



# City of Westminster Cabinet

<b>Decision Maker:</b>	<b>Cabinet</b>
<b>Date</b>	<b>19 February 2018</b>
<b>Classification:</b>	<b>For General Release</b>
<b>Title:</b>	<b>Capital Strategy 2018/19 to 2022/23, forecast position for 2017/18 and future years forecasts summarised up to 2031/32.</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Financial Summary:</b>	<b>This report outlines the City Council's Capital Strategy and proposed expenditure and income budgets from 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. It outlines the proposed £2.594bn expenditure budget, funded by £785.8m external funding, £438.6m capital receipts with a £1.369bn net funding requirement from 2017/18 to 2031/32. Funding of the proposed programme, revenue implications, and risks and mitigations are detailed.</b>
<b>The Report of:</b>	<b>Steven Mair, City Treasurer</b> <b>Tel: 020 7641 2904</b> <b>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 2018/19 to 2022/23, forecast position for 2017/18 and future years' forecasts summarised up to 2031/32. The Council has developed a significant, long-term capital strategy. This report includes the detail of this up to 2022/23 and also summarised information up to 2031/32 to clearly show the full quantum of expenditure commitments during this period. This is to ensure that the benefits the Council intends to deliver through the programme are financially viable in the long-term.
- 1.2. To facilitate effective planning of both capital and revenue budget, the capital strategy was considered by Cabinet at its October meeting. This report updates that strategy with the latest forecasts and projections over future years in light of monitoring undertaken in the intervening weeks. Forecasts are based on information received from individual project managers up to the 9<sup>th</sup> January 2018.
- 1.3. The strategic sections of the report provide details on the policy context within which the programme is constructed, and the aims and objectives it is designed to deliver. The report further sets out the governance processes which establish the principles to be followed in agreeing how to invest capital resources and achieve value for money for the Council. Governance processes have continued to evolve over the year to date particularly with the development of the programme management functions and initiatives which are detailed further in Sections 5 and 6.
- 1.4. The Council has a significant capital programme across both the General Fund and the Housing Revenue Account (HRA). This supports the strategic aims of the Council, as defined in its *City for All* programme, with its vision for a city of choice, aspiration and heritage. Capital proposals are considered within the Council's overall medium to long term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects in the revenue budget setting process.
- 1.5. The General Fund capital programme covers three areas of expenditure. These are:
  - Development – these schemes will help the Council achieve strategic aims and generate income (£1.024bn).

- Investment – schemes within this category will help to generate income and increase the diversification of the Council’s property portfolio and will be self-funded by creating additional income and efficiency savings (£87.613m).
- Operational – these schemes are related to day to day activities that will ensure the Council meets its statutory requirements (£1.482bn).

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

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

- new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm.
- 2,034 new and replacement affordable homes to be completed by 2022/23, with 529 of these homes currently under construction.
- 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 environments to accommodate safe and efficient travel in the City.
- well-maintained and efficiently managed infrastructure, allowing residents, businesses and visitors to enjoy clean, high quality streets.

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

1.8. The Housing Revenue Account (HRA) capital programme has a value of £790m over the next five years (2018/19 to 2022/23). It is important to note that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption.

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

- A reduction in gross expenditure of £2.508m as a result of the reduction in forecast for contingency budget as the need decreases throughout the financial year. However, it should be noted that this will be dependent upon any other calls on the contingency. Also underspends on existing projects which have been released from the programme. These are partially offset by additional purchases of temporary accommodation properties in addition to the budget and further investment on projects already within the programme. Also by the prudent forecasting into future years of the ICT scheme which is deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to be adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.
  - A decrease in gross income of £18.367m due to a re-categorisation of £8.080m of external funding to capital receipts and other minor variances.
  - An increase in capital receipts of £12.305m due to some unbudgeted disposals and the funding for Sir Simon Milton University Technical College (£8.080m) being re-categorised as a capital receipt.
  - A re-profiling of projects already included in the programme across the financial years and other minor variances.
- 1.10. The projects that have been re-profiled were committed or commenced in 2017/18 and thus had an approved budget. They have been re-profiled for a variety of reasons including delays in the tender process, completion of acquisition/land assembly stages, obtaining planning permission and starting on-site construction.
- 1.11. The proposed budget is fully funded after Council borrowing, but this does depend on the schemes being delivered on time and within budget. The impact of potential changes in cost and timescale are fully explored in the financial implications of the report, outlined in Section 13. Any increases in expenditure or reductions in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

## **2. Recommendations**

### **That the Cabinet recommend the Council:**

- 2.1. To approve the capital strategy as set out in this report
- 2.2. To approve the capital expenditure for the General Fund as set out in Appendix A for 2018/19 to 2021/22 and future years to 2031/32.
- 2.3. To approve the capital expenditure forecasts for the General Fund as set out in Appendix A for 2017/18.
- 2.4. To approve the expenditure forecast for 2017/18 for the HRA as set out in Appendix B.
- 2.5. To note the capital expenditure for the HRA for 2018/19 to 2022/23 as in accordance with the 30 year HRA Business Plan and as included in Appendix B.
- 2.6. To note the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in Sections 10.19 and 10.20.
- 2.7. To approve that in the event that any additional expenditure is required by a capital scheme over and above this approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas.
- 2.8. To approve that all development and investment projects follow the previously approved business case governance process as set out in section 6.9 to 6.18 of this report.
- 2.9. To approve that no financing sources unless stipulated in regulations or necessary agreements are ring fenced.
- 2.10. To approve that contingency in respect of major projects are held corporately with bids for access to those contingencies to be approved by the Capital Review Group (CRG) in the event they are required to fund capital project costs, as detailed in Section 11.15 to 11.19. These total £594.505m from 2017/18 to 2031/32 but include a sum of £400m which is an allowance for general capital expenditure (e.g. highways improvements) in future years beyond 2021/22.
- 2.11. As approved last year, the Council plans to use capital receipts to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£18m), the Digital Transformation programme (£3m)

and a contribution to the pension fund deficit (£30m) under the MHCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council's finances by the City Treasurer at year end.

- 2.12. To approve the financing of the capital programme and revenue implications as set out in paragraph 13.22 of this report.
- 2.13. To approve the financing of the capital programme been delegated to the City Treasurer at the year end and to provide sufficient flexibility to allow for the most effective use of Council resources.

### **3. Reasons for Decision**

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

### **4. Policy Context**

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

- civic leadership and responsibility at the heart of all we do
- opportunity and fairness across the city
- setting the standards for a world class city

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

- civic leadership
- building homes and celebrating neighbourhoods
- creating a greener city
- maintaining a world class Westminster
- a smart council

- 4.3. The Council has embarked on an ambitious capital programme, with plans to invest £2.594bn 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. Capital investment will contribute to the key

strategic aims of City for All and this is demonstrated by the below examples which show that:

- Westminster City Council, in partnership with other public and private sector partners, has established the West End Partnership (WEP) to transform the long term performance and success of the West End of London. The West End is the cultural and economic capital of the UK which belongs to and benefits everyone in the UK. It generates greater economic output than anywhere else in the UK with more than £51bn in Gross Value Added per year, 15% of London's economic output. Employing more than 650,000 people, the area generates the largest proportion of taxes with more than £17 billion of tax receipts per year.
- the West End is primarily responsible for London's status as the world's most popular visitor destination with more than 31m international visitors spending over £11bn in the West End. The West End is an important gateway to other UK tourist destinations and drives growth across the UK. Oxford Street is also the UK's high street with more than 50m UK based visitors. The West End's success and long term growth cannot be taken for granted and investment is needed to ensure that the West End can continue to compete with its global competitors.
- the WEP has developed a substantial investment programme that will transform the international competitiveness and productivity of the West End and the UK. The WEP programme will unlock growth, attract investment, improve competitiveness, improve air quality, create jobs and generate substantial tax revenues to the Exchequer. Business cases were submitted to government to request funding for WEP's priority projects including the £430m transformation of Oxford Street District, the £29m redevelopment of The Strand / Aldwych and the West End Jobs programme. The three identified priority projects had a funding gap of £320m. A decision on funding the WEP investment bid was not included in the Chancellor's autumn budget and informal feedback from the treasury has suggested that it will not be considered again in that form until the next budget cycle in autumn 2018. While this does not preclude further approaches to the Treasury and other parts of Government before then, the WEP team are considering other funding options for the WEP investment bid and the scale and nature of the projects themselves. The development projects within the portfolio will result in significant investment which will provide residents of Westminster with new improved leisure, adult social care and education facilities, as well as enterprise space and improved public realm. This will improve the wellbeing and prosperity of residents as well as delivering broader economic benefits. To offset some of these costs

there is provision of broader commercial aspects within the developments which will provide on-going revenue income streams or capital receipts.

- a number of large development schemes within the capital programme are planned to deliver 2,034 new and replacement affordable homes, with 529 under construction. This will ease the pressure on temporary accommodation. The building of new residential properties is at the heart of giving residents the opportunity to aspire.
  - continued investment in the public realm within Westminster creates and preserves spaces where people enjoy living, working and visiting. The investment reflects the pride we take in our role as custodian of the City, protecting our heritage by managing places and spaces that can be enjoyed both now and in the future. Additionally, investment in improving the public realm and pedestrian environment helps to accommodate the safe and efficient movement of growing numbers of people entering and moving around Westminster, managing vehicular traffic and making walking safer and more enjoyable. This creates opportunities for everyone in the city to be physically active.
  - the City Council's investment on our core infrastructure of carriageways, footways, lighting and bridges recognises the commitment the council has to managing the performance, risk and expenditure on its infrastructure assets in an optimal and sustainable manner throughout their lifecycle, covering planning, design, development, operation, maintenance and disposal. This programme ensures our infrastructure is in a safe and reliable condition, is efficiently managed and means our residents and visitors can enjoy clean, high quality streets.
- 4.4. The above is taking place against a background of austerity and significant reductions in central funding for local government. It is therefore a key aim of the Council's capital strategy that it delivers a return on investment which is financial, such as capital receipts or new revenue streams, or delivering key strategic priorities.
- 4.5. The Council is a key partner in the development of the Sustainability & Transformation Plan (STP) for the North West London region, which comprises eight London boroughs and Clinical Commissioning Groups (CCGs). These plans will be produced across England, showing how local health and social care services will evolve and become sustainable over the coming years.



- 4.6. As part of the wider STP plan, an Estates Strategy is required, which aims to reduce the burden on acute care by devolving care delivered from hospitals to modern, multi-purpose primary care facilities. There will be long term capital implications as a result of the strategy, which is tasked with reducing the capital demand on the NHS.
- 4.7. This may involve the sale of surplus real estate to fund new primary care facilities, or joint venture development with house builders to ensure delivery of new facilities as well as new housing stock. It will be necessary to investigate new funding models to identify the most appropriate method for raising capital to deliver the strategy. Over the past year in which the Council has been involved in the project, it has become apparent that there are currently no capital projects in planning by Health which are likely to have a direct impact on the capital programme of the council. Consequently, no provision has been made in the capital programme for any such related expenditure. However, this could change as Health's plans develop and pilot schemes elsewhere may demonstrate a new way of working which delivers benefits which are then sought to be replicated more widely. Officers remain engaged with Health on the STP project and will monitor for any changes in the status of the Estates Strategy.

## **5. Governance**

### **Capital Review Group**

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

### **Programme Management Office**

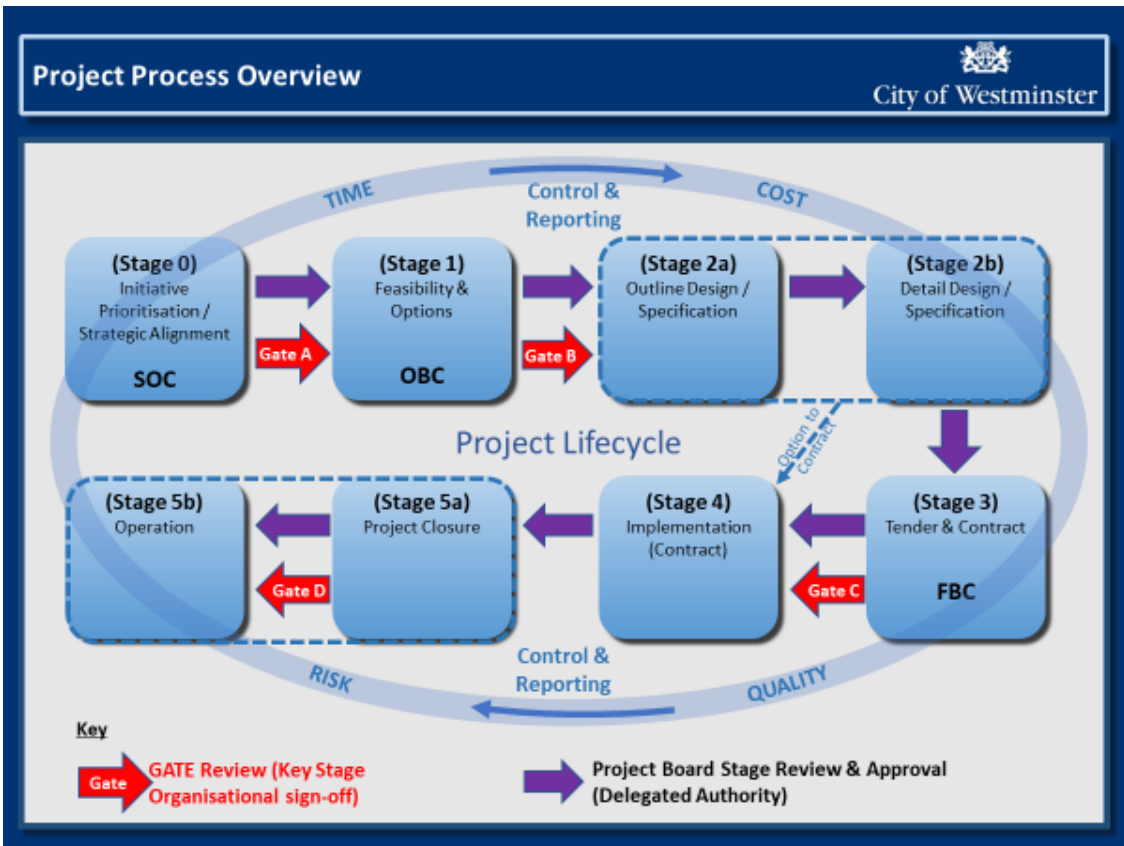
- 5.2. The Council is currently in the process of setting up a programme management office (PMO). The project management handbook has now been created and covers everything from the principals of good project management, what is a project vs. a programme, project governance, project lifecycles and templates. The key point about the handbook is that it will require a cultural change in the way the council works.
- 5.3. The purpose of the PMO is to provide a stable framework that supports and overviews all project teams and stakeholders to improve the probability of

successful delivery of projects.

5.4. The key objectives of the PMO are to:

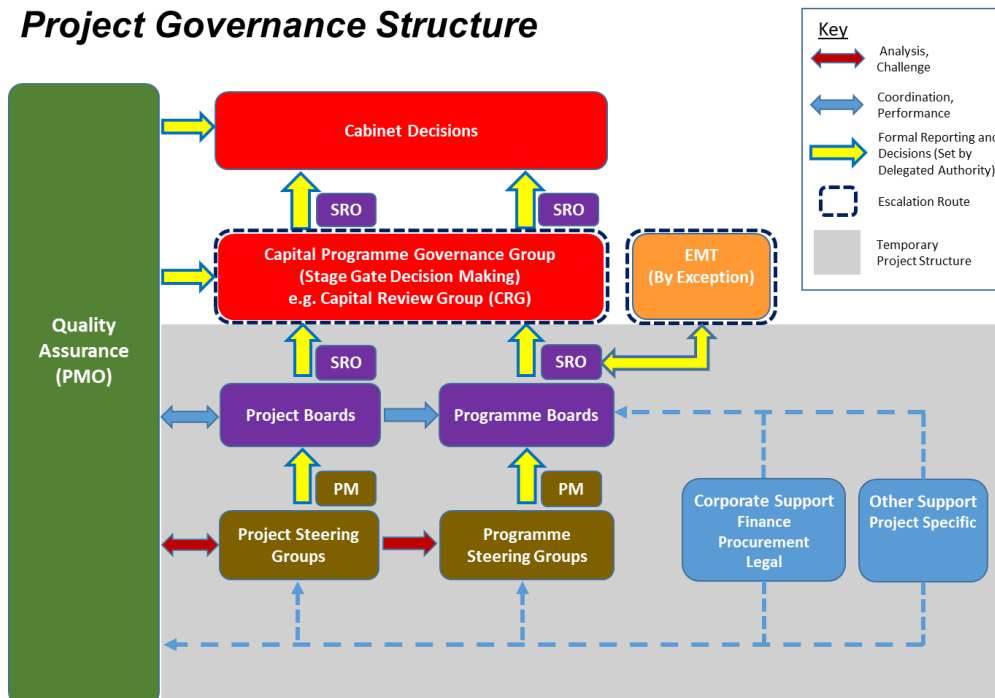
- demonstrate added value through key performance measures.
- establish a standardised project management process and serve as a centre of excellence and support for the system ensuring continual improvement.
- supplement resources and provide advice for specific project activities such as initial project planning, project monitoring and performance measurement.
- maximise the efficiency of the Capital Programme (oversight, co-ordination of time and risk, resources).
- undertake the administration of certain parts of the process e.g. Project Prioritisation.
- provide quality assurance – regular reviews of key projects will be carried out against standard health checks ensuring verification and transparency of status.
- provide administrative support for the programme and instil knowledge share and best practice / learning between departments.
- support development of in-house project management skills – by mentoring support, training, apprentices, Project Management Community.

5.5. The PMO is on track to be setup in early 2018/19, following approval by senior officers and members. A transitional strategy has been put together and the overall strategy is being developed. The draft Project Process Overview and Governance Structure are detailed below:



\*high level project processes – there is more detail behind each stage.

## Project Governance Structure



## 6. Project Prioritisation

- 6.1. To manage the business case and budget setting process, CRG has implemented a process which requires all schemes to complete Capital

Programme Submission Request (CPSR) forms. These are reviewed prior to inclusion in the capital programme.

- 6.2. The CPSR forms have been updated this year in line with the proposed prioritisation framework that is part of the development of the Project Management Office.
- 6.3. The prioritisation framework and the CPSR forms are fully included in the project management handbook. However, the weightings for the different criteria within the framework still needs to be decided.
- 6.4. The final governance arrangements for the framework are yet to be agreed but will be fully established in readiness for the next financial year.
- 6.5. The framework identifies five key themes to assess projects and is in line with the Council's overarching objectives and other key factors that are needed to assess the priority ranking of projects. These themes are:
  - strategic fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.
  - financial – what are the financial circumstances for the project, e.g. is funding readily available and is it affordable?
  - legislation and compliance – is the project needed to meet statutory/legislative requirements.
  - indirect need – is the project needed because of another scheme or development.
  - risk – is the success of the project dependent on mitigating high associated risks.
- 6.6. Budget/project managers were asked to score their projects against each theme and the outcome of this scoring was presented to senior officers and members.
- 6.7. The prioritisation process should support the Council in making decisions about which projects to progress, especially in an environment of limited financial and officer resources.
- 6.8. The process will continue to develop and a group will be setup as part of the PMO to review projects and moderate scoring to ensure they are in line with Council priorities and are deliverable.

## **Business Cases**

- 6.9. 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. This allows CRG to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme.
- 6.10. 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.

### **Capital Programme Governance**

- 6.11. The annual capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council every year. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required in line with financial rules to spend in line with their budget envelopes.
- 6.12. In previous years this has covered a five-year period. However, the Council has now developed an ambitious programme which has longer-term commitments for large development schemes. For this reason, this report covers the period up to 2031/32.

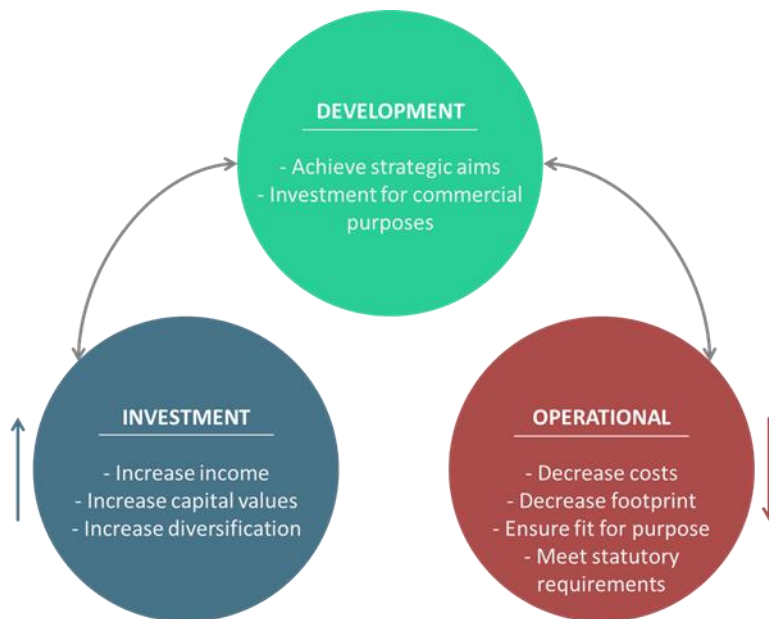
- 6.13. A key issue in managing the capital programme is in year movements of budgets from one financial year to another. Capital budgets can be re-profiled across years to reflect delays or spend brought forward with appropriate approval. However, re-profiling needs to be managed appropriately to ensure that annual capital forecasts are as accurate as possible as inaccuracies can lead to long term revenue costs – for example if the Council has to borrow more than originally forecast.
- 6.14. 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.
- 6.15. The first call on capital resources will be any operational schemes that are required to be in the programme for statutory or legal reasons. In addition, all schemes already contractually committed will be supported and sufficient resources will be provided to enable them to proceed. Schemes which already have approval will be supported providing they continue to have a viable business case which is delivering to Council priorities.
- 6.16. There are a number of circumstances where concerns could be raised about a project in the capital programme. These include where:
- the business case is reviewed and considered to be no longer viable.
  - the headline cost figure goes beyond the approved figure.
  - issues are raised by other stakeholders e.g. in respect of planning.
  - there is a change in Council priorities.
- 6.17. While these would be discussed by CRG for the purposes of recommending mitigating action, any formal decision making would be through a Cabinet Member report or the Capital Strategy which is approved by Full Council.
- 6.18. VfM is a key component of all capital projects. All projects must evidence a level of economy, efficiency and effectiveness in order to be approved. Therefore, projects will have to show that all potential options have been considered, and the option that is chosen is cost efficient and effective in achieving the City for All ethos. In order to achieve this, the Council has put in place the following cornerstones:

- **business case development** – the Council has adopted the Five Case Business Model, which was developed by HM Treasury and the Welsh government specifically for public sector business case development. The business cases for major projects include full option appraisal and links to core strategy to ensure that they are delivering on key Council objectives.
- **effective financing** – funding options are constantly reviewed to ensure the most cost effective use of the Council's resources. In order to reduce financing costs, many of the major development schemes will deliver significant capital receipts for reinvestment in future projects, thus reducing reliance on external borrowing. Capital receipts are applied to expenditure where it will provide the most financial benefit.
- **procurement** – robust options and appraisal of procurement routes for projects.
- **risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme and further developments are planned in this area during 2017/18. More detail on the mechanisms the Council has in place to effectively manage and identify risk can be found in Section 11.
- **Project management** – the development of the Programme Management Office as noted above will continue to strengthen project management in the Council. The PMO will ensure that projects are in line with Council priorities and sufficiently resourced in order to be developed within timescales.

## **7. Overview of Capital Programme and Delivery Strategies**

- 7.1. The Council's capital programme is prioritised into three key areas; Development, Investment and Operational.
- 7.2. The diagram below provides an overview of these areas.





## Development

- 7.3. Development projects are key schemes that directly support the Council’s strategic aims, in line with City for All. This includes the long term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration. This will help Westminster’s residents and businesses in creating a strong local economy to live and work in, helping to embed the City for All ethos. These factors combined will help to sustain council services and ensure that Westminster City Council remains at the forefront of public service delivery.
- 7.4. 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 17% of the funding of the Council’s capital programme. The risks associated with reliance on this delivery and funding route are fully explored in Section 11.
- 7.5. The Council will review the best delivery routes for development projects. Different delivery routes for projects largely fall into the following categories: self-develop; joint-venture; or developer led. The self-develop option involves the Council undertaking the project independently and therefore provides the greatest level of potential return but also the greatest cost and exposure to risk. The developer option is the opposite; it usually involves selling the opportunity to a developer resulting in the least return but also the least cost and risk. A joint-venture is a compromise between the two, this can be a good option to limit risk, broaden expertise and capacity on the project whilst still sharing in the returns. In both the latter two options it is likely the Council will

have to undertake site assembly and the initial stages of planning before a partner is prepared to enter into an agreement on the opportunity.

- 7.6. Development schemes make up a significant portion of the gross capital budget at £1.024bn and of the capital receipts in the programme at £338.473m, are related to these schemes. The scope of the major development projects is outlined below, organised by Directorate, and full details can be found in paragraph 10.5 to 10.9.

### **Investment**

- 7.7. One of the key objectives is for the Council to maximise its return on investments and grow income through active management of the investment portfolio. Income through these means will support the on-going financing costs of the capital programme.
- 7.8. An initial £50m drawdown facility for investment schemes to generate additional income towards future MTP savings and frontline services was approved as part of the previous year's Capital strategy. Of this a total of £12.397m was invested leaving a balance of £37.613m. For this new Capital Strategy an additional £50m has been added to this budget to produce a total budget including 2017/18 of £87.613m.
- 7.9. Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment.

### **Operational**

- 7.10. The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio.
- 7.11. The main objectives of the operational element of the capital strategy are to ensure assets meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs and reduce its environmental footprint.
- 7.12. Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long term assets and avoids incurring significant future costs, essentially spending now to save money in the future.
- 7.13. Operational schemes in the five-year capital programme have a total expenditure of £1.482bn. Details of this expenditure and how it is funded can be found in Appendix A.

## **8. Housing Revenue Account**

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

- HRA major works on the council's stock.
- regeneration and renewal spend.
- other investment plans.

## 9. Summary Capital Programme

**Table 1: Current approved capital programme 2017/18 – 2031/32 at Period 4**

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

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

**Table 2: Proposed capital programme 2017/18 – 2031/32 as at Period 9**

	Forecast	Five Year Plan					Future Years to	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	to 2030/31 £000	
<b>Expenditure</b>								
Adult Services	446	1,059	400	200	-	-	-	2,105
Children's Services	10,856	13,343	250	250	250	250	-	25,199
City Management & Communities	55,163	99,140	46,287	30,151	22,398	21,201	990	275,330
City Treasurer	33,500	38,849	26,040	18,681	17,898	21,486	486,051	642,505
Corporate Services	3,073	5,459	975	1,125	525	2,250	9,200	22,607
Growth, Planning & Housing	169,731	239,479	203,209	129,054	95,296	35,528	331,880	1,204,177
WEP	3,832	22,475	146,715	117,787	71,915	41,671	17,254	421,649
Policy, Performance & Communications		50	-	-	-	-	-	50
<b>Total Expenditure</b>	<b>276,601</b>	<b>419,854</b>	<b>423,876</b>	<b>297,248</b>	<b>208,282</b>	<b>122,386</b>	<b>845,375</b>	<b>2,593,622</b>
<b>Funding</b>								
External Funding	(105,119)	(168,083)	(199,375)	(135,037)	(83,255)	(51,143)	(43,754)	(785,766)
Capital Receipts	(92,055)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	(438,608)
<b>Total Funding</b>	<b>(197,174)</b>	<b>(168,083)</b>	<b>(221,339)</b>	<b>(155,572)</b>	<b>(140,680)</b>	<b>(123,619)</b>	<b>(217,907)</b>	<b>(1,224,374)</b>
<b>Net Funding Requirement</b>	<b>79,427</b>	<b>251,771</b>	<b>202,537</b>	<b>141,676</b>	<b>67,602</b>	<b>(1,233)</b>	<b>627,468</b>	<b>1,369,247</b>

9.2. The high-level changes from the currently approved capital programme are:

- a reduction in gross expenditure of £2.508m as a result of the reduction in forecast for contingency budget as the need decreases throughout the financial year, but will be dependent upon any other calls on the contingency. Also underspends on existing projects which have been released from the programme. These are partially offset by additional purchases of temporary accommodation properties in addition to the budget and further investment on projects already within the programme.

Also by the prudent forecasting into future years of the ICT scheme which is deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology may need to be adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

- a decrease in gross income of £18.367m due to a re-categorisation of £8.080m of external funding to capital receipts and other minor variances.
  - an increase in capital receipts of £12.305m due to some unbudgeted disposals and the funding for Sir Simon Milton University Technical College (£8.080m) being re-categorised as a capital receipt.
  - a re-profiling of projects already included in the programme across the financial years and other minor variances.
- 9.3. It should be noted that given the long-term nature of some of the larger development schemes, this has profiled some of the budgets into future years beyond the five-year programme. These have been reported in the “Future Years to 2031/32” column for completeness and to ensure the budget is approved within the context of the whole capital programme.
- 9.4. In addition, an assumption of £400m annual expenditure on operational schemes has been included within contingencies. This ensures that development and investment schemes are affordable in addition to the annual operational capital expenditure programme.
- 9.5. The above fully funded position clearly depends on the schemes being delivered on time and within the estimates set out in this report. Any increases in expenditure or reductions in income will need to be compensated for by the relevant project or the consequential revenue impacts funded in full by the individual service.

## 10. Service Analysis

10.1. The following section reviews what is included in the individual capital programmes for each Council directorate from 2017/18 onwards, excluding the assumed £400m operational budget for future years. This section aims to detail what is included and also explain changes to the schemes included within each Directorate portfolio.

### Growth Planning and Housing (GPH)

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

10.3. GPH has the largest Capital Programme within the Council. The gross expenditure budget for GPH up to 2030/31 is £1.204bn and forecast external funding is anticipated to be £214m.

10.4. On a net basis this is a proposed budget of £990m for GPH, which excludes capital receipts, and this is shown in the table below:

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	169,731	239,479	203,209	129,054	95,296	35,528	331,880	1,204,177
External Funding	(59,888)	(66,750)	(36,573)	(10,775)	(6,275)	(6,275)	(27,525)	(214,061)
<b>Net Funding Requirement</b>	<b>109,843</b>	<b>172,729</b>	<b>166,636</b>	<b>118,279</b>	<b>89,021</b>	<b>29,253</b>	<b>304,355</b>	<b>990,116</b>

### General Fund Major Projects

10.5. The capital programme presented within this report forecasts a gross capital expenditure budget of approximately £926m for General Fund Major Projects (both live and potential future projects). As well as producing capital receipts, many of these projects will also generate on-going revenue streams.

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

- 10.7. The Council also has a number of sites under construction with the Moberly, Jubilee phase 1, Sir Simon Milton UTC and the Dudley House Academy and intermediate rental all on site.
- 10.8. 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 on Huguenot House, Lisson Grove Programme, Carlton Dene and Westmead are progressing.
- 10.9. Below is a summary of all the general fund capital projects being managed by Major Projects (unless otherwise stated):

#### Dudley House

The project is now on site and as per the programme. Target completion for the Marylebone Boys School is September 2018 with the intermediate rent accommodation completing in April 2019.

The project board are currently assessing options for the management of the residential units with the preferred option being the use of an operator model.

#### Huguenot House

Following a Cabinet decision in July a formal consultation will now be carried out with residents on the residential led option with affordable housing. The outcome of this will be reported back to members. In addition to this the OBC will be progressed and presented to members over the coming months.

Expenditure to date has primarily related the spot purchasing of residential properties in the block as they become available.

#### Sir Simon Milton UTC

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

#### Seymour Leisure Centre

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

### Strategic Acquisitions - Development

Potential acquisitions to facilitate future development opportunities that may arise in the future.

### Luxborough Development

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

### Moberly and Jubilee

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

### Beachcroft (managed by City West Homes)

The Full Business case has now been approved and the project is on course to be completed by December 2019 and within budget. This development is linked to the projects at Westmead and Carlton Dene.

### Westmead/Carlton Dene

Both these projects are linked to the development at Beachcroft as residents in both these homes have to be decanted to Beachcroft in order for the sites to be redeveloped. Officers have now received agreement from the Cabinet Member as to a preferred option which maximises the care provision whilst ensuring the final costs to run the project are cost neutral at worst. Architectural massing studies are planning to be undertaken this year, which will further develop the options for the schemes.

### Lisson Grove Programme

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

### City Hall

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



The refurbishment of City Hall on Victoria Street has now commenced. The programme from 2017/18 has a capital budget of £76m (excluding contingency) with the completed scheme delivering increased income streams for the council from rental income as well as reduced running costs. This decant process has an allocated revenue budget of £22.4m to fund the related costs, which will be funded by flexible capital receipts.

### **Corporate Property**

- 10.10. The Corporate Property Capital Programme has an approved budget of £115m. In addition to investment acquisitions of circa £87m, this also contains on-going building improvement works of £13.6m on the Forward Management Plan and Landlord Responsibilities. The balance of the budget is made up of individual projects such as £0.3m for ensuring properties within the investment portfolio are up to Minimum Energy Efficiency Standards (MEEs).
- 10.11. The Council have purchased one commercial property this year, 14-20 Orange Street, which will generate an on-going revenue stream for the Council.
- 10.12. The property team are actively reviewing the market for appropriate opportunities that will provide a good return whilst diversifying the property portfolio.

### **General Fund Housing**

- 10.13. The Housing General Fund capital programme contains schemes to provide additional affordable housing both in and out of borough. In total there is an expenditure budget of £155m largely offset by external income.
- 10.14. 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 which will also be funded through the Affordable Housing Fund.

## Other Schemes

- 10.15. The remainder of the GPH capital budget of circa £7m made up of smaller schemes in Placeshaping, Planning and the Economy team.

## Housing Revenue Account

- 10.16. The HRA capital investment requirement over the next 30 years is £1.878bn, and over the first five years from 2018/19 is £790m. The HRA is subject to a different business planning process that is linked to modelling of the HRA business plan over 30 years.
- 10.17. The programme has been developed to deliver the maximum number of new affordable units that the HRA can reasonably deliver within the context of its current financial constraints, there is a significant increase in the development capacity of both WCC and CWH that accompanies this proposed plan to support these initiatives

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

<b>Funding</b>	<b>Total £'000</b>
Capital Receipts	270,938
Right To Buy	29,189
Grants	25,968
Affordable Housing Fund (AHF)	179,786
Revenue Contribution to Capital Outlay	130,021
Major Repairs Reserve (MRA)	116,655
Borrowing	37,650
<b>Total Funding</b>	<b>790,206</b>

- 10.18. Key changes between the October 2018/19 proposed and 2018/19 revised HRA five-year capital programme budgets are:

➤ gross expenditure – overall reduction of £4m consisting of:

- Church Street Phase 2 – reduction in spend of £21m during the five year period as the expenditure profile for the project has been revised into future years in line with the masterplan document.

an additional £3m on fire precautions to reflect the latest projections.

- an additional £8m of spend on the infill schemes.
- refinements on other schemes.

- 10.19. HRA reserves – an increase of £82m contribution from the HRA I&E over the period. The HRA reserves will contribute £130m (16%) of the £790m required to fund the 2018/19 five-year capital programme. This will leave accumulated reserves close to the minimum level of £11m during the full five years and beyond of the programme. The reserves level will not generally increase until 2034/35 as any surpluses are assumed to be applied to reduce debt levels in the HRA.
- 10.20. The proposed HRA investment plans commit and utilise almost all of the headroom (borrowing limit) and financial capacity within the HRA in the period up to 2023/24. This will result in the HRA reaching a peak debt balance of £330m compared to the current statutory limit on indebtedness of £334m. Minimum levels (£11m) of HRA reserves until 2034/35.
- 10.21. The HRA business plan currently projects that HRA debt will fall progressively in the latter part of the programme and at year 30 the level of debt will be £34m with revenue balances of £36m.
- 10.22. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, then the need to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund. The range of management options available within the HRA to mitigate any additional risks are set out in section 11.22.

### **West End Partnership (WEP)**

- 10.23. The new capital programme includes a substantial gross budget for the West End Partnership programme of works of £421.6m. The majority of this relates to the Oxford Street District at £342.0m.
- 10.24. A decision on funding the WEP investment bid was not included in the Chancellor's autumn budget and informal feedback from the treasury has suggested that it will not be considered again in that form until the next budget cycle in autumn 2018. While this does not preclude further approaches to the Treasury and other parts of Government before then, the WEP team are considering other funding options for the WEP investment bid and the scale and nature of the projects themselves.
- 10.25. A summary of the WEP budgets is included below:

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	3,832	22,475	146,715	117,787	71,915	41,671	17,254	421,649
External Funding	(1,563)	(19,703)	(137,336)	(113,117)	(67,345)	(35,046)	(16,004)	(390,114)
Net Funding Requirement	2,269	2,772	9,379	4,670	4,570	6,625	1,250	31,535

10.26. Further projects include Strand/Aldwych and the cross cutting themes such as Broadband and Freight.

10.27. The overall net budget for WEP is £31.5m (including 2017/18 forecasts) and this is mainly due to the WEP General budget and the Council funding for the cross cutting themes.

### City Management & Communities

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

10.29. As a directorate, this has a significant capital programme. Including 2017/18, gross expenditure within the capital programme totals £275.3m, with external income of £156.3m from a range of third parties.

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	55,163	99,140	46,287	30,151	22,398	21,201	990	275,330
External Funding	(33,173)	(67,478)	(25,066)	(10,945)	(9,635)	(9,822)	(225)	(156,344)
Net Funding Requirement	21,990	31,662	21,221	19,206	12,763	11,379	765	118,986

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

- planned preventative maintenance and named structural projects within Highways (£86.3m) – all but £2.4m is funded by the Council
- public realm externally funded (£140.6m) – £127.5m is funded by contributions from third parties
- transport schemes - (£20.1m) - £17.1m externally funded, largely Transport for London

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

- cemeteries and parks (£2.5m) - £0.6m is funded through CIL contributions
- libraries (£3.3m)

- sports and leisure (£8.2m) - £1.0m is funded by external parties
- public protection and licensing (£10.6m) - £7.8m is funded by grant contributions
- waste (£3.1m)

10.32. The gross expenditure and income contained within the new capital programme is consistent with the capital programme approved in October 2017, which contained £279.7m gross expenditure and £158.2m income from 2017/18 onwards. Overall there is a small net decrease (of £2.5m) in the programme which is due to the application of CIL funding against certain capital projects (e.g. Hanover Square, Queensway Streetscape).

### Adult Social Care

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

	Forecast	Five Year Plan					Future Years to 2030/31 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	446	1,059	400	200	-	-	2,105	
External Funding	(446)	(1,059)	(400)	(200)	-	-	(2,105)	
<b>Net Funding Requirement</b>	-	-	-	-	-	-	-	

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

## Children's Services

10.35. From 2017/18 to 2022/23, the Children's Services capital programme plans to deliver £25.2m of works.

	Forecast	Five Year Plan					Future Years to 2030/31	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	10,856	13,343	250	250	250	250		25,199
External Funding	(10,049)	(13,093)	-	-	-	-		(23,142)
<b>Net Funding Requirement</b>	<b>807</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>-</b>	<b>2,057</b>

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

- non-schools estate rolling programme: planned and reactive building works to non-schools sites (£2.1m)
- schools estate rolling programme: planned and reactive building works to schools sites (£2.0m)
- primary and secondary school expansion projects: expansion projects to increase pupil places (£20.2m)

10.37. 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 £20.6m.

10.38. In comparison to the five-year budget set in advance of the 2017/18 financial year and the capital programme approved in October 2017, there have been only minor changes to the programme. There is just a £73k increase which is matched by an increase in the external income budget because the related expenditure is funded from council borrowing.

## Corporate Services and Policy, Performance and Communications

	Forecast	Five Year Plan					Future Years to 2030/31	Total
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	3,073	5,509	975	1,125	525	2,250	9,200	22,657
External Funding	-	-	-	-	-	-	-	-
<b>Net Funding Requirement</b>	<b>3,073</b>	<b>5,509</b>	<b>975</b>	<b>1,125</b>	<b>525</b>	<b>2,250</b>	<b>9,200</b>	<b>22,657</b>

10.39. The proposed gross expenditure budget is £22.657m.

10.40. The latest capital strategy report reflects an increase in capital funding which is mainly due to the inclusion of future year's capital budget for ICT schemes. In Corporate Services, the ICT scheme are deemed to be recurring on the basis that ICT hardware and software will need to be refreshed as assets come to the end of their life cycle or new technology

may need to be adopted to replace obsolete systems in the future which may form part of a wider transformation agenda for the Council.

## City Treasurer

	Forecast	Five Year Plan					Future Years to 2030/31	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure	33,500	38,849	26,040	18,681	17,898	21,486	486,051	642,505
External Funding	-	-	-	-	-	-	-	-
<b>Net Funding Requirement</b>	<b>33,500</b>	<b>38,849</b>	<b>26,040</b>	<b>18,681</b>	<b>17,898</b>	<b>21,486</b>	<b>486,051</b>	<b>642,505</b>

- 10.41. The City Treasurer's capital budget holds the Contingency Provision totalling £594.505m. It also holds the majority of the revenue expenditure to be funded by the Flexible Use of Capital Receipts which is in region of £18m for the refurbishment of Westminster City Hall and a £30m contribution to the pension fund deficit and the Digital Transformation programme (£3m). Further detail can be found in paragraphs 13.12 and 13.13
- 10.42. There has been no change to the City Treasurer's net capital budget, except for the 2017/18 Contingency Provision forecast reduction by £9m, out of an annual budget of £13.5m, as the year has progressed and the degree of certainty has increased.
- 10.43. In line with current financial regulations, no expenditure on projects will be incurred without appropriate Cabinet Member or Delegated Authority approval. Every scheme would need to be fully approved.

## 11. Risk Management

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

### General Risks – Identification and Mitigation

- 11.2. General risks are those which are faced as a consequence of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control but mitigations have been developed as part of the business planning and governance process. These risks are set out below along with key mitigations:
- 11.3. **Interest Rate Risk** – the Council is planning to externally borrow £499.9m as set out in this Capital Strategy over the next five years. Interest rates are variable and an increase could increase the cost of servicing debt to a level which is not affordable. To mitigate this, the Council has used interest

rate forecasts which include a prudent provision against interest rate rises. These are shown in the table below.

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

- 11.4. In the event that interest rates rose beyond this forecast plus contingency the revenue interest cost to the Council would increase for all borrowing not yet entered into (we would typically borrow on fixed rate terms). A rise of an extra 1% would cost an extra £5.0m per annum on the full £499.9m borrowed by the end of 2022/23 – rising to £8.2m if rates were 1% higher by 2031/32.
- 11.5. **Inflation Risk** – construction inflation over and above that budgeted by the Council’s professionals and advisors and built into project budgets could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by around £26m. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signature of contracts with construction companies and developers through fixed price contracts.
- 11.6. **Change in Law Risk** – Capital schemes need to comply with the latest law and regulations which can change leading to an impact on construction costs and may be retrospective in their nature. This is mitigated by awareness of pipeline legislative changes and through contingencies.
- 11.7. **Market health / Commercial Values** – the Council’s capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, generation of capital receipts from property sales in some cases post development, attracting developers to projects based on a potential share of profits and other revenue/capital financial flows. In some cases, it is likely that the Council will commit to large projects, property acquisitions or other forms of expenditure on the basis of further business case assumptions about the market value of future asset or economic values. Should market movements mean that these assumptions are inaccurate then the Council may suffer financially. This risk can be mitigated through contingencies in projects.

### **Management of Project Risks**

- 11.8. Project risks are those which relate to the delivery of capital projects which in many cases can be controlled, influenced or directly mitigated in ways



other than making contingencies available. These risks would mostly be related to unforeseen project delays and cost increases which could arise from a range of circumstances. The effective management of these risks is mostly linked to the following strategies:

- 11.9. **Supplier Financial Stability** – construction companies and developers contracting with the Council 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.
- 11.10. **Effective Business Case Development** - the documentation which is required will depend on the project's size. However, for 2017/18 the types of business cases required for larger projects are:
- strategic case – this is where it is confirmed that the project outcomes as scoped align with the strategic objectives of the organisation.
  - outline business case – sets out the preliminary thoughts regarding a proposed project. It should contain the information needed to help the council make decisions regarding the adoption of the project. It should state envisaged outcomes, benefits and potential risks associated with the project.
  - full business case - the preparation of the FBC is a mandatory part of the business case development process, which is completed following procurement of the scheme but prior to contract signature.
- 11.11. **Risk Management** - projects are required to maintain a risk register. Risk registers are aligned with general guidance on risk review.
- 11.12. **Highlight reporting** - property major projects as an example create monthly highlight reports for all projects to help project board and wider interested parties aware of progress and risks of projects on an on-going basis.
- 11.13. **Appointment of professional team** - to ensure timely delivery of projects and robust planning and review, the major projects team has enlisted the help of many different internal and external experts. Projects have required assistance considering impacts of national and council policy and planning on project financial feasibility and general deliverability. Also qualified roles

have been put in place for key surveying and financial planning roles to give assurance on quality of work and assumptions.

- 11.14. **Risk of Revenue Write Off** – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off should the scheme in question not progress. This is managed through careful consideration and approval of all expenditure potentially at risk of revenue wrote off.

### **Contingencies in the Capital Programme**

- 11.15. In the initial stages of development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions, or the costs of rectifying or demolishing existing buildings (e.g. the cost of asbestos removal).
- 11.16. For this reason, the Council has adopted a structured process of identifying and managing contingencies which is in line with guidance issued by HM Treasury. In the initial stages of a project these contingencies are necessarily broad estimates due to the number of unknown factors. As projects 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.
- 11.17. 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 £104.0m.
- 11.18. Currently a risk allocation of 20% is being used on new large scale development projects. 15% of this is held corporately and 5% is held against the project.
- 11.19. This is considered appropriate based on HM Treasury guidance and experience from previous projects. However, once the projects are sufficiently progressed, it is expected that each project will have a fully costed risk register compiled and agreed by the project team. The value of the costed risk register will be used instead of the flat rate of 20%. All projects are working towards this.

### **Housing Revenue Account – Risk Mitigation Strategy**

- 11.20. As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts

are reduced or delayed, that the options available to contain these pressures will necessitate either reducing, re-profiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund.

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

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

- project spend monitoring and management information. It is key that there are early warning indicators for management to be able to identify whether any projects are going to overspend in order to be able assess the impact on the HRA plan.
- regular updates to the HRA business plan. Quarterly reviews and updates to the business plan are undertaken, at which point any changes identified in operating or capital project performance can be remodelled to identify the impact and any further mitigation required. The fact that the business plan is updated on an annual basis means that steps can be taken to re-profile or reprioritise elements of the plan well in advance of any peak year. In reality, we would seek to avoid getting too close to the cap in the near term.
- utilisation of contingency. The main regeneration schemes each have a certain level of contingency built into the cost of the projects as a buffer against overspend within the project budget. This will be the first port of call for any overspend within a project. Monitoring the use and need for contingency on a project will be important as an indicator of whether a project is going to go over budget. Secondly, the capital programme has a separate contingency budget which has not been specifically allocated any given scheme. This amounts to £17.4m over the next 5 years.
- reduce or delay the reinvestment of self-financing capital expenditure. Currently it is assumed that the cash generated through disposal of HRA assets for re investment is fully reinvested back into acquiring new stock. There is £40m assumed for reinvestment over the next 5 years. The rate of reinvestment could be slowed so as to avoid the plan going into deficit or exceeding the borrowing limit of £333.8m. The consequence of this

strategy that a reducing housing stock within the HRA would have a direct impact on the cost of Temporary Accommodation in the General Fund, creating pressures on the rest of the Council to stay within budget.

- dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.
- increase or accelerate funding drawn from the Affordable Housing Fund (AHF). The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding. However, the AHF currently held by the council is assumed to be fully used over the coming years, and the plan as a whole assumes that further AHF money will be received and used in order to make the whole plan affordable. This would need careful modelling to understand the impact on other schemes assumed to draw from the fund in later years.
- transfer schemes from HRA into an alternative vehicle, such as a wholly owned company. This could help the profile of the business plan by moving expenditure from peak years when the borrowing cap is under pressure to another delivery vehicle so that the scheme can still proceed without drawing upon HRA borrowing. This could enable more to be achieved than is currently shown within the plan. It could also generate a capital receipt sooner for the HRA through the transfer of land out of the HRA. The downside would be that this could be removing schemes which would generate longer term benefits in terms of rental income on the affordable housing which was otherwise planned to be retained within the HRA.
- re-profile, extend or delay regeneration capital expenditure:
  - re-profile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed.
  - re-profile and extend regeneration scheme programmes to be delivered over a longer period, slowing down the rate of spend. This however is likely to be an inefficient way of working and not favourable with development partners.
  - some elements of the plan or certain schemes could be decided to begin or progress only when certain other conditions have been met which assure the financial safeguarding of the plan, such as the level of capital receipts received needing to be met.

- these would need to be modelled so as to demonstrate the impact of not only the deferred expenditure but also the deferred capital receipts arising at the end of the schemes when the income from private sale units comes through.
- reduce major works expenditure. This amounts to £206m over the next 5 years, £919m over 30 years. However, this could be a risky strategy as the council has recently signed up to term contracts which gave an indication of a certain minimum level of spend with the suppliers. If these minimum levels were not achieved, the council could be subject to penalties or compensation which negate or reduce the potential mitigation and impact on the council's reputation.
- increase affordable rents assumed in the new units to be delivered through the regeneration schemes to 80% of market rents. Average rents for new units have been modelled at £150 a week but could be increased up to £187 per week to increase the annual return and total dwellings rent received.
- increase HRA rents following the period of 1% reductions to the maximum allowable. At this stage however it is not clear what limitations will be placed on local authorities following this period (i.e. from 1 April 2020). Currently the business plan assumes increases of CPI+1% for the 4 years following before reverting to annual CPI increases. When the 1% reductions legislation came in, this had a significant impact on the HRA plan, as the reductions have a compounding and lasting effect on future years. Reversing this position would have a similar but favourable effect on the plan. Rent policy is only guidance and the only control at present is the limit on Housing Benefit.
- lobby for legislative changes such as an increase in the debt cap, reversal of the 1% rent reduction etc. This is not something that the council can directly change (only try and influence) as it is subject to central government decision making, and could take some time to be implemented if at all. This has already been referenced to in correspondence with government in the aftermath of Grenfell. The cost impact of remedial works in the light of Grenfell is modelled at £29.3m; it is conceivable that the cap could be increased to account for the pressure caused by this previously unforeseen expenditure. At time of writing we have not had a formal response to our communication.
- the model maintains a minimum reserves balance of £11m, but this in itself is a buffer against overspends and hence acts as a source of mitigation.

## **12. Brexit**

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

## **13. Financial Implications**

- 13.1. The Council has proposed a gross General Fund capital programme of £2.594bn. This has to be financed from three key funding sources which are:

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

### **Funding**

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

Financed By:	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 to 2031/32 £m	Total £m
DfE Basic Needs Grant	8.5	9.0	0.0	0.0	0.0	0.0	0.0	17.5
DfE Schools Condition Allocation	1.5	1.5	0.0	0.0	0.0	0.0	0.0	3.0
DCLG Disabled Facilities Grant	0.0	1.3	1.3	1.3	1.3	1.3	0.0	6.5
DCLG Other Grant (WEP)	0.0	18.4	123.5	101.5	56.6	26.0	4.5	330.5
GLA Other Loan	1.3	0.7	0.0	0.0	0.0	0.0	0.0	2.0
Transport for London (TfL) Grant	13.1	15.4	8.7	1.7	0.0	0.0	0.0	39.0
Education Funding Agency (EFA) Grant	17.6	28.2	2.6	0.0	0.0	0.0	0.0	48.4
DoH Community Capacity Grant	1.7	1.1	0.5	0.2	0.0	0.0	0.0	3.5
European Regional Development Fund	0.2	0.8	0.3	0.0	0.0	0.0	0.0	1.3
Other Grants and Contribution	2.2	10.8	14.7	11.9	10.7	9.3	11.7	71.2
Sport England Grant	1.0	0.0	0.1	0.0	0.1	0.1	0.0	1.3
Section 106 Contributions	11.2	22.6	9.2	6.3	8.4	8.3	0.0	65.9
Section 278 Contributions	8.0	19.0	4.8	1.4	0.0	0.0	0.0	33.2
Community Infrastructure Levy (CIL)	0.0	4.6	0.0	0.0	0.0	0.0	0.0	4.6
Affordable Housing Fund Contributions	38.6	34.6	33.0	10.8	6.3	6.3	27.5	157.0
Revenue Reserve	0.0	0.1	0.8	0.0	0.0	0.0	0.0	0.9
<b>Sub Total</b>	<b>105.1</b>	<b>168.1</b>	<b>199.4</b>	<b>135.0</b>	<b>83.3</b>	<b>51.1</b>	<b>43.8</b>	<b>785.8</b>
Capital Receipts	92.1	0.0	22.0	20.5	57.4	72.5	174.2	438.6
Borrowing	79.4	251.8	202.5	141.7	67.60	-1.2	627.5	1,369.2
<b>Total</b>	<b>276.6</b>	<b>419.9</b>	<b>423.9</b>	<b>297.2</b>	<b>208.3</b>	<b>122.4</b>	<b>801.6</b>	<b>2,593.6</b>

- 13.3. Capital grants and contributions include grants from the Department for Education (DfE) which are provided to ensure that the Council is meeting their statutory requirements of providing school places and ensuring that school buildings are in a good condition. Other grants the Council receives includes TfL grant funding for infrastructure improvements across the City, EFA Grant, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.
- 13.4. Community Infrastructure Levy (CIL) will predominantly replace the current Section 106 receipts system. Instead of the planning obligations that developers have to make currently, they will now have to pay a charge (levy). The income from this levy will be held corporately and the Council will decide (via an internal governance process) how to allocate these funds to relevant infrastructure projects.
- 13.5. CIL differs from Section 106 which essentially is a contract between a developer and the Council. However, CIL is a levy which the developer is liable to pay if a planning permission is approved and the development is underway post CIL coming into effect. The Council has greater flexibility compared to Section 106 as the developer cannot stipulate any terms.
- 13.6. The Council will continue to look for innovative ways to fund the capital programme; this could include Tax Increment Financing (TIF) and private sector capital contributions.

- 13.7. The main sources of internal funding are from capital receipts or revenue in the form of reserves or in-year underspends.
- 13.8. Capital receipts are generated from the sale of non-current assets, and apart from special circumstances, can only be used to fund the capital programme. The Council holds all capital receipts corporately which ensures it can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts. However, in special cases, some capital receipts maybe ring-fenced for the particular services, but this will need approval by CRG.
- 13.9. It is estimated that the proposed capital programme will be funded via £438.6m worth of capital receipts, primarily through the sale of properties as part of development projects. The use of capital receipts will peak in 2020/21 and in 2022/23 and will be used to reduce the funding gap.
- 13.10. Although the council has a disposals programme which aids projections for the funding of the capital programme, the timing and value of asset sales can be volatile. Therefore, asset disposals have to be closely monitored as any in year shortfalls need to be met by increasing borrowing.
- 13.11. Revenue budgets can be transferred to capital. As this will necessarily impact on revenue budgets this is only used as a source of funding when the capital project will deliver future revenue savings. This allows the Council to generate savings which will mitigate funding reductions in future years. A business case would be required to support revenue funding of a project.
- 13.12. In March 2016, the MHCLG 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 covered the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. The authority has identified three capital projects, Westminster City Hall refurbishment, contribution to the pension fund deficit and Digital Transformation, which have significant revenue spend and is seeking approval to part-fund these from capital receipts. In the Provisional Local Government Finance Settlement in December 2018 it was announced that this would be extended for a further three years.
- 13.13. It is planned to use in the region of £18m of capital receipts for the revenue costs associated with the refurbishment of Westminster City Hall, £30m pension cost liability, and £3m for the Digital Transformation programme costs. The ability to fund these revenue costs from flexible capital receipts



is predicated on the delivery of the planned 2017/18 additional capital receipts.

## Borrowing

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

	Forecast	Five Year Plan					Future Years to 2030/31	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Borrowing Requirement	79,427	251,771	202,537	141,676	67,602	(1,233)	627,468	1,369,247

- 13.15. Internal borrowing is the term used to describe the use of Council resources, such as reserves and cash balances, to finance capital expenditure. In effect, this is capital expenditure not supported by direct funding, external borrowing or any other form of external financing. While this has to be repaid it does not represent a formal debt in the same way as external borrowing.
- 13.16. This strategy is a prudent use of Council resources. Currently, investment returns are low and counterparty risk is relatively high. Should these balances not be available for internal borrowing, the Council could potentially have to take on long-term external borrowing paying a higher interest rate than could be achieved for a long-term investment.
- 13.17. External borrowing is the process of going to an external financial institution to obtain money. The Council would generally borrow from the Public Works Loans Board (PWLB) due to their favourable rates for public sector bodies. However, the market is regularly monitored to ensure that rates continue to be competitive.
- 13.18. An alternative source of debt finance is to borrow via a bond issued by the Municipal Bonds Agency. The agency is an independent body with its own governance structure, accountable to its local authority shareholders and the LGA. It raises money on the capital markets by issuing bonds to financial institutions which are then lent on to participating local authorities. The Council has been actively working with the MBA to enable it to deliver its first bond issuance and realise its potential as a mainstream lender to local authorities. Typically, the MBA will issue bonds to institutions such as insurers and pension funds who tend to want to prioritise secure income streams over interest, compared with more traditional borrowing from banks. It is expected the bond will be issued at a rate substantially lower than PWLB rates and is expected to provide a viable alternative to the PWLB.

- 13.19. Another borrowing option for the Council is through the European Investment Bank (EIB). The EIB offer competitive rates; however, there are strict governance processes around any loans that are taken out with the EIB. Therefore, the Council would have to clearly set out the reasons for the loan, what it would be used for, and the EIB would then have to decide if this is an appropriate use of their funds. This is becoming a higher profile form of funding with local authorities, for example the London Borough of Croydon recently borrowed from the EIB.
- 13.20. Development and investment schemes will be required to cover the costs of borrowing through identifying increased income streams or revenue savings in order to fund repayments. To address this, on completion of the scheme the services budget will be reduced by the level of borrowing costs. However for operational schemes, due to the nature of the spend, this is unlikely to result in increased income or revenue savings, these will be assessed on a scheme by scheme basis and if appropriate budgeted for corporately.
- 13.21. The table below gives a summary of the financing of the General Fund capital programme. The largest proportion of funding in the programme comes from borrowing, at 53%. Internal funding from capital receipts make up a further 17%. 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 2030/31 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
External Funding	105,119	168,083	199,375	135,037	83,255	51,143	43,754	<b>785,766</b>
Capital Receipts	92,055	-	21,964	20,535	57,425	72,476	174,153	<b>438,608</b>
Borrowing	79,427	251,771	202,537	141,676	67,602	(1,233)	627,468	<b>1,369,247</b>
<b>Total</b>	<b>276,601</b>	<b>419,854</b>	<b>423,876</b>	<b>297,248</b>	<b>208,282</b>	<b>122,386</b>	<b>845,375</b>	<b>2,593,622</b>

### Revenue Implications

- 13.22. The financing costs in the table below include interest payable and an allocation for repayment of debt (MRP) as a result of the borrowing. The total net revenue costs of the proposed capital programme are expected to be £456.0m by the end of 2031/32.

	Forecast	Five Year Plan					Future	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Years to £000	
Expenditure	276,601	419,854	423,876	297,248	208,282	122,386	845,375	2,593,622
External Funding	(105,119)	(168,083)	(199,375)	(135,037)	(83,255)	(51,143)	(43,754)	(785,766)
Capital Receipts	(92,055)	-	(21,964)	(20,535)	(57,425)	(72,476)	(174,153)	(438,608)
<b>Borrowing Requirement</b>	<b>79,427</b>	<b>251,771</b>	<b>202,537</b>	<b>141,676</b>	<b>67,602</b>	<b>(1,233)</b>	<b>627,468</b>	<b>1,369,247</b>
Revenue Impacts:								
Capital Financing Cost	7,841	7,192	11,370	22,943	31,072	33,853	557,548	671,821
Financed By:								
Commercial Income	(512)	(2,022)	(3,381)	(2,812)	(4,040)	(5,488)	(197,541)	(215,795)
Net Revenue Position	7,330	5,170	7,989	20,132	27,032	28,365	360,007	456,025
Sinking Fund Adjusted Balance	1,738	7,198	4,379	(4,561)	(7,815)	(5,594)	4,654	-
<b>MTP Budget Assumptions</b>	<b>9,068</b>	<b>12,368</b>	<b>12,368</b>	<b>15,571</b>	<b>19,218</b>	<b>22,771</b>	<b>377,067</b>	<b>468,431</b>

- 13.23. The Council aims to maximise its balance sheet assets and as such is able to utilise cash balances derived from working capital (such items as the appeals provision, reserves, affordable housing fund, etc.) rather than borrow externally to finance the net cost of the capital programme. This is referred to as “internal borrowing”. Of the £2.594bn gross General Fund capital expenditure, it is anticipated that £829.5m will ultimately need to be borrowed externally.
- 13.24. The external borrowing is assumed to be PWLB, although other sources of funding will be explored as outlined in this paper. The PWLB interest rate is assumed to increase steadily to 4.7% by 2026/27 and remain at this rate. Every 1% increase in the interest rate will result in an additional £8.3m of revenue cost by 2031/32.
- 13.25. As noted in Section 5, CRG will have a pivotal role in monitoring the cost of funding the programme and ensuring project business cases continue to be viable, and the programme as a whole affordable. Where they assess this not to be the case, action will be taken to bring the programme back to an affordable position.
- 13.26. MRP is applied where the Council has to set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g. depreciation) in the statement of accounts and has an impact on the Council’s bottom line. MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes. The Council will continue to balance the use of capital receipts, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.
- 13.27. The Council has an on-going capital programme and will continue to invest in capital projects beyond 2021/22 and will therefore need to ensure that funds are set aside for the future costs of borrowing.

- 13.28. As part of the closure of the Council's annual accounts the City Treasurer will make the most cost effective and appropriate financing arrangements for the capital programme as a whole. Thus funds will not be ring fenced unless legally required.
- 13.29. The above revenue implications of the capital programme will be covered through a mixture of efficiency savings, income generation, use of existing budgets and use of reserves.
- 13.30. The large development schemes, as well as the investment budget, are planned and required to generate an ongoing income stream. The key schemes include Dudley House, Huguenot House and income generated through the investment in the property portfolio.
- 13.31. The current MTP assumed a circa £3.3m annual increase in the cost of financing the capital programme over the next fourteen years. Continuing that policy over the duration of the proposed capital programme, and indexing for inflation, will result in a total budget spend of £468.4m to fund the capital programme
- 13.32. There is a peak revenue impact over the development period, before the key schemes start generating income and efficiency savings. The peak year revenue impact is 2023/24 and 2024/25 therefore it should be noted that reserves will be required to bridge this gap, before being repaid.

### **HRA Financial Implications**

- 13.33. The HRA capital investment requirement over the next 30 years is £1.878bn, and over the first five years £790m. 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.
- 13.34. The Council's latest HRA 30-year business plan focuses upon delivering three key programmes. These are:
- investment to maintain and improve existing council-owned homes
  - delivery of new affordable homes
  - implementation of the housing regeneration programme

- 13.35. The business plan outlines the proposed HRA investment programme and the context within which the business planning has been undertaken. This includes key assumptions as well as a risk register and proposed management strategies available to mitigate any risk.
- 13.36. The indicative proposed five year investment plan is broken down between the three main categories of spend: - HRA major works on our own stock, regeneration spend and other investment plans.
- 13.37. Gross HRA capital expenditure of £790m over the next five years is required to deliver the plans within this investment strategy, including: £206m on works to existing stock; £412m on housing estate regeneration; and £173m on other investment opportunities. This will be funded from £130m of HRA revenue resources, £300m from capital receipts and right to buy sales, £180m from the Councils AHF together with £38m of new borrowing and a capital grant of £26m.

HRA FIVE YEAR CAPITAL PROGRAMME								
Schemes	2017-18 Forecast £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Total £'000	Total 30yr Plan £m
<b>Major Works</b>								
OT Adaptation	1,197	1,200	1,200	1,200	1,200	1,200	6,000	31,197
Electrical Works & Laterals	4,957	7,139	5,729	6,012	6,499	5,383	30,762	286,357
External Repairs & Decorations	8,245	27,747	24,301	19,095	15,363	21,305	107,812	378,842
Fire Precautions	4,161	13,378	11,418	4,111	2,120	2,200	33,227	61,388
General	2,511	680	50	0	0	500	1,230	8,941
Kitchen & Bathroom	930	750	750	700	700	700	3,600	26,780
Lifts	2,698	2,389	2,000	2,000	2,000	2,000	10,389	49,087
Major Voids	3,500	2,500	2,500	2,500	2,500	2,500	12,500	76,000
<b>Total Major Works</b>	<b>28,199</b>	<b>55,783</b>	<b>47,948</b>	<b>35,618</b>	<b>30,382</b>	<b>35,788</b>	<b>205,519</b>	<b>918,592</b>
<b>Regeneration</b>								
Cosway Street	623	6,545	18,638	5,856	657	0	31,696	32,319
Lisson Arches	1,985	8,319	17,101	1,708	331	0	27,460	29,445
Luton Street	246	2,135	6,392	5,770	0	0	14,296	14,542
Parsons North	621	8,666	15,786	2,434	299	0	27,185	27,806
Ashbridge	519	5,266	7,805	181	0	0	13,252	13,771
Church Street Phase Two	695	5,312	4,595	64,891	40,494	64,306	179,598	309,918
Tollgate Gardens	7,257	10,005	0	0	0	0	10,005	17,262
Other Estates Regeneration	10,975	17,274	32,876	28,481	14,153	15,424	108,208	159,216
<b>Total Regeneration</b>	<b>22,922</b>	<b>63,523</b>	<b>103,193</b>	<b>109,321</b>	<b>55,934</b>	<b>79,729</b>	<b>411,700</b>	<b>604,279</b>
<b>Other Schemes</b>								
District Heating Network Scheme	726	1,854	1,920	5,898	413	0	10,085	17,713
Edgware Rd	2,003	37	6,564	300	0	0	6,901	8,904
Infill Schemes	3,767	12,716	17,934	15,015	10,961	15,411	72,037	152,858
Self Financing	22,000	10,000	0	10,000	10,000	10,000	40,000	124,800
Section 106 Acquisitions	0	0	12,428	10	10	12,428	24,876	24,876
Kemp House/Berwick Street	10	734	24	0	0	0	758	768
Ashmill	70	269	621	10	0	0	900	969
Central Contingency	0	5,429	6,305	2,317	1,983	1,397	17,430	24,414
<b>Total Other Schemes</b>	<b>28,575</b>	<b>31,039</b>	<b>45,795</b>	<b>33,550</b>	<b>23,367</b>	<b>39,236</b>	<b>172,987</b>	<b>355,302</b>
<b>Total Capital Expenditure</b>	<b>79,697</b>	<b>150,345</b>	<b>196,937</b>	<b>178,489</b>	<b>109,682</b>	<b>154,753</b>	<b>790,206</b>	<b>1,878,173</b>
<b>Financed By:</b>								
Capital Receipts	15,424	45,605	63,862	68,653	28,911	63,906	270,938	416,830
Right To Buy	17,476	8,643	5,730	1,593	8,708	4,515	29,189	92,408
Grants	245	5,905	4,563	12,000	3,500	0	25,968	26,213
AHF	15,220	18,431	25,385	66,020	21,875	48,075	179,786	328,306
RCCO	8,001	46,430	38,416	6,892	23,358	14,926	130,021	226,771
MRA	23,331	23,331	23,331	23,331	23,331	23,331	116,655	699,930
Borrowing	0	2,000	35,650	0	0	0	37,650	87,715
<b>Total Financing</b>	<b>79,697</b>	<b>150,345</b>	<b>196,937</b>	<b>178,489</b>	<b>109,682</b>	<b>154,753</b>	<b>790,206</b>	<b>1,878,173</b>

\*\* Forecast is based upon P9 forecast, adjusted to include works arising as a consequence of the impact of Grenfell on Council properties, Self-financing is the spend on new affordable housing assets funded by disposals of assets identified as no longer required. This is part of the strategic asset management strategy

MRA is the HRA proxy for depreciation and is available to fund new capital spend

## 14. Legal Implications

14.1. 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.

15. **Staffing Implications**

15.1. None specifically in relation to this report

16. **Consultation**

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

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

*Steven Mair, City Treasurer  
smair@westminster.gov.uk  
020 7641 2904*

**BACKGROUND PAPERS:**

Capital Strategy Report 2018-2019 – Cabinet 30<sup>th</sup> October 2017

Capital programme working papers

Capital Programme Submission Requests for individual projects

**Appendices**

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

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

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

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

HRA FIVE YEAR CAPITAL PROGRAMME						
Schemes	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	Total £'000
<b>Major Works</b>						
OT Adaptation	1,200	1,200	1,200	1,200	1,200	6,000
Electrical Works & Laterals	7,139	5,729	6,012	6,499	5,383	30,762
External Repairs & Decorations	27,747	24,301	19,095	15,363	21,305	107,812
Fire Precautions	13,378	11,418	4,111	2,120	2,200	33,227
General	680	50	0	0	500	1,230
Kitchen & Bathroom	750	750	700	700	700	3,600
Lifts	2,389	2,000	2,000	2,000	2,000	10,389
Major Voids	2,500	2,500	2,500	2,500	2,500	12,500
<b>Total Major Works</b>	<b>55,783</b>	<b>47,948</b>	<b>35,618</b>	<b>30,382</b>	<b>35,788</b>	<b>205,519</b>
<b>Regeneration</b>						
Cosway Street	6,545	18,638	5,856	657	0	31,696
Lisson Arches	8,319	17,101	1,708	331	0	27,460
Luton Street	2,135	6,392	5,770	0	0	14,296
Parsons North	8,666	15,786	2,434	299	0	27,185
Ashbridge	5,266	7,805	181	0	0	13,252
Church Street Phase Two	5,312	4,595	64,891	40,494	64,306	179,598
Tollgate Gardens	10,005	0	0	0	0	10,005
Other Estates Regeneration	17,274	32,876	28,481	14,153	15,424	108,208
<b>Total Regeneration</b>	<b>63,523</b>	<b>103,193</b>	<b>109,321</b>	<b>55,934</b>	<b>79,729</b>	<b>411,700</b>
<b>Other Schemes</b>						
District Heating Network Scheme	1,854	1,920	5,898	413	0	10,085
Edgware Rd	37	6,564	300	0	0	6,901
Infill Schemes	12,716	17,934	15,015	10,961	15,411	72,037
Self Financing	10,000	0	10,000	10,000	10,000	40,000
Section 106 Acquisitions	0	12,428	10	10	12,428	24,876
Kemp House/Berwick Street	734	24	0	0	0	758
Ashmill	269	621	10	0	0	900
Central Contingency	5,429	6,305	2,317	1,983	1,397	17,430
<b>Total Other Schemes</b>	<b>31,039</b>	<b>45,795</b>	<b>33,550</b>	<b>23,367</b>	<b>39,236</b>	<b>172,987</b>
<b>Total Capital Expenditure</b>	<b>150,345</b>	<b>196,937</b>	<b>178,489</b>	<b>109,682</b>	<b>154,753</b>	<b>790,206</b>
<b>Financed By:</b>						
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MRA	23,331	23,331	23,331	23,331	23,331	116,655
Borrowing	2,000	35,650	0	0	0	37,650
<b>Total Financing</b>	<b>150,345</b>	<b>196,937</b>	<b>178,489</b>	<b>109,682</b>	<b>154,753</b>	<b>790,206</b>