



Audit and Performance Committee

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Title or report **HRA Capital Programme update**

Report of **Executive Director of Growth, Planning and Housing and the City Treasurer**

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1. Executive Summary

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

2. HRA Capital outturn since 2015/16

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

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

Table 1: HRA Capital outturn against Original approved budget

	2015/16			2016/17			2017/18		
	Budget	Outturn	Variance	Budget	Outturn	Variance	Budget	Outturn	Variance
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Major Works	46.5	29.9	(16.6)	41.4	23.1	(18.3)	39.3	31.9	(7.4)
Regeneration	35.1	15.6	(19.5)	31.3	23.2	(8.1)	68.3	25.5	(42.8)
Other Development	8.3	9.2	0.9	8.7	11.2	2.5	27.8	24.8	(3.0)
Total	89.8	54.7	(35.1)	81.5	57.6	(23.9)	135.4	82.2	(53.2)
% slippage			39%			29%			39%

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

2.4 In 2017/18 the variances within regeneration included:

- the developer exiting the deal on **Parsons North** and a subsequent change in delivery strategy from development agreement to self-delivery (£6.4m)
- less than budgeted acquisition activity on both **Ebury Bridge** and **Church Street Phase 2** as result of ongoing master planning and feasibility design (£5.8m and £6.2m respectively)
- programme delays due to coordination of utility works, including agreeing the design of the Thames Water culvert, on **Lisson Arches** (£4.8m)
- prolonged development agreement negotiations on **Luton Street** moved start on site to the next financial year (£4.9m)
- Full re-design of **Cosway Street** and **Ashbridge Street** to maximise efficiency and link at planning moved the business plan assumed start on site (£9.2m and £3.2m respectively).
- The remaining variance of £2.3m was caused by a delay in approving an OBC for the **Combined Heating programme** (£4.5m) offset by additional expenditure on **Edgware Road/AlmaCanter** (£1.9m) and other small schemes (£0.3m).

- 2.5 During 2017/18 a new term contractor was established to deliver the Major Works programme which resulted in a delay whilst this was implemented and they mobilised to deliver the work. These works were deferred to be included within the 2018/19 Major Works programme with the majority within external repairs and decorations (£4.6m).
- 2.6 Table 2 below shows the forecast outturn for 2018/19 as per the period 3 monitoring report.

Table 2: HRA Capital outturn forecast 2018/19

2018/19			
	Budget	Forecast Outturn	Variance
	£'m	£'m	£'m
Major Works	55.8	50.8	(5.0)
Regeneration	63.0	56.5	(6.5)
Other	31.5	34.1	2.6
Total	150.3	141.4	(8.9)
% slippage			6%

- 2.7 The forecast at period 3 therefore indicates a lower projected level of slippage in this financial year. This should be considered in the context of being only a third of the way through the year. The work outlined in this report to ensure the overall capital programme is appropriate, such as the reprofiling of schemes which have been delayed or deferred expenditure to future years is designed to reduce the year end variance where possible. A breakdown on a scheme by scheme basis is shown in Appendix 1.

3. Forecasting Capital Projects

- 3.1 As table 1 shows, there has been a significant variance in the outturn at the end of each of the previous three financial years when compared to the originally approved budget.
- 3.2 There are elements within these budgets which can be inherently variable which in turn makes them difficult to forecast. For example, acquisitions within the regeneration programme rely on suitable properties becoming available in order to purchase. Within the 2018/19 budget there is £17m of budget allocated to acquisitions which represents 27% of the regeneration budget.
- 3.3 Development activity is characteristically variable and can be problematic to forecast. However, it is important to note that aspects of forecast slippage can also be beyond the control of Westminster's delivery teams.

3.4 In order to set budgets that are as accurate as possible, the City Treasurer and Development teams have established a collaborative and constructive working arrangement, whilst exploring better ways of working (see section 4 PMO). The progress is evidenced by the role the Development team now play in the Capital Programming and Business Planning process, the consistent monthly analysis of the capital programme in which both teams work together in updating and scrutinising the capital forecasting, and where appropriate making changes to the alignment of the capital budgets.

Major Works budgets

3.5 The Major Works (MW) programme which includes the Council’s planned works to existing housing stock, saw a significant reduction in the year end variance in 2017/18. Table 3 shows the MW variance for the previous three years and forecast for 2018/19.

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

	2015/16	2016/17	2017/18	2018/19
Major Works	36%	44%	19%	9%

3.6 As per para 2.5, a new term contractor was established during 2017/18. This is anticipated to bring greater certainty to the level of expenditure within Major Works which to date is reflected by the lower forecast variance.

4. Implementation of PMO

4.1 A review carried out by consultants Pierre Angulaire into programme management proposed a number of improvements that could be implemented. Following on from that review, a Programme Management Office (PMO) has been established in GPH.

4.2 The PMO has recently appointed a new Head who is currently recruiting to the established team structure.

4.3 The main purpose and objective of the PMO is to establish consistent and authoritative reporting of progress against agreed business targets and advice of strategic issues linked with the delivery against these targets.

4.4 As part of the consolidated reporting, the following areas will be included within the PMO’s remit:

- Providing financial information as required to the City Treasurer’s department in line with corporate reporting deadlines. Including enhanced financial

summaries e.g. of spend versus budget in year, contractual spend, horizon scanning of future commitments.

- Pipeline: A better picture of real time delivery of social and intermediate housing units and of the forecast future 'pipeline'.
- Maps: Interactive GIS Mapping of project locations for visual representation of key issues and discussions
- RAID – An executive summary of the cross cutting Risks, Actions, Issues & Dependencies at a strategic level to better enable management intervention if required
- Communication themes: A digest of news stories, illustrations and photos
- Social Values monitoring in conjunction with the Economy team

4.5 As well as regular reporting, the PMO is developing a dashboard to better monitor progress on an individual project basis. The anticipated benefits of this include:

- Provide senior and Executive leadership a process which presents a more succinct overview of progress and the key pressures to meeting targets. The Council can then improve its agility in managing capital spend and be better informed at the right level.
- Moving to a dashboard reporting system will provide an interactive executive summary style of reporting. Progress across a wider range of projects of all shapes and sizes can then be better evaluated.
- The PMO dashboard report is currently in development and is anticipated to be rolled out by October. There are various dependencies with rolling it out in the coming months such as hardware upgrades, migration of databases, introduction of SAP which are being worked through.

4.6 As well as the reporting elements, the PMO has a number of additional benefits:

- Provide additional project assurance and governance of appropriate process and policies being adhered to throughout a project lifecycle.
- Provide an audit and review capability
- Provide a consistent repository of management information
- Establish and disseminate best practice guidance and support to teams on business case development ensuring consistency in approach and compliance with standards
- Ensure WCC's standards and policies are upheld and clearly defined throughout the process of each project's development and execution.
- Collaborate with other management in WCC reporting to executive staff and members when required.

5. Budget setting process

5.1 In order to improve the budget setting process and ensure it is aligned, as much as possible, with project forecasts the following process has been established.

5.2 The Capital Programme Submission Returns (CPSRs) for each project are completed in July and scrutinised over the following month to develop the provisional Capital

Programme which is taken to Cabinet in October. This allows early discussions with project managers around their requirements for the following financial year.

- 5.3 For the HRA specifically, these are then fed into the HRA business plan to establish the available capacity for funding capital expenditure. This may identify changes required to profiling or desired levels of expenditure to ensure budgets are appropriate and realistic given the funding constraints such as the borrowing cap.
- 5.4 These assumptions are then reviewed in January before being formally submitted for approval by Council based on the latest information available.
- 5.5 During the year projects will also progress to different stages requiring Business Cases to be prepared. During each Business Case, an assessment of the financial requirement will be undertaken which can be used to inform the required budget for future years.
- 5.6 As per 5.2 the initial capital programme requirement is established in October for the following financial year onwards. Adjustments required to the current financial year will be reviewed in December and any required adjustments to in year budgets made as appropriate.

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

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Appendix 1 – Period 3 HRA Capital Forecast

Expenditure Type	Full Year		
	Budget £'000	Forecast P3 £'000	Variance at P3 £'000
Major Works			
General HRA	680	3,063	2,383
Electrical Works & Laterals	5,739	9,632	3,893
Internal M & E Works (Domestic Heating)	1,400	1,900	500
External Repairs & Decorations	26,447	18,947	(7,500)
Planned Maintenance	1,300	1,300	0
Adaptations	1,200	1,300	100
Fire Precautions	13,378	7,795	(5,583)
Lifts	2,389	2,937	548
Voids	2,500	3,500	1,000
Kitchen & Bathroom	750	405	(345)
Total Major Works	55,783	50,779	(5,004)
Housing Regeneration			
Church Street Phase 2	5,312	5,828	516
Lisson Arches	8,319	8,492	173
Luton Street	2,135	2,181	47
Parsons North	8,666	5,477	(3,189)
Cosway	6,545	4,827	(1,717)
Ashbridge	5,266	2,924	(2,342)
Edgware Road/AlmaCantar	37	37	0
Combined Heating Programme/DHN	1,854	392	(1,462)
Ashmill Street	269	243	(26)
Sub Total Church Street	38,403	30,402	(8,001)
Ebury Bridge	0	0	0
Ebury	14,601	15,795	1,194
Tollgate Gardens	10,005	10,320	314
Total Housing Regeneration	63,009	56,517	(6,492)
Other Works			
Future Pipeline (Infills)	12,716	9,253	(3,463)
Self Financing	10,000	17,371	7,371
Estate Plan	2,673	1,287	(1,386)
Contingency	5,429	5,429	0
Kemp House/Berwick St	734	749	15
Total Other Works	31,553	34,090	2,537
Total Capital Expenditure	150,345	141,386	(8,959)

