

Housing, Finance and Customer Services Policy and Scrutiny Committee

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Title:	Capital Programme Delivery
Report of:	Stephen Muldoon, Assistant City Treasurer James Green , Director of Development
Cabinet Member Portfolio	Finance, Property and Regeneration
Wards Involved:	All
Policy Context:	City for All: City of opportunity City that offers excellent local services
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1. Introduction

- 1.1 The Council has an ambitious capital programme, with investment focused on achieving the City for All vision. The annual level of budgeted capital expenditure over the coming five years is set to be much higher than has historically been the case and so presents a number of challenges. Projects have to overcome a number of hurdles before getting to delivery stage, often this length of time is underestimated leading to the annual capital programme budget being underspent. This report outlines the key challenges in delivering the capital programme, the causes of delays and underspends and the work that is ongoing to address these in order to ensure the effective planning and delivery of projects.
- 1.2 The capital programme budget and the schemes it contains are reviewed by the Budget and Performance Task Group annually; this paper focuses on the issues encountered in the delivery of the programme against budget.

2. Key Matters for the Committee's Consideration

2.1 In receiving this report, the Committee may be considering the following questions:

- What are the obstacles for delivering the capital programme?
- How/whether project delays can be avoided?
- How can the Council ensure a higher delivery rate of the annual budget, for example could over programming be considered?
- To what extent do the issues identified cause concern for the Council?

3. Background

3.1 Overview

3.1.1 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 the *City for All* programme. These programme areas will deliver a wide range of benefits to the City, including:

- to assist in the delivery of 1,850 new affordable homes by 2022/23.
- new and improved leisure and education facilities, as well as enterprise space and improved public realm.
- investment in public spaces, transport and other infrastructure, to ensure the continued success of the West End as a business, leisure and heritage destination.
- improved cycle and pedestrian environments to facilitate safe and efficient travel in the City.
- well-maintained and efficiently managed infrastructure, allowing residents, businesses and visitors to enjoy clean, high quality streets.

3.1.2 The preparation of the capital programme is an integral part of the financial planning process, capital proposals are considered within the Council's overall medium to long-term priorities. This includes taking full account of the revenue implications of the projects as part of the revenue budget setting process.

3.1.3 The Capital Strategy 2018/19 to 2032/33 as approved by Council on the 7 November includes £2.521bn expenditure budget, funded by £0.308bn external funding, £0.426bn capital receipts with a £1.786bn net funding requirement, as demonstrated in the table below:

Table 1: Proposed GF Capital Programme 2018/19 - 2032/33

	Forecast	Five Year Plan					Future Years to 2032/33	Total
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Development	82,180	75,457	144,096	185,038	118,128	47,044	302,309	954,252
Efficiency	31,327	3,250	675	400			-	35,652
Investment	-	71,900					-	71,900
Major Strategic Acquisitions	2,346	8,000	18,132	21,000	42,679	42,679	-	134,836
Operational	189,607	185,468	178,216	122,148	64,604	42,099	542,068	1,324,209
Total Expenditure	305,460	344,075	341,119	328,586	225,411	131,822	844,377	2,520,849
Funding								
External Funding	(133,937)	(71,025)	(54,542)	(20,262)	(16,942)	(11,607)	-	(308,315)
Capital Receipts	(96,147)	-	(47,645)	(43,205)	(8,900)	(193,886)	(36,613)	(426,396)
Total Funding	(230,084)	(71,025)	(102,187)	(63,467)	(25,842)	(205,493)	(36,613)	(734,711)
Net Funding Requirement	75,375	273,050	238,932	265,119	199,569	(73,671)	807,764	1,786,139

3.1.4 In addition the Housing Revenue Account (HRA) capital programme includes £1.408bn expenditure budget, funded by £0.778bn external funding, £0.535bn capital receipts with a £0.095bn net funding requirement over the same period, as demonstrated in the table below:

Table 2: Proposed HRA Capital Programme 2018/19 - 2032/33

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Future Years to 2032/33	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Major works	49,668	39,315	36,659	33,062	37,619	42,288	277,900	516,511
Regeneration	41,056	82,863	69,992	39,734	58,453	30,195	270,417	592,710
Other schemes	35,628	59,633	44,968	39,249	37,548	10,564	71,568	299,158
Total Expenditure	126,352	181,811	151,619	112,045	133,620	83,047	619,885	1,408,379
Funding								
External Funding	24,336	44,926	28,445	17,944	40,416	2,625	135,811	294,503
Capital Receipts	45,256	54,585	60,553	70,771	69,873	57,092	175,694	533,824
Total Funding	69,592	99,511	88,998	88,715	110,289	59,717	311,505	828,327
Net Funding Requirement	56,760	82,300	62,621	23,330	23,331	23,330	308,380	580,052

3.1.5 The General Fund and HRA capital programmes feed into the Treasury Management Strategy, this assesses the cash flow requirements of the Council and hence the projected borrowing requirements. With external borrowing costs currently close to record lows, it is sound financial management to consider arranging some of the projected borrowing now. This locks in the low rates available, supports the affordability of the programme and protects against future interest rate rises. However, there is a risk in a forward borrowing strategy, if the projected capital schemes are delayed or shelved the Council could end up paying interest on borrowing that is not required.

3.2 Past Trends

3.2.1 The annual capital budget over past years has been underspent. A summary view of the budget and outturn of the capital budget over recent years is set out in the tables below. In addition, Appendix 1 sets out the 5 year General Fund capital programme recently presented to Council with the top 15 projects within the programme.

3.2.2 Table 3: Gross Capital Budget and Outturn 2015/16–17/18 – General Fund

Gross Spend (£000s)	2015/16	2016/17	2017/18
Budget	94,697	151,192	276,601
Outturn	69,432	118,513	235,162
Variance	25,265	32,679	41,439
Outturn as % budget	73%	78%	85%

The table above shows the following gross budget trends:

- The outturn as % of budget has improved year on year from 73% in 2015/16 to 85% in 2017/18
- The capital programme is increasing year on year with more than 3 times the amount spent between 2015/16 to 2017/18

Table 4: Net Capital Budget and Outturn 2015/16–17/18 – General Fund

Net Spend (£000s)	2015/16	2016/17	2017/18
Budget	39,819	76,399	171,480
Outturn	27,903	52,886	141,958
Variance	11,916	23,513	29,522
Outturn as % of budget	70%	69%	83%

The table above shows the following net budget trends:

- The capital programme outturn has increased each year with more than 5 times net spent between 2015/16 to 2017/18
- 2017/18 outturn as % of budget was 83%, an improvement on the previous two years.

3.2.3 As can be seen from the variances above, the proportion of budget spent by the outturn has increased over the 3 year period. The introduction of Capital Review Group (CRG) and an improved budget setting process with the completion of Capital Programme Submission Requests (CPSR) forms has facilitated this improvement but it is acknowledged that further improvements can be made.

3.2.4 The tables below set out similar information in respect of the Housing Revenue Account (HRA), being the Council's stock of tenant housing under management.

Table 5: Gross Capital Budget and Outturn 2015/16–17/18 – HRA

Gross Spend (£000s)	2015/16	2016/17	2017/18
Budget	93,443	65,060	135,372
Outturn	54,685	57,559	82,167
Variance	38,758	7,501	53,205
Outturn as % of budget	59%	88%	61%

3.2.5 The 2017/18 budget and outturn were significantly up on 2016/17 figures. The majority of the underspend in 2017/18 related to regeneration schemes, which was due to ongoing negotiations with contractors, statutory service providers and developers, thus progress on schemes were delayed from the initial projections. Major works expenditure underspent due to the new term contracts being introduced and needing to mobilise but these are now reported to be in full flow.

3.2.6 There are positive revenue benefits as a result of underspends in the capital programme as financing costs are not incurred; for the 2019/20 budget proposals a revenue saving of £3.4m was identified due to past capital programme slippage. As a result there is not the financial imperative to ensure that all projects are spending in line with budgets. However, there are potentially long term implications of not delivering the expected financial and non-financial benefits (these could include increased housing provision; improved service delivery; more attractive areas and public spaces; improved wellbeing of residents) and an opportunity cost as schemes may be excluded or deferred to ensure the Council is not over committed.

4. Key challenges

4.2.1 Budgeting

Current situation - The capital programme is presented to full Council twice a year – in November and in March. This is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections.

As part of the budget setting process, each project requires a Capital Programme Submission Request form (see Appendix 2), which provides an overview on the following areas:

- Project information (including Senior Responsible officer, project manager, project category and asset life)
- Strategic fit (which cover alignment to City for All and broader local and national policies)
- Financial implications (including capital requirement over the five year capital programme period, funding, assumptions and revenue implications)
- Legislative and compliance requirements linked to the project
- Project dependencies
- Risks
- Project timescales
- Decisions to date and governance arrangements

The introduction of the Capital Programme Submission Request (CPSR) form as part of the capital budgeting process enabled greater scrutiny and challenge of capital proposals and challenged the directorates to question themselves as to why they were proposing certain schemes. Those which were simply rolled forward from year to year but were never spent, did not have a project manager and had no clarity were then able to be removed from the programme.

It is the responsibility of project managers to complete these forms including the budget requirements. These are reviewed by the Head of Service as well as being challenged by finance managers, with revisions then made. The capital programme for each directorate is reviewed in detail with each Executive Director including the profiling before being finalised for CRG review.

Council approval of the programme gives an allocation of budget to projects in the capital programme. Separate approval to spend is required on each project to spend against this budget allocation. Larger schemes require a business case to support the Council's investment, in line with the financial regulations, which is presented to CRG for recommendation and approval.

Challenges – The key challenges from a budgeting perspective are:

Uncertainty of costs – Many projects in the capital programme are at their initial design phases. At these early stages the work involved and advice required is not known and there is uncertainty about costs as advisors have not yet been procured. Project managers have a tendency to over budget to ensure they have budget available in case of a best/maximum case scenario – which results in budgets that are too large in year. Generally projects reliably spend in line with the budgeted profile once works have started; at this point detailed cash flows are provided by the contractor which can be used for budgeting purposes – and contractors provide early indications if there is anything that would affect this.

Contingencies – Currently a risk allocation of 20% is being used on new large-scale development projects, 15% of which is held corporately and 5%

held against the project. The value of the centrally held contingency is £243.293m over the life of the 2019/20 approved capital programme – this includes £150m of general capital programme contingency (£10m per year) and c£93m related to development projects. Contingency is calculated based on the spend in year. Given that projects tend to underspend in their initial phases but then overspend in their later phases, this profiling of contingency could be refined to reflect how contingencies are likely to materialise.

Borrowing – The Council does not have a need to borrow to fund the capital programme in the short term due to large cash reserves. The low value return on investing activities relative to the cost of borrowing means that Council resources are maximised by internally funding the programme. Slippage in the programme therefore does not currently lead to unnecessary interest costs being incurred. In the medium term however the cash balances are expected to fall away as the capital programme progresses and collection fund cash currently held is released. The difference between the capital programme and funding sources as shown in Table 1 lead to a net programme of nearly £1.8bn over the next 15 years and is effectively what the Council needs to borrow to fund the capital programme in the long run. Due to the current cash balances, projections estimate that c£800m in borrowing may be required over the next 15 years. The timing of when such borrowing will be required is subject to the capital programme being delivered as per the budget profiles provided by project managers. With interest rates at near all-time lows, consideration is being given to securing forward borrowing options for some of this requirement which will lock in low borrowing rates for 30-50 years but not be taken out for another 3-5 years.

4.2.2 Programming

Current Situation - Through recent reviews by the newly established PMO, it has been highlighted that there is an inconsistency in the approach to programming. This, along with varying levels of experience has, in many cases, resulted in optimism bias in relation to the timing of delivery. This is evident when applied to procurement, land assembly, planning, utilities, decision making and governance timelines. While this optimism bias is not conducive to the management of successful programmes, it is inclined to be more apparent at the earlier design stages of projects rather than when schemes are on site. Of course, this does present an issue and one that is currently being addressed through greater probity and correction by senior management and staff training. More detail on the types of issues that affect programming can be seen in the case studies in section 5.

Challenges – The key challenges from a programme perspective are:

Optimism bias - This may be caused by inexperience or under-estimation of the impact that issues not within the Council's control will have on the

timelines of the scheme. These issues are being addressed through a competency review and greater challenge by senior management and the PMO. It is the responsibility of services to ensure that programming is realistic and provide professional scepticism to the annual budgets requested.

Market conditions - The uncertainty and/or lack of understanding of current market conditions on occasion may result in untested assumptions, this is particularly true in the case of construction planning.

Capital receipts - The Council is dependent on capital receipts to fund the capital programme, these are generally obtained from development schemes post completion, after expenditure has been committed (17% of the GF capital programme and 38% of the HRA capital programme, totalling c£960m). This will involve the Council taking on the risk of selling residential units on the open market which will require close monitoring in future years, if these receipts are not secured in line with the profiling above there may be further borrowing required. In addition, a number of schemes are fully or significantly funded by external contributions (12% of the GF capital programme and 21% of the HRA capital programme totalling c£603m). If fully funded schemes are delayed this usually has no net impact on the Council's cash flow as both the funding and spending elements are delayed.

Acquisitions – It is particularly difficult to budget for acquisition costs (either as part of property investment acquisitions or strategic acquisitions linked to development projects) – the ability to acquire properties are dependent on opportunities materialising and negotiations can often be lengthy. At the same time, project managers want to ensure they have budget available for when these opportunities do arise. Acquisition cost budgets are now itemised separately if they represent a significant cost to the development project - to ensure that scrutiny can be given to the project delivery costs which are more within the teams control than the acquisition element.

4.2.3 Resources

Current situation - To deliver the Council's ambitious targets there is a requirement to invest in substantial resources, both in terms of funding and competent and committed personnel. This is particularly the case for large scale development projects and recommendations for enhancing the team were presented to Cabinet in September 2018, as well as identifying key risks and mitigations.

The portfolio requires strategic leads and operational staff from Development, Finance, Procurement, Legal and Communications with a shared objective, working collaboratively as a virtual project team to deliver multi-faceted projects. At its peak there is a programme requirement for circa 100 full time employees across multi disciplines if we are to maintain momentum and

ensure delivery. Closer alignment between the new development team and skilled resources within the support services such as procurement, legal, finance and communications is beginning to expedite the governance and project approvals process.

In recognition of the resourcing demands necessary to deliver the programme at pace, as of January 2018 the WCC and CWH teams were integrated to form a virtual team for a 12-month trial period. The new development team has been subject to an entire restructure consisting of development teams concentrating on workstreams up to planning approval; a construction team focussed on procurement and on-site delivery; and a programme management office ensuring thorough and consistent financial, programme and risk reporting.

The new Programme Management Office (PMO) is providing greater transparency and accuracy in the reporting, including commercial probity and quality assurance in programming and delivery probability.

These steps are enabling delivery of development and regeneration programmes more effectively and efficiently. The proposal is to now make this a permanent arrangement, supported further by the decision to terminate the CWH management agreement.

Challenges – The challenges in relation to resourcing are:

Recruitment - Despite a number of new appointments, recruitment and retention are a major challenge as competition for experienced, high calibre development professionals is extremely competitive within both public and private sectors.

In addition to development professionals, commissioning expertise is also at peak demand. The current portfolio shows our commissioning needs will be at its greatest in Q2 2020, and it will be essential to address resource requirements well in advance of this date.

Timing - The development projects typically have a life-span of 30 months pre-construction, and 12 – 24 months construction; whilst improvements brought about by the development team restructure and PMO this year are beginning to add value through consistent budget variance reporting, early mitigation of risk through detailed programme analysis and alignment of governance approvals, it will take time for the full benefit to take effect.

Operational challenges - The pace at which the restructure has moved, has impacted the team as they have needed to deal with issues including:

- IT – CWH colleagues have been required to access WCC systems using remote access. This is both slow and prone to intermittent service.

- Logistics – Co-location of the teams has required more than one office relocation and there remains a requirement to operate across multiple sites.
- Changes in process and management.

4.2.4 Governance and risk management

Current situation: The following governance and risk management arrangements are in place:

Capital Review Group - The main forum for reviewing all financial aspects of the capital programme is the Capital Review Group (CRG). This group reviews the strategic direction of the programme, ensures outcomes are aligned with City for All, significant projects have a viable Business Case and that Value for Money (VfM) is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts. Cabinet and Cabinet members remain decision makers but CRG which as a group has a detailed understanding of the whole programme recommend projects for approval.

Programme Management Office (PMO) - The PMO was established in September 2018 in collaboration with finance, the purpose of the PMO is to provide a stable framework and robust governance that supports and oversees all project teams and stakeholders to improve the probability of successful delivery of projects.

Risk Management - Major capital projects require careful management to mitigate the potential risks that can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy. Some key risks around the capital programme are demonstrated below:

- Interest Rate Risk – As noted in para 3.1.5 i, interest rates are variable and a rise could increase the cost of servicing debt to a level that is not affordable. To mitigate this, the Council has used interest rate forecasts that include a prudent provision.
- 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. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes.
- Market health / Commercial Values Risk – The Council's capital programme relies on commercial activity including commercial income and capital receipts. Should market movements mean that these assumptions are inaccurate, then this will impact the Council financially.

To mitigate this risk, the Council relies on expert advice on future asset values in making its decisions.

- **Transfer Risk** – When the Council plans and delivers projects it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as Westminster Housing Investment Ltd) is the best placed to take on that risk. A key consideration for major capital schemes is whether these will be developer led or whether the Council will self-develop.

Challenges – The key challenges from a governance and risk management perspective are:

Programme risk - Managing risk and in particular transfer risk about how the Council wants to deliver projects and ensuring there is a holistic programme level approach to this rather than reviewing each project in isolation. This links to a programme based approach to risk management which the PMO are exploring in more detail.

Timescales - It is important that the governance process is fully understood and factored into the programming. The key gateways for large development projects are the completion of the business cases (with three phases) which are submitted to CRG. Further review is underway to investigate whether this could be more streamlined, particularly considering procurement governance.

5 Case Studies

5.1. The following two case studies illustrate in more detail the nature of the challenges faced on a capital project, particularly those which are development or regeneration in nature. The issues faced will be common across many other projects.

5.2. Beachcroft Care Home and Housing Project

5.2.1 Project Overview:

Beachcroft House is a scheme comprising an 84 bed care home and 31 residential open market sale units. The project is in the Maida Vale Ward. The project forms the first stage of the SHSOP (older people's housing strategy) and is designed to provide new accommodation for all current residents of Carlton Dean and Westmead care homes. An outline business case was completed in September 2016, which considered various possibilities for development, including extending and refitting the existing Beachcroft pupil referral unit to provide care accommodation. Following this evaluation, it was proposed to redevelop the whole site to provide a new care home with sale housing to cross-subsidise the overall development.

Current Status:

The construction of Beachcroft House commenced in November 2017, and is due to reach completion in June 2020.

The main contractor procurement was carried out via a two-stage tender through the London Construction Programme framework. Following evaluation, the successful bidder, Durkan, were appointed under a pre-construction services agreement, with Cabinet Member approval achieved in May 2017.

Challenges:

Land Assembly: Despite the site being declared redundant as a pupil referral unit, a delay by the Secretary of State approving change of use from education to residential delayed the appointment of a contractor and subsequent start on site.

Planning: A planning application was submitted in November 2016 with consent granted in March of the following year. The most contentious issue during the planning process was the level of car parking that was feasible on such a constrained site. Concerns were raised by residents of Delaware Road, that street parking levels would be put under pressure.

Procurement: The governance approval period necessary to procure a contractor, particularly procurement gate approvals, took longer than originally programmed. This was due to a lack of visibility in contractor clarifications regarding the PCSA scope of work and associated timeline. However, the resultant delay ran concurrently and was absorbed within the Secretary of State's approval for change of use which is outlined separately.

Partnerships: The original project was linked to SHSOP which was a partnership with the NHS, however consensus could not be reached around the project therefore the Council decided to withdraw and deliver Beachcroft independently. Since then progress has been made. Adult Social Care are the lead client for the care home and Children's Services are responsible for the Secretary of State approval for change of use.

Construction: Procurement of the contractor via a two stage tender process was straightforward with the use of an external framework agreement. However, the initial stage took longer than was originally envisaged. This was due to a combination of under programming, further exacerbated by complexities of ground conditions requiring piled foundation design. In addition to this, a 15 week extension of time has been awarded to the contractor due to delay by the utility company in the providing the substation.

Lessons learnt:

The above challenges demonstrate the significant influence and delay that third parties can have over the progress on a major scheme (Department for Education, NHS, resident consultation, utilities). The land assembly of Beachcroft was particularly onerous due to half of the land sitting within the HRA and half in the general fund which required appropriation and a Secretary of State for Education approval for change of use, even though the land had been declared redundant. Engagement with third party decision makers from the very outset is critical, approvals identified at an early stage and plans set out and managed actively in order to conclude such negotiations swiftly.

Critical dates for agreement with utility companies are now considered from the very earliest stages of the development programme; previously this was seen as a construction-related activity. The development managers are now required to set target dates for resolution of utility legals, this allows the legal team to assign resource early on to engage with the utility companies and their legal advisors. The dates for resolution are recorded in project status reports and the risk around each utility is RAG rated and monitored on a monthly basis. Utility companies are notoriously difficult to deal with, so there is always a risk that issues will arise on future schemes, but all reasonable measures have been put in place to ensure that there is a reduced likelihood.

Thorough and detailed assessment of the workstreams contained within the first stage; Pre-contract Services Agreement (PCSA) are reviewed with the development and construction teams at the earliest opportunity to ensure that the programme is accurate and allows a degree of 'programme float' should the need arise.

5.3. Housing project (Parson's North)**Project Overview:**

Parson's North is a new build development of 60 units comprised of 19 affordable units and 41 private units. The development is in Little Venice.

Current Status:

The project is currently in development and is due to commence on site in December 2018 with an enabling works package, with the main works commencing in March 2019. Handover of the site and the affordable units is due in March 2021.

Challenges:

Design and delivery model: The scheme was originally a development agreement delivery model. However, the developer withdrew citing capacity issues, resulting in significant delay to programme. Following a review of alternative delivery models, WCC is now self-delivering the scheme, a decision supported by Ward Councillors. The project was redesigned,

planning approved, tendered and a contractor appointed. A subsequent review of design, following the Grenfell tragedy resulted in a redesign of common parts and living accommodation to maximise floor space and enable the installation of a sprinkler system. This resulted in a delay in planning submission by eight weeks.

Resourcing: A lack of project management continuity due to personnel leaving the City West Homes project management team. This is potentially a wider industry issue. The integration into the council has helped this situation.

Land Assembly: The site, whilst in Westminster's ownership, has a TFL easement running along the Edgware road boundary. Permissions required for binstores, arboricultural works and build over licences have been protracted.

Planning: Material amendment to accommodate revised layouts have delayed the construction period by approximately 3 months.

Partnerships: The decision by the development partner to pull out of the agreement resulted in significant time, cost and delivery implications for the scheme.

Procurement: The governance approval period necessary to procure a contractor, particularly procurement gate approvals, took substantially longer than originally programmed, resulting in a 3 month period before the contractor was appointed. This was due to a lack of visibility in contractor clarifications, a protracted post tender negotiation and resultant delay in executing the Pre-Contract Services Agreement (PCSA).

Construction: The contractor was appointed on a two-stage design and build contract. The initial stage, consisting of an enabling works and detailed design package has taken 11 months, almost 5 months longer than originally programmed. This is due to the building redesign and associated material planning amendment. The contractor is due to commence demolition works in the new year.

Learning:

In respect of the TfL easement, the scheme could have been designed not to utilise any of the TfL Land, but this would likely have reduced the number of units achievable on the site. Alternatively, the council could have attempted to stop up the highway at the start of the design process, but this would probably have had an objection from TfL. Ultimately, the project programme should have taken a more realistic view of the timescales associated with reaching agreement with TfL and process to prevent this reoccurring have now been put in place.

Keeping the principal of Design & Build contracting to maximise risk transfer to the contractor, the scheme could have considered a single stage route. This option has the potential to provide a lower priced contract and contract programme, but there would have been increased risk in the final contract for WCC and less control on final quality. Another option would have been to utilise a framework as opposed to OJEU procurement, potentially engaging the contractor ahead of the planning submission for maximum contractor input. To maximise on these lessons, procurement strategies are considered at the start of the approvals process and additional resources are being secured within the Procurement function.

In general, projects and programmes are now interrogated much more rigorously by the Development Leadership Team and the PMO. The effect of this level of scrutiny and challenge impacts on the selection of procurement routes, as well as ensuring that the team have properly considered the time line for a project. In addition, there is greater collaboration between the development team and the construction team and other operational functions to review the project and provide advice in the early stages.

6. Conclusion and next steps

- 6.1.1 Inherently, given the size of the capital programme and the complexity of many of the projects the Council is undertaking, there will be delays and many projects may take a number of years before start on site. As outlined in this paper there are challenges but over the last couple of years, a number of improvements have been made including increasing the capacity and expertise of the development team and embedding the role of CRG as the gateway to approval. However, it is acknowledged that further work can be undertaken to further improve the delivery of the capital programme and prevent slippage as outlined below.
- 6.1.2 The PMO are currently addressing issues around programming and the profiling of project spend to ensure these are more accurate going forward and therefore reduce the level of slippage in the capital programme. Many of the issues in the case studies above relate to delays caused by negotiations and dependencies on external stakeholders. The response to this is to both recognise an increased amount of time in the planning and budgeting; and to address how the barriers and issues are dealt with by confronting/escalating them sooner and putting more (or more experienced) resource to work on the issue. However, some of the delays are to a large extent unavoidable and necessary to address in order to proceed. The issue of a delay then becomes a matter of perspective – if understood, planned for and well-managed, including in the financials, then the delay becomes part of the recognised project timeline.
- 6.1.3 With SAP being implemented from the start of December 2018, focus will need to be given to ensuring that project managers understand how to use the system and the embedded/implicit responsibility to forecast their projects accurately.

This will need to be monitored in order to ensure that forecasting does not deteriorate in accuracy in the short term, but with the right focus improvements could be made and better analysis and forecasts could be derived.

- 6.1.4 Governance and communication/ alignment between departments internally is within our control and more easily addressed with focus and clearer ways of working. The PMO are also reviewing the governance of development projects to ensure alignment for all functional areas of project approval. E.g. procurement, finance, legal and other such areas.
- 6.1.5 There will be a review of the profiling of the project contingency budgets, especially as most projects will only need to draw down a centrally held contingency towards the end of the project. Therefore rather than increasing the project budget through the life of the contract by the contingency %, this could be added onto the last year of the scheme. As a multi-year scheme progresses it will become clearer as to whether the full contingency will be required and when, such that by the time the final year budget is set, any excess contingency budget can be removed. Furthermore, the £10m annual central contingency could be scaled back to say £5m on the basis that directorates may be asked to re-profiled within their own budget for the year before calling upon the central contingency. The general corporate contingency has not been utilised to date.
- 6.1.6 As to whether over-programming the budget in order to deliver a higher proportion of the overall budget, there are some potential risks to consider:
- It might in fact lead to an overspend in year which creates funding issues
 - Internal capacity would be strained in trying to deliver more schemes and prioritisation becomes challenging
 - It may create greater pressure on services to deliver across a wider number of schemes
 - Senior manager/executive level capacity constraints may lead to a bottleneck in ability to work across too many schemes
 - It produces a lack of clarity in reporting and monitoring

However, a 5% reduction has been applied to the capital financing cost for the 2019/20 capital programme which was approved by Council in November. As indicated in this report the capital programme has increased year on year and historic trends show that some matters outside of the Council's control may materialise on projects which no longer make them viable and/or desirable to deliver. This treatment helps to prevent the capital financing costs being overstated, for the next iteration of the Capital Programme it will be considered whether this adjustment can be applied to the net capital programme which will be monitored during the year, instead of the capital financing costs element. The goal however remains that services should accurately budget and therefore the reduction should not need to be applied.

6.1.7 Improvements to reporting will be considered, e.g. to show different categories of project (operational, development, etc) and what stage the development projects are at, to give greater insight into the likelihood of unrealistic budget phasing. Greater focus could be considered for the larger projects as well. Investment/acquisition spend is more opportunistic in nature and hence underspends on these categories more understandable and not indicative of problems in managing the capital programme.

6.1.8 In addition to the actions outlined above, further actions in relation to the development team include:

- A draft business case is in preparation to address the resourcing requirements as outlined and approved by Cabinet in September 2018. This is due to be approved in November 2018.
- Work is well underway in terms of reviewing existing competencies to identify gaps, and to put in place a tailored learning and development programme which will create opportunities for personal development.
- Linked to the above, a comprehensive review by senior management is in progress, providing challenge in respect of programming and planning assumptions. Training plans are being developed to ensure proficient levels of competency in programming, using best practice industry tools. Through data analysis the PMO will apply intelligence harvested through examination of trends, market conditions and lessons learnt to provide a greater level of accuracy in future planning.
- Recruitment campaigns will continue aimed at attracting the best. Next campaign is due December 2018.
- The creation of multi-functional teams supported by operational staff from development, finance, procurement, legal and communications with a shared objective is underway.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact Natalie Roberts 020 7641 8165
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APPENDICES:

Appendix 1 – Top 15 schemes in the 2019/20-23/24 capital programme

Appendix 2 – Capital Programme Submission Request form

BACKGROUND PAPERS

Capital Strategy 2019/20 to 2023/24

Top 15 Spending Projects In 5 Years Capital Strategy (2019/20 - 2023/24)

Projects	Category	Lead Directorate	2019/20	2020/21	2021/22	2022/23	2023/24	Total of 5 Years (19/20 - 23/24)
			£000	£000	£000	£000	£000	£000
OXFORD STREET DISTRICT	Development	GPH	50,000	50,000	50,000	-	-	150,000
CAPITAL CONTINGENCY	Operational	City Treasurer	39,592	16,488	19,401	19,892	17,160	112,533
STRATEGIC ACQUISITIONS - LEISURE REVIEW	Acquisitions	GPH	-	4,500	21,000	42,679	42,679	110,858
DEVELOPMENT SCHEME 1	Development	WOC	3,086	26,633	36,528	10,000	-	76,247
PROPERTY INVESTMENT SCHEMES	Investment	GPH	71,900	-	-	-	-	71,900
41 WHITCOMB/HUGUENOT HSE REDEV	Development	GPH	1,549	6,000	33,108	24,053	1,027	65,737
LISSON GROVE PROGRAMME	Development	GPH	3,905	12,000	18,000	12,000	12,000	57,905
CARLTON DENE	Development	GPH	428	14,747	19,490	13,638	331	48,634
REGENERATION SCHEME 2	Development	WOC	4,150	22,855	19,886	-	-	46,891
WASTE FLEET PROCUREMENT	Operational	CMC	-	42,000	-	-	-	42,000
REGENERATION SCHEME 1	Development	WOC	3,077	10,977	7,751	13,352	2,937	38,094
FUTURE EDUCATION NEEDS	Operational	GPH	650	5,000	10,000	15,000	5,000	35,650
WESTMINSTER BOATING BASE	Development	GPH	582	5,134	12,147	10,000	3,000	30,863
PLANNED PREVENTATIVE MAINTENANCE - HIGHWAYS	Operational	CMC	5,090	5,243	7,405	5,590	5,800	29,128
PUBLIC REALM IMPROVEMENT SCHEMES	Operational	CMC	7,378	6,500	5,000	5,000	5,000	28,878
Total			191,387	228,077	259,716	171,204	94,934	945,318
Other schemes			152,688	113,042	68,870	54,207	36,888	425,695
Grand Total			344,075	341,119	328,586	225,411	131,822	1,371,013

Capital Programme Submission Request

The Capital Programme Submission Request is part of the Capital Programme budget setting process. If approved a budget will be earmarked in the capital programme; however, the scheme will subsequently have to follow standard approvals for authorisation of expenditure.

Scheme Name:		Department:	
Senior Responsible officer:		Project manager:	
Cost centre/Project code:		Project category:	
Cabinet portfolio:			
Asset Type:		Asset Life:	

Project Description

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Strategic Fit

Score: X/5

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Financial

Score: X/5

Capital requirement (2018/19 – 2022/23)

£'000	2019/20	2020/21	2021/22	2022/23	2023/24	Future years	TOTAL
Capital cost							0
Capital funding:							
<i>Grants</i>							0
<i>Capital receipts</i>							0
<i>Other - External</i>							0
<i>Other - Council</i>							0
Total Capital funding	0	0	0	0	0		0
Net capital budget required	0	0	0	0	0		0
<i>Council capital budget requirement as a % of total cost</i>							#DIV/0!

Capital funding

Current year budget

Current year budget: £Xm

Will the current year budget be required to be slipped into future years if not spent? *Yes/No*

Assumptions and sources of financial information

Revenue implications

Links to Medium Term Plan (MTP): *Yes/No*

If yes please provide the MTP reference:

Annual saving/income expected as a % of Council capital budget required:

Legislative and compliance

Score: X/5

Indirect need

Score: X/5

Risks

Score: X/5

Risk	Mitigations	RAG rating

Project timescales

Phases	Expected start date
Design	
Procurement	
Start on site	
Practical completion	
Completion	

Governance

Forum	Decision made	Date

VAT Implications (to be completed in conjunction with Finance)

Guidance notes

PROJECT INFORMATION

Scheme name – Name as it should appear within the capital programme

Department – To include directorate and service

Senior Responsible Officer – The responsible officer for the project, which may be at Executive Director Level or below

Project manager – This can be the project manager or the current project lead at a service level

Cost centre/Project code – This will be available if the project is currently within the capital programme

Project category – Indicate if this is an operational (e.g. standard project for a major repair or improvement to an existing asset) or a development project (e.g. a key scheme that is expected to deliver improvement in services or savings/income)

Cabinet portfolio – State the cabinet portfolio the project will be reported under

Asset Class and Asset Life – Select from the below table:

Asset Class	Asset life (yrs)
Equipment	3
Intangibles	3
REFCUS	7
Infrastructure	15
LAB	40
INVPROP	40
Community	50

PROJECT DESCRIPTION

Provide a brief description of what the project is including the location, scope and nature (e.g. maintenance, redevelopment).

STRATEGIC FIT

Include the expected project benefits and how this links to key local, regional and national policies. Suggestions include:

- City for All
- City Plan
- Westminster Routemap to Success
- Greener City Action Plan

Broader considerations include:

- Economic prosperity and social value
- Health and Wellbeing
- Community cohesion
- Schools and Education

FINANCIAL – TO BE COMPLETED IN CONJUNCTION WITH FINANCE

Capital requirement – The table is an embedded Excel spreadsheet. Please double click on this and complete in line with the below (note only white cells need completing, all blue cells will be calculated automatically, figures should be in £'000 and all figures entered should be positive):

- Expected capital costs for 2018/19 to 2022/23. For 2018/19 this should detail the additional budget required in that financial year – for any budget that is required to be slipped from 2017/18 this is covered at the 'Current Year Budget' below
- Expected capital funding for 2018/19 to 2022/23. This should be split between 'Grants' (external grants with separate grant agreements); 'Capital receipts'; 'Other - external' (direct private or public sector funding not linked to grant agreements e.g. TFL); and 'Other – Council' (this should include S106, CIL, Affordable Housing or reserves). Then include a sub-total for the funding.

- Net capital budget required – The difference between ‘Capital cost’ and ‘Total capital funding’ will be calculated automatically. This indicates the net requirement from the Council to fund the scheme

Capital funding – Detail whether capital funding is secured or unsecured

Assumptions and sources of information – Summarise the assumption or sources of information for the capital funding and costs e.g. Quantity surveyor report, condition survey, desktop analysis

Current year budget – Please detail here the 2017/18 capital budget if there is one available. Then please indicate that if the full allocation is not spent in year (e.g. due to a delay) – whether this will be need to be transferred to future years. In most cases, with a project that spans more than one year, this is likely to be the case.

Revenue implications – Detail here any revenue implications e.g. increases/decreases in income or increases/decreases in costs both during and post the development period. The finance manager may follow up on this to ensure that budgets are aligned correctly. Please also indicate if this is linked to an MTP saving and provide a reference if relevant. If the scheme is expected to generate a saving or income please calculate the expected value as a % of the Council capital budget requirement.

LEGISLATIVE AND COMPLIANCE

Detail in this section any statutory compliance requirements or current non-compliance issues that will affect the Council if the scheme does not progress.

INDIRECT NEED

Detail the project dependencies including any Council projects, initiatives or savings proposals that are dependent on this scheme progressing. This should also detail any links to S106 agreements or planning and funding requirements.

RISKS

This section should detail top 5 risks in relation to the project. Please include a brief description of the risk in the first column, suggestions of the types of risks that could be associated with the project are below.

- Financial risks
 - o Cost certainty
 - o Funding certainty
 - o Ongoing maintenance/operational costs
 - o Achievement of savings
- Political or reputational
- Legal risks
- Procurement
- Deliverability
- Operation/maintenance post completion
- Timescales

In the second column provide any mitigation to risks

In the third column provide a RAG rating for the risk. This will require judgement but guide is below:

- RED – Significant impact and/or high likelihood that could stop the project if it materialised
- AMBER – Medium impact and/or medium likelihood that is likely to have a major impact on the project by delaying it or causing significant changes
- GREEN – Low impact and/or low likelihood that is expected to be managed within the project constraints

PROJECT TIMESCALES

Detail the expected start dates as indicated above, state not applicable if these are not relevant for this particular scheme. If there are any key factors that could affect project timescales then please include a couple of sentences below the table.

GOVERNANCE

Include any decisions that have been made to date on the project by completing the table provided with:

- Forum e.g. Cabinet, Cabinet member decision, Capital review group
- Decision made – Detail the decision made as part of this report or meeting
- Date

Please also include in here details of any project board currently established or additional governance arrangements.

VAT IMPLICATIONS

There are a number of scenarios where VAT may be a significant issue for Capital Schemes. This should be discussed with your finance team who can draw upon technical experts as required. This is particularly the case where capital spends relates to property and a decision is needed