Brent	**Audit Advisory Committee** 20 September 2017 **Report from Strategic Director Resources**
For Information	Wards Affected: All
Capital Programme Update	

1.0 Summary

1.1 This update was requested by the Audit Advisory Committee in June and reviews the delivery of the Capital Programme and the changes that have been made to improve performance, forecasting and governance.

2.0 Recommendations

1.2 That the Committee notes the report.

3.0 Monitoring

Outturn

2016/17 Boards	Budget £m	Outturn £m	Variance £m
Corporate Landlord	2.6	2.5	(0.1)
Estates Regeneration	3.7	1.2	(2.5)
Housing Investment Board	129.5	67.1	(62.4)
Schools Programme	47.4	14.4	(33.0)
South Kilburn Programme	17.3	5.8	(11.5)
Transport & Highways	22.7	9.8	(12.9)
Grand Total	223.2	100.8	(122.4)

1.1 The End of Year position was £101m, which was an underspend of £122m. All Boards were significantly below budget bar Corporate Landlord. This was driven by unrealistic profiling in Housing and South Kilburn, a 12 (now 18) month delay in the Street-lighting contract and contractual issues with the main contractor in the schools programme. 2016/17 spend was broadly consistent with 2015/16.

1.2 The Council has reviewed the profiling for future years, challenging project managers. While the budget for 2017/18 is broadly consistent with 2016/17, the increase in direct property purchases (£75m more than 2016/17) makes this far more likely to be achieved. However, there are still risks detailed below that have been identified early on and need to be recognised.

2017/18 Forecast

	Budget	**Revised Budget**	**Forecast Outturn**	**Actual Spend**	**Variance**
	£m	**£m**	**£m**		**£m**
Corporate Landlord	2.0	4.0	4.0	0.2	(0.0)
Housing Care Investment Board	147.1	152.9	142.0	29.3*	(10.9)
Public Realm Board	17.5	22.7	16.4	1.8	(6.3)
Regeneration Board	8.9	9.9	8.1	4.9	(1.8)
Schools Programme Board	30.6	30.9	31.0	3.9	0.1
South Kilburn	11.5	11.5	11.5	4.1	0.0
Grand Total	**217.6**	**231.9**	**213.0**	**44.2**	**(18.9)**

* Does not include BHP spend for July. New process is being put in place to ensure it is complete by month-end.

Capital - Overall

1.3 The Capital programme as a whole has a 2017/18 budget of £231.9m, £217.6m of which was approved at full Council in March, and two-thirds of which relates to Housing. The Forecast Outturn is currently £213m or 92% of target. It is forecast to underspend by £18.9m.

1.4 New projects or increased project budgets worth £14.3m have been approved in-year including the Digital Strategy (£2.1m), CCTV (£2.3m) and new grant allocations for TfL (£2.9m). Disabled Facilities Grants (£5.7m) have also added to the overall budget. These projects make up the majority of the increase.

1.5 Spend-to-date at £44m in 4 months in 2017/18 is already the same as spend over 9 months in 2016/17 (budget of £223m and outturn of £101m), therefore it is clear that the programme is on track for far higher spend in 2017/18 (forecast of £213m and budget of £232m) than 2016/17.

1.6 While 2016/17 was taken up with the development and planning of its Investment strategy, 2017/8 will be focused on its delivery.

1.7 The Investment strategy linking capital spend to corporate objectives around affordable housing and social care accommodation was signed off in April 2016. A wholly owned investment vehicle – I4B Holdings Ltd – was established late in 2016, which was another key milestone in turning the investment strategy into reality. The council is involved in negotiations over joint venture

arrangements in Wembley and South Kilburn and it is actively exploring other opportunities.

Capital - Housing Care Investment Board

1.8 Overall, the largest Board expects to deliver £142m out of £153m with PRS (I4B Holdings Ltd), HRA Acquisitions and NAIL refurbishment schemes on track to deliver to budget. Originally, the purchasing cycle took up-to 6 months to purchase properties. However, improved processes have reduced this to 4 months with a target of 3 months (with the exception of existing tenanted properties).

1.9 The first two tranches of Private Rented Sector (PRS) spend, totalling £50m, have been approved towards purchasing 150 properties and it is anticipated that this should be delivered by the end of Q3 2017. The overall agreement in principle is £100m for 300 properties but, by splitting this into tranches, Cabinet is able to review progress and performance. The next planned request for £50m is expected to go to September Cabinet.

1.10 Over £100m has already been approved in relation to NAIL, but these are approved on a scheme by scheme basis. These 351 units over the next three years (out of a planned 415 units) should contribute to the Council's existing savings targets (£6.1m out of £7.2m required savings over the next three years, with more to come by this and other means).

1.11 Development schemes are currently predicted to underspend by £11m. Infill schemes tend to be challenging due to their small sizes and complexity and are expected to deliver £12m out of £23m. There was a loss of units due to the scale of some schemes being reduced through the planning process, and there were also delays through planning processes, leading to the construction stage now expected to straddle 2017/18 and 2018/19. The Infill programme is now being reviewed to see by how much the budget needs to be reduced. In-house Property-delivered schemes (Church End, Knowles House, and London Road) are forecast to only deliver £6m out of £21m due to over-programming.

1.12 It is expected that some of this underspend will be counter-balanced by PRS performing £14m above the current in year budget of £34m (this budget may be increased by some of the £50m mentioned above). If this was not to materialise, this underspend would have an impact on the overall performance of the Capital Programme.

Capital - Other Boards

1.13 Corporate Landlord (IT, Property, Energy) expects to make the final payment on the Civic Centre (circa. £2m in 2017/18) and the approval of the digital strategy has increased the overall budget. The Corporate Landlord Board will be reviewing all projects in September.

1.14 Schools Programme Board spend primarily relates to three of the primary school builds (Uxendon, Byron Court and Stonebridge). The slight increase (£0.3m) in the budget is due to Gordon Brown Outdoor Education Centre

requesting additional budget to deliver the project (and finding internal sources of funding to do so).

1.15 Public Realm board consists of Highways, Parks, Sports and Street Lighting. There has been an extended delay on the Street lighting project. Delivery was originally expected to be completed within 2016/17 but due to procurement delays, it will only start on site in October 2017. The contracted price is expected to cost £1.5m less than the budget, generating an in-year underspend of £3.9m (£2.4m of which is related to delays). CCTV is also predicting a £0.1m spend out of £2.3m in 2017/18 but this may be overly conservative. A few months delay in public realm can lead to significant impact as the spend tends to be back-loaded. Capital Programme Board will be examining this further.

1.16 Regeneration spend relates primarily to Housing Zones. The purchase of Ujima House (£4.9m) has already taken place. The Tricycle Theatre project was approved post-budget setting and is expected to complete in 2017/18 (£1m), as they are due to open in April 2018.

1.17 South Kilburn have not changed their forecast range of £10.4m to £13.6m, as they have spent £4.1m to date. The forecast is predicated on the middle of the range (budget) of £11.5m, but there is clearly a range of possible outcomes, in part because the outturn depends on decisions made by leaseholders to accept Council offers so it is challenging to get a more accurate forecast.

2.0 *Improvements*

Establishing Good Governance

2.1 All of the sub-programme boards have either agreed or proposed terms of reference and are meeting regularly. The Corporate Landlord board only meets twice a year due to its relatively small portfolio.

2.2 While sponsorship of some of the programmes has changed, efforts have been made to ensure that roles and responsibilities are clearly understood.

2.3 Sub-boards now meet before the main board so that forecasts can be reviewed and approved before Capital Programme Board. It also makes for clear lines of accountability so that just as programme and project managers can be challenged at sub-Board, Chairs will be accountable for their forecasts and performance at the main Board.

Budgeting & Forecasting

2.4 Forecasts overall are more realistic due to the work in January, however, it is clear that further improvements could be made. Self-delivery of housing projects both via BHP and the Property function and the Street-lighting projects are areas where the original forecasts still appear to have been overly optimistic.

2.5 A formal budget challenge session will begin in late Autumn to ensure that profiles are realistic. A budget/forecasting tool will be created to support managers with multi-year forecasting.

Improvement Workshop & Programme Managers Forum

2.6 A working group was formed to identify a practical set of improvements to strengthen the programme which are now being progressed. They comprise the establishment of a capital programme managers forum, to promote sharing of best practice and learning across capital projects and programmes, and to facilitate more collaborative working and early engagement with strategic support services including Procurement, Planning, Finance and Legal.

2.7 The Capital Portfolio Office is also producing a set of quick reference guides and top tips on key areas for project and programmes managers, which will be promoted at the programme managers' forum and published on the intranet.

Change Control Process

2.8 A simple change control note has been produced to help project and programme managers. However, it is important that budget profiles are set at the creation of the project and may only be changed at full Council. This is so that members can hold officers to account for project delivery.

2.9 All virements (budget movements between project headings) need to be compliant with the Constitution and the budgets approved at full Council or by Cabinet for new schemes.

3.0 Finance Implications

3.1 There are no direct financial implications beyond the advantages accruing from running an efficiently designed capital programme.

4.0 Legal Implications

4.1 The Scheme of Transfers and Virements in Part 6 of the Council's Constitution sets out the powers of officers and the Cabinet to make transfers and virements within the Council's Budget. This includes the Council's Capital Programme which is funded by a combination of capital receipts, grants and other direct external contributions and borrowing.

4.2 Any transfer or virement under the Council's Scheme of Transfers and Virements must not conflict with the Council's Policy Framework or anything specifically agreed by Full Council as part of the budget setting process. Otherwise, such a transfer or virement needs to be agreed by Full Council.

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