

Audit & Performance Committee Report

Meeting or Decision Maker:	Audit & Performance Committee
Date:	19 th September 2019
Title:	HRA Capital Programme Update
Classification:	General Release
Key Decision:	Review and challenge officers on the contents of the report
Report of:	Gerald Almeroth, Executive Director – Finance & Resources Barbara Brownlee, Executive Director – Growth, Planning and Housing

1. Executive Summary

- 1.1 The HRA Capital programme consists of 3 main categories of expenditure. Major Works, regeneration projects and other schemes such as self-financing acquisitions. Major Works contains the operational projects within the HRA. Regeneration and other schemes are the development and acquisition schemes.
- 1.2 Over the last 4 years the year end capital expenditure variance has been an underspend of between 29% and 39% when compared to the original approved Gross expenditure budget.
- 1.3 These variances to budget can be caused due to a number of reasons depending on the type of expenditure. Acquisitions on regeneration schemes, for example, are only able to be completed when properties become available. However budget is required to be allocated in the event that such properties become available.
- 1.4 A number of actions have been taken to ensure, where possible, variances are minimised such as the establishment of the Programme Management Office in the autumn of 2018/19.
- 1.5 This report sets out the steps and processes in place to ensure budget setting is as accurate as possible. The methods of enhancing this in year are also set out such as the re-profiling of budgets during the financial year. By improving the initial

budget setting process HRA resources can be allocated more efficiently across the Capital and Revenue programmes. In-year monitoring processes are designed to then ensure changes in planned forecasts are identified at the earliest possible opportunity and appropriate responsive action taken.

2. HRA Capital outturn since 2015/16

2.1 The HRA Capital programme contains three main categories of expenditure which are major works, regeneration and other development. Major works relates to the capital works on the existing stock, regeneration relates to the capital delivering the large scale schemes and other projects include pipeline budgets for smaller scale projects and self-financing acquisitions.

2.2 Table 1 below shows a breakdown of Capital expenditure compared to original budget for the last three years.

Table 1: HRA Capital outturn against Original approved budget

	2015/16			2016/17			2017/18			2018/19		
	Budget	Outturn	Var	Budget	Outturn	Var	Budget	Outturn	Var	Budget	Outturn	Var
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Major Works	46.5	29.9	(16.6)	41.4	23.1	(18.3)	39.3	31.9	(7.4)	55.8	49.0	(6.7)
Regeneration	35.1	15.6	(19.5)	31.3	23.2	(8.1)	68.3	25.5	(42.8)	63.5	17.6	(45.9)
Other	8.3	9.2	0.9	8.7	11.2	2.5	27.8	24.8	(3.0)	31.0	34.4	3.3
Total	89.8	54.7	(35.1)	81.5	57.6	(23.9)	135.4	82.2	(53.2)	150.3	101.0	(49.3)
% slippage			39%			29%			39%			33%

2.3 Table 1 shows that the variance to original approved budget has remained consistently between 29 – 39% for each of the four previous years.

2.4 In 2018/19 the variances and reprofiling within regeneration included:

- delays in procurement, reprofiling of enabling works and demolition costs on **Parsons North** (£5.6m)
- less than budgeted acquisition activity on both **Ebury Bridge** (£7.3m) and **Church Street Phase 2** (£4.0m). The ability to spend these budgets is heavily influenced by when suitable properties become available and when they are required to progress the projects.
- programme delays due to coordination of utility works, including agreeing the controlled power outages, on **Lisson Arches** (£5.5m)
- prolonged development agreement negotiations on **Luton Street** moved start on site to the next financial year (£1.9m)
- delay on the **Tollgate Gardens** with payment for buyback of units due on practical completion (£9.6m)
- **Cosway Street** and **Ashbridge Street** tender returns presented a longer pre-contract services agreement (PCSA) period than anticipated, with further reprofiling of enabling works (£6.1m and £5.2m respectively).

- The remaining variance was caused by a decision to move the **Combined Heating programme** to the General Fund (£1.7m) offset by additional expenditure on **Edgware Road/AlmaCanter** and other small schemes (£1.0m).

2.5 During 2018/19 the budget was reprofiled to reflect changes to the programme which had occurred during the year. Table 2 below shows the revised budget and outturn, which shows a significant reduction in the year end variance to budget.

Table 2: HRA Capital outturn to revised 2018/19 budget

2018/19			
	Budget	Outturn	Variance
	£'m	£'m	£'m
Major Works	45.6	49.0	3.6
Regeneration	31.1	17.6	(13.5)
Other	36.7	34.4	(2.3)
Total	113.3	101.0	(12.2)
% slippage			11%

2.6 Table 2 below shows the forecast outturn for 2019/20 as per the period 4 monitoring report.

Table 2: HRA Capital outturn forecast 2019/20

2019/20 P4			
	Budget	Forecast Outturn	Variance
	£'m	£'m	£'m
Major Works	49.4	49.3	(0.1)
Regeneration	66.2	64.6	(1.4)
Other	34.3	34.6	0.3
Total	149.9	148.5	(1.4)
% slippage			1%

2.7 The forecast at period 4 therefore indicates a significantly lower projected level of slippage in this financial year. This should be considered in the context of being only a third of the way through the year. The work outlined in this report to ensure the overall capital programme is appropriate, such as the reprofiling of schemes which have been delayed or deferred expenditure to future years is designed to reduce the year end variance where possible. A breakdown on a scheme by scheme basis is shown in Appendix 1.

3. Forecasting Capital Projects

- 3.1 As table 1 shows, there has been a significant variance in the outturn at the end of each of the previous three financial years when compared to the originally approved budget.
- 3.2 There are elements within these budgets which can be inherently variable which in turn makes them difficult to forecast. For example, acquisitions within the regeneration programme rely on suitable properties becoming available in order to purchase. Within the 2019/20 budget there is £34.2m of budget allocated to acquisitions which represents 52% of the regeneration budget.
- 3.3 Development activity is characteristically variable and can be problematic to forecast. However, it is important to note that aspects of forecast slippage can also be beyond the control of Westminster's delivery teams.
- 3.4 In order to set budgets that are as accurate as possible, the Finance and Development teams have established a collaborative and constructive working arrangement, whilst exploring better ways of working (see section 4 PMO). The progress is evidenced by the role the Development team now play in the Capital Programming and Business Planning process, the consistent monthly analysis of the capital programme in which both teams work together in updating and scrutinising the capital forecasting, and where appropriate making changes to the alignment of the capital budgets.

Major Works budgets

- 3.5 The Major Works (MW) programme which includes the Council's planned works to existing housing stock, saw a significant reduction in the year end variance in 2018/19. Table 3 shows the MW variance for the previous three years and forecast for 2018/19.

Table 3: Percentage of MW budget variance since 2015/16

	2015/16	2016/17	2017/18	2018/19
Major Works	36%	44%	19%	12%

- 3.6 A new term contractor was established during 2017/18. Which has brought greater certainty to the level of expenditure within Major Works which was reflected in the reduced forecast variance.

4. Implementation of PMO

- 4.1 Following the review carried out by consultants Pierre Angulaire the Programme Management Office was established in GPH during the Autumn of 2019.

- 4.3 The main purpose and objective of the PMO has been to establish consistent and authoritative reporting of progress against agreed business targets and advice of strategic issues linked with the delivery against these targets.
- 4.4 As part of the consolidated reporting, the following areas have formed a major part of the PMO's remit:
- Providing financial information as required to the City Treasurer's department in line with corporate reporting deadlines. Including enhanced financial summaries e.g. of spend versus budget in year, contractual spend, horizon scanning of future commitments.
 - Pipeline: A better picture of real time delivery of social and intermediate housing units and of the forecast future 'pipeline'.
 - Maps: Interactive GIS Mapping of project locations for visual representation of key issues and discussions
 - RAID – An executive summary of the cross cutting Risks, Assumptions,, Issues & Dependencies at a strategic level to better enable management intervention if required
 - Communication themes: A digest of news stories, illustrations and photos
 - Social Values monitoring in conjunction with the Economy team
- 4.5 As well as regular reporting, the PMO has developed a dashboard to better monitor progress on an individual project basis. The benefits of this include:
- Provide senior and Executive leadership a process which presents a more succinct overview of progress and the key pressures to meeting targets. As a result the Council has improved its agility in managing capital spend and are better informed at the right level.
 - Moving to a dashboard reporting system has provided an interactive executive summary style of reporting, allowing progress across a wider range of projects of all shapes and sizes to be better evaluated.
 - The PMO dashboard report is **now being rolled out across the wider GPH functions to include areas such as major works and place shaping..**
- 4.6 As well as the reporting elements, the PMO has a number of additional benefits:
- Provide additional project assurance and governance of appropriate process and policies being adhered to throughout a project lifecycle.
 - Provide an audit and review capability
 - Provide a consistent repository of management information
 - Establish and disseminate best practice guidance and support to teams on business case development ensuring consistency in approach and compliance with standards
 - Ensure WCC's standards and policies are upheld and clearly defined throughout the process of each project's development and execution.
 - Collaborate with other management in WCC reporting to executive staff and members when required.

5. Budget setting process

- 5.1 In order to improve the budget setting process and ensure it is aligned, as much as possible, with project forecasts the following process has been established.
- 5.2 The Capital Programme Submission Returns (CPSRs) for each project are completed between July and August, scrutinised over the following month to develop the provisional Capital Programme which is taken to Cabinet in October. This allows early discussions with project managers around their requirements for the following financial year.
- 5.3 For the HRA specifically, these are then fed into the HRA business plan to establish the available capacity for funding capital expenditure. This may identify changes required to profiling or desired levels of expenditure to ensure budgets are appropriate and realistic given the funding constraints such as the borrowing cap.
- 5.4 These assumptions are then reviewed in January before being formally submitted for approval by Council based on the latest information available.
- 5.5 During the year projects will also progress to different stages requiring Business Cases to be prepared. During each Business Case, an assessment of the financial requirement will be undertaken which can be used to inform the required budget for future years.
- 5.6 As per 5.2 the initial capital programme requirement is established in October for the following financial year onwards. Adjustments required to the current financial year will be reviewed in December and any required adjustments to in year budgets made as appropriate.

If you have any queries about this report or wish to inspect any of the background papers, please contact:

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Appendix 1 – Period 4 2019/20 HRA Capital Forecast

	Budget	Forecast	Variance at	
	£'000	P4 £'000	P4 £'000	

Major Works

General HRA	0	0	0	
Electrical Works & Laterals	4,496	6,792	2,296	
Internal M & E Works (Domestic Heating)	0	0	0	
External Repairs & Decorations	21,024	21,024	0	
Planned Maintenance	0	0	0	
Adaptations	1,260	1,260	0	
Fire Precautions	16,469	13,405	(3,064)	
Lifts	1,800	2,902	1,102	
Voids	3,500	3,500	0	
Kitchen & Bathroom	804	422	(382)	
Total Major Works	49,353	49,304	(49)	

Housing Regeneration

Church Street Phase 2	1,922	3,034	1,112	Reprofiling of £777 2018/19 slippage plus Additional professional services
Church Street Phase 2 Acquisitions	0	0	0	
Lisson Arches	2,319	3,835	1,516	Reprofiling of additional enabling works (utilities)
Luton Street	2,464	2,116	(348)	Additional survey investigation costs
Parsons North	10,724	7,057	(3,667)	Reprofiled because of programme delays
Cosway	5,481	4,947	(534)	Reprofiling of contract works to 2021
Ashbridge	2,526	2,174	(352)	Reprofiling of contract works to 2021
Edgware Road/AlmaCantar	6,564	6,569	5	Legal fees
Combined Heating Programme/DHN	0	0	0	
Ashmill Street	0	62	62	Additional consultant fees
Ebury	3,596	7,632	4,036	Reprofiling to reflect self-delivery of phase 1
Ebury Acquisitions	20,353	16,699	(3,654)	Reprofiled to meet revised programme
Tollgate Gardens	658	874	216	Additional fees in relation to community centre fit out
Tollgate Gardens Acquisitions	9,580	9,580	0	
Total Housing Regeneration	66,187	64,579	(1,607)	

Other Works

Small Sites	11,436	8,735	(2,701)	Reprofiling across sites delayed in planning application or procurement of main contractor
Self Financing	10,000	10,000	0	
Warwick Community Hall	0	1,016	1,016	No budget approval for HRA in 2019/20
Churchill Gardens (Pimlico)	0	530	530	No budget approval for HRA in 2019/20
Bayswater	539	210	(329)	Consultants fees reprofiled
Queens Park Court	1,500	655	(845)	Change to size of scheme – now fewer units
West End Gate	6,864	9,539	2,675	S106 payment based on valuations. Scheme ahead of programme
Contingency	3,229	3,229	0	
Kemp House/Berwick St	746	727	(19)	Minor delay in programme and legal fees

Total Other Works	34,314	34,641	327	
Total Capital Expenditure	149,854	99,220	(1,280)	