



City of Westminster

Cabinet

Decision Maker:	Cabinet
Date:	15 October 2018
Classification:	General Release
Title:	Capital Strategy 2019/20 to 2023/24, Forecast Position for 2018/19 and Future Years' forecasts Summarised up to 2032/33.
Wards Affected:	All
Cabinet Member:	Cabinet Member for Finance, Property and Regeneration
Financial Summary:	This report outlines the City Council's Capital Strategy and proposed expenditure and income budgets from 2019/20 to 2023/24, forecast position for 2018/19 and future years' forecasts summarised up to 2032/33. It outlines the proposed £2.521bn expenditure budget, funded by £0.308bn external funding, £0.426bn capital receipts with a £1.786bn net funding requirement from 2018/19 to 2032/33. Funding of the proposed programme, revenue implications, and risks and mitigations are detailed.
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1. Executive Summary

- 1.1. This report outlines the City Council's capital strategy and proposed expenditure and income budgets from 2019/20 to 2023/24, forecast position for 2018/19 and future years' forecasts summarised up to 2032/33. The Council is continuing with its well developed, long-term capital planning practice. This report includes details of the strategy up to 2023/24, as well as summarised information up to 2032/33, to show clearly the full quantum of expenditure commitments and the financing of this expenditure during this period. This continues to ensure that the benefits the Council intends to deliver, through the programme, are financially viable in the long-term.
- 1.2. This report updates the Capital Strategy approved by Council on 7 March 2018, with the latest forecasts and projections over future years. Forecasts are based on information received from individual project managers, including actuals in 2018/19 as at the end of Period 4.
- 1.3. The Policy Context section of this report underpins the capital programme's construction and the aims and objectives it is designed to deliver. The report also outlines the governance arrangements that are in place to ensure the programme continues to deliver value for money.
- 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. 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 as part of the revenue budget setting process.
- 1.5. The General Fund capital programme covers five areas of expenditure. These are:
 - Development (£0.954bn) – these schemes will help the Council achieve strategic aims and generate income.
 - Investment (£0.072bn) – schemes within this category will increase the diversification of the Council's property portfolio, and will be self-funding, by creating income, and generating efficiency savings.
 - Efficiency (£0.036bn) – these schemes are funded in accordance with the government's "Flexible use of Capital Receipts" (FCR) initiative and to qualify, the schemes must be designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces

costs or demand for services in future years for any of the public sector delivery partners.

- Major Strategic Acquisitions (£0.135bn) – these expenditure budgets are to allow the council to acquire properties to enable the development of key strategic sites for future regeneration and investment opportunities.
- Operational (£1.324bn) – these schemes are related to day-to-day activities that will ensure the Council meets its statutory requirements

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:

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

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 commentary of the changes in the programme from that recently approved in March 2018, 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 £662.143m over the next five years (2019/20 to 2023/24). 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. There has been an increase in the net funding requirement of £417m since the approval of the 2017/18 to 2031/32 General Fund programme. Reasons for the increase are summarised as follows:

- Change in planning for Oxford Street District investment, with the Council investing £50m per annum for three years to futureproof the West End for future generations. This replaces prior year Council contribution to Oxford Street of £26m.
- Additional schemes totalling £175m delivered by Westminster's Housing Subsidiary Company.
- Inclusion of £42m for potential purchase of a new waste fleet as the current vehicles reach the end of their useful lives. The new vehicles will be greener and more efficient.
- New development schemes totalling £31m to help the Council generate income in future years.
- A further £41m for improvements to the Council's public realm and asset portfolio.

1.10. While the net funding requirement has increased, the cost of financing the programme over 15 years has remained in line with the prior year position. Details of this are explored in paragraph 9.3.

1.11. The proposed budget is fully funded after Council borrowing, but this depends on the schemes being delivered on time and within budget. The impact of borrowing is outlined in the financial implications of the report, in paragraphs 14.13 to 14.21. 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 be recommended:

- 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 2019/20 to 2023/24 and future years to 2032/33.
- 2.3. To approve the capital expenditure forecasts for the General Fund as set out in Appendix A for 2018/19 (Period 4).
- 2.4. To approve the expenditure forecast for 2018/19 (Period 4) for the HRA as set out in Appendix B.

- 2.5. 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.
- 2.6. To approve that all development and investment projects, along with any significant projects follow the previously approved business case governance process as set out in paragraphs 5.1 and 6.5 to 6.14 of this report.
- 2.7. To approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced.
- 2.8. To approve that contingencies 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 that they are required to fund capital project costs, as detailed in Sections 12.11 to 12.14.
- 2.9. To approve the council plans to continue its use of capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). This comes under the MHCLG Guidance on the Flexible Use of Capital Receipts (FCR), if considered beneficial to the Council's finances by the City Treasurer at year-end. (The Council's strategy for flexible use of capital receipts is outlined in section 11.)
- 2.10. To approve the use of a further £7.193m of flexible use capital receipts to fund revenue costs associated with City Hall, Network and Telephony Transformation and Technology Refresh projects as detailed in section 11.9 and 11.14 to 11.24.
- 2.11. To approve the Council's proposal to make use of £400m of forward borrowing to finance the capital programme and subsequently reduce the longer-term revenue impact.
- 2.12. To approve the financing of the capital programme and revenue implications as set out in paragraphs 14.1 to 14.33 of this report.
- 2.13. To approve the financing of the capital programme being 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 programme, together with the governance process, which monitors and manages the programme, forms part of this process.

4. **Policy Context**

4.1. The capital strategy is based on the strategic aims of *City for All*. The *City for All* programme was renewed in 2018/19 and includes five key priorities. These are:

- City of opportunity
- City that offers excellent local services
- Caring and fairer city
- Healthier and greener city
- City that celebrates its communities

4.2. The Council has embarked on an ambitious capital programme, with plans to invest £2.521bn (General Fund) in 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:

- a number of large development schemes within the capital programme are planned to help to deliver 1,850 new and replacement affordable homes. These plans are designed to ease the pressure on temporary accommodation. Delivering homes for the City's residents lies at the heart of giving residents the opportunity to aspire and is a central tenet of the Council's *City for All* strategy.
- the Council's commitment to the West End is demonstrated by a £50m per annum investment in Oxford Street district for three years for the redesign and upgrade of the street and surrounding area. The Council will continue to review its funding and work with partner organisations as options are developed for the district. Oxford Street has 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. Furthermore, the Council is committing £28m towards place shaping at Strand/Aldwych.
- Westminster City Council is committed to the long-term future of the West End. The West End is the cultural and economic capital of the UK that 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 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 that will provide on-going revenue income streams or capital receipts.
- 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.

4.3. The programme's delivery objectives continue to take place against the background of austerity and significant central government funding reductions. It is therefore vital that the Council's capital strategy delivers a return on investment that is financial, such as capital receipts or new revenue streams, or delivers key strategic priorities.

5. Governance

Capital Review Group (CRG)

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. Significant projects include those:

- with minimum capital expenditure of £10m
- requiring a level of resident engagement
- with issues that may give rise to sensitivities
- involving matters which are a major strategic aim of the Council
- carrying major risk
- with an important historical context.

Programme Management Office (PMO)

5.2. The PMO was established in May 2018 with the appointment of the Head of Programme Management Office. In close collaboration with finance, the purpose of the PMO is to provide a stable framework and robust governance that supports and oversees all project teams and stakeholders to improve the probability of successful delivery of projects.

5.3. The PMO will continue to improve the process by which management information is shared across the wide spectrum of development and construction projects in a format that can be more easily reviewed and evaluated.

5.4. The PMO will align these executive summary reports with Finance reporting.

5.5. The key objectives of the PMO is to:

- Create an organisational structure that standardises portfolio, programme and project related governance processes and facilitates the sharing of resources, methodologies, tool and techniques.
- demonstrate and assure that projects are bringing 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 deliverability 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 providing mentoring support and training apprentices and the project management community.

6. Project Prioritisation

6.1. To manage the business case and budget setting process, all schemes are required to complete Capital Programme Submission Request (CPSR) forms. These are reviewed prior to inclusion in the capital programme.

6.2. The CPSR forms are clearly referenced in the project management handbook.

6.3. As part of the CPSR process, five key themes are used to assess projects, 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.

6.4. The prioritisation process will support the Council in making decisions about which projects to progress, especially in an environment of limited financial and officer resources. The process will continue to be developed and refined to ensure that projects and programmes are efficient and effective from a financial and strategic perspective.

Business Cases

6.5. 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 2 March 2016, and is kept under review. This allows CRG to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme.

6.6. These large, long-term schemes are important to reach good business decisions. The development branch governance centres on the five case model that 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); because 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 that 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 case 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 is 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 influence the overall strategy, the local economy, officers and resources of the Council.

Capital Programme Governance

- 6.7. 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.
- 6.8. The report covers the period up to 2032/33 reflecting the Council's ambitious programme, underpinned by *City for All*, which has longer-term commitments for large development schemes.
- 6.9. 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.
- 6.10. 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.
- 6.11. 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 that already have approval will be supported providing they continue to have a viable business case that is delivering to Council priorities.
- 6.12. 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.

6.13. Whilst 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 that is approved by Full Council.

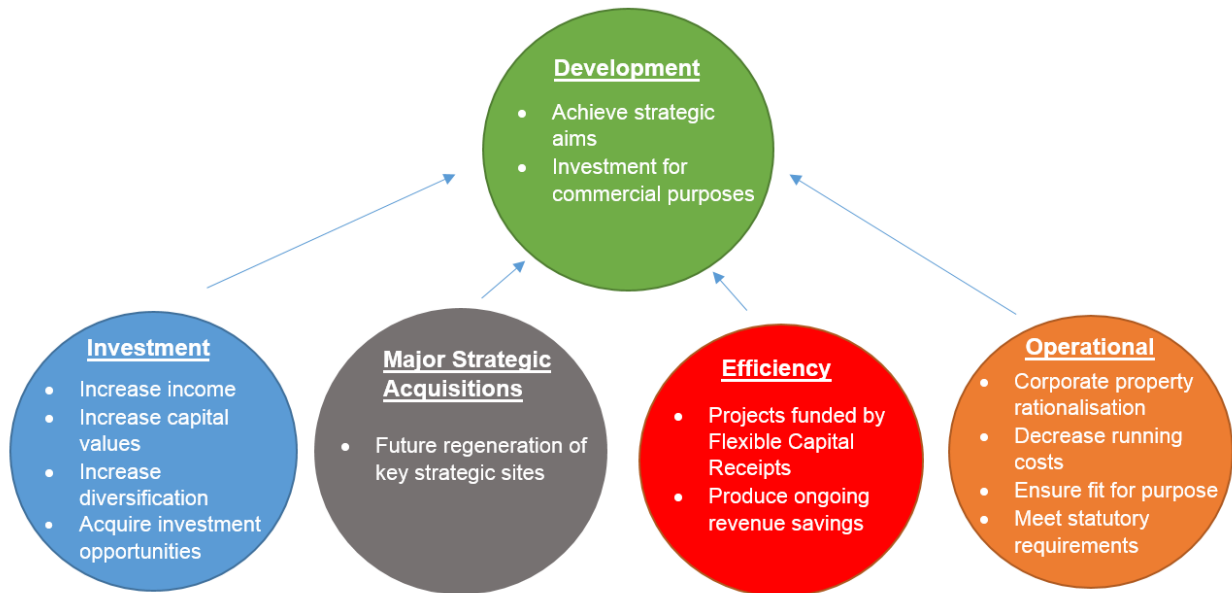
6.14. VfM is a key component of all capital projects. All projects must evidence a level of economy, efficiency and effectiveness in order to be approved. Therefore, projects will have to show that all potential options have been considered, and the option that is chosen is cost efficient and effective 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. More detail on the mechanisms the Council has in place, to effectively manage and identify risk, can be found in Section 12.
- **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 five key areas:
Development, Investment, Major Strategic Acquisitions, Efficiency and Operational.

7.2. The diagram below provides an overview of these areas.



A list of the schemes (with associated expenditure and external funding) can be found in Appendices A(i) and A(ii), as part of the whole General Fund capital programme.

Development

7.3. Development projects are key schemes that directly support the Council's strategic aims, in line with *City for All*. These include 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, thereby generating capital receipts for the Council to reinvest in future capital expenditure projects. The risks associated with reliance on this delivery and funding route are noted in Section 12.7.

- 7.5. The Council will review the best delivery routes for development projects. Delivery routes 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, and can be a good option to limit risk and 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 proportion of the gross capital budget at £954.252m, and of the capital receipts in the programme at £338.349m.
- 7.7. The projects within this section are the housing and mixed-use developments within Growth, Planning and Housing (GPH), and Westminster's Housing Subsidiary Company. Examples are Dudley House, Beachcroft and the Sir Simon Milton UTC (University Technical College). Further details of the major development projects can be found in paragraphs 10.6 to 10.10.

Investment

- 7.8. 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.
- 7.9. 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 2016/17 Capital Strategy. Of this, a total of £12.387m was invested, leaving a balance of £37.613m. For the 2017/18 Capital Strategy, an additional £50m was added to this budget to produce a total budget including 2017/18 of £87.613m. Following a further investment, the proposed budget included in this Capital Strategy is £71.900m for Property Investment Acquisitions within the GPH directorate. Capital receipts generated from this area of £88.047m also include sale proceeds from two car parks.
- 7.10. Each investment will be subject to a detailed assessment report setting out a business case, full investment appraisal and value for money assessment.

Major Strategic Acquisitions

- 7.11. Strategic acquisitions are where the Council acquires properties to enable the development of key strategic sites for future regeneration and investment opportunities.
- 7.12. The current forecast is for a value of £134.836m in purchases. Successful acquisitions depend on the availability of suitable properties coming onto the market and therefore is a reactive area where the forecast can vary. The programme includes two large developments within GPH.

Efficiency

- 7.13. Schemes in this area include those funded from Flexible use Capital Receipts (FCR) and are currently forecasting £35.652m. Further information on FCR, and details of the schemes, can be found in Section 11.
- 7.14. To qualify, the project must be designed to generate ongoing revenue savings in the delivery of public services, and/or transform service delivery to reduce costs, and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners

Operational

- 7.15. The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio.
- 7.16. 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.
- 7.17. Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long-term assets in order to avoid incurring significant future costs, essentially spending now to save money in the future.
- 7.18. Operational schemes in the capital programme have a total expenditure of £1.324bn and include the future years spend and capital contingency in City Treasurer's, highways and public realm works in City Management and Communities (CMC), and landlord responsibilities in Growth, Planning and Housing (GPH).

8. Housing Revenue Account

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

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

8.2 The HRA capital programme over the next five years, 2019/20 to 2023/24 is £662.143m. This consists of £188.944m on major works, £281.237m regeneration and £191.962m for other development schemes.

8.3 This programme is to be funded through a number of different sources. £312.874m of capital receipts, £127.656m affordable housing fund, £116.655m from the major repairs reserve, £71.254m of borrowing, £6.700m of grant or contributions and £27.005m from HRA balances.

8.4 The five year HRA capital programme has reduced from £790m to £662m compared to last year's capital strategy, a reduction of £128m. The significant five year reductions are on Church Street (£60.2m), Major Works (£16.6m), Future Pipeline (£16.1m), District Heating network (£10m), central contingency (£10.5m) and other smaller reductions across various schemes. Further detail on this can be found within the Housing Investment Strategy and HRA Business Plan which is provided in the papers for this meeting agenda. Additionally it should be noted that the recent announcement by the Government, that borrowing caps will be abolished, came too late to be considered in the planning process and so the plan assumes that the borrowing cap remains in place. Once further details are announced, then the plan will be reviewed in light of this.

9. Summary Capital Programme

Table 1: Approved General Fund (excluding HRA) capital programme Period 9 2017/18

	Forecast	Five Year Plan					Future Years to 2031/32 £000	Total £000
	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000		
Expenditure								
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
Total Expenditure	276,601	419,854	423,876	297,248	208,282	122,386	845,375	2,593,622
Funding								
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)
Total Funding	(197,174)	(168,083)	(221,339)	(155,572)	(140,680)	(123,619)	(217,907)	(1,224,374)
Net Funding Requirement	79,427	251,771	202,537	141,676	67,602	(1,233)	627,468	1,369,248

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, have produced the revised budget below.

Table 2: Proposed General Fund (excluding HRA) capital programme Period 4 2018/19

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure								
Adult's Services	291	1,068	200	200	-	-	-	1,759
Children's Services	9,094	11,956	12,958	585	330	-	-	34,923
City Management & Communities	84,687	66,752	74,688	26,697	22,686	18,491	1,200	295,200
City Treasurer	-	39,592	16,488	19,401	19,892	17,160	530,760	643,293
Corporate Services	3,910	1,465	310	390	3,070	1,050	10,083	20,278
Growth, Planning & Housing	176,151	205,589	165,292	216,748	156,081	92,184	302,255	1,314,300
FCR	31,327	3,250	675	400	-	-	-	35,652
Housing Subsidiary Companies	-	14,403	70,508	64,165	23,352	2,937	79	175,444
Total Expenditure	305,460	344,075	341,119	328,586	225,411	131,822	844,377	2,520,849
Funding								
External Funding	(133,937)	(71,025)	(54,542)	(20,262)	(16,942)	(11,607)	-	(308,315)
Capital Receipts	(96,147)	-	(47,645)	(43,205)	(8,900)	(193,886)	(36,613)	(426,396)
Total Funding	(230,084)	(71,025)	(102,187)	(63,467)	(25,842)	(205,493)	(36,613)	(734,711)
Net Funding Requirement	75,375	273,050	238,932	265,119	199,569	(73,671)	807,764	1,786,139

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

- the inclusion of £50m per annum for three years in respect of the Oxford Street District development, ensuring that Oxford Street, along with the surrounding area, retains its status as the nation's high street (this represents an additional £124m as there were existing Oxford Street

related projects within the Capital Programme). As a result of the above the West End Partnership allocation which included expenditure and income have been excluded from the programme.

- the inclusion of £175.4m for four exemplar schemes that will be delivered by Westminster's Housing subsidiary companies.
- the inclusion of £42m for the potential purchase of the new waste fleet which may be procured in 2020.
- the inclusion of £31m for Westminster Boating scheme, which considers the redevelopment of the current boating base site in conjunction with the current tenants.
- A further £41m for improvements to the Council's public realm and asset portfolio.
- a re-profiling of projects already included in the programme across the financial years and other minor variances.

9.3. The capital financing cost has remained in line with the prior year position despite additional projects being included within the capital programme. These reasons for this include:

- Increased cash balances – cash balances at the start of the year were higher than expectations mainly due to business rates cash flows changing and slippage on last year's capital programme
- Westminster Housing Subsidiary Company – there is loan repayment of £105m factored into the capital financing costs calculation which reduces the borrowing requirement. In addition MRP does not have to be charged on the loan as long as there is confidence over the repayment. This has the effect of a minimal capital financing cost of the housing subsidiary companies to the General Fund
- HRA cash balance - this has increased by £75m as a result of the inclusion of non-right to buy capital receipts
- Oxford Street District – projects originally included in the capital programme had an asset life of 15 years, as this will now form part of the large scale Oxford Street District project this has now increased to 30 years reducing the MRP cost to the 15 year capital programme
- 5% slippage - a 5% reduction has been applied to the capital financing cost. The capital programme has increased year on year and historic trends show that some matters outside of the Council's control may materialise on projects which no longer make them viable and/or

desirable to deliver e.g. market conditions, consultations, site surveys etc. This treatment also helps to prevent the capital financing costs being overstated.

- 9.4. In addition, an assumption of £400m expenditure on operational schemes has been included within contingencies for future years. 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.

10. Service Analysis

- 10.1. The following section reviews what is included in the individual capital programmes for each Council directorate from 2018/19 onwards, excluding the assumed £400m operational budget for future years. This section aims to detail what is included and explain changes to the schemes included within each Directorate portfolio.

Growth Planning and Housing (GPH)

- 10.2. The GPH directorate manages GPH General Fund, the new wholly owned housing company, and strategic acquisitions.
- 10.3. Growth, Planning and Housing (GPH) contains the Council's Housing, Investment and Operational Property, Development Planning and Economy, and Placeshaping schemes. For the purposes of this document, the HRA is included separately.
- 10.4. GPH has the largest Capital Programme within the Council. The gross expenditure budget for GPH up to 2032/33 is £1.314bn and forecast external funding is anticipated to be £0.129bn.
- 10.5. On a net basis this is a proposed budget of £1.185bn for GPH, which excludes capital receipts, and this is shown in the table below:

Table 3: Proposed GPH programme summary Period 4 2018/19

	Forecast	Five Year Plan					Future	Total
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Years to 2032/33 £000	
Expenditure	176,151	205,589	165,292	216,748	156,081	92,184	302,255	1,314,300
External Funding	(70,139)	(16,872)	(21,414)	(9,325)	(7,425)	(4,265)	-	(129,440)
Net Funding Requirement	106,012	188,717	143,878	207,423	148,656	87,919	302,255	1,184,860

General Fund Development Projects

- 10.6. The capital programme presented within this report forecasts a gross capital expenditure budget of approximately £0.903bn for GPH related General Fund Development Projects (both live and potential future projects). As well as producing capital receipts, many of these projects will also generate on-going revenue streams.
- 10.7. The Development 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 commencing construction onsite at Beachcroft House, approval to progress the Luxborough Development to detailed design and Cabinet approval to progress Huguenot House designs and consult further on the options.
- 10.8. The Council also has a number of sites under construction with the Moberly, Jubilee phase 1, Sir Simon Milton UTC, Beachcroft House and the Dudley House Academy and intermediate rental all on site.
- 10.9. Furthermore, refinement of design work, massing studies and financials has meant several projects are now ready to go through the business case process this year. Huguenot House, Lisson Grove Programme, Carlton Dene and Westmead, and Luxborough are all expected to progress through the business case cycle soon.
- 10.10. Below is a summary of all the general fund capital projects being managed by the Development Team (unless otherwise stated):

Dudley House

The project is on site and progressing well, as per the programme. Marylebone Boys School was completed in September 2018, and the target completion date for the intermediate rent accommodation is May 2019. Open market bids have been received for a building operator, with the best offer comparing favourably with the original forecast.

Huguenot House

Following a Cabinet decision in July 2017 a formal consultation has begun 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 in 2019/20. Expenditure to date has primarily been the spot purchasing of residential properties in the block as they become available.

Sir Simon Milton University Technical College

The school opened in September 2017. The project completed in August 2018, following a few snagging issues which delayed the residential.

Strategic Acquisitions – Leisure Review

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 is progressing to detailed design, exploring options including a mixed-use development. The design team have been appointed and OBC is expected to be presented to members in the final quarter of 2018/19.

Seymour Leisure Centre/ Marylebone Library

In response to feedback from the first round of public consultation regarding the proposals to co-locate the Marylebone Library and improve the swimming facilities at Seymour Leisure Centre, a feasibility study is being progressed to examine the possibility of significantly enhancing the swimming offer by re-opening the old main pool at the site and introducing a new mezzanine floor to maintain the sports hall provision. This project would also enable the library to be located in a more prominent area of the building. The feasibility will complete in November 2018, and will determine recommendations for the project, which will include any proposals. The capital strategy will be updated if necessary.

Moberly and Jubilee

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

Beachcroft

Following approval of the Full Business Case and completion of the enabling works, construction on site has commenced. The care home is on course to be completed by December 2019 with the private units completed in March 2020. This development is linked to the projects at Westmead and Carlton Dene with the new care home at Beachcroft providing a decant site for residents of these two care homes.

Westmead/Carlton Dene

Officers submitted a Cabinet Member Report in June 2018 requesting to begin consulting with residents and progressing the design to a preferred option. Once approved the scheme will progress to an OBC, which will be presented to Cabinet Members towards the end of 2018/19. The schemes will seek to maximise care provision whilst ensuring the final position of the Sheltered Housing Scheme for Older People (SHSOP) programme is at least cost neutral.

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 budget figure of £79.364m has been included, which will be subject to further review regarding financing as the business case progresses.

City Hall

Whilst this project sits within Corporate Property, 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 began in spring 2017 and is on track to complete by December 2018. The scheme is planned to transform the way the Council works to create a more modern and agile working environment which will improve productivity and collaboration. The project is being partly funded by flexible use capital receipts, as it is planned to deliver ongoing revenue savings in the Council's budget.

Corporate Property

- 10.11. The Corporate Property Capital Programme has an approved budget of £154.586m. In addition to investment acquisitions of £71.900m and £48.084m for the refurbishment of City Hall, it also contains ongoing building improvement works of £15.419m on the Forward Management Plan and Landlord Responsibilities. The balance of the budget comprises individual projects such as £0.325m for ensuring properties within the investment portfolio are up to Minimum Energy Efficiency Standards (MEEs).
- 10.12. The Council purchased one commercial property last year, 14-20 Orange Street, which is planned to generate an on-going revenue stream for the Council.
- 10.13. In relation to investment acquisitions, 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

- 10.14. 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 £69.494m, partly offset by external income.

- 10.15. The Affordable Housing Fund (AHF) comprises Section 106 agreements, which are 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 HRA and General Fund new affordable housing schemes such as Dudley House, and various other in-borough projects to provide additional housing.

Placeshaping

- 10.16. The Placeshaping capital budget includes gross expenditure of £214.350m. The Council's investment in the Oxford Street District, of £50m per annum for three years, is within this total. The Council is also contributing £28.299m towards place shaping at Strand/Aldwych.
- 10.17. The remaining Placeshaping budgets relate to further investments in improving the Council's public realm and open spaces.

Other Schemes

- 10.18. The remainder of the GPH capital budget of £20.337m comprises schemes in Planning and the Economy team. The largest project within this relates to future enterprise space in the City, with a budget of £16.477m.

Housing Revenue Account

- 10.19. The HRA capital investment capacity is considered as part of the HRA business planning process. The HRA is subject to a different statutory business planning process that requires the HRA to be self financing over 30 years.
- 10.20 The programme has been developed to provide the maximum number of new affordable units that the HRA can reasonably deliver within the context of its current financial constraints. The delivery of these schemes is through both WCC and City West Homes (CWH). This year a number of schemes are also forecast to be financed through both the Council's housing subsidiary companies and the HRA.

Housing Subsidiary Companies

10.21. In December 2017, the Council's Cabinet approved a report recommending the creation of subsidiary companies for the purpose of helping the Council to deliver its ambition to increase the supply of housing affordable to those living and working in Westminster. Subsequently Westminster Housing Investment Limited (WHIL) together with its subsidiary, Westminster Housing Developments Limited (WHDL), were established. WHIL will hold properties as investments for intermediate and market renting and WHDL will undertake the construction and development.

10.22. The overall aim of both companies is to extend the resources of the Council and the HRA (which has limited capacity and is expected to be fully utilised in the coming years). The companies will work with the council to deliver the regeneration, and new build or acquisition opportunities identified by the Council. They will develop and/or acquire housing; and the assets, unlike with other housing partners, may be retained within the companies (and, as subsidiaries of the Council, within the control of the Council).

10.23. The specific business objectives are:

- to provide more Intermediate and market housing in the City,
- to offer new tenures and, in particular, Intermediate tenures to extend the range of provision available for those living and working in Westminster,
- to increase housing delivery at a scale, pace and quality set by the Council and with control and ownership of the assets retained by the Council.
- to offer a flexible partner for the Council in delivering housing.

10.24. WHIL has identified a number of schemes being progressed within the Council's housing delivery pipeline to form the basis of its Business Plan. These exemplar schemes provide information on a mix of housing that fits with the aims and objectives of WHIL/WHDL, and enable improved accuracy of the financial projections. It may be that the schemes modelled for the purpose of the Business Plan will not be progressed through WHIL and other schemes come forward. For this reason, the schemes are shown as exemplars.

10.25. The housing subsidiaries are projected to achieve an operating breakeven or profit position 2 years into the business plan, on the basis of acquiring homes which can be let out for more than the operational costs. Interest on debt incurred during the development period of a scheme would be

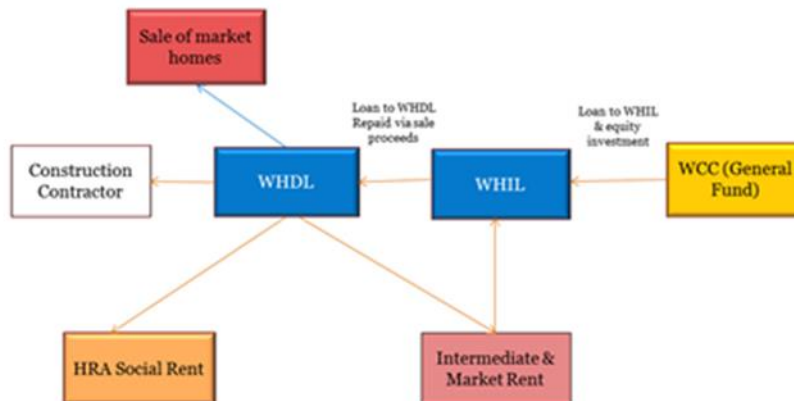
capitalised. The majority of the cash flows relate to capital expenditure on acquiring sites and developing on these.

10.26. Once units from a development are divested (to the HRA, market sales or retained in the investment company), the cash generated can be utilised to put into new schemes, repay some of the debt back to the council or be used to start paying dividends back to the council. From a pure cashflow perspective, it will take 16 years before the council receives the original investment back from loan repayments and dividends, clearly though the council's equity investment in the subsidiaries will be of significant value as the investment company will be in possession of a number of homes for letting with an intrinsic market value.

10.27. Over the 35 years of the plan as currently modelled, the subsidiaries will return over £60m in excess of the original investment and deliver an IRR of 4.94% (i.e. the minimum yield acceptable to justify the investment). The development period is modelled at less than 10 years and would develop and acquire 464 dwellings. The plan is based on a number of exemplar schemes which may change or be replaced subject to the outcome of the business case and feasibility studies during the life of the plan.

10.28. The commercial structure of the Company's proposals is outlined in the diagram below. The Council holds 100% of the shares in WHIL and, in turn, WHIL 100% owns WHDL. Funding will be made available to WHIL by the Council which in turn will provide this to WHDL, its development trading subsidiary, which will undertake construction. WHDL will dispose of newly developed housing, either into the market, to the Council, for social rented housing, or to WHIL, for market and intermediate rental housing. The receipts generated will enable WHDL to return all funding to WHIL which in turn will repay, in part, the Council. WHIL, the investment company, will retain market and Intermediate rental properties for letting and will use the net rental income after operational costs to service and repay the debt.

Modelled commercial structure



WHIL Acquisitions

- 10.29. WHIL will explore opportunities for acquisition of housing available in the market, or in the process of being developed, from developers and house builders operating in the Borough.
- 10.30. Two projects, that are underway or on the cusp of commencement, have been identified as having potential for acquisition of units by WHIL. It is proposed that WHIL will acquire 50% of the 109 private sale units in Tollgate Gardens, a developer led regeneration in the Maida Vale Ward, and 19 units in Jubilee Leisure Centre Phase 2. WHIL will hold the acquired units for letting as Intermediate housing.

Development Scheme 1

- 10.31. This new scheme identifies an opportunity to build c.170 residential units on an undeveloped site.

Regeneration Schemes 1 and 2

- 10.32. The HRA business plan includes pipeline schemes, two of which have been identified as exemplar schemes for WHIL. The schemes will deliver a mix of market sale, intermediate and social rented units.

Table 4: Proposed Housing Subsidiary Companies programme Period 4 2018/19

Scheme	Five Year Plan					Future Years to		Total £000
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2032/33 £000		
WHIL Acquisitions	4,090	10,043	-	-	-	-	14,133	
Development Scheme 1	3,086	26,633	36,528	10,000	-	-	76,247	
Regeneration Scheme 1	3,077	10,977	7,751	13,352	2,937	79	38,173	
Regeneration Scheme 2	4,150	22,855	19,886	-	-	-	46,891	
Total Expenditure	14,403	70,508	64,165	23,352	2,937	79	175,444	
Funding								
Affordable Housing Fund	(1,435)	(2,779)	-	-	-	-	(4,214)	
Net Funding Requirement	12,968	67,729	64,165	23,352	2,937	79	171,230	

*Affordable Housing Fund included is subject to review of the AHF's capacity and further approval.

10.33. Individual schemes will be assessed as to the most suitable delivery method and hence, whether they will be taken forward by WHIL/WHDL. Schemes identified to be taken forward by the housing subsidiaries will follow the standard business case and governance process of the Council, needing approval through the Capital Review Group before the scheme can be commenced, having been approved by the subsidiary's board beforehand. In addition, the Council will be asked to give specific funding approval for the scheme.

10.34. The funding for each scheme is anticipated to be provided by the Council through a mix of equity and loan funding in the ratio of 35:65. The loan will be at a commercial, but competitive, rate with interest accruing and rolling up into the loan during the construction phase. When the properties in a development are complete, they will be disposed of by WHDL to either to the HRA (social housing), WHIL (intermediate or market housing for rent) or sold on the open market (private market housing). WHIL will pay WCC dividends on the equity, plus interest on the loan from WCC once proceeds from the sale of units have been used to repay borrowing, reflecting commercial returns on the development, and on any intermediate housing retained for letting.

City Management & Communities

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

10.36. As a directorate, this has a significant capital programme. Including 2018/19, gross expenditure within the capital programme totals £295.200m (which includes £51m development projects), with external income of £140.948m from a range of third parties.

Table 5: Proposed CMC programme summary Period 4 2018/19

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	84,687	66,752	74,688	26,697	22,686	18,491	1,200	295,200
External Funding	(55,035)	(41,291)	(17,441)	(10,402)	(9,437)	(7,342)	-	(140,948)
Net Funding Requirement	29,652	25,461	57,247	16,295	13,249	11,149	1,200	154,253

10.37. The majority of this expenditure comes within the City Highways directorate, which can be split across (gross expenditure budget in brackets):

- planned preventative maintenance and named structural projects within Highways (£81.752m) – all but £3.690m is funded by the council
- public realm externally funded (£123.315m) – £111.757m is funded by contributions from third parties
- transport schemes - (£18.300m) - £14.649m externally funded, largely Transport for London

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

- Waste (£44.912m gross), of which £42.000m relates to the potential purchase of a new waste fleet
- Public Protection and Licensing (£9.715m gross) - £8.357m is funded by grant contributions
- Leisure (£8.905m gross) - £1.855m is funded, largely through CIL contributions
- Libraries (£4.186m gross)
- Cemeteries and Parks (£2.615m gross) - £0.640m is funded through CIL contribution
- Parking (£1.500m gross)

10.39. The gross expenditure and income contained within the new capital programme is broadly consistent with the capital programme approved in March 2018, which contained £275.330m gross expenditure and £156.344m income from 2017/18 onwards. There is a net increase in the programme due to an addition of an extra year to the existing 5 year programmes and the inclusion of an amount for the potential capitalisation of the new Waste fleet which may be procured in 2020.

Adults Services

10.40. The Executive Directorate of Adult Social Care and Public Health has a capital programme which plans to deliver gross works expenditure of £1.759m. Projects 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.

Table 6: Proposed Adults' Services programme summary Period 4 2018/19

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	291	1,068	200	200	-	-	-	1,759
External Funding	(291)	(1,068)	(200)	(200)	-	-	-	(1,759)
Net Funding Requirement	-	-	-	-	-	-	-	-

10.41. Three schemes, People First Website, Customer Self Service Digital Enhancement & Lupus St have been re-profiled to complete in 2019/20. The Framework-I Upgrade to Mosaic is now to complete in 2021/22

Children's Services

10.42. From 2018/19 to 2032/33, the Children's Services capital programme plans to deliver £34.923m of works:

Table 7: Proposed Children's Services programme summary Period 4 2018/19

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	9,094	11,956	12,958	585	330	-	-	34,923
External Funding	(8,472)	(10,359)	(12,708)	(335)	(80)	-	-	(31,954)
Net Funding Requirement	622	1,597	250	250	250	-	-	2,969

10.43. The capital works in Children's Services are broadly categorised as:

- School Expansion Projects – to increase pupil places
- Non-Schools Estate Rolling Programme – planned and reactive building works to non-schools sites
- Schools Estate Rolling Programme – planned and reactive building works to schools sites

10.44. The gross income budgeted in the programme can be broadly categorised as:

- Basic Needs Grant - £12.790m

- School Condition Allocation - £6.020m
- SEND Capital Grant - £ 1.774m
- Education and Skills Funding Agency Grant - £9.200m
- Section 106 / Community Infrastructure Levy - £2.170m

10.45. The Basic Need Grant and Condition Allocation Grants are awarded by the Department for Education / Education and Skills Funding Agency for providing works at educational establishments. This programme applies these grants to works meeting the conditions set by the awarding bodies.

10.46. In comparison to the five-year budget set in advance of the 2018/19 financial year and the capital programme approved in March 2018, an additional school expansion project has been added. The value of this expansion is £8.700m plus £0.500m contingency totalling £9.200m. The expansion is set to deliver an additional 29 places for pupils with Special Educational Needs at the site of St Marylebone Special School.

10.47. Condition surveys have been carried out on all educational establishments and verified by Corporate Property Services. The surveys have highlighted additional works required during this five year programme to the value of £6,020m, fully funded through the School Condition Allocation Grant.

Corporate Services and Policy, Performance and Communications (CS & PPC)

Table 8: Proposed CS & PPC programme summary Period 4 2018/19

	Forecast	Five Year Plan					Future Years to 2032/33	Total
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	3,910	1,465	310	390	3,070	1,050	10,083	20,278
External Funding	-	-	-	-	-	-	-	-
Net Funding Requirement	3,910	1,465	310	390	3,070	1,050	10,083	20,278

10.48. The proposed gross expenditure budget is £20.278m.

10.49. This covers the Council's ICT schemes, and has decreased mainly as a result of the move from buying physical software to more cloud-based solutions. This reduction is partially offset by increases elsewhere, mainly in the budget for End User Computing Refresh.

City Treasurer

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	-	39,592	16,488	19,401	19,892	17,160	530,760	643,293
External Funding	-	-	-	-	-	-	-	-
Net Funding Requirement	-	39,592	16,488	19,401	19,892	17,160	530,760	643,293

Table 9: Proposed City Treasurer programme summary Period 4 2018/19

10.50. The City Treasurer's capital budget holds the Contingency Provision totaling £643.293m, of which £400m relates to future years' expenditure.

10.51. 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. Flexible Use of Capital Receipts (FCR)

11.1 In March 2016, the MHCLG issued statutory guidance allowing the flexible use of capital receipts to support local authorities in delivering more efficient and sustainable services. It allows local authorities to use capital receipts received in the year to fund the revenue costs of service reform and transformation, provided that this expenditure yields ongoing savings to an authority's net service expenditure. Capital receipts applied to revenue expenditure in any given year must have been generated in that same year.

11.2 Updated guidance issued by MHCLG extended the original three-year period from 1 April 2016 to cover a further three-year period to 31 March 2022, and applies only to capital receipts generated during this period.

11.3 Sections 11.8 and 11.9 set out the intended use of this flexibility in 2018/19 and for each subsequent financial year to which the flexible use of capital receipts direction applies. This strategy will be updated each year in the capital programme report as part of the annual budgeting process.

Rules of Qualification

11.4 Flexible use of Capital Receipts (FCR) can fund revenue expenditure on any project that is designed to:

- generate ongoing revenue savings in the delivery of public services
- transform service delivery to reduce costs
- transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

- 11.5 Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.
- 11.6 Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. Revenue transformation costs cannot be financed from Right to Buy receipts, borrowing or any capital receipt received before 1 April 2016.

Application of Flexible Use Capital Receipts (FCR)

- 11.7 The Council identified two transformation projects, Westminster City Hall refurbishment and Digital Transformation, that have significant revenue spend; along with a contribution to the pension fund deficit that meets the definition of qualifying expenditure as it yields ongoing savings to the Council's net service expenditure.
- 11.8 For the 2018/19 Capital Strategy, Full Council approved the following costs to be funded from FCR:

Table 10: Approved FCR Budget as per 2018/19 Capital Programme

Project Name	Total Authorised Budget £000	2017/18	2018/19
		Outturn £000	Revised Budget £000
Capitalisation of Pension Contribution	30,000	10,000	20,000
City Hall Revenue Costs	18,000	9,875	8,125
Digital Transformation Revenue Costs	3,000	2,666	334
Total	51,000	22,541	28,459

- 11.9 In addition to amounts approved in March 2018, Council approval is sought for a further £7.193m for the schemes in the table below:

Table 11: Additional FCR Budget requiring approval per 2019/20 Capital Programme

Project Name	Total Authorised Budget £000	2017/18 Outturn £000	2018/19 forecast £000	Total Outturn and Forecast £000	Additional Amount to be Approved £000
Capitalisation of Pension Contribution	30,000	10,000	20,000	30,000	-
City Hall Revenue Costs	18,000	9,875	13,243	23,118	(5,118)
Digital Transformation Revenue Costs	3,000	2,666	334	3,000	-
Network and Telephony Transformation			1,325	1,325	(1,325)
Technology Refresh			750	750	(750)
Net Funding Requirement	51,000	22,541	35,652	58,193	(7,193)

- 11.10 Notwithstanding Council approval for this additional expenditure, it must meet FCR regulations and business cases will undergo rigorous scrutiny from the lead Member of Finance, Property and Regeneration and City Treasurer. No expenditure will progress until the business cases are signed off.

Pension Fund Deficit

- 11.11 The Council plans to utilise capital receipts in order to reduce the historic deficit on the Pension Fund and thus make future ongoing net savings in annual deficit recovery payments. Council approval for payment of increased deficit contributions is set out in the 1 March 2017 revenue budget report, para 2.1, bullet 10, with reference to para 5.34. By contributing a further £30m (to be funded from FCR), the pension fund deficit recovery period will be brought forward to the early part of 2030/31. The funding level will improve from 79.3% to 82.1% by 2019/20 in total (including the Council's total deficit reduction plan).
- 11.12 The savings are an estimate at this time and are subject to many variables, such as the performance of the stock market and investments. However, these variables also impact the cost of the deficit and are the best estimate of an actuary's analysis of the City of Westminster Pension Fund.
- 11.13 Of the total approved £30m contribution, £10m has been paid and the Council intends to make the final £20m contribution in 2018/19.

City Hall Refurbishment

- 11.14 Approval was given in the 2018/19 capital strategy to use £18m of capital receipts to fund qualifying revenue expenditure, in 2017/18 and 2018/19, relating to the City Hall refurbishment. The project meets the definition of qualifying expenditure, as the completed scheme will deliver increased rental income for the Council, as well as reduced running costs. The improvements will result in a building that will be more efficient and will generate income from leasing out 10 floors of City Hall.
- 11.15 To date, the Council has spent £14.875m of the approved £18m on revenue expenditure relating to refurbishment of City Hall, leaving £3.125m of approved spend remaining. Council approval is sought for an additional £5m of FCR to be used. This will bring the total approved envelope to £23m. Approved FCR expenditure is on the proviso that the City Hall project generates on-going revenue savings which will be largely generated from rental of 10 floors of the building. This comes with market risk as the Council negotiates with external companies. Further information on risk can be found in Section 12.

- 11.16 The running costs of 5 Strand and Portland House during the refurbishment account for the majority of revenue expenditure, along with the decant/recant costs. These qualify, as they are only incurred as a result of the refurbishment of City Hall and can be funded from FCR.
- 11.17 The City Hall transformation project is scheduled to provide the Council with revenue savings from 2020/21 onwards.

Digital Transformation

- 11.18 The 2018/19 Capital Strategy approved FCR funding to the value of £3m, with £2.666m of spend funded in 2017/18 and £0.334m in 2018/19.
- 11.19 By adopting Digital solutions to transform service delivery, the Council envisages that ongoing revenue savings will be achieved. The scope of the digital transformation programme is currently under review due to a change in leadership and the projections for future savings potential are being revisited. Before savings from the programme are built into directorate budgets, business cases need to be worked up which set out how the savings will be delivered and from which budgets. A further assessment of the FCR funding utilised to date will be made following this review, the outcome of which should become clearer by year end.
- 11.20 As further business cases come forward in the future, the process of reviewing the business cases is completed and additional revenue savings established, Full Council approval may be sought for increased use of FCR to finance the programme.
- 11.21 As revenue savings are identified they will be reported via the Council's Medium Term Plan (MTP) and the Budget and Council Tax Report.

Network and Telephony Transformation

- 11.22 The ICT strategic objective is to establish a network and telephony infrastructure that is common across WCC and RBKC. This will enable ICT to re-procure the network and telephony contract with greater purchasing power and harness new technology.
- 11.23 The recurring saving anticipated is £0.600m from 2020/21. The investment of £1.325m will be required to transition to a new contract and explore, test and adopt new technology solutions.
- 11.24 The savings could be achieved by:
- upgrading the telephony from legacy solutions to a lower cost Unified Communications as a Service (UCaaS).

- reducing the number of council provided mobile phones/tablets by encouraging 'bring your own device' (BYOD).
- leveraging economies of scale by creating a common Bi-Borough data network.

Technology Refresh

- 11.25 The ICT core services are managed by BT Lot 1 (Computers), Lot 3 (Datacentre Management) and Agilisys Lot 2 (Service Management) contracts. The existing contract value of Lots 1 to 3 is £2.981m.
- 11.26 The Technology Refresh project is an initiative to transition to a new contract in an incremental manner. It is anticipated that through a successful contract tender, recurring savings of £0.350m per annum could be realised from 2021/22. This represents a saving of c11% on current costs.
- 11.27 The investment of £0.750m will be required to cover preparatory works, transition and parallel running costs.
- 11.28 The savings could be achieved by:
- gaining improved market rates for services consumed in new contracts
 - reducing existing charge items by moving more of the Council's applications to the cloud, leading to a reduction in storage and hosting charges
 - improving IT self-service thereby reducing IT Service Desk charges.

12. Risk Management

- 12.1. Major capital projects require careful management to mitigate the potential risks that can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.
- 12.2. **General Risks** – Identification and Mitigation. General risks are those that 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:
- 12.3. **Interest Rate Risk** – the Council is planning to externally borrow £479.261m as set out in this Capital Strategy over the next five years. Interest rates are variable and a rise could increase the cost of servicing debt to a level that is not affordable. To mitigate this, the Council has used

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

Table 12: Current & assumed external borrowing (PWLB) interest rates

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Assumed interest rate	2.70%	3.30%	3.50%	4.00%	4.40%	4.60%

- 12.4 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). To mitigate this risk, the Council is proposing to arrange £400m of forward borrowing which will lock future borrowing requirements at current rates, thereby saving the Council considerable costs. A rise of 1% would cost an extra £4.793m per annum on the full £479.261m borrowed by the end of 2023/24. The extra cost of a 1% rise in interest rates would be £7.453m by 2032/33, if the full projected borrowing of £745.269m were to be realised.
- 12.5 **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 approximately £25m. 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 signing of contracts with construction companies and developers through fixed price contracts.
- 12.6 **Change in Law Risk** – Capital schemes need to comply with the latest law and regulations, changes in which can impact construction costs and may be retrospective in their nature. This risk is mitigated by awareness of pipeline legislative changes and provision of contingencies.
- 12.7 **Market health / Commercial Values Risk** – the Council’s capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, sales receipts and other revenue/capital financial flows such as land deals with developers. In some cases, the Council commits to large projects, based on assumptions about future asset values. Should market movements mean that these assumptions are inaccurate, then the Council may suffer financially. To mitigate this risk, the Council relies on expert advice on future asset values in making its decisions.
- 12.8 **Project Risks** – risks that 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 relate 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:

12.8.1. Supplier Financial Stability – construction companies and developers contracting with the Council that experience financial instability pose a significant risk. They may not be able to raise funding to finance operations, and their potential insolvency could lead to a costly process of changing suppliers without any guarantee of remaining within the overall budget. The Council could suffer direct financial loss, and any defects or other issues may not be resolvable as anticipated. To mitigate this risk, the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.

12.8.2 Effective Business Case Development - the documentation that is required depends on the project's size. For 2019/20 the types of business cases required for larger projects are:

- strategic case – this confirms that the project outcomes, as scoped, align with the strategic objectives of the Council.
- outline business case – this sets out the preliminary thoughts regarding a proposed project. It contains information required to help the Council make decisions regarding the adoption of the project and sets out envisaged outcomes, benefits and potential risks associated with the project.
- full business case (FBC) - preparation of the FBC is a mandatory part of the business case development process, and is completed following procurement of the scheme but prior to contract signature.

12.8.3 Risk Registers - projects are required to maintain a risk register, to ensure effective monitoring.

12.8.4 Highlight reporting - development projects, as an example, create monthly highlight reports to ensure stakeholders are aware of progress and risks of projects on an on-going basis.

12.8.5 Appointment of professional teams - the Development team has recruited and retained the services of experts to provide robust planning and review in order to advise on financial feasibility and

to ensure timely delivery of projects. Experts also cover key surveying and financial planning roles to give assurance on quality of work and assumptions.

12.9 **Risk of Revenue/FCR 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 write-off. There is a further risk that any projects funded from Flexible use of Capital Receipts (FCR) may not yield the required ongoing revenue savings and therefore may need to be written off to revenue.

12.10 **Transfer Risk** – When the Council plans and delivers projects it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as Westminster Housing Investment Ltd) is the best placed to take on that risk. A key consideration for major capital schemes is whether these will be developer led or whether the Council will self-develop. For a developer led scheme the developer will take on a significant proportion of the risks associated with the project. However the developer will price this risk in, so it will come at a cost. Considerations can include whether there is resource capacity and expertise to take on specific risks in the context of the overall capital programme. The housing subsidiaries are newly incorporated and there may be an initial set-up risk as the company gains experience and embeds its delivery plan.

Contingencies in the Capital Programme

12.11 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 refurbishing or demolishing existing buildings (e.g. the cost of asbestos removal).

12.12 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 progress, the unknown factors become clearer and project managers focus on managing these in the most effective way possible, utilising contingencies to do so as needed.

12.13 There is currently a risk allowance of 20% against original scheme budgets on large-scale development projects, of which 15% is held corporately. The value of the centrally held contingency is £243.293m.

Approximately £150m of this is general capital programme contingency and £93.293m is project specific.

12.14 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 one 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%.

Housing Revenue Account – Risk Mitigation Strategy

12.15 The range of management options available within the HRA to mitigate any additional risks are as follows:

12.16 The 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. Officers produce a management report on the HRA on a monthly basis which is shared with senior management and the Cabinet Member for Housing as part of this.

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

Risk	Impact	Mitigation
<p>Capital Receipts: The plan assumes estimated capital receipts of £467m will be generated and used to fund the development of new homes.</p>	<p>Any significant slippage in the timing or value of these receipts will pose a cash flow risk for staying within the borrowing limit.</p>	<p>Robust monitoring of the timing and expected value of the receipts will help inform management action to mitigate this risk. Management options identified above would need to be applied.</p>
<p>Rent Policy</p>	<p>If rents were only to increase annually by CPI after the 1% reduction period, not by CPI+1% as modelled, the impact would be significant and the plan would be unviable.</p>	<p>Lobbying is key to the success of avoiding this risk from happening in the first place. Regeneration spend would need to be significantly curtailed.</p>
<p>Interest rates</p>	<p>The rates assumed are between 4% and 5% on new borrowing throughout the plan. If interest rates were to rise this would have a significant adverse impact as</p>	<p>The HRA has some fixed loans in place which would not be affected until they matured and needed to be replaced. Further fixed rate loans could be taken out to prevent uncontrolled</p>

Risk	Impact	Mitigation
	<p>the peak debt is only £3m less than the cap. Ignoring profiles of current fixed term loans, a 1% rise in interest would add £2-3m per annum to costs and increase debt levels further. This would compound annually.</p>	<p>increases. However, the scale and pace of regeneration may need to be reviewed.</p>
<p>Inflation</p>	<p>If inflation were to increase above that assumed by 1%, the Plan would no longer be viable over 30 years.</p>	<p>The increase in costs would be partially offset by increased income as this is also based on CPI inflation.</p> <p>The situation would not be uncontrolled as there would need to be a decision as to whether certain expenditure is still deemed affordable or value for money. Management options identified above would also need to be applied.</p>
<p>Capital Costs</p>	<p>If the cost of construction and professional fees on the regeneration programme were to increase by 20% this would cost c£50m.</p>	<p>This is provided for within contingency on the regeneration scheme budgets. The central contingency could be drawn upon. Other general estates expenditure could be reprofiled.</p>
<p>Welfare Reform: Implementation of Universal Credit, benefit cap and other welfare reform changes.</p>	<p>May increase rent arrears which impacts HRA income.</p>	<p>More active/proactive debt management action may be required. Robust monitoring of service activity to act as an early warning.</p>
<p>Brexit: Adverse impacts on costs and values as a consequence of Brexit</p>	<p>There is increased uncertainty about the cost of projects due to changes in the cost of materials and labour arising from changes in the value of the pound relative to other currencies. Equally there are changes in the attractiveness of London as a residential investment, positively due to falls in the value of the pound</p>	<p>A selection of current projects are being reviewed to identify and seek to quantify the impacts based on the best evidence available to highlight areas where further measures need to be taken.</p>

Risk	Impact	Mitigation
	and negatively from lack of access to Europe. These are highly uncertain and may lead to increased caution on the part of contractors and developers when bidding for work or assessing the risks/rewards of current projects.	

13. Economy

Impact on Capital Programme and Property

- 13.1. Continuing uncertainty around UK's general economic position may lead to fluctuations in the property market. The capital programme is significantly reliant on capital receipts from sales funding the programme. Any fall in the property market may impact the affordability of certain schemes. Consequential changes to rates of return would also affect commercial rental streams.
- 13.2. The ongoing uncertainty has macro-economic implications for the Council. Increasing inflation could impact the council two-fold, in that the Council's contracts are indexed annually based on this higher inflation value and because the council may have to pay more for general goods and services. This could result in cost pressures in the Capital Programme.
- 13.3. The Council will continue to review and plan for developments related to the above as matters arise, these include:
- modelling how unexpected "spikes" in inflation could impact the council
 - examining potential risks and ensuring that there are adequate resources set aside to mitigate or manage these in the short term; and utilising all possible means such as: the offer of a multi-year finance settlement; flexibility on using new capital receipts to generate efficiencies; and regular project monitoring.

14. Financial Implications

14.1 The council has proposed a gross General Fund capital programme of £2.521bn. This has to be financed from three key funding sources that are:

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

Funding

14.2 The main sources of external funding, shown in the table below, are 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 that must be met. Therefore, any forecasting of external funding for the capital programme needs to be done prudently. However, there are no ongoing revenue implications of this method of financing. The borrowing in the table below represents total borrowing rather than “external” borrowing, as the council’s cash balances will be used to optimise the need to borrow externally.

Table 13: Analysis of proposed funding of capital programme Period 4 2018/19

Financed by	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to	Total
	£000	£000	£000	£000	£000	£000	2032/33 £000	
Affordable Housing Fund Contributions	58,551	10,958	19,149	5,000	4,500	-	-	98,158
Community Infrastructure Levy (CIL)	3,724	2,956	1,390	-	-	1,160	-	9,230
DCLG Disabled Facilities Grant	1,297	1,412	1,412	1,412	1,412	1,412	-	8,357
DfE Basic Needs Grant	5,921	1,471	613	-	-	-	-	8,005
DfE Schools Condition Allocation	1,042	2,272	8,107	335	80	-	-	11,836
DoH Community Capacity Grant	291	1,068	200	200	-	-	-	1,759
Education Funding Agency (EFA) Grant	8,100	5,272	3,428	-	-	-	-	16,800
European Regional Development Fund	659	674	-	-	-	-	-	1,333
GLA Other Loan	1,300	-	-	-	-	-	-	1,300
Other Grants and Contribution	16,985	21,930	8,008	8,132	5,850	6,035	-	66,940
Section 106 Contributions	5,373	2,447	2,150	1,650	2,500	400	-	14,520
Section 278 Contributions	20,863	14,847	9,085	2,733	2,500	2,500	-	52,528
Transport for London (TfL) Grant	9,831	5,718	1,000	800	100	100	-	17,549
Total	133,937	71,025	54,542	20,262	16,942	11,607	-	308,315
Capital Receipts	96,147	-	47,645	43,205	8,900	193,886	36,613	426,396
Reserve	-	17,000	-	-	-	-	-	17,000
Borrowing	75,375	256,050	238,932	265,119	199,569	(73,671)	807,764	1,769,139
Total	305,460	344,075	341,119	328,586	225,411	131,822	844,377	2,520,849

14.3. 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

include TfL grant funding for infrastructure improvements across the City, Education Funding Agency (EFA) Grant, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.

- 14.4. 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.
- 14.5. CIL differs from Section 106, which essentially is a contract between a developer and the council. In contrast, CIL is a levy that the developer is liable to pay when planning permission is approved and the development is underway. The council has greater flexibility compared to Section 106, as the developer cannot stipulate any terms.
- 14.6. The Council will continue to look for innovative ways to fund the capital programme; this could include private sector capital contributions towards major projects.
- 14.7. The main sources of internal funding are from capital receipts or revenue in the form of reserves or in-year underspends.
- 14.8. 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 they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts. However, in special cases, some capital receipts maybe ring-fenced for the particular services, but this will need approval by CRG.
- 14.9. It is estimated that the proposed capital programme will be funded via £426.396m worth of capital receipts, primarily through the sale of properties as part of development projects. The use of capital receipts will peak in 2023/24, and will be applied to reduce the funding gap.
- 14.10. Although the council has a disposals programme that 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.
- 14.11. Revenue budgets can be transferred to capital. As this will necessarily impact revenue budgets, it 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.

14.12. The Council can make use of Flexible use of Capital Receipts for eligible expenditure. Further details of qualifying expenditure is detailed in paragraph 11.7 to 11.24.

Borrowing

14.13. Borrowing is a resource available to the council in funding its capital programme. Borrowing can take the form of internal or external borrowing.

Table 14: Proposed borrowing requirement Period 4 2018/19

	Five Year Plan						Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Borrowing Requirement	75,375	273,050	238,932	265,119	199,569	(73,671)	807,764	1,786,139

14.14. 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.

14.15. 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.

14.16. 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. The council is currently exploring forward borrowing options to enable future borrowing requirements to be locked in at current rates.

14.17. The Council has the ability to borrow at a future date for an agreed price now. This is appropriate for when the council knows that it will be required to borrow in the future and wishes to lock in certainty of interest rate cost. The reason for doing this is that the cost of borrowing can fluctuate and may increase for the council over a period of time. The Council is proposing to incorporate this option as part of a wider borrowing

strategy and elect to forward borrow when it deems it to be a value for money option. Further details are in paragraphs 14.34 to 14.37

- 14.18. A possible alternative source of debt finance in the future will be to borrow via a bond issued by the Municipal Bonds Agency (MBA). This will be subject to the MBA achieving a source of finance and issuing its first bond. 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 that are then lent on to participating local authorities. The Council has been actively working with the MBA to enable it to market 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 that the bond will be issued at a rate lower than PWLB rates and is expected to provide a viable alternative to the PWLB.
- 14.19. 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.
- 14.20. 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. As such they will be assessed on a scheme-by-scheme basis and if appropriate, budgeted for corporately.
- 14.21. 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 71%. 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.

Table 15: Summary of proposed funding of capital programme Period 4 2018/19

	2018/19 £000	Five Year Plan					Future Years to 2032/33 £000	Total £000
		2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
External Funding	133,937	71,025	54,542	20,262	16,942	11,607	-	308,315
Capital Receipts	96,147	-	47,645	43,205	8,900	193,886	36,613	426,396
Reserves	-	17,000	-	-	-	-	-	17,000
Borrowing	75,375	256,050	238,932	265,119	199,569	(73,671)	807,764	1,769,139
Total	305,460	344,075	341,119	328,586	225,411	131,822	844,377	2,520,849

Revenue Implications

14.22. The financing costs of £680.004m in the table below include interest payable and an allocation for repayment of debt – Minimum Revenue Provision (MRP) – arising from the need to borrow (borrowing requirement). The total net revenue costs of the proposed capital programme are expected to be £462.837m by the end of 2032/33, after offsetting commercial income of £217.166m.

Table 16: Summary of revenue implication of proposed capital programme

	Forecast	Five Year Plan					Future Years to 2032/33 £000	Total £000
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000		
Expenditure	305,460	344,075	341,119	328,586	225,411	131,822	844,377	2,520,849
External Funding	(133,937)	(71,025)	(54,542)	(20,262)	(16,942)	(11,607)	-	(308,315)
Capital Receipts	(96,147)	-	(47,645)	(43,205)	(8,900)	(193,886)	(36,613)	(426,396)
Borrowing Requirement	75,375	273,050	238,932	265,119	199,569	(73,671)	807,764	1,786,139
Revenue Impacts:								
Capital Financing Cost	4,221	5,949	6,667	15,170	32,719	37,851	577,427	680,004
Financed By:								
Commercial Income	(512)	(1,222)	(2,581)	(3,059)	(4,288)	(5,736)	(199,769)	(217,166)
Net Revenue Position	3,709	4,727	4,087	12,110	28,431	32,115	377,658	462,837
Sinking Fund Adjusted Balance	8,659	7,641	11,664	6,365	(7,162)	(7,982)	(19,185)	-
MTP Budget Assumptions	12,368	12,368	15,751	18,476	21,269	24,133	358,472	462,837

14.23. 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 £1.786bn borrowing requirement, it is anticipated that £745.269m will ultimately need to be borrowed externally.

14.24. The external borrowing is assumed to be PWLB, although other sources of funding like forward borrowing 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 £7.453m of revenue cost by 2032/33. However forward borrowing rates could be locked in at close to current rates (see paragraphs 14.34 to 14.37).

- 14.25. As noted in Section 5, CRG will have a pivotal role in monitoring the cost of funding the programme, 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.
- 14.26. 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.
- 14.27. The council has an on-going capital programme and will continue to invest in capital projects beyond 2023/24, and will therefore need to ensure that funds are set aside for the future costs of borrowing.
- 14.28. After analysis of the spending trends within the capital programme year on year, it has been identified that there is some element of slippage on an annual basis. As a result, within the capital financing cost calculations, a 5% reduction has been applied to expenditure and external funding within the capital programme as this more accurately reflects the expected cost of the programme, and ensures that the capital financing budget is not overstated.
- 14.29. 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.
- 14.30. 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.
- 14.31. 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.
- 14.32. The current MTP assumes a circa £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 £462.837m to fund the capital programme

14.33. Key schemes will start generating income and efficiency savings from 2022/23. It should be noted that reserves will be required to bridge the gap in the interim, before being repaid.

Forward Borrowing

14.34. The Council has a responsibility to lock in affordability for its extensive capital programme and manage interest rate risk, while making prudent assumptions about the pace of delivery and allowing for some flexing of its forecasts.

14.35. In order to achieve the best balance, the Council would be prudent to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need, whilst maintaining some forward flexibility as projects may or may not get off the ground in the expected timeframes. Borrowing £400m would have the financial implications below:

Table 17: Forward borrowing - Net revenue impact of interest rate changes

Summary Forecast of nominal cash flows to 2032/33 - blended						
	Budget Forecast (£,000's)	2% Rate Fall (£,000's)	1% Rate Fall (£,000's)	Current Rates (£,000's)	1% Rate Rise (£,000's)	2% Rate Rise (£,000's)
Total Interest Payable	194,637	93,842	111,228	128,057	144,887	156,083
Interest Earnings	(37,658)	585	(18,536)	(37,658)	(56,779)	(75,901)
Net Revenue impact	156,979	94,428	92,692	90,400	88,107	80,182
Affordable?	N/A	Yes	Yes	Yes	Yes	Yes
Variance to Budget		62,551	64,287	66,580	68,872	76,797

The table shows how the variance to budget changes as interest rates rise or fall from the current interest rate assumption.

14.36. The proposed course of action shown in the table, would allow the council to make significant savings compared to the current planned budget forecast for interest payable in each of the scenarios modelled. The capital programme model assumes the cost of borrowing will be 2.7% by March 2019, 3.3% by March 2020, 4% by March 2022 and 4.4% by March 2023. In the case of the cost of borrowing remaining unchanged in the medium term, the Council will save £67m from its long term net borrowing budget forecast (£4.5m pa).

14.37. Although this report models the impact on the budget over the next 15 years, the true additional non-discounted cost of borrowing will potentially be reduced significantly further over subsequent years as the loans will be repaid over 25 to 50 years. Each 1% rise in the interest rates paid on the

loan portfolio will cost at least an approximate additional £7.5m per annum beyond this 15-year horizon.

15. HRA Financial Implications

15.1. The HRA capital investment requirement over the next 30 years is £1.878bn, and over the first five years £662m. 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.

15.2. 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

15.3. The business plan outlines the proposed HRA investment programme and the context within which the business planning has been undertaken. This includes key assumptions as well as a risk register and proposed management strategies available to mitigate any risk.

15.4. The 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.

15.5. Gross HRA capital expenditure of £788m over this year and the next five years is required to deliver the plans within this investment strategy, including: £238m on works to existing stock; £322m on housing estate regeneration; and £228m on other investment opportunities. This will be funded from £200m of HRA revenue resources, £358m from capital receipts and right to buy sales, £146m from the Council's AHF together with £71m of new borrowing and a capital grant of £13m. Further detail on this can be found within the Housing Investment Strategy and HRA Business Plan which is provided in the papers for this meeting agenda.

16. Legal Implications

16.1. 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.

17. Staffing Implications

17.1 None specifically in relation to this report.

18. Consultation

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

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

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020 7641 2904*

BACKGROUND PAPERS:

Capital programme working papers

Capital Programme Submission Requests for individual projects

Appendices

Appendix A(i) – Capital Programme 2019/20 to 2023/24, forecast position for 2018/19 and future years' forecasts summarised up to 2032/33 by Cabinet Member

Appendix A(ii) – Capital Programme 2019/20 to 2023/24, forecast position for 2018/19 and future years' forecasts summarised up to 2032/33 by Chief Officer

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

Appendix B - HRA Capital Programme 2019/20 to 2048/49

HRA FIVE YEAR CAPITAL PROGRAMME														
Schemes	2017-18 Outturn £'000	2018-19 Forecast £'000	2019-20		2020-21		2021-22		2022-23		2023-24		Total 5yr Plan £'000	Total 30yr Plan £'000
			Plan	£'000	Plan	£'000	Plan	£'000	Plan	£'000	Plan	£'000		
Major Works														
Electrical Works & Laterals	7,568	10,465	5,729	6,012	6,499	5,383	10,023	33,646	294,261					
External Repairs & Decorations	11,807	22,750	18,351	15,995	15,363	21,805	18,900	90,415	359,900					
Fire Precautions	4,499	7,502	9,485	8,952	5,500	4,731	7,615	36,283	70,783					
Kitchen & Bathroom	822	357	750	700	700	700	750	3,600	27,100					
Lifts	2,521	3,394	1,500	1,500	1,500	1,500	1,500	7,500	45,000					
Major Voids , aids and adaptions	4,674	5,200	3,500	3,500	3,500	3,500	3,500	17,500	105,000					
Total Major Works	31,891	49,668	39,315	36,659	33,062	37,619	42,288	188,944	902,044					
Regeneration														
Cosway Street	608	4,827	13,040	14,048	664	0	0	27,752	27,752					
Lisson Arches	2,122	3,664	8,980	12,107	2,650	344	0	24,080	24,080					
Luton Street	258	2,140	6,374	5,752	0	0	0	12,126	12,126					
Parsons North	358	4,887	11,358	10,193	559	0	0	22,110	22,110					
Ashbridge	365	2,917	6,940	1,912	222	0	0	9,074	9,074					
Church Street Phase Two	982	6,084	2,963	1,281	27,455	57,809	29,889	119,398	307,417					
Tollgate Gardens	7,142	742	9,680	0	0	0	0	9,680	9,680					
Ebury	11,193	15,795	23,528	24,699	8,184	300	306	57,017	139,414					
Total Regeneration	23,028	41,056	82,863	69,992	39,734	58,453	30,195	281,237	551,654					
Other Schemes														
District Heating Network Scheme	496	392	0	0	0	0	0	0	0					
Edgware Rd	1,952	37	6,564	300	0	0	0	6,864	6,864					
Future Pipeline	2,728	10,438	40,027	32,394	28,857	25,896	328	127,501	131,167					
Self Financing	22,064	18,339	10,000	10,000	10,000	10,000	10,000	50,000	110,000					
Kemp House/Berwick Street	8	749	0	0	0	0	0	0	0					
Ashmill	0	243	668	10	0	0	0	678	678					
Central Contingency	0	5,429	2,374	2,265	393	1,652	236	6,919	14,821					
Total Other Schemes	27,248	35,628	59,633	44,968	39,249	37,548	10,564	191,962	263,530					
Total Capital Expenditure	82,167	126,351	181,810	151,619	112,046	133,620	83,048	662,143	1,717,228					
Financed By:														
Capital Receipts	20,000	35,650	52,200	59,787	70,771	68,113	57,092	307,963	397,282					
Right To Buy	11,535	9,606	2,385	766	0	1,760	0	4,910	69,654					
Grants	2,000	5,905	6,700	0	0	0	0	6,700	6,700					
AHF	9,480	18,431	38,226	28,445	17,944	40,416	2,625	127,656	263,467					
RCCO	15,781	33,428	11,995	15,010	0	0	0	27,005	186,757					
MRA	23,371	23,331	23,331	23,331	23,331	23,331	23,331	116,655	699,930					
Borrowing	0	0	46,974	24,281	0	0	0	71,254	93,439					
Total Financing	82,167	126,351	181,810	151,619	112,046	133,620	83,048	662,143	1,717,228					