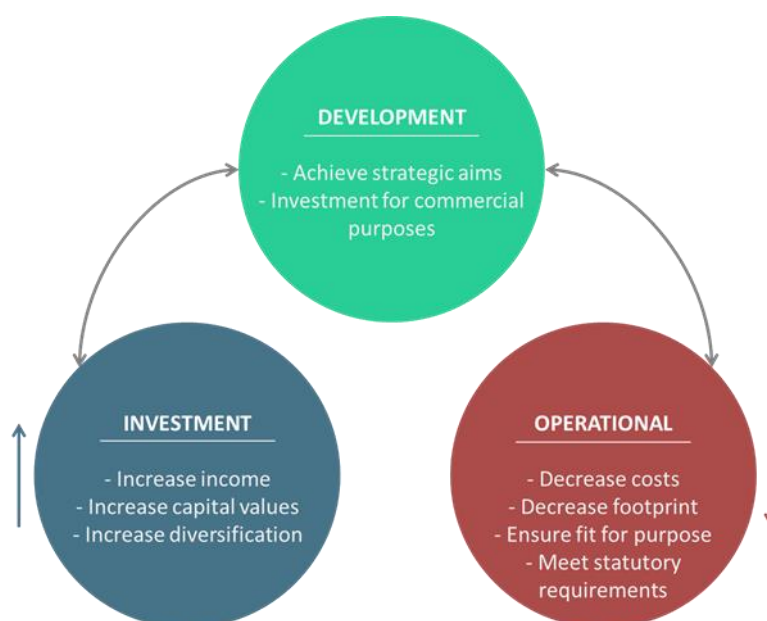
- **risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme and further developments are planned in this area during 2017/18. More detail on the mechanisms the Council has in place to effectively manage and identify risk can be found in Section 9.
- **project management** – the Council has taken in-year steps to improve training and development of this area and will continue to strengthen it.

## 5. Overview of Capital Programme and Delivery Strategies

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

- development
- investment
- operational

5.2 The diagram below provides an overview of these areas



### 5.3 Development

5.3.1 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.

5.3.2 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 24% 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 9.

- 5.3.3 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.
- 5.3.4 Development schemes make up the majority of the gross capital budget at £833.8m and the majority of capital receipts in the programme, £348.2m, are related to these schemes. The scope of the major development projects is outlined later in this report, organised by Service, and full details can be found in paragraph 8.2.12.

#### 5.4 Investment

- 5.4.1 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 ongoing financing costs of the capital programme.
- 5.4.2 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. This comprised an initial allocation of £25m with further funds of £25m if this proved to generate worthwhile additional income streams and should market conditions be conducive.
- 5.4.3 During 2016/17 the Council made one purchase with these funds for £12.5m, which will return an initial income of £500k per annum plus future rent review increases. The Council is continuing to investigate potential options to invest the remaining funds but to date no suitable schemes have been found. There is therefore £12.5m of the initial allocation remaining with the £25m of further funds which will be drawn

down in 2017/18, subject to suitable opportunities being identified.

- 5.4.4 Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment.

## 5.5 Operational

- 5.5.1 The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio.
- 5.5.2 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.
- 5.5.3 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.
- 5.5.4 Operational schemes in the five year capital programme have a total expenditure of £848.0m. Details of this expenditure and how it is funded can be found in Appendix A.

## 6. Housing Revenue Account

- 6.1 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 stock
  - regeneration and renewal spend; and
  - other investment plans
- 6.2 Further information on the financial implications of the HRA capital programme can be found in paragraph 10.6

## 7. Summary Capital Programme

7.1 The original five year capital programme, from 2016/17 – 2020/21, agreed by Full Council on 2 March 2016, can be seen in the table below:

**Table 1: Original five year capital programme 2016/17 – 2020/21**

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
<b>Expenditure</b>						
Adult Services	1,570	750	1,500	26,000	26,000	55,820
Children's Services	8,865	11,779	2,111	250	250	23,254
City Management & Communities	38,661	33,559	15,878	15,500	11,110	114,708
City Treasurer	5,649	5,730	5,750	5,750	205,750	228,629
Corporate Services	1,675	750	2,975	975	1,125	7,500
Growth, Planning & Housing	285,542	304,323	317,496	199,125	172,095	1,278,580
Policy, Performance & Communications	9,327	2,264	-	-	-	11,591
<b>Total Expenditure</b>	<b>351,288</b>	<b>359,155</b>	<b>345,709</b>	<b>247,600</b>	<b>416,330</b>	<b>1,720,081</b>
<b>Funding</b>						-
External Funding	(105,196)	(56,434)	(55,011)	(5,642)	(9,942)	(232,225)
Capital Receipts	(108,100)	(33,250)	(43,276)	(343,090)	(354,754)	(882,470)
<b>Total Funding</b>	<b>(213,296)</b>	<b>(89,684)</b>	<b>(98,287)</b>	<b>(348,732)</b>	<b>(364,696)</b>	<b>(1,114,695)</b>
<b>Net Funding Requirement</b>	<b>137,991</b>	<b>269,471</b>	<b>247,422</b>	<b>(101,132)</b>	<b>51,634</b>	<b>605,386</b>

7.2 A number of approved changes have occurred to the capital programme budget since its original approval in March 2016 as it has been updated to reflect individual project progression. These changes can be summarised as occurring for the following reasons:

- Final outturn at the end of 2015/16 included £6.80m of net in-year underspends that were approved to be carried forward into 2016/17;
- A review of anticipated funding sources was undertaken which re-classified £20.48m of previously categorized capital receipts as being more appropriately designated as external funding;
- A June 2016 review approved the re-profiling of £94.65m gross expenditure from 2016/17 into future years together with £12.60m of external funding sources.
- Additionally, the June review approved further gross expenditure of £0.64m of new expenditure and associated funding of £0.50m (net £0.14m)

- The most significant approved changes of the June review are summarised below:

○ £16.16m	Luxborough Redevelopment	(Reprofiled)
○ £17.37m	Huguenot House Redevelopment	- “ -
○ £21.10m	Investment Property Review	- “ -
○ £10.74m	Dudley House	- “ -
○ £7.64m	Sir Simon Milton UTC	- “ -
○ £2.27m	Developer Projects	- “ -
○ £1.70m	CCTV Crime & Disorder	- “ -
○ £1.64m	Moberley Sports Centre	- “ -
○ £0.60m	33 Tachbrook Street	(New)

- A second review of the capital programme in October resulted in additional re-profiling of a number of schemes. £65.03m of gross expenditure was re-profiled out of 2016/17 and into future years together with £12.83m of expected external funding. Additionally, £83m of capital receipts were also re-profiled.
- As well as re-profiling these projects, a number of other changes were approved in the October review for 2016/17 - £7.48m of reduced expenditure and £14.54m of additional funding was approved along with a forecast reduction of £22m in capital receipts.
- The most significant changes include in the October review are summarised below:

○ £36.35m	Investment Property Review	(Reprofiled)
○ £4.29m	Tresham House	- “ -
○ £2.43m	Coronors Court Works	- “ -
○ £1.50m	Digital Transformation	- “ -
○ £0.06m	Sir Simon Milton UTC	- “ -
○ £83.00m	Capital Receipts	- “ -
○ £22.00m	Capital Receipts	(Reduction)
○ £2.967	West End Partnership (net)	(New)
○ £0.47m	Bond St	- “ -



7.3 A summary table of these changes is shown below

**Table 2: Changes between original and current approved budget**

	Expenditure £000	Funding £000	Capital Receipts £000	Net £000
<b>Original Budget</b>	1,720,081	(232,255)	(882,470)	605,356
15/16 Roll Forward	6,604	192		6,796
Re-Classification		(20,482)	20,482	-
June 2016 re-profiling	644		(500)	144
October 2016 re-profiling	(7,483)	(14,543)	22,000	(26)
<b>Approved Budget</b>	<b>1,719,846</b>	<b>(267,088)</b>	<b>(840,488)</b>	<b>612,270</b>

7.4 The effect of these changes is illustrated below on a year-by-year basis:

**Table 3: Current approved capital programme 2016/17 – 2021/22**

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
<b>Expenditure</b>							
Adult Services	435	182	-	-	-	-	617
Children's Services	6,737	14,080	2,111	250	250		23,427
City Management & Communities	32,160	26,117	16,078	15,700	11,310	40	101,405
City Treasurer	1,000	5,730	5,750	5,750	205,750		223,980
Corporate Services	1,120	1,025	2,975	975	1,125		7,220
Growth, Planning & Housing	141,971	468,027	318,787	224,925	197,895		1,351,604
Policy, Performance & Communications	7,828	3,764					11,592
<b>Total Expenditure</b>	<b>191,252</b>	<b>518,925</b>	<b>345,700</b>	<b>247,600</b>	<b>416,330</b>	<b>40</b>	<b>1,719,846</b>
<b>Funding</b>							
External Funding	(94,127)	(81,935)	(72,137)	(8,848)	(10,042)		(267,089)
Capital Receipts	(3,600)	(116,200)	(26,150)	(318,884)	(375,654)		(840,488)
<b>Total Funding</b>	<b>(97,727)</b>	<b>(198,135)</b>	<b>(98,287)</b>	<b>(327,732)</b>	<b>(385,696)</b>	<b>-</b>	<b>(1,107,577)</b>
<b>Net Funding Requirement</b>	<b>93,526</b>	<b>320,789</b>	<b>247,413</b>	<b>(80,132)</b>	<b>30,634</b>	<b>40</b>	<b>612,270</b>

7.5 Latest forecasts and new capital bid CPSR submissions will, subject to approval, alter the capital programme. Overall, a net £625m would be added to the programme if all projects are approved – this includes an additional £450m of future year spend as a guide amount to cover general capital net expenditure between the nine years 2022/23 and 2030/31. The most significant changes (those with a change in excess of £3m are summarised in the table below:

	Expenditure	Funding	Capital Receipts	Total
	£000	£000	£000	£000
<b>Net Additions</b>				
Strategic Acquisitions	110,864			110,864
Lisson Grove Improvements	80,000			80,000
Capitalisation of Pension Deficit	30,000			30,000
Property Investment Schemes	25,000			25,000
Huguenot House	18,803			18,803
Seymour Leisure Centre	(47,730)		63,530	15,800
Private Sector Housing Discharge Initiative	15,000			15,000
Stone Mastic Asphalt Replacement	14,000			14,000
City Hall Refurbishment	10,687			10,687
Planned Preventative Maintenance	10,244			10,244
41 Whitcomb Street	(32,822)		36,966	4,144
Externally Funded Public Realm Works	35,893	(32,008)		3,885
Piccadilly Underpass	3,400			3,400
Council Funded Public Realm Works	17,816	(14,685)		3,131
291 Harrow Road	(15,523)	9,740	8,000	2,217
Large Public Realm Works	18,067	(16,114)		1,953
Local Safety & Traffic Mgmt	3,003	(1,465)		1,538
<b>Net Nil Significant Changes</b>				
Berkely Square North Side 1	4,000	(4,000)		-
Cyle Grid	10,039	(10,039)		-
East Mayfair Public Realm	4,300	(4,300)		-
Security Scheme CPNI	10,000	(10,000)		-
Affordable Housing Fund	49,982	(49,982)		-
<b>Net Reductions</b>				
Cavendish Square Car Park	(62,500)			(62,500)
Capital Contingencies	(58,811)	15,000		(43,811)
Investment Property Review	(249,789)	(13,800)	242,860	(20,729)
Moberley Sports Centre Redevelopment	(1,609)	(300)	(15,535)	(17,444)
Temporary Accommodation Purchases	(25,485)	13,705		(11,780)
Ebury Bridge	(29,207)	20,434		(8,773)
Dudley House	(9,880)	4,768		(5,112)
Tresham House	(4,093)			(4,093)
West End Partnership	(3,267)	300		(2,967)
Beachcroft House	5,085	(4,802)	(2,114)	(1,831)
DFG Budget	3,219	(3,759)		(540)
<b>Sub-total</b>	<b>(61,314)</b>	<b>(101,307)</b>	<b>333,707</b>	<b>171,086</b>
Future Year General Capital Prog	450,000			450,000
Net Other	22,585	(30,201)	11,964	4,348
<b>Total</b>	<b>411,271</b>	<b>(131,508)</b>	<b>345,671</b>	<b>625,434</b>

The effect on the overall capital programme of the above amendments is to produce a net capital requirement and spend forecast for 2016/17 and the fourteen years between 2017/18 and 2030/31 of £1.237bn

**Table 4: Proposed capital programme 2016/17 – 2030/31**

	Forecast	Five Year Plan					Future	Total
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Years to 2030/31 £000	
<b>Expenditure</b>								
Adult Services	435	632	450	400	200	-	-	<b>2,117</b>
Children's Services	3,794	9,566	9,663	250	250	250	-	<b>23,772</b>
City Management & Communities	29,453	83,793	61,624	29,423	19,771	17,299	-	<b>241,363</b>
City Treasurer	11,000	39,176	38,401	22,249	25,898	33,648	43,797	<b>214,169</b>
Corporate Services	1,281	2,722	4,026	2,086	1,125	525	-	<b>11,765</b>
Growth, Planning & Housing	98,971	228,742	213,464	162,189	110,858	114,506	250,716	<b>1,179,445</b>
Policy, Performance & Communications	6,260	1,331	-	-	-	-	-	<b>7,591</b>
Estimated future years operational expenditure	-	-	-	-	-	-	450,000	<b>450,000</b>
<b>Total Expenditure</b>	<b>151,193</b>	<b>365,961</b>	<b>327,628</b>	<b>216,597</b>	<b>158,102</b>	<b>166,228</b>	<b>744,513</b>	<b>2,130,222</b>
<b>Funding</b>								
External Funding	(74,795)	(126,979)	(117,563)	(30,798)	(43,502)	(4,742)	-	<b>(398,379)</b>
Capital Receipts	(3,636)	(93,000)	(22,350)	(29,306)	(110,397)	(51,971)	(184,157)	<b>(494,817)</b>
<b>Total Funding</b>	<b>(78,431)</b>	<b>(219,979)</b>	<b>(139,913)</b>	<b>(60,104)</b>	<b>(153,899)</b>	<b>(56,713)</b>	<b>(184,157)</b>	<b>(893,196)</b>
<b>Net Funding Requirement</b>	<b>72,762</b>	<b>145,982</b>	<b>187,714</b>	<b>156,494</b>	<b>4,203</b>	<b>109,515</b>	<b>560,356</b>	<b>1,237,027</b>

7.6 The high-level changes to the in-year 2016/17 programme are:

- the forecast gross expenditure is £151.2m, which is £40.1m lower than the revised budget. The forecast for external funding is £74.8m, £19.3m lower than the approved budget of £94.1m. The forecast for capital receipts remains unchanged at £3.6m.
- £83m of capital receipts had been reprofiled to 2017/18, reflecting the date these are projected to be realised. The remaining £22m will not be achieved, and have been removed from the programme.

7.7 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 2030/31" column for completeness and to ensure the budget is approved within the context of the whole capital programme.

7.8 In addition, an assumption of £50m a year annual expenditure on operational schemes has been included in the programme. This ensures that development and investment schemes are evaluated within a capital programme that includes a full operational expenditure programme.

7.9 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.

## 8. Service Analysis

8.1 The following section reviews what is included in the individual capital programmes for each Council service, 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 service portfolio.

### 8.2 Growth Planning and Housing

8.2.1 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 reported separately in paragraphs 8.2.20 to 8.2.29.

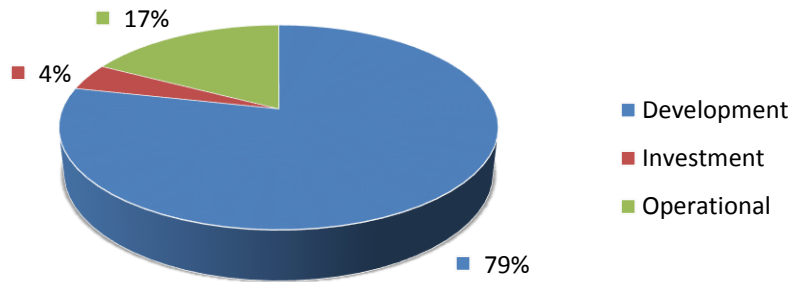
8.2.2 GPH has the largest capital programme within the Council, with an original net budget of £459m over the five years to 2021/22. This included £1.279bn cost offset by income of £0.820bn, mainly from capital receipts. This represented 74% of the Council's General Fund capital budget over this period.

8.2.3 The proposed new programme can be seen in the table below. It should be noted that the future years column only includes development expenditure, and does not include estimated future operational expenditure:

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000		
Expenditure	98,971	228,742	213,464	162,189	110,858	114,506	250,716	1,179,445
External Funding	(53,242)	(60,209)	(71,480)	(18,087)	(38,100)	-	-	(241,118)
Capital Receipts	(600)	-	(12,350)	(19,306)	(100,397)	(41,971)	(174,157)	(348,781)
<b>Net Funding Requirement</b>	<b>45,129</b>	<b>168,532</b>	<b>129,634</b>	<b>124,797</b>	<b>(27,639)</b>	<b>72,535</b>	<b>76,559</b>	<b>589,546</b>

8.2.4 This can be broken down across scheme type as shown below:

### Breakdown of gross capital expenditure by scheme type (GPH)



8.2.5 The changes from the current budget are that:

- gross expenditure budget for GPH is on track to reduce from £1.279bn to £1.18bn.
- income for this period was £820m and is now forecast in total at £589.9m.
- of the forecast external income, £348.8m is anticipated to be from capital receipts

8.2.6 On a net basis this is a proposed increase of £130m for GPH. However, this does not include the contingency amounts which are now to be held centrally as detailed in Section 9.5.3. When taking this £85.2m into account as well, the increase in GPH capital schemes becomes £215.2m, funded from an increase in capital receipts and borrowing. This is primarily due to changes in the following major projects:

- Cavendish Square – the project as originally envisaged is not commercially favourable so will not be included in the capital programme as a cost to the Council and this has reduced the budget by £62.5m. Options will be explored for a self-financing scheme
- Harrow Road - the scheme involved purchasing land from NHS and developing it. The council put in an offer to buy the land after it was independently valued and this offer has been rejected. The scheme is now not progressing, and this has reduced the budget by £7.4m
- Lisson Grove Programme – this is a new programme and has an initial allocation within the capital programme of £80m. Work will progress during the financial year to develop the budget and costing. This is expected to result

in additional housing and community space as well as better office accommodation.

- Investment Property Review – increase in net budget of £65m, (including strategic acquisitions and excluding contingency), due to an expected reduction in capital receipts. This is largely as a result of an increase in the affordable housing provision, but also linked to market conditions and a greater understanding of what is achievable on the site.
- Moberly and Jubilee – a reduction in budget of £17m, which takes into account the loan repayment in 2021/22
- Seymour – an increase in net budget of £16m. A full scale redevelopment with capital receipts offsetting the investment is not viable due to planning constraints, therefore a smaller refurbishment scheme is being progressed
- Huguenot House – increase in net budget of £21.5m (including strategic acquisitions and excluding contingency), due to expected reduction in capital receipts and more advanced design work which has confirmed the capacity of the site

8.2.7 The key schemes within each of the sections, along with reasons for significant movements from the currently approved programme are detailed below.

### **General Fund Major Projects**

8.2.8 The capital programme presented within this strategy includes a Major Projects gross capital budget of approximately £925.2m, with projected income of approximately £439.6m, giving a net budget of £485.7m. As well as producing capital receipts, many of these projects will also generate an on-going revenue stream that will contribute towards the costs of financing the capital programme.

8.2.9 The Major Projects team have made progress on a number of projects and the capacity of the team has expanded in order to help ensure that these projects are delivered and offer the best value for money to the Council. Some of the milestones achieved to date in 2016/17 include approval for Strategic Outline Cases (SOC) and the approval to spend to develop the designs for the following projects: Huguenot House, Seymour Leisure Centre and the Investment Property Review projects;

and approval of an Outline Business Case (OBC) for Beachcroft; and agreement to proceed with the project to refurbish City Hall.

8.2.10 The Council also has a number of sites under construction with the Moberly and Jubilee phase 1 and the Sir Simon Milton UTC all starting work on site. The Dudley House scheme is also progressing well with demolition now complete and the accelerated programme of the main Design and Build contract has started.

8.2.11 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 year and next with members being asked to review the OBCs for Huguenot House and the Investment Property Review. The SOC's for the Lisson Grove programme, Circus Road, Carlton Dene and Westmead are progressing.

8.2.12 Below is a summary of all Major Projects.

➤ Dudley House

Expenditure £m	Income £m	Net expenditure £m
85.4	(51.0)	34.4

Cabinet Member approval has been given to permit officers to enter into the Design and Build contract with Willmott Dixon Partnership Homes to deliver the project. To date the site has been demolished and target completion for the Marylebone Boys School is the 7th September 2018 with the intermediate rent accommodation completing on the 23rd April 2019. The Cabinet Member decision approved an increase in the total capital budget (including prior year expenditure) from £95m to £104m; the cost increase is due to market conditions plus changes in the design as a result of feedback from GLA and planning. The capital budget has been transferred from the Cavendish Square project, and the income from the project will cover the financing costs

➤ Huguenot House

Expenditure £m	Income £m	Net expenditure £m
103.1	(59.0)	44.1

Following a public consultation, the OBC is being progressed and will be presented to Cabinet over the coming months. The project has a number of potential options and the project will be further progressed when Cabinet agree on a preferred way forward. Expenditure has been incurred during 2016/17, which is primarily on the spot purchasing of residential properties in the block as and when they become available.

➤ Sir Simon Milton University Technical College

Expenditure £m	Income £m	Net income £m
8.2	(20.6)	(12.4)

The works are progressing well and the project remains on track to complete the UTC by September 2017. The original budget was based on a different option, to self-develop the site for the Private Residential Sector instead of a developer led approach. The project is almost entirely funded by grant monies.

➤ City Hall Refurbishment

Expenditure £m	Income £m	Net expenditure £m
80.0	-	80.0

During 2017/18 construction work is set to begin on the refurbishment of City Hall on Victoria Street. 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. Towards the end of 2016/17 the decant process will begin which sees all staff currently based at City Hall move out to two temporary locations at 5 Strand and Portland House. This decant process has an allocated revenue budget of £19m to fund the related costs, which will be funded by flexible use of capital receipts.

➤ Circus Road

Expenditure £m	Income £m	Net income £m
21.5	(24.9)	(3.4)

The SOC for this project is currently being developed and a preferred way forward has been identified, which is in line with original proposals.



➤ Seymour Leisure Centre

Expenditure £m	Income £m	Net expenditure £m
4.2	-	4.2

The OBC is being completed following confirmation that the larger development that included the demolition of parts of the listed building cannot be supported from a planning perspective. A refurbishment proposal is being developed which will include the existing sports centre and a library.

➤ Investment Property Review

Expenditure £m	Income £m	Net expenditure £m
420.0	(158.4)	261.6

The design for the development is progressing well, with the majority of the budget re-profiling due to acquisitions not taking place in this financial year, and the OBC is currently being completed.

➤ Cavendish Square

Feasibility has been carried out on the project which has identified that a subterranean option is not commercially favourable, particularly when considering the income currently generated from the site. Alternative schemes will be reviewed, however it is not expected that a capital budget will be required; this will be used to offset increases in costs on projects such as Dudley House and Huguenot House.

➤ Luxborough Development

Expenditure £m	Income £m	Net expenditure £m
21.4	(18.5)	2.9

An SOC for a revised mixed use development scheme is being developed and is expected to be presented to members in the last quarter of 2016/17.

➤ Moberly and Jubilee

Expenditure £m	Income £m	Net income £m
16.2	(16.9)	(0.7)

The projects at both Moberly and Jubilee are on site and progressing well, with anticipated phase 1 practical completion in 2018 with Jubilee Phase 2 to follow. The loan is being drawn down in line with the loan agreement.

➤ Beachcroft

Expenditure £m	Income £m	Net expenditure £m
30.1	(27.9)	2.2

The OBC for Beachcroft has been approved. The OBC shows a budget requirement of £30.1m (excluding contingency) and a final net cost of £2.2m, to be funded by receipts in future projects proposed at Carlton Dene and Westmead. Planning is progressing and the team is now working towards fixing the design and confirming a build cost. This is expected early in 2017.

➤ Westmead/Carlton Dene

Expenditure £m	Income £m	Net income £m
55.0	(62.5)	(7.5)

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. Architectural massing studies are planned to be undertaken this year, which will further develop the options for the schemes. A paper to CRG is expected at the beginning of 2017/18.

➤ Lisson Grove Programme

Expenditure £m	Income £m	Net expenditure £m
80.0	-	80.0

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 on the capital programme which will be subject to further review regarding financing as the business case progresses.

8.2.13 As highlighted above, if the capital programme is over committed once all requests from services have been received,

then a process of prioritisation will be required which may result in some projects not progressing.

### **Corporate Property**

- 8.2.14 The Corporate Property Capital Programme has a five year budget of £56.9m.
- 8.2.15 During 2016/17, using the available investment schemes budget, there has been an investment on Orange Street from this allocation of £12.5m with an initial return of 4.19%. This not only helps diversify and expand the Council's property portfolio, but also provides a favourable rate of return in comparison with other investment opportunities. A budget of £37.5m is included within the five year capital programme.
- 8.2.16 The property team are actively reviewing the market for appropriate opportunities that will provide a good return whilst diversifying the property portfolio. A governance process is being followed which ensures a quick turnaround as and when opportunities arise.
- 8.2.17 The operational property projects include both on-going building improvement schemes such as landlord's responsibilities and the forward management plan, as well as individual projects such as £2.4m for the coroner's court.

### **Housing**

- 8.2.18 The Housing General Fund capital programme contains schemes to provide additional affordable housing both in and out of borough. In total there is a budget of £156m, including 2016/17 budget, fully offset by external income.
- 8.2.19 The Affordable Housing Fund represents Section 106 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 and the £18m budget will provide c.100 out of borough properties and a further 50 in borough which will be funded through the Affordable Housing Fund.

## Housing Revenue Account

8.2.20 The HRA capital investment requirement over the next 30 years is £1.64bn, and over the first five years is £701m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years.

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

<b>Funding Source</b>	<b>£m</b>
Borrowing	49.7
Affordable Housing Fund	58.4
Capital Receipts – Other	254.0
Capital Receipts – Right to Buy	125.9
Reserves and other	212.7
<b>Total Gross Budget</b>	<b>700.6</b>

8.2.22 Key changes between the 2016/17 approved and 2017/18 proposed HRA five year capital programme budgets are as follows:

- gross expenditure – overall increase of £338m consisting of:
  - regeneration schemes mainly across the following schemes (£243m):
    - Church Street for all - £61m to enable the delivery of a more holistic regeneration strategy for the area.
    - Ebury Bridge - £54m to ensure viability of the proposed scheme is viable and enhance future development options.
    - Cosway St – £27m to enable the acquisition of third party interests in the site and to enhance future development options.
    - Parsons North - £22m to ensure the delivery of a Council led design & build contract.
  - existing stock - £37m increase in investment to ensure all stocks are maintained at the 'CityWest Standard'.
  - other projects - £58m increase mainly to purchase new units to replace disposals of poor performing stock.

- 8.2.23 This increase in expenditure will be funded by:
- capital receipts - an increase of £220m from the sale of Council dwellings under Right to Buy, land, surplus operational properties, and private market units built within regeneration schemes
  - capital grant – an additional £26m from the Affordable Housing Fund
  - borrowing – an increase of £46m
  - HRA reserves – an increase of £46m contribution from accumulated balances
- 8.2.24 The HRA reserves will contribute £96m (14%) of the £700m required to fund the 2017/18 five year capital programme. This will run down accumulated reserves close to the minimum level of £11m in the first two years of the programme. The reserves level will then increase in the latter part of the 30 year programme as the capital commitment reduces and additional income is generated from rent increases.
- 8.2.25 The proposed HRA investment plans commit and utilise all of the foreseeable headroom (borrowing limit) and financial capacity within the HRA for the next seven years until 2022/23. This will result in the HRA reaching the current statutory limit on indebtedness of £334m for HRA borrowing in 2022/23 and running the HRA with minimum levels of HRA reserves for 12 years until 2028/29.
- 8.2.26 The HRA business plan currently projects that HRA debt will fall in the latter part of the programme and at year 30 the level of debt will be £79m with revenue balances of £89m.
- 8.2.27 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.
- 8.2.28 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.

8.2.29 The range of management options available within the HRA to mitigate an additional risks are as follows:-

- reduce expenditure
  - reduce major works capital expenditure (e.g. from £1.5bn to £1.4bn over 30 years)
  - reduce Major works capital expenditure over the first ten years (when capital expenditure peaks)
- re-profile, extend or delay expenditure
  - programme the regeneration spend so that schemes run sequentially rather in parallel or delay either Church Street Phase 2 or Ebury
  - re-profile major works capital expenditure over the first ten years (when capital expenditure peaks)
  - re-profile and extend regeneration scheme programmes
- dispose of HRA assets
  - identify surplus assets or sale additional HRA properties (e.g. excluding high-value voids this equates to extra 200 HRA properties value £100m)
- increase HRA rents from year 4 to the maximum allowable assuming allowed by government
  - moving rents to average of £126 per week in 2021/22 an increase of an extra £1.89 a week and setting rents thereafter at CPI+1% would generate additional income of c.£223m over 25 years (rent policy is only guidance and the only control at present is the limit on Housing benefit).
- increase affordable rents to 80% market rents.
  - moving average rents from £150 a week to £187 per week would generate c.£27m over 30 years
- increase funding 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 re-prioritisation of funding c£40m.
- lobby for an increase in the debt cap

### **City Management and Communities**

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

8.2.31 As a service, this has a significant capital programme. This section of the report focuses on the capital programme with gross expenditure of £241.4m and external income of £131.8m from a range of third parties.

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
Expenditure	29,453	83,793	61,624	29,423	19,771	17,299	241,363
External Funding	(16,180)	(57,159)	(36,221)	(12,311)	(5,202)	(4,742)	(131,815)
<b>Net Funding Requirement</b>	<b>13,273</b>	<b>26,634</b>	<b>25,403</b>	<b>17,112</b>	<b>14,569</b>	<b>12,557</b>	<b>109,547</b>

8.2.32 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 (£79.1m) – all but £1.0m is funded by the Council
- Public Realm externally funded (£69.9m) – this is fully funded by contributions from third parties
- Public Realm mixed funding – (£43.0m) - £29.2m is funded by grants/contributions
- transport schemes - (£25.5m) - £21.7m externally funded, largely by Transport for London

8.2.33 Of the remainder of the programme, the main areas of expenditure are:

- Cemeteries and Parks (£1.6m)
- Libraries (£3.1m)
- Sports and Leisure (£4.7m) - £0.6m is funded by external parties
- Public Protection and Licensing (£12.4m) - £7.4m is funded by grant contributions
- Waste (£1.2m)

8.2.34 There is an increase of £127.4m in gross expenditure budget, which is largely related to a number of significant externally funded public realm schemes. The service has worked closely with third parties to provide greater clarity on future public realm schemes, which have been added to the capital programme. A breakdown of new submissions greater than £2m is detailed below.

Project Name	Gross budget increase in new profile £m	Net budget increase in new profile £m
<b>Public Realm Schemes</b>		
Developer and Security Future Schemes	18.0	-
Baker Street Two Way	12.3	-
Queensway Public Realm Scheme	10.7	3.2
Hanover Square Public Realm Scheme	10.6	3.6
CPNI Security Scheme	10.0	-
Bond Street Public Realm Scheme	9.7	-
Jermyn Street Public Realm Scheme	6.3	-
East Mayfair Public Realm Scheme	4.3	-
Berkeley Square North Side Public Realm Scheme	4.0	-
Newport Place	3.9	-
Leicester Square Ticket Booth	2.5	0.3
Shaftesbury	2.5	-
	<b>94.8</b>	<b>7.1</b>
<b>Planned Preventative Maintenance</b>		
Stone Mastic Asphalt Replacement Programme	14.0	11
Piccadilly Underpass Refurbishment	3.4	3.4
	<b>17.4</b>	<b>14.4</b>
<b>Transport Schemes</b>		
Cycle Grid	10.0	-
TFL Sponsored Cycling Initiatives	2.9	-
	<b>12.9</b>	<b>-</b>
<b>Total</b>	<b>125.1</b>	<b>21.5</b>

8.2.35 On a net basis, the programme for CMC is set to increase by £17.7m. £12.6m of this increase is attributable to the addition of an extra year to the programme.

8.2.36 This increase in net budget excludes the Moberly Leisure Centre redevelopment, as this project has now moved to the Major Projects team. Were this project still within CMC the overall capital programme would show a net increase of £31.7m.



8.2.37 There is no net increase in the net capital programme until 2018/19. Projects will only commence when suitable financing sources or additional revenue streams have been identified. Any proposals for additional borrowing will be submitted for appropriate review and approval to ensure that they are appropriate and affordable.

### **Adult Social Care**

8.2.38 The Adult Social Care service has a capital programme which plans to deliver gross works expenditure of £2.1m. These are mainly Information and Communications Technology (ICT) and agile working projects with one building refurbishment project at Barnard and Florey Lodges slipping from 2015/16. All of the advised projects for Adult Social Care and Public Health have identified capital grants funding to 100% of the expected expenditure values.

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
Expenditure	435	632	450	400	200	-	2,117
External Funding	(435)	(632)	(450)	(400)	(200)	-	(2,117)
<b>Net Funding Requirement</b>	-	-	-	-	-	-	-

8.2.39 This represents a major change to the five year budget from 2016/17 which contained major projects delivering residential care home replacements. These had a value of £55m which related to the projects at Carlton Dene and Westmead. These have now been moved to the GPH service along with the related funding. As part of the original five year budget set, two projects are forecast to complete in 2016/17.

### **Childrens**

8.2.40 From 2016/17 to 2022/23, the Children's Services capital programme plans to deliver £23.7m of works.

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
Expenditure	3,794	9,566	9,663	250	250	250	23,772
External Funding	(3,436)	(8,979)	(9,413)	-	-	-	(21,828)
<b>Net Funding Requirement</b>	358	587	250	250	250	250	1,945

8.2.41 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 (£1.9m)
- schools estate rolling programme: planned and reactive building works to schools sites (£2.4m)
- nursery, primary and secondary school expansion projects: expansion projects to increase pupil places (£19.4m)

8.2.42 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 £18.8m.

8.2.43 In comparison to the five year budget set in advance of the 2016/17 financial year, there have been only minor changes to the programme. This has resulted in reprofiling of expenditure and a £50k reduction in gross expenditure budget. Similarly, the external income budget has been reprofiled and reduced by £299k. This results in a net budget change of an increase of £249k.

### **Corporate Services and Policy, Performance and Communications**

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
Expenditure	7,541	4,053	4,026	2,086	1,125	525	19,356
External Funding	(1,500)	-	-	-	-	-	(1,500)
<b>Net Funding Requirement</b>	<b>6,041</b>	<b>4,053</b>	<b>4,026</b>	<b>2,086</b>	<b>1,125</b>	<b>525</b>	<b>17,856</b>

8.2.44 The proposed gross expenditure budget is £19.4m, split between £7.6m for PPC and £11.8m for ICT.

8.2.45 The combined capital programme has increased by £0.265m since the original approved capital. The key movement is due to an additional year of capital requirement for 2021/22 which equates to £0.525m in ICT. However, this is offset by the under spend in 2016/17 on capital schemes such as Data Centre Refresh £0.250m and Computer Licenses £0.01m.

8.2.46 Within the capital programme the Digital Transformation scheme has a value of £4m. This has moved from PPC to ICT.

8.2.47 The key risks to note are:

- the Outdoor media phase 2 has capital requirement of £2.25m in 2017/18. However if sites are not identified for development to generate commercial income from

advertising then the capital requirement will not be needed. Income commitment of £2.23m in the MTP will therefore need to be bridged through alternative initiatives.

- the capital requirement for the Digital Transformation scheme may not be needed if it is determined that the procurement of the digital platform is a service based model.

### City Treasurer

	Forecast	Five Year Plan					Future	Total
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Years to 2030/31 £000	
Expenditure	11,000	39,176	38,401	22,249	25,898	33,648	43,797	214,169
Capital Receipts	(3,036)	(93,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(146,036)
<b>Net Funding Requirement</b>	<b>7,964</b>	<b>(53,824)</b>	<b>28,401</b>	<b>12,249</b>	<b>15,898</b>	<b>23,648</b>	<b>33,797</b>	<b>68,133</b>

- 8.2.48 There has been a net increase of £10.2m in the City Treasurer's budget. The increase of £30.0m contribution to the pension fund deficit has been offset by other reductions, leading to an overall decrease in expenditure. However, this has been offset by the removal of £22.0m of capital receipts from the projections, producing the net increase.
- 8.2.49 It is proposed that the capital programme includes a centralised budget for fully or close to fully funded capital projects which emerge in-year. This is to ensure that there is an efficient and timely process for adding to the capital programme fully funded projects which it is in the interests of the council to undertake.
- 8.2.50 Based on the value of these schemes in 2015/16 (£5.6m) a gross budget of £12m over the next two years is to be added to the capital programme. This will act as a control for new schemes, allowing them to be properly reported, and will also allow flexibility for new schemes which span different services.
- 8.2.51 In line with current financial regulations, no spend on projects will be incurred without appropriate Cabinet Member or Delegated Authority approval. It is also recommended that it is assumed that an income budget of £10m is included leaving a net budget allowance of £2m to allow for any Council contribution to these schemes. Every scheme would need to be fully approved.

## 9. Risk Management

9.1 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.

### 9.2 General Risks – Identification and Mitigation

9.2.1 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:

9.2.2 **Interest Rate Risk** – the Council is planning to externally borrow £512.9m as set out in this Capital Strategy over the next five years (not including internal borrowing). Interest rates are variable and a 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 up until 2019/20 from its Treasury Advisors and added 0.5% to these interest rates as a prudent provision against interest rate rises which has in the past been accepted by HM Treasury as a reasonable buffer against long term interest rate movements. These are shown in the table below.

	2016/17	2017/18	2018/19	2019/20
Assumed interest rate	2.60%	2.80%	3.00%	3.50%

In the event that interest rates rose beyond this forecast plus contingency the revenue interest cost to the Council would increase. A rise of an extra 1% would cost £12m a year at peak borrowing in 2030/31 (£5m by 2021/22).

9.2.3 **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 £21m. 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. An extra £21m of borrowing would cost around £1.26m a year in revenue costs.

9.2.4 **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.

- 9.2.5 **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.

### 9.3 Management of Project Risks

- 9.3.1 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:
- 9.3.2 **Supplier Financial Stability** – construction companies and developers contracting which the Council which experience financial instability post 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.
- 9.3.3 **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

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

9.3.5 **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 ongoing basis.

9.3.6 **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.

9.3.7 **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 is a risk which managed through wherever possible making sure feasibility expenditure is not written off.

#### 9.4 Contingencies in the Capital Programme

9.4.1 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).

9.4.2 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 progressed the unknown factors become clearer and project managers focus on

managing these in the most effective way possible, utilizing contingencies to do so as needed.

- 9.4.3 For 2017/18 it is recommended that a decision is taken to hold contingencies corporately with any release of these funds to be subject to approval from CRG. The value of these contingencies is £105.2m.

## 9.5 Housing Revenue Account – Risk Mitigation Strategy

- 9.5.1 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.
- 9.5.2 The procurement route for a number of renewal and investment opportunities has been changed from a developer framework approach to one of D&B. This change will make schemes more viable but transfer both additional cash flow development costs and risk to the HRA.
- 9.5.3 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.
- 9.5.4 The range of management options available within the HRA to mitigate additional risks are as follows:-
- re-profile, extend or delay expenditure – the programme is heavily focused on the initial life of the plan and re-profiling this could improve the risk profile of the programme and limit the risk of overspends
  - dispose of HRA assets
  - increase HRA rents from year 4 assuming statutorily possible

## 9.6 Brexit

- 9.6.1 In the aftermath of result of the UK's referendum 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.



## 10. Financial Implications

10.1 The Council has proposed a General Fund capital programme of £2.130bn. This has to be financed from three key funding sources:

- external funding (e.g. grants and contributions)
- internal funding (e.g. capital receipts)
- borrowing

### 10.2 External Funding

10.2.1 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.

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
DfE Basic Needs Grant	2,666	7,770	6,951	-	-	-	17,387
DfE Schools Condition Allocation	770	1,209	501	-	-	-	2,480
Transport for London (TfL) Grant	9,030	25,916	12,797	1,814	275	-	49,832
Education Funding Agency (EFA) Grant	3,915	14,703	-	-	-	-	18,618
DCLG Disabled Facilities Grant	1,059	1,242	1,242	1,242	1,242	1,242	7,269
DoH Community Capacity Grant	435	632	450	400	200	-	2,117
Sport England Grant	250	1,500	65	90	70	-	1,975
Other Minor Capital Grants	-	2,641	3,944	765	-	-	7,350
Section 106/CIL	6,142	29,983	20,728	7,978	3,615	3,500	71,946
Affordable Housing Fund Contributions	49,027	41,233	70,886	17,707	38,100	-	216,953
Revenue Reserve	1,500	150	-	802	-	-	2,452
<b>Total</b>	<b>74,795</b>	<b>126,979</b>	<b>117,563</b>	<b>30,798</b>	<b>43,502</b>	<b>4,742</b>	<b>398,379</b>

10.2.2 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.

10.2.3 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.

10.2.4 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.

10.2.5 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.

### 10.3 Internal Funding

10.3.1 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 Years to £000	Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000		
Capital Receipts	3,636	93,000	22,350	29,306	110,397	51,971	184,157	<b>494,817</b>

10.3.2 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 or repay debt. 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 may be ring-fenced for particular services.

10.3.3 It is estimated that the proposed capital programme will be funded via £494.8m 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.

10.3.4 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.

10.3.5 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.

- 10.3.6 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.
- 10.3.7 The authority has identified three projects, Westminster City Hall refurbishment, Digital Transformation and a potential contribution to reduce the Council's historic pension fund deficit, for which it is seeking approval to part-fund these from capital receipts. It should be noted that to be able to fund these the Council will need to achieve its in-year capital receipts target, in order to have eligible funds available.
- 10.3.8 It is planned to use £19m of capital receipts for the revenue costs associated with the refurbishment of Westminster City Hall. Options to also use flexible capital receipts to fund Digital Transformation programme costs are also being explored. Up to £30m over the three years may be applied to the pension fund deficit.
- 10.3.9 Westminster City Hall refurbishment is projected to deliver additional income of £5.2m annually from 2019/20. The Digital Transformation programme is projected to deliver £4.6m of revenue savings by 2019/20.
- 10.3.10 The impact of using this flexibility on the Council's prudential indicators and Council Tax requirement has been considered. The use of capital receipts to fund revenue expenditure will increase the borrowing requirement when funding future capital expenditure, resulting in an increase in capital financing cost, which will ultimately increase Council Tax. However, funding the expenditure directly from revenue in the year it is incurred will also increase the Council Tax requirement. The benefit of using capital receipts is that it allows the Council to spread this impact over a longer period of time and the incremental impact on Council Tax D is detailed below:

<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
2.68	4.80	4.82	0.00

## 10.4 Borrowing

10.4.1. 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 Years to £000	Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000		
Borrowing	72,762	145,982	187,714	156,494	4,203	109,515	560,356	<b>1,237,026</b>

10.4.2. 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.

10.4.3. 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 at current market investment rates.

10.4.4. 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.

10.4.5. A recently introduced debt instrument that could be utilised going forward is the 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 marginally cheaper borrowing and provides a viable alternative to the PWLB.

10.4.6. 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

10.4.7. 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 net 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.

10.4.8. 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 Years to £000	Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000		
External Funding	74,795	126,979	117,563	30,798	43,502	4,742	-	398,379
Capital Receipts	3,636	93,000	22,350	29,306	110,397	51,971	184,157	494,817
Borrowing	72,762	145,982	187,714	156,494	4,203	109,515	560,356	1,237,026
<b>Total</b>	<b>151,193</b>	<b>365,961</b>	<b>327,628</b>	<b>216,597</b>	<b>158,102</b>	<b>166,228</b>	<b>744,513</b>	<b>2,130,222</b>

## 10.5 Revenue Implications

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000		
Expenditure	151,193	365,961	327,628	216,597	158,102	166,228	744,513	2,130,222
External Funding	(74,795)	(126,979)	(117,563)	(30,798)	(43,502)	(4,742)	-	(398,379)
Capital Receipts	(3,636)	(93,000)	(22,350)	(29,306)	(110,397)	(51,971)	(184,157)	(494,817)
<b>Borrowing Requirement</b>	<b>72,762</b>	<b>145,982</b>	<b>187,714</b>	<b>156,494</b>	<b>4,203</b>	<b>109,515</b>	<b>560,356</b>	<b>1,237,026</b>
Revenue Impacts:								
Commercial Income	(230)	(1,247)	(1,921)	(4,097)	(3,850)	(5,750)	(198,364)	(215,459)
Interest Paid, Repayment Allocation inc Sinking Fund	4,028	9,431	11,427	19,079	22,671	29,309	545,636	641,581
Total Funding	3,798	8,184	9,507	14,982	18,820	23,559	347,272	426,122
MTP Budget Assumptions	3,798	7,998	11,294	14,689	18,186	22,857	363,021	441,843
<b>Net Funding Requirement</b>	<b>0</b>	<b>186</b>	<b>(1,787)</b>	<b>293</b>	<b>634</b>	<b>702</b>	<b>(15,749)</b>	<b>(15,721)</b>

10.5.1 The financing costs include interest (including both internal and external borrowing) and an allocation for minimum repayment of debt (MRP) as a result of the borrowing. The total revenue costs of the proposed capital programme are expected to be £78.8m over the next five years (£405.6m by the end of 2030/31).

10.5.2 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 £2.130bn gross General Fund capital expenditure, it is anticipated that £1.22bn will ultimately need to be borrowed externally.

- 10.5.3 The external borrowing is assumed to be sourced from the PWLB, although other sources of funding will be explored as outlined in this paper. The PWLB interest rate is assumed to increase steadily to 3.5% by 2019/20 and remain at this rate. Every 1% increase in the interest rate will result in an additional £12m of revenue cost by 2030/31.
- 10.5.4 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.
- 10.5.5 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 revenue 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 receipt, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.
- 10.5.6 The Council has an ongoing 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.
- 10.5.7 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.
- 10.5.8 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.
- 10.5.9 The large development schemes, as well as the investment budget, are planned and required to generate an ongoing income stream. The three key schemes include Dudley House, Huguenot House and the Investment Property Review as well as the income generated through the investment in the property portfolio. This is

expected to generate £215.5m by 2030/31.

- 10.5.10 The current MTP assumed a £3.2m annual increase in the cost of financing the capital programme. Continuing that policy over the duration of the proposed capital programme, and indexing for inflation, will result in a total budget of £440.8m to fund the capital programme.
- 10.5.11 Services are required to fund the MRP implications of their non-operational projects, and this is taken into account in the viability assessment as part of the business case. The cost of MRP does not need to be funded by service savings, only to development and investment projects which have to be self-funding. MRP is forecast to increase to £15.4m in 2021/22, and increase as development expenditure increases to £31.7m in 2030/31.
- 10.5.12 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 2021/22 and 2022/23 therefore it should be noted that reserves will be required to bridge this gap, before being repaid.

## 10.6 HRA financial implications

- 10.6.1 The HRA capital investment requirement over the next 30 years is £1.6bn, and over the first five years £700m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years. 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.
- 10.6.2 The Council's current HRA 30 year business plan was approved by Cabinet in 2016. This focuses upon delivering three key programmes:
- investment to maintain and improve existing council-owned homes;
  - delivery of new affordable homes; and
  - implementation of the initial phases of the housing regeneration programme.
- 10.6.3 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.

10.6.4 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.

10.6.5 Gross HRA capital expenditure of £701m over the next five years is required to deliver the plans within this investment strategy, including: £211m on works to existing stock; £394m on housing estate regeneration; and £96m on new investment opportunities. This will be funded from £210m of HRA revenue resources, £381m from Right to Buy receipts (RTB) and other capital receipts, £60m from the Councils AHF together with £50m of new borrowing and remains within the debt cap.

### HRA capital programme budget 2016/17 – 2021/22

	Forecast	Five Year Plan					Total £000
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	
<b>Major Works</b>							
Adaptations	1,200	1,200	1,200	1,200	1,200	1,200	7,200
Electrical Works & Laterals	4,671	11,840	14,727	14,233	11,159	10,659	67,289
External Repairs & Decorations	10,497	19,170	21,480	14,446	16,182	16,573	98,348
Fire Precautions	757	2,253	2,678	3,071	2,500	3,000	14,259
General	390	1,000	1,000	1,000	1,000	1,000	5,390
Kitchen & Bathroom	1,900	1,100	2,160	2,340	1,800	900	10,200
Lifts	3,409	2,000	2,000	2,000	2,000	2,000	13,409
Voids	4,000	3,500	3,000	3,000	4,000	4,000	21,500
<b>Major Works Total</b>	<b>26,824</b>	<b>42,063</b>	<b>48,245</b>	<b>41,290</b>	<b>39,841</b>	<b>39,332</b>	<b>237,595</b>
<b>Regeneration Schemes</b>							
Ashbridge	180	3,600	6,932	1,971	62	-	12,745
CHP	250	4,900	1,300	500	1,000	1,100	9,050
Church Street	584	6,845	31,075	39,620	45,280	18,100	141,504
Cosway	212	9,600	9,500	8,500	-	-	27,812
Ebury Bridge	16,585	16,996	9,772	17,335	17,432	13,000	91,120
Edgware Road	1,058	33	8,849	-	-	-	9,940
Lisson Arches	1,879	6,881	16,244	1,330	-	-	26,334
Luton St	1,106	5,378	-	-	5,096	-	11,580
Parsons North	300	6,704	11,717	4,820	500	-	24,041
Penn & Lilestone	-	-	-	-	-	-	-
Tollgate Gardens	390	7,197	9,763	-	-	-	17,350
<b>Regeneration Schemes Total</b>	<b>22,544</b>	<b>68,134</b>	<b>105,152</b>	<b>74,076</b>	<b>69,370</b>	<b>32,200</b>	<b>371,476</b>
<b>Other</b>							
Infill	970	4,442	6,748	2,770	2,770	1,982	19,682
Kemp House	125	760	-	-	-	-	885
Self Financing	14,445	15,000	20,000	20,000	20,000	20,000	109,445
Walden	-	-	-	-	7,000	-	7,000
Contingency	-	4,086	5,950	3,939	3,825	1,670	19,470
<b>Total</b>	<b>15,540</b>	<b>24,288</b>	<b>32,698</b>	<b>26,709</b>	<b>33,595</b>	<b>23,652</b>	<b>156,482</b>
<b>Total Expenditure</b>	<b>64,907</b>	<b>134,485</b>	<b>186,095</b>	<b>142,075</b>	<b>142,806</b>	<b>95,184</b>	<b>765,552</b>
<b>Funded by:</b>							
Borrowing	10,823	12,681	19,338	3,939	13,712	-	60,493
Capital Grants	1,573	18,329	4,619	9,441	13,000	13,000	59,962
Capital Receipts - Land & Market sales	2,861	11,003	101,984	68,720	43,630	28,675	256,873
Capital Receipts - non RTB	16,096	15,505	20,000	20,000	24,840	21,982	118,423
Capital Receipts - RTB Local Agreement	6,475	16,057	978	1,359	4,667	462	29,998
HRA - Major Repairs Reserve (MRR)	22,971	23,598	23,598	23,598	23,598	23,598	140,961
HRA - Reserves	4,108	37,312	15,577	15,017	19,358	7,467	98,839
<b>Total Funding</b>	<b>64,907</b>	<b>134,485</b>	<b>186,095</b>	<b>142,075</b>	<b>142,806</b>	<b>95,184</b>	<b>765,552</b>

*\*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*



## **11. Legal Implications**

- 11.1 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.

## **12. Staffing Implications**

- 12.1 None specifically in relation to this report

## **13. Consultation**

- 13.1 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:**

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020 7641 2904*

## **BACKGROUND PAPERS:**

Capital Strategy Report (March 2016)

Budget Setting and Council Tax Report (February 2017)

Treasury Management Strategy (February 2017)

Capital programme working papers

Business Justification Cases for individual projects

## **Appendices**

**Appendix A1 – Capital Programme 2017/18 to 2021/22, forecast position for 2016/17 and future years' forecasts summarised up to 2030/31 by Cabinet Member**

**Appendix A2 – Capital Programme 2017/18 to 2021/22, forecast position for 2016/17 and future years' forecasts summarised up to 2030/31 by Chief Officer**

**Appendix B – CRG Terms of Reference**

**Appendix C – Business Case Process**

## **Appendix B – Revised Terms of Reference for Capital Review Group**

### **Summary**

The role of the Capital Review Group (CRG) is to provide oversight and scrutiny to the Westminster City Council (WCC) General Fund (GF) capital programme. It is responsible for overseeing both the fixed and rolling five year capital programme and will include all projects including those 100% externally funded. It will manage the funding requirements for the capital programme and the revenue impact that this will have. The Housing Revenue Account capital programme (HRA) is managed separately but will provide updates to CRG so that group retains an overall view of capital expenditure.

For both HRA and GF the current and future year capital programme is approved within the annual Council Tax report and CRG provides the in-year scrutiny of the programme.

### **Terms of Reference**

The terms of reference for the group are:

- To provide strategic development of the Council's capital programme and capital strategy in accordance with the Council's Objectives as set out in City for All including the prioritization of projects
- To consider any proposal for the use of capital against Council's priorities
- To review potential risk and Value for Money issues on any proposal for the use of capital.
- To agree any programme of capital spend within the confines of Council agreed financing
- To provide a forum for establishing and providing robust challenge and debate around the capital programme
- To monitor the performance of projects and programmes within the Council's capital programme
- To set out a programme of annual capital receipts and to monitor progress in achieving those receipts
- To ensure that investments in projects are backed up with a rigorous business case that is updated and developed at key stages over the project life. This will include a whole life view of the project and any ongoing revenue implications.
- To set appropriate tolerances over which projects will be required to report back to CRG
- To approve the allocation of contingencies to projects
- To approve the delivery route of projects in recognition of the risk that the Council is willing and the expertise and capacity in-house versus the potential returns and rewards
- To ensure that decisions are made in line with financial regulations

### **Membership**

The meeting will be chaired by the Cabinet Member for Finance and Corporate Services supported by the City Treasurer. The meeting will be attended by relevant Cabinet members and Executive Directors or their representative where projects fall within their portfolio. Project/service managers will attend as required to present on their project.

## **Governance**

CRG does not have delegated authority but will act in an advisory capacity. A set of minutes will be circulated after each meeting outlining the key actions and proposed decisions. Where appropriate these will be reported to EMT and Cabinet. Reports presented at CRG should be in a Cabinet Member report style to ensure these can be signed off after the meeting where CRG is advising the recommendations are approved. The Group will meet on a monthly cycle however this can be altered if thought appropriate after a six month initial period.

For the HRA the current process is that CWH and client side manage approved CWH capital schemes through officer and member led quarterly HRA performance meetings. These schemes are approved by Cabinet through the annual HRA business plan investment report and approved by members through full council. Regeneration schemes and non-delegated capital schemes are reported to GPH board through highlights reporting monthly and reported to the lead member through the HRA stakeholder report

## **Structure of the Meetings**

The administration for meeting will be undertaken by the City Treasurer's team including the submission of reports and recommendations. Decisions from the meeting will flow into the monthly EMT / Cabinet report e.g. updated forecast etc. To achieve this the following are suggested standing items on the Agenda:

- Update on the current year capital programme
  - Spend to date v budget – overall, by EMT and for the key projects
  - Capital receipts forecast
  - Revised forecast for the current year

In addition CRG has a remit to review both emerging and future projects so there will be an agenda item to include:

- Changes to the proposed budget for future years existing schemes
- New projects / receipts to be added to the existing programme
- Update on the Housing Revenue Account
- Future plans on major schemes and / or partner working

As part of its role in information the annual accounts and Council Tax report the following specific items will be added to the agenda as required:

- Submission of the programme to Council Tax budget
- Review of items proposed as slippage
- New year budgets for the rolling five year programme

### **Significant Capital Projects**

The level of information required will depend on the expected cost and financial regulations/ procurement code limits but all new projects will be expected to be presented for approval. This includes those projects that are 100% externally funded. When CRG have approved the inclusion of the project within the programme the EMT member should follow the normal financial regulations / procurement process for further approval.

All projects currently in the programme are supported by as a minimum, an up to date Capital Programme Submission Request form (CPSR). Any schemes over £10m will require a full three part Business Case to be completed which will be submitted to CRG for scrutiny, any between £1.5m to £10m will require a one stage business case which will also be submitted to CRG for scrutiny and review. Any schemes below £1.5m will require a CPSR to be prepared but these will fall under the delegated powers of Cabinet members and relevant officers so will not be presented to CRG unless specifically requested. Due to the number of smaller projects in the capital programme, smaller schemes below £500k may be grouped together, where appropriate, in order to reduce the administrative burden on project managers.

The full three part business case process starts with a Strategic Outline Case (SOC) at inception, followed by an Outline Business Case (OBC) once an options appraisal has been completed and finally with a Full Business Case (FBC) once detailed design is completed and the contract is ready to sign. Where a Cabinet member report is required the business case will be an appendix to this document.

The business case will be structured in line with HM Treasury Green Book 'five case' model which includes presenting:

- The Strategic Case
- The Economic Case
- The Commercial Case
- The Financial Case
- The Management Case

No commitments on projects should be made until CRG have approved the project's inclusion in the overall capital programme.

Often a project will need to incur expenditure to develop designs and explore options for the completion of the business case, where this is required a separate Cabinet Member report (or the requirement in line with the financial regulations) to approve expenditure prior to a business case being submitted.

### **Possible Overspends on Projects**

Though the Group does not have delegated decision making powers it is responsible for overseeing any changes to the budgeted capital programme. As part of the update on the current programme, EMT members will present any potential overspends alongside any mitigation strategies or savings being made elsewhere and the revenue implications e.g. for increased borrowing. Where CRG approves the change the normal financial regulations and procurement code should be followed for the additional expenditure on the project.

With the frequency of meetings and the longer term nature of capital projects changes to the programme outside the meeting should not be required. EMT members will be expected to update CRG proactively for new projects / overspends or cancelled programmes.

### **Conclusion**

CRG will be the gateway for the capital programme and ensure that the Council's limited resources are used appropriately. This will include considering schemes with partner funding and the cost benefits of the revenue implications for borrowing to fund a scheme.

## **Appendix C – Business Case Process**

The governance of the capital programme varies depending on the type of work that is being carried out. All capital schemes will be recommended by CRG and approved by the Cabinet Member for Finance and Corporate Services with effect from the 1<sup>st</sup> April 2016 for investment and development schemes and from the completion of the review of each category for operational schemes

### **Development**

These large, long term schemes are important to reach good business decisions. The development branch governance centres on the five case model which is based on HM Treasury Green Book Guidance on Better Business Cases, but adapted for the Council.

The Council, through CRG will assess the prioritisation of assets and decide on which assets need developing in order to aid the Council in meeting its strategic objectives.

#### Stage 1 - Scoping the Scheme and Preparing the Strategic Outline Case (SOC)

The purpose of this stage is to confirm the strategic context, and provide a robust case for change. This stage includes an options appraisal with a long list of options including indicative costs and benefits and a financial appraisal will be carried out based on a methodology such as the Net Present Value (NPV); as a result of this a preferred way forward is identified and feasibility funding will be approved.

#### Stage 2 - Planning the Scheme & Preparing the Outline Business Case (OBC)

The purpose of this stage is to revisit the earlier SOC assumptions and analysis in order to identify a preferred option which optimises value for money (VfM), following more detailed design work. It also sets out its affordability, and details the supporting procurement strategy, together with management arrangements for the successful delivery of the project.

#### Stage 3 - Procuring the Solution and Preparing the Full Business Case (FBC)

The purpose of the FBC is to revisit and where required rework the OBC analysis and assumptions, taking account of the formal procurement. The FBC will recommend the most economically advantageous offer, documenting the contractual arrangements, confirm funding and affordability and set out the detailed management arrangements and plans for successful delivery and post evaluation.

All three business cases stages will be reviewed by CRG, and recommended for approval, should the group accept them.

#### Stage 4 - Implementation

The business case should be used during the implementation stage as a reference point for monitoring implementation and for logging any material changes that the Council are required to make. The management tools developed in accordance with the development framework for the business case – the implementation plan, benefits register and risk register etc. – will be used in delivering the scheme and provide the basis for reporting back regularly to CRG.

#### Stage 5 - Evaluation

The business case and its supporting documentation should be used as the starting point for post implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review) to the Council, in meeting strategic aims.

At all stages of the five case model, the business cases must include the following sections:

- i. The Strategic Case
- ii. The Economic Case
- iii. The Commercial Case
- iv. The Financial Case
- v. The Management Case

Assessing all these areas within the business case will ensure that all aspects of a potential development scheme are analysed and the impact on all stakeholders identified. Therefore, the Council will be able to gain a full understanding on how a specific scheme will impact on the overall strategy, the local economy, officers and resources of the Council.

#### **Investment**

The overall financial envelope and acquisitions strategy will form part of the Council's budget approval in March of each year and thereafter the Cabinet Member will be able to approve individual acquisitions within this sum. Each acquisition will gain approval from Property Investment Panel (PIP) and then CRG, before the purchase can actually take place.

#### **Operational**

Schemes such as highways maintenance and property maintenance are given an annual budget allocation. This annual budget is then used to identify a schedule of works, which has to be reviewed by CRG and recommended for approval before going through to the lead Cabinet Member for the service and

Cabinet Member for Finance and Corporate Services in order to obtain formal approval.

The table below summaries the approval process for each category of expenditure

<b>Category of Project</b>	<b>Approval Process</b>
Development	<p>Development schemes must follow the business case process. Detailed below is the approval process for each Stage</p> <p>SOC – CRG can recommend that the scheme can move onto the next stage</p> <p>OBC – Approval at this stage must be via the lead Cabinet Member for the service and the Cabinet Member for Finance and Corporate Services, with the recommendation of CRG</p> <p>FBC – Final approval for the project must be through Cabinet, with the recommendation of CRG</p>
Investment	<p>Cabinet/Full Council approves the annual budget, but individual schemes within that budget envelope are approved via the lead Cabinet Member for the service and the Cabinet Member for Finance and Corporate Services, with the recommendation of CRG (with the recommendation of the Property Investment Panel)</p>
Operational	<p>Cabinet/Full Council approves the budget as required (with CRG recommendations). However individual schemes within a budget envelope will receive approval via the internal process for that department with Cabinet Member approval. Until such time as the Council's review of the capital programme has completed for each service area at which point approval will be via the lead Cabinet Member for the service and the Cabinet Member for Finance and Corporate Services, with the recommendation of CRG</p>