City of Westminster

Cabinet

Decision Maker:	**Cabinet**
Date:	**25th February 2019**
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**
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 £2.643bn expenditure budget, funded by £0.290bn external funding, £0.588bn capital receipts with a £1.765bn 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 November 2018, with the latest forecasts and projections over future years. Forecasts are based on information received from individual project managers, including forecasts in 2018/19 as at the end of Period 8.

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 (£1.091bn) – 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 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 (£1.309bn) – 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:

- assisting with the delivery of at least 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 on the changes in the programme from that recently approved in November 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 £743.329m 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 a reduction in the net funding requirement of £21.029m since the approval of the General Fund programme in November 2018. Reasons for this reduction are summarised as follows:

- Addition of the Ebury development scheme at £11.475m
- Reduction in Placeshaping schemes (14.9m)
- Reduction in Lisson Grove programme (£10.875m)
- Reduction in other GPH schemes (£11.5m)
- Addition of six new schemes in Children's Services relating to schools of £3.149m
- Other adjustments (net) of £1.622m

1.10. Net funding requirement has reduced by £21.029m, whilst the the cost of financing the programme has increased by £26.060m compared to the level reported in the November 2018 capital programme. 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 recommend that full Council:

2.1. Approve the capital strategy as set out in this report

2.2. 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. Approve the capital expenditure forecasts for the General Fund as set out in Appendix A for 2018/19 (Period 8)

2.4. Approve the expenditure forecast for 2018/19 (Period 8) for the HRA as set out in Appendix B

2.5. Approve the capital expenditure for the HRA for 2019/20 to 2023/24 as in accordance with the 30 year HRA Business Plan and as included in Appendix B

2.6. Approve the financial implications of the HRA capital programme including the references to the debt cap and the level of reserves as detailed in Section 8

2.7. Approve that in the event that any additional expenditure is required by a capital scheme over and above this approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas

2.8. Approve that all development and investment projects, along with all 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

2.9. Approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced

2.10. 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

2.11. 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.)

2.12. Note the continued use of flexible use capital receipts (as approved at November Council) 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 11.28.

2.13. Note 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, as approved by Full Council in November 2018.

2.14. Approve the financing of the capital programme and revenue implications as set out in paragraphs 14.1 to 14.30 of this report.

2.15. 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 £2.643bn (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 examples below, which show that:

- a number of large development schemes within the capital programme are planned to help to deliver at least 1,850 new 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 £150m investment in Oxford Street 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 it 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 in 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.

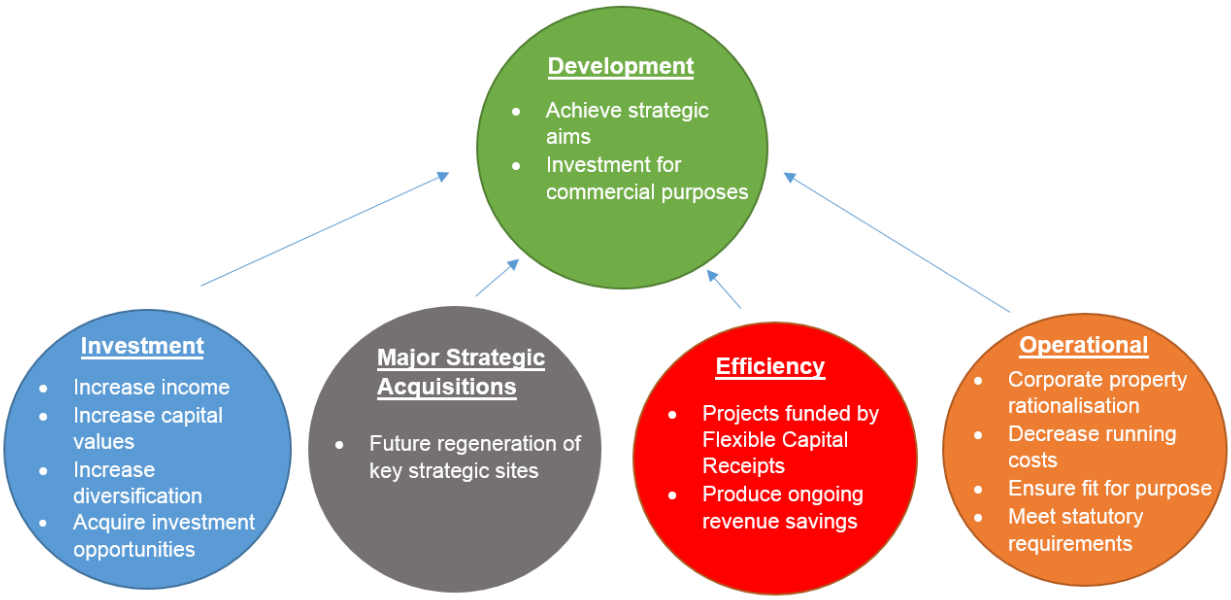
- **risk management** – this function is co-ordinated by CRG, which takes an overview of identifying and mitigating risk across the programme. More detail on the mechanisms the Council has in place, to effectively manage and identify risk, can be found in Section 12.

- **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 £1,091.283m, and of the capital receipts in the programme at £499.820m.

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). Within City Management and Communities (CMC), development projects cover significant improvements to the public realm, such as Bond Street, Hanover Square and Queensway. 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 assessed on it's financially viability. However, the Council are not investing purely for profit and therefore, individual investments will have to demonstrate their strategic fit within the context of City for All.

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. This is therefore 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 asset 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 £1.309bn 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). The total expenditure has decreased by £15.049m since approval of the capital programme in November 2018, resulting from adjustments to the place shaping schemes (£18.049m) and addition of the Oxford Street maintenance and pedestrian safety scheme (£3m).

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 £743.329m. This consists of £198.204m on major works, £342.829m regeneration and £202.296m for other development schemes.

8.3 This programme is to be funded through a number of different sources. £301.211m of capital receipts, £185.151m affordable housing fund, £116.854m from the major repairs reserve, £92.474m of borrowing, £6.700m grant income and £40.938m from revenue reserves and lessee contributions.

8.4 The five year HRA capital programme has increased from £662m to £743m compared to the November 2018 capital programme, a movement of £81m.

8.5 The significant five year increases are on Ebury Bridge (£79.6m), Westminster Academy and other buy backs from GF schemes (£9m) and Major Works (£9m). There have been decreases on the five year profile for Church Street (£28m) and West End Gate (£6m). 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. This plan is the first to be produced since the government announced the removal of the HRA borrowing cap. This has seen the forecast peak debt rise by £93m to £426m in 2025/26.

9. Summary Capital Programme

Table 1: Approved General Fund (excluding HRA) capital programme 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	£000	£000
Expenditure								
Adults 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**

9.1 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. City Treasurer and Corporate Services directorates have merged to form the Finance and Resources directorate.

Table 2: Proposed General Fund (excluding HRA) capital programme Period 8 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	£000	£000
Expenditure								
Adults Services	291	1,068	200	200	-	-	-	1,759
Children's Services	9,627	13,071	13,658	1,085	830	500	-	38,771
City Management & Communities	65,467	83,018	74,688	26,697	22,686	18,491	1,200	292,246
Finance and Resources	3,874	21,093	21,798	24,791	27,962	23,210	540,843	663,571
Growth, Planning & Housing	167,565	137,487	238,844	213,403	200,128	132,167	346,080	1,435,674
FCR	32,254	2,923	375	100	-	-	-	35,652
Housing Subsidiary Companies	-	14,403	70,508	64,165	23,352	2,937	79	175,444
Total Expenditure	**279,078**	**273,063**	**420,071**	**330,441**	**274,958**	**177,305**	**888,202**	**2,643,118**
Funding								
External Funding	(108,870)	(88,567)	(53,593)	(13,162)	(12,342)	(11,607)	(2,000)	(290,141)
Capital Receipts	(96,147)	-	(47,645)	(43,205)	(62,371)	(39,156)	(299,343)	(587,867)
Total Funding	**(205,017)**	**(88,567)**	**(101,238)**	**(56,367)**	**(74,713)**	**(50,763)**	**(301,343)**	**(878,008)**
Net Funding Requirement	**74,061**	**184,496**	**318,833**	**274,074**	**200,245**	**126,542**	**586,859**	**1,765,110**

9.2 The high-level changes from the capital programme approved in November 2018 are as follows:

- Addition of the Ebury development scheme at £11.475m
- Reduction in Placeshaping schemes (14.9m)
- Reduction in Lisson Grove programme (£10.875m)
- Reduction in other GPH schemes (£11.5m)
- Addition of six new schemes in Children's Services relating to schools of £3.149m
- Other net adjustments of £1.622m

9.3. Based on the above changes the net borrowing requirement has decreased by £21.029m. However, due to revised working capital assumptions, the net revenue impact has increased by £26.060m compared with the November 2018 capital programme.

9.4. The above fully funded position clearly depends on the schemes being delivered on time, and within the estimates set out in this report. Any increases in expenditure, or reductions in income, will need to be compensated for by the relevant project, or the consequential revenue impacts funded in full by the individual service.

10. Service Analysis

10.1. The following section reviews what is included in the individual capital programmes for each Council directorate from 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 £1.436bn and forecast external funding is anticipated to be £0.116bn.

10.5. On a net basis this is a proposed budget of £1.319bn for GPH, which excludes capital receipts, and this is shown in the table below:

Table 3: Proposed GPH programme summary Period 8 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	£000	£000
Expenditure	167,565	137,487	238,844	213,403	200,128	132,167	346,080	**1,435,674**
External Funding	(61,567)	(23,129)	(20,465)	(2,225)	(2,825)	(4,265)	(2,000)	**(116,476)**
Net Funding Requirement	**105,998**	**114,358**	**218,379**	**211,178**	**197,303**	**127,902**	**344,080**	**1,319,198**

General Fund Development Projects

10.6. The capital programme presented within this report forecasts a gross capital expenditure budget of approximately £0.866bn for 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 completed this financial year or on site under construction The Moberly Sports Centre, Dudley House School and Sir Simon Milton UTC all completed this financial year with Beachcroft House and the Dudley House intermediate rental currently 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):

<u>Dudley House</u>
The programme is progressing well, achieving completion of Marylebone Boys School, which opened in September 2018. A building operator has been appointed for the intermediate residential accommodation and the units will complete in May 2019.

<u>Huguenot House</u>
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 2019/20.

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 summer 2019, and will determine recommendations for the project, which will include any proposals. The capital strategy will be updated if necessary.

Moberly and Jubilee

Moberly Sports Centre opened in June 2018 and the residential units on the site have been completed. Jubilee Phase 2, which includes a community sports centre and 56 residential units, will commence on site in 2019 and is expected to complete in 2021.

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 March 2020 with the private units completed in June 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

Following a consultation with residents on the proposals for Carlton Dene and Westmead, officers are working towards presenting outline business cases for the schemes in early 2019. 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 deliver a modern office space to replace the current civic offices, more homes of all types of tenure and a health and wellbeing hub. An indicative budget figure of £198.590m has been included, which will be reviewed as the scheme progresses through the Council's governance processes.

The programme will generate significant capital receipts for the Council through the sale of new, private homes.

Ebury Development

The vision for Ebury Bridge estate is to provide more affordable housing and bring about long-term physical, economic and social sustainability of the area. The Council's ambition is to work with Ebury Bridge residents to create a high quality neighbourhood that offers an attractive mix of homes (including affordable homes meeting a range of housing needs), shops, public realm and community facilities. The proposed option provides a potential 750 residential units. Within this, it re-provides the existing 198 social rented homes on-site with modern, high quality replacement homes. It further delivers at least 144 affordable homes, in a mix of social and intermediate rental provision. The proposals also envisage improvements to the public realm, ensuring the estate will be better connected to the local area, creation of community facilities and a contemporary mix of shops. The Council would retain ownership of all social and intermediate units within the development.

It was agreed by Cabinet that further evaluation of potential delivery routes should be undertaken. The results of the initial appraisal of delivery options were reported to Cabinet on 25th October 2018 and Cabinet agreed the preferred delivery route as Council-led delivery through the HRA and the Council's wholly owned housing company, WHIL. One of the benefits of this option was the flexibility it provided to amend the tenure mix of the market sale element of the scheme and to create hybrid delivery options, which would enable participation by the private sector. Further work is being done in light of recent market testing that has been undertaken.

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 completed in January 2019. 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 £154.812m. In addition to investment acquisitions of £71.900m and £48.192m for the refurbishment of City Hall, it also contains ongoing building improvement works of £15.418m 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 capital programme in the General Fund contains schemes to provide additional affordable housing both in and out of borough. In total, there is an expenditure budget of £69.494m, including Temporary Accommodation Purchases and Affordable Housing Fund (AHF) contributions made to registered providers. The expenditure is partly offset by external income.

10.15. The 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. The AHF is fully committed across the HRA and General Fund.

Placeshaping

10.16. The Placeshaping gross expenditure budget has dropped to £196.301m from £214.350m in November 2018 due to the reduction in budget of pipeline public realm schemes. However, a budget of £3.5m remains to develop any emerging public realm schemes. The Placeshaping budgets also include the investment in Oxford Street District of £150m. 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 financial constraints. 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.

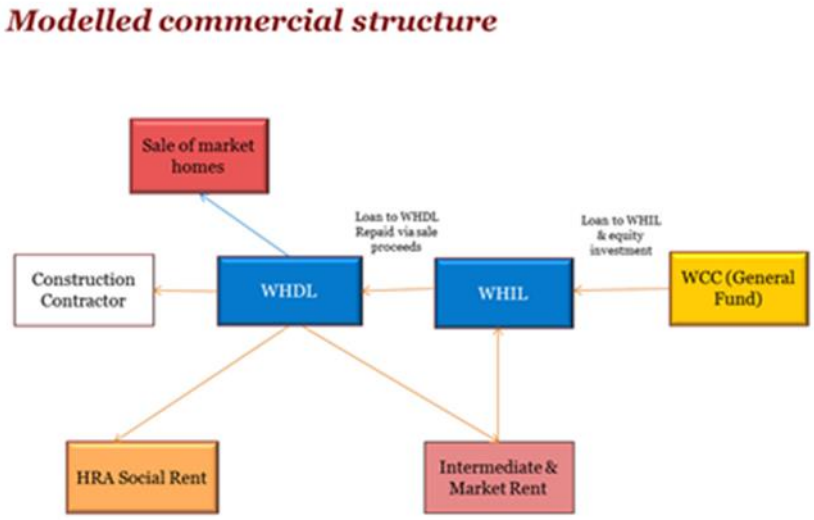
10.24. WHIL has identified a number of schemes being progressed within the Council's housing delivery pipeline to form the basis of its Business Plan. These exemplar schemes provide information on a mix of housing that fits with the aims and objectives of WHIL/WHDL, and enable improved accuracy of the 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.



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 57 intermediate units in the Ebury Development 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.

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 8 2018/19

	Forecast	Five Year Plan					Future Years to	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2032/33 £000	Total £000
WILL 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**
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 £292.246m, with external income of £135.039m from a range of third parties.

Table 5: Proposed CMC programme summary Period 8 2018/19

	Forecast	Five Year Plan					Future Years to	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2032/33 £000	Total £000
Expenditure	65,467	83,018	74,688	26,697	22,686	18,491	1,200	292,246
External Funding	(38,091)	(52,326)	(17,441)	(10,402)	(9,437)	(7,342)	-	(135,039)
Net Funding Requirement	**27,376**	**30,692**	**57,247**	**16,295**	**13,249**	**11,149**	**1,200**	**157,208**

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 (£84.752m) – all but £3.690m is funded by the council
- public realm externally funded (£120.800) – £109.511m is funded by contributions from third parties
- transport schemes - (£14.762m) - £10.986m externally funded, largely Transport for London

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

- Waste (£44.840m 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 (£9.076m 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 contributions
- Parking (£1.500m gross)

10.39. Compared with the capital programme approved in November 2018, the gross expenditure has shown a net decrease of £2.954m. This comprises underspends of £6.265m relating to public realm and cycle schemes, and new budgets of £3.311m. Income of £5.909m, relating to the underspends has also been removed from the programme.

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 8 2018/19

	Forecast	Five Year Plan					Future	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Years to 2032/33 £000	Total £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 £38.771m of works. External funding is £32.653m.

Table 7: Proposed Children's Services programme summary Period 8 2018/19

	Forecast	Five Year Plan					Future	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Years to 2032/33 £000	Total £000
Expenditure	9,627	13,071	13,658	1,085	830	500	-	38,771
External Funding	(8,921)	(10,609)	(12,708)	(335)	(80)	-	-	(32,653)
Net Funding Requirement	706	2,462	950	750	750	500	-	6,118

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
- Intangible Asset Procurements – Special Educational Needs Case Management System and Social Care Case Management System

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

- Basic Needs Grant - £8.005m
- School Condition Allocation - £8.476m
- SEND Capital Grant - £0.203m
- Education and Skills Funding Agency Grant - £9.452m
- Section 106 / Community Infrastructure Levy - £4.327m
- External contribution from schools - £2.190m

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.

10.48. As part of the preparation for Ofsted inspections, the service has self-assessed a need to procure a new case management system for Special Educational Needs (SEN). This system is required if the borough is to maintain its excellent rating for SEN.

10.49. The existing case management system for Children's Social Care, shared with Adult Social Care (Mosaic), requires a reprocurement at the end of its current contracted period per the WCC Procurement Code and cost

estimates are in line with those prepared in Adult Social Care as part of this Strategy.

Finance and Resources

Table 8: Proposed Finance and Resources programme summary Period 8 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	3,874	21,093	21,798	24,791	27,962	23,210	540,843	**663,571**
External Funding	-	-	-	-	-	-	-	**-**
Net Funding Requirement	**3,874**	**21,093**	**21,798**	**24,791**	**27,962**	**23,210**	**540,843**	**663,571**

10.50. The proposed gross expenditure budget is £663.571m and represents an amalgamation of budgets from three directorates:

- .Corporate Services (CS),
- Policy, Performance and Communications (PPC) and
- City Treasurer

10.51. The capital programme covers:

- the Council's ICT schemes (£20.278m), which 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.

- the Council's Contingency and future expenditure provision, totalling £643.293m. This comprises £243.293 for contingencies and £400m relates to potential future years' expenditure on operational schemes and future Council priorities.

10.52. 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 costs to be funded from FCR as outlined in Table 9.

11.9. The total authorised budget for FCR is £58.193m as shown below:

Table 9: FCR Budget approved in November 2018

Project Name	Total Authorised Budget £000	2017/18 Outturn £000	2018/19 to 2021/22 £000	Total Outturn and Forecast £000
Capitalisation of Pension Contribution	30,000	10,000	20,000	30,000
City Hall Revenue Costs	23,118	9,875	13,243	23,118
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	**58,193**	**22,541**	**35,652**	**58,193**

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 £15.415m of the approved £23.118m on revenue expenditure relating to refurbishment of City Hall, leaving £7.703m of approved spend remaining. 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 £0.334m of spend forecast in 2019/20.

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. The use of capital receipts for the purposes of this transformation programme will have to be underpinned by a robust business case, demonstrating the case for change and the savings that will be achieved.

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. These savings will be demonstrated through a robust business case which will require member approval.

11.27 The investment of £0.750m will be required to cover preparatory works, transition and parallel running costs and savings will have to be

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 £670.832m 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 10: 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% above current interest rate assumptions would cost an extra £6.708m per annum on the full £670.832m borrowed by the end of 2023/24. The extra cost of a 1% rise in interest rates would be £9.906m by 2032/33, if the full projected borrowing of £990.582m 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 £26m. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the 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 a 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 Finance, Property and Regeneration 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
Capital Receipts: The plan assumes estimated capital receipts of £447m will be generated and used to fund the development of new	Any significant slippage in the timing or value of these receipts will pose a cash flow risk for staying within the borrowing limit.	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.

Risk	Impact	Mitigation
homes.		
Rent Policy	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.	Lobbying is key to the success of avoiding this risk from happening in the first place. Regeneration spend would need to be significantly curtailed.
Interest rates	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 on long term affordability. 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.	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 increases. However, the scale and pace of regeneration may need to be reviewed.
Inflation	If inflation were to increase above that assumed by 1%, the Plan would no longer be viable over 30 years.	The increase in costs would be partially offset by increased income as this is also based on CPI inflation. 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.
Capital Costs	If the cost of construction and professional fees on the regeneration programme were to increase by 20% this would cost c£50m.	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.
Welfare Reform: Implementation of Universal Credit, benefit cap and other	May increase rent arrears which impacts HRA income. Initial data on rent arrears from Universal Credit tenants does indicate a rise in rent arrears.	More active/proactive debt management action may be required. Robust monitoring of service activity to act as an

Risk	Impact	Mitigation
welfare reform changes.	However, this is based on a relatively small sample size so needs to be monitored.	early warning.
Brexit/Economic Uncertainty Adverse impacts on costs and values as a consequence of Brexit	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 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.	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.

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 main sources of external funding, shown in the table below, are The council has proposed a gross General Fund capital programme of £2.643bn. 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 11: Analysis of proposed funding of capital programme Period 8 2018/19

Financed by	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2032/33	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Affordable Housing Fund Contributions	50,244	19,515	19,399	250	250	250	-	**89,908**
Community Infrastructure Levy (CIL)	5,761	5,354	2,805	638	275	1,440	-	**16,273**
DCLG Disabled Facilities Grant	1,412	1,297	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	906	1,563	5,592	335	80	-	-	**8,476**
DoH Community Capacity Grant	291	1,068	200	200	-	-	-	**1,759**
Education Funding Agency (EFA) Grant	8,352	5,272	3,428	-	-	-	-	**17,052**
European Regional Develoment Fund	659	674	-	-	-	-	-	**1,333**
GLA Other Loan	1,300	-	-	-	-	-	-	**1,300**
Other Grants	12,488	18,560	3,259	1,975	2,675	2,855	2,000	**43,812**
Section 106 Contributions	7,892	11,401	6,885	6,750	7,500	5,500	-	**45,928**
Section 278 Contributions	7,566	13,194	6,360	902	150	150	-	**28,322**
Transport for London (TfL) Grant	6,078	9,198	1,450	700	-	-	-	**17,426**
Other External Contributions			2,190		-	-	-	**2,190**
Total	**108,870**	**88,567**	**53,593**	**13,162**	**12,342**	**11,607**	**2,000**	**290,141**
Capital Receipts	96,147		47,645	43,205	62,371	39,156	299,343	**587,867**
Reserve	-	-	-	-	-	-	-	**-**
Borrowing	74,061	184,496	318,833	274,074	200,245	126,542	586,859	**1,765,110**
Total	**279,078**	**273,063**	**420,071**	**330,441**	**274,958**	**177,305**	**888,202**	**2,643,118**

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 £587.867m 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 12: Proposed borrowing requirement Period 8 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	74,061	184,496	318,833	274,074	200,245	126,542	586,859	1,765,110

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. 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.

14.19. 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. It should be noted that capital receipts will continually be monitored and stressed tested in line with market conditions and any changes will form part of the annual budget setting process.

Table 13: Summary of proposed funding of capital programme Period 8 2018/19

		Five Year Plan					Future Years to 2032/33	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	£000	Total £000
External Funding	108,870	88,567	53,593	13,162	12,342	11,607	2,000	**290,141**
Capital Receipts	96,147	-	47,645	43,205	62,371	39,156	299,343	**587,867**
Borrowing	74,061	184,496	318,833	274,074	200,245	126,542	586,859	**1,765,110**
Total	**279,078**	**273,063**	**420,071**	**330,441**	**274,958**	**177,305**	**888,202**	**2,643,118**

Revenue Implications

14.20. The financing costs of £706.063m 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 £488.897m by the end of 2032/33, after offsetting commercial income of £217.166m.

Table 14: Summary of revenue implication of proposed capital programme

	Forecast	Five Year Plan					Future Years to 2032/33	
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	£000	Total £000
Expenditure	279,078	273,063	420,071	330,441	274,958	177,305	888,202	**2,643,118**
External Funding	(108,870)	(88,567)	(53,593)	(13,162)	(12,342)	(11,607)	(2,000)	**(290,141)**
Capital Receipts	(96,147)	-	(47,645)	(43,205)	(62,371)	(39,156)	(299,343)	**(587,867)**
Borrowing Requirement	**74,061**	**184,496**	**318,833**	**274,074**	**200,245**	**126,542**	**586,859**	**1,765,110**
Revenue Impacts:								
Capital Financing Cost	3,857	5,739	6,157	15,224	26,531	37,073	611,483	**706,063**
Financed By:								
Commercial Income	(512)	(1,222)	(2,581)	(3,059)	(4,288)	(5,736)	(199,769)	**(217,166)**
Net Revenue Position	3,345	4,517	3,576	12,165	22,243	31,337	411,714	**488,897**
Sinking Fund Adjusted Balance	9,023	7,851	12,174	6,615	(358)	(6,268)	(29,039)	**-**
MTP Budget Assumptions	**12,368**	**12,368**	**15,751**	**18,780**	**21,886**	**25,069**	**382,675**	**488,897**

14.21. 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 £1.765bn borrowing requirement, it is anticipated that £990.582m will ultimately need to be borrowed externally.

14.22. 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.

14.23. 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.

14.24. 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.

14.25. 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.

14.26. 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 there is a legal requirement to do so.

14.27. 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.

14.28. 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.

14.29. 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 net revenue spend of £488.897m to fund the capital programme.

14.30. 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

14.31. 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.

14.32. 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 set out in the following table:

Table 16: 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	282,704	169,302	203,579	237,675	271,951	306,409
Interest Earnings	(40,103)	1,005	(19,549)	(40,103)	(60,658)	(81,212)
Net Revenue impact	242,601	170,307	184,030	197,571	211,294	225,198
Affordable?	N/A	Yes	Yes	Yes	Yes	Yes
Variance to Budget		72,294	58,571	45,030	31,307	17,403

The table contains: -

- £400m of forward deals assumed arranged between 2021 and 2023.
- The Budget Forecast column is the base budget in the latest capital strategy for undiscounted interest earnings and interest payable over 15 years.
- The current rates column is the current budget forecast for the cost of borrowing over the period.
- The four sensitivities represent adjustment to the budget forecast for the cost of borrowing over the period and the interest earnings over the period, not specifically adjustments to the Bank of England Base Rate.

14.33. 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, 4.0% 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 £45m from its long term net borrowing budget forecast (£3m pa).

14.34. 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 £9.9m per annum beyond this 15-year horizon.

15. HRA Financial Implications

15.1. The HRA capital investment requirement over the next 30 years is £1.730bn, and over the first five years £773m. 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 Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty. Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA regarding the affordability of the Capital Programme.

16.2. 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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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