| Brent | **Cabinet**<br>14 January 2018<br><br>**Report from the Chief Finance Officer** |
|---|---|

**Development of the capital programme and capital pipeline proposals 2019/20 – 2021/22**

| | |
|---|---|
| **Wards Affected:** | All |
| **Key or Non-Key Decision:** | Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | Three:<br>1. Comprehensive list of capital pipeline proposals<br>2. Complete list of all proposals with descriptions<br>3. Resultant revised 3 year capital programme |
| **Background Papers:** | None |
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## 1.0 Purpose of the Report

1.1 This report outlines the Council's updated approach to prioritising future capital investment, ensuring it is in line with our aspirations and reflective of the priorities and circumstances within Brent. It also explains the framework within which the Council's long-term capital investment plans have been prioritised and brought forward for consideration as part of the financial planning and budget setting process.

1.2 These proposals will draw upon multiple funding sources. In particular as Strategic CIL receipts have now surpassed the levels required to begin to undertake major infrastructure projects the proposals in the report, if agreed, will eventually result in the allocation of in excess of £40m of CIL receipts, which represents 100% of total receipts as at 31 March 2018.

1.3 It is worth noting that although this report is principally about codifying the process for bringing forward capital proposals from the pipeline to the main programme, other benefits could arise. These proposals will facilitate a more strategic approach to capital investment and avoid the risk of sub-optimal decision making caused by assessing capital proposals in isolation of wider considerations. At the same time, it could improve capital forecasting and reduce the instances of programme slippage as it provides an opportunity to pause before formally committing funds to the capital programme, allowing time to compile detailed business cases and more realistic project timelines.

1.4 As described in more detail in the report, the process to date has essentially been to encourage responsible officers to identify all their likely capital needs over the next four years or so. Inevitably, this means that the current list of possible projects is over subscribed. We are therefore proposing the introduction of a permanent pipeline that sits alongside the main programme. From this pipeline, capital schemes can then be promoted to the main programme when it is not only affordable, but strategically advantageous to do so.

1.5 There is no fixed limit to the size of the capital programme. The Council can set it at whatever size it likes provided it is affordable (the technical definition of which is provided by the 'prudential indicators' agreed by Council each year). In the revenue budget growth for the cost of the capital programme – interest and debt repayment charges – has been assumed, based on the Councils long term capital aspirations. If the list of projects now identified in appendix 2 are approved it would add more revenue cost in future years, but at present this can be contained within our existing budget growth assumptions which assumes that a number of these proposals will generate ongoing revenue savings and attract grant funding.

## 2.0 Recommendation(s)

2.1 Cabinet approve the introduction of the permanent capital pipeline (as set out in Appendix 1).

2.2 Cabinet agree that the schemes listed in Appendix 1 (Column A) are promoted from the pipeline to the main programme.

2.3 Cabinet note that in future, the remaining pipeline schemes will be individually moved to the main programme (and hence formally committed) when it is strategically and economically advantageous to do so but always subject to the submission of detailed business cases and Cabinet approval where applicable.

2.4 Cabinet agree that in light of recommendation 2.2 above, the revised 3 year capital budget (Appendix 3) is adopted and presented to Council for approval as part of the Budget & Council Tax Report in February 2019.

## 3.0 Detail

3.1. The Council has embarked on an extensive capital programme, with plans already underway to invest c£0.8bn throughout the borough. This sum includes significant spend across the General Fund (GF) and the Housing Revenue Account (HRA) and aims to support the strategic aims of the Council, as defined in the Borough Plan and Brent 2020 Vision. These schemes will help to modernise Brent and enhance the boroughs reputation as an attractive place to live, work, attend school or college, start a business or for leisure, play and recreation.

3.2 To support these aims in February 2018 Council agreed a £425m capital programme. However, recognising that this would need to be added to, they also agreed a budgetary pipeline provision of £410m to facilitate the implementation of future schemes such as NAIL, PRS, I4B loan funding and other major infrastructure projects, bringing the overall sum to £835m (Table 1). Legally, this means that this funding is within the Budget & Policy Framework and hence can be subject to Cabinet and not Council decision making.

3.3 The current capital programme arranged according to portfolio (including the pipeline allowance) is set out below in Table 1. This can be used as a guide in classifying current overall investment plans, however in reality, many of the schemes are cross cutting and hence span across several portfolios.

Table 1 Summary Capital Programme

| Portfolio Holder | Portfolio | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | Total |
|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m |
| **Resources:** Cllr M McLennan | Barham Park Trust, Civic Centre, Digital Strategy, Energy, Libraries, Property Management | 6.5 | 2.2 | 1.7 | 0.0 | 0.0 | 0.3 | **10.6** |
| **Regeneration**: Highways, Planning: Cllr Tatler | Bridge Park Regeneration, Grants to outside bodies, NCIL, NHB, Olympic Way, Housing Zones, Town Centre Regeneration, South Kilburn, Landscaping, parking, street lighting, Highways, TFL | 45.6 | 34.2 | 42.0 | 33.9 | 5.6 | 5.6 | **167.0** |
| **Community Safety**: Cllr T Miller | CCTV, Environmental Health | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **2.4** |
| **Public Health**: Culture & Leisure: Cllr K Hirani | Sports | 0.4 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | **0.9** |
| **Environment**: Cllr K Sheth | Parks, Cemeteries | 1.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | **1.4** |
| **Schools:** Employment & Skills: Cllr A Agha | School and school expansions | 23.8 | 7.2 | 4.6 | 2.6 | 3.2 | 0.0 | **41.3** |
| **Housing & Welfare Reform:** Cllr E Southwood | GENERAL FUND Aids & Adaptations, Travellers site, PRS, I4B | 45.5 | 36.3 | 12.0 | 6.0 | 0.0 | 0.0 | **99.8** |
| | HRA Condition surveys, Infill, Major Repairs | 32.4 | 22.8 | 16.6 | 0.0 | 0.0 | 0.0 | **71.7** |
| **Adult Social Care**: Cllr H Farah | NAIL Schemes | 3.9 | 20.6 | 5.3 | 0.0 | 0.0 | 0.0 | **29.8** |
| **SUB TOTAL** | | **161.6** | **123.9** | **82.2** | **42.4** | **8.8** | **5.9** | **424.9** |
| All | Budgetary Pipeline Provision | 0.0 | 70.0 | 136.9 | 135.8 | 46.0 | 21.8 | **410.6** |
| **GRAND TOTAL** | | **161.6** | **193.9** | **219.1** | **178.2** | **54.8** | **27.8** | **835.5** |

New capital bids

3.4 New capital proposals are generally considered within the Council's overall medium to long term priorities, and the preparation of the capital programme is an integral part of the cyclical financial planning process. An important aspect of this undertaking includes taking full account of the revenue implications of capital projects in the revenue budget setting process. This impact is monitored via the revenue budget monitoring and reporting procedures during the year as well as the setting and reporting of Prudential Indicators twice a year to the Audit & Standards Advisory Committee.

3.5 As noted above the current capital budget (18/19 to 20/21), approved in February 2018 includes an additional budget provision of approximately £410m for potential schemes such as NAIL and PRS schemes or potential infrastructure projects funded by strategic CIL and other sources. Formal approval to spend wasn't sought at the time, instead these estimates were used for the capital financing calculations and prudential indicators to ensure that capital expenditure and revenue borrowing requirements were properly aligned.

3.6 Inclusion of the pipeline provision has helped in establishing the affordability of the Council's future capital investment plans and, in time, it is envisaged will become a key contributor to the Council's savings targets. In many respects this is akin to a "contingency" built into the programme to be utilised for future major strategic projects subject to development of robust business cases.

Pipeline schemes

3.7 Since the original budget was agreed by full Council in February 2018 the individual capital sub-boards have developed a comprehensive list of possible areas for future additional capital investment to potentially draw down against the pipeline budget provision noted above.

3.8 This included the assimilation of over 100 individual capital proposals with a total value of c£1bn and a spend profile spanning 3 to 5 years. This has since been reworked and consolidated to c50 projects so that they can be considered at a more strategic level. The detailed steps taken to arrive at this point are described below, however it is worth noting that at this stage, the proposals are mostly at an early draft or outline business case form. This report sets out the potential next steps in prioritising these proposals for incorporation into the main capital programme for 2019/20 to 2021/22 which will be presented to Council in February 2019 as part of the annual budget setting cycle.

3.9 This is the first time the Council has had a comprehensive list of most of the future capital investment opportunities. However, the scale of the pipeline requires an evaluation of the benefits to be obtained from the proposals and the formation of a system of bringing forward projects as it will not be possible or practical to fund them all from the outset.

Prioritisation of capital proposals

3.10 It is envisaged that the capital pipeline proposals will, over time contribute to the overall savings targets. The revenue funding gap is estimated at around £40m for 2019/20 to 2022/23. This is all taking place against a background of austerity and significant reductions in central funding for local government. It is therefore a key aim of the Council's capital strategy (reported separately to Cabinet) that it delivers a good financial return on investments, whether this be from generating new income streams or by cost avoidance.

3.11 Therefore, when the internal sub board chairs evaluated the individual investment proposals the schemes with the ability to generate revenue savings and, to a slightly lesser extent, their potential to generate future capital receipts or other financial returns were looked upon more favourably.

3.12 The full list of criteria and the steps taken in scoring the proposals are explained as follows:

Prioritisation criteria

3.13 **Statutory obligations**, where the higher the score allocated means the greater the statutory need, and significance of that need, that we would otherwise be at risk of failing to meet, such that proposals that are more likely to meet statutory obligations are more likely to be approved. It is important to stress that most local government services have a statutory basis, but that there is often little correlation between this and the need to spend, and in particular the need for capital spend. It is also important to stress that even when statutory obligations to undertake capital investment may exist there is often still considerable scope to vary the level of spend (e.g. from a "no frills" model to a "gold plated" one).

3.14 **Financial return**, where higher scores were applied to those schemes that generate ongoing revenue savings or a capital receipt.

3.15 **Local demand**, where the higher the score allocated means the greater the assessed demand from residents such that proposals that are more likely to enhance resident satisfaction are more likely to be approved.

3.16 **Complexity** (the higher score means relatively simple and a lower score relatively complex), so that proposals that are likely to be deliverable without slippage, complicated negotiations, lots of officer time and so on are more likely to be approved.

3.17 **Economic growth**, where the higher the score allocated means the more that the proposal would contribute towards economic growth in the borough. Economic growth is defined widely for these purposes, so it would include enhancements to residents' employment prospects (through for example skills or transport links) as well as attracting new business into the local economy or other ways of increasing economic activity.

3.18 **Demand management**, where the higher the score allocated means the more that the proposal would reduce current demand for services or, to a lesser extent, reduce future demand for services.

Priority Levels

3.19 Following the scoring exercise, the proposals were grouped according to the following priority level based on their respective scores:

**Priority 1:** scores of 15 and above (High Priority)
**Priority 2:** 6 – 15 (Medium Priority)
**Priority 3:** 0 – 5 (Low Priority)

These were then moderated at a meeting of Senior Officers to ensure that the results were broadly consistent and picked up political and other considerations that may not have been apparent to the chairs of the various capital sub-boards who carried out the scoring.

3.20 Individual proposals were then further categorised according to the following eight topical themes to further aid understanding and decision making:

3.20.1 **Direct Financial return** - schemes that are intended to make a financial return and, whilst there may also be other reasons for doing them, could be justified, subject to the business case, on this basis alone

3.20.2 **Housing (small sites)** - the delivery of affordable, shared ownership and private housing from sites providing fewer than 10 units

3.20.3 **Major housing sites** - the delivery of affordable, shared ownership and private housing from sites providing more than 10 units

3.20.4 **South Kilburn** - a major programme to transform the area into a sustainable mixed neighbourhood and the create 1,200 affordable homes for social rent

3.20.5 **Strategic land and property** - the acquisition of land and/or property for:

- economic development purposes
- to provide homeless accommodation
- to consolidate land ownership
- to improve performance of investment portfolio
- strategic acquisition for regeneration, development or redevelopment purposes
- revenue income generation

3.20.6 **Investing for growth** - investment in borough wide initiatives that deliver transformational change, increase employment and income levels and maximise investment from the private, public and community sectors

3.20.7 **Maintaining assets** – planned investment at strategic points in an asset’s normal life with optimised repair and maintenance activities, to maintain and enhance the performance of an asset and extend its life

3.20.8 **Miscellaneous** - any other capital investment not listed above

3.21 The results were then superimposed over a map of the borough to demonstrate pictorially the geographic spread of the proposals (see Figure 3). The results of this analysis and scoring is set out in Appendix 1 of this report and summarised below.

Table 2

| £M | Priority Ranking | | | |
|---|---|---|---|---|
| Category | 1<br>High Priority | 2<br>Medium Priority | 3<br>Low Priority | Total |
| Direct Financial return | 55.0 | 0.0 | 0.0 | **55.0** |
| Housing (small sites) | 23.1 | 0.0 | 0.0 | **23.1** |
| Major housing sites | 573.4 | 0.0 | 0.0 | **573.4** |
| South Kilburn | 16.6 | 29.1 | 5.6 | **51.3** |
| Land and property acquisition | 20.0 | 44.5 | 0.0 | **64.5** |
| Investing for growth | 13.4 | 34.8 | 46.5 | **94.7** |
| Maintaining assets | 21.6 | 0.2 | 0.0 | **21.8** |
| Miscellaneous | 1.6 | 36.5 | 1.4 | **39.5** |
| | **724.7** | **145.1** | **53.5** | **923.3** |

Figure 1

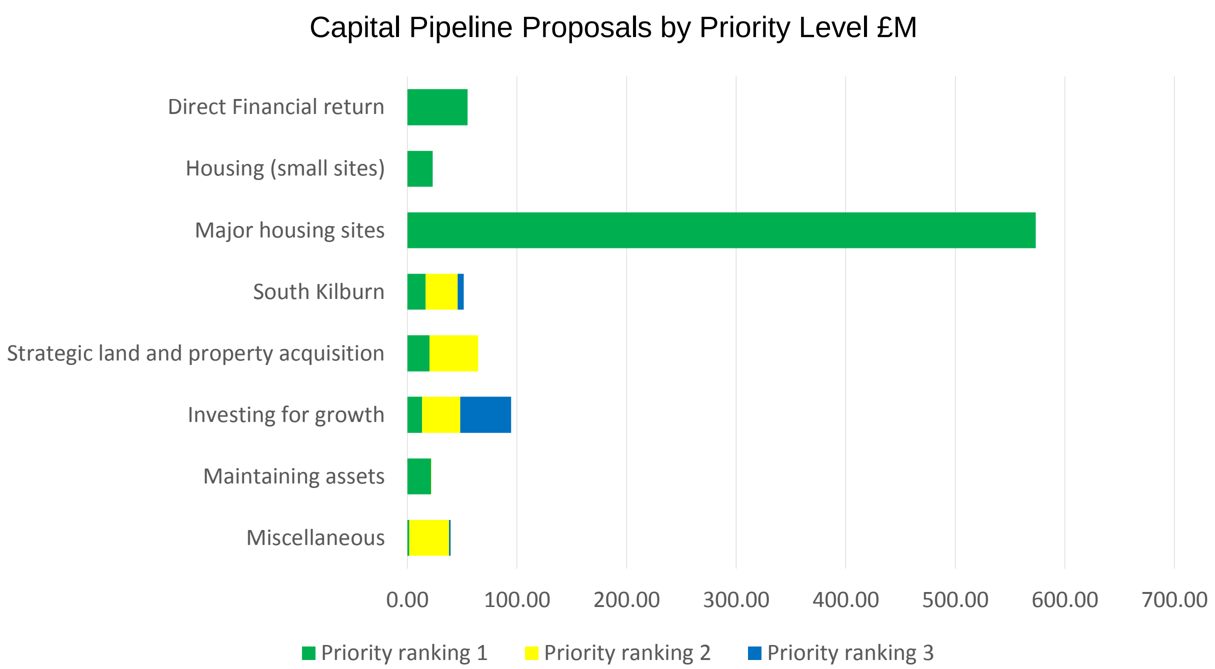
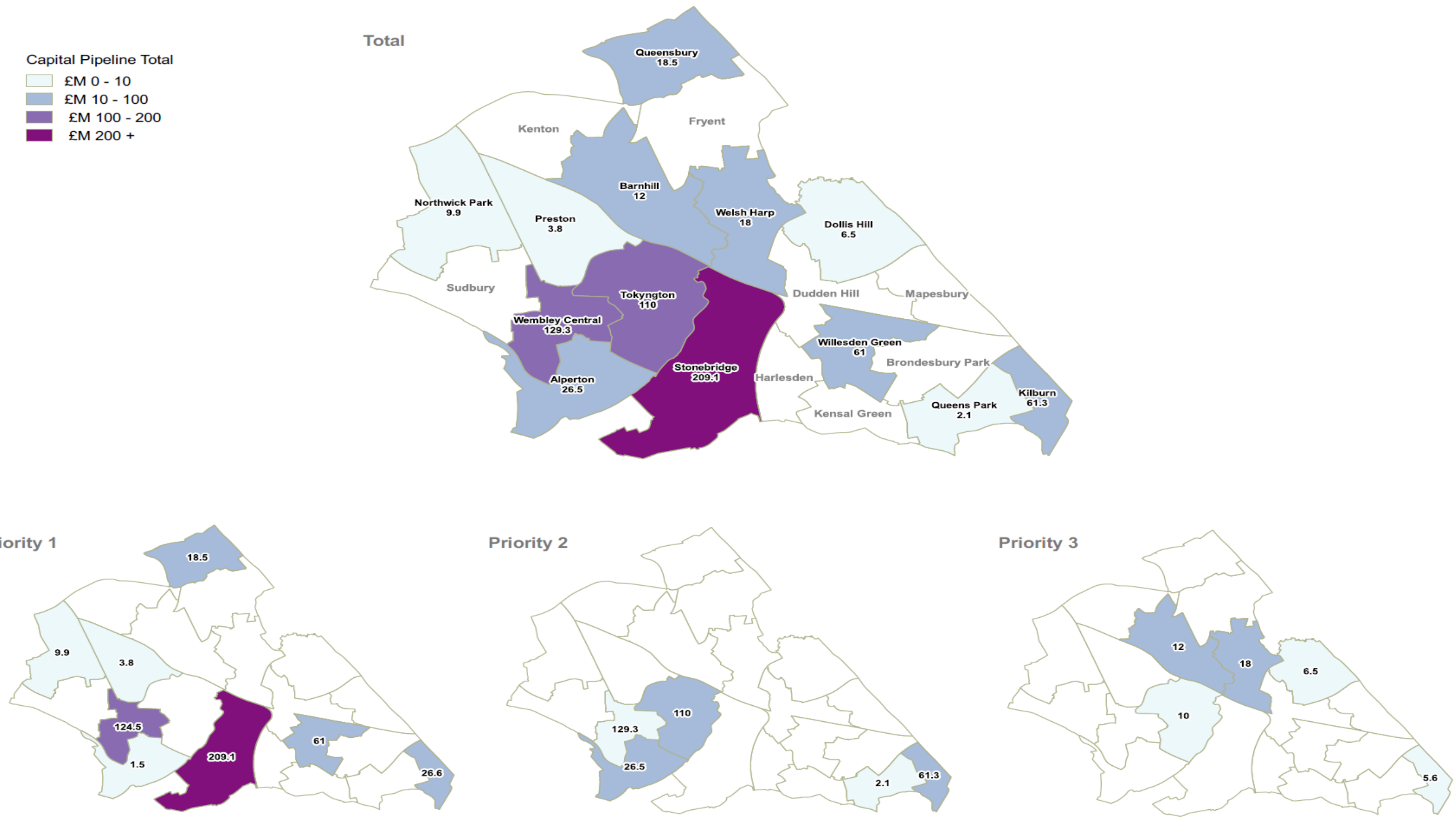


Figure 2 Pipeline spend sorted by priority and ward

| £M | Priority 1 | Priority 2 | Priority 3 | Total |
|---|---|---|---|---|
| | | | | |
| All | 115.6 | 86.8 | 1.4 | **203.8** |
| Alperton | 2.0 | 26.8 | 0.0 | **28.8** |
| Barnhill | 0.0 | 0.0 | 12.0 | **12.0** |
| Brondesbury Park | 1.7 | 0.0 | 0.0 | **1.7** |
| Dollis Hill | 16.9 | 0.0 | 6.5 | **23.4** |
| Fryent | 3.8 | 0.0 | 0.0 | **3.8** |
| Kenton | 2.1 | 0.0 | 0.0 | **2.1** |
| Kilburn | 88.8 | 29.1 | 5.6 | **123.5** |
| Northwick Park | 9.9 | 0.0 | 0.0 | **9.9** |
| Preston | 5.5 | 0.0 | 0.0 | **5.5** |
| Queens Park | 0.0 | 2.1 | 0.0 | **2.1** |
| Queensbury | 18.5 | 0.0 | 0.0 | **18.5** |
| Stonebridge | 210.1 | 0.0 | 0.0 | **210.1** |
| Tokyngton | 0.0 | 0.0 | 10.0 | **10.0** |
| Welsh Harp | 0.0 | 0.0 | 18.0 | **18.0** |
| Wembley | 188.1 | 0.3 | 0.0 | **188.4** |
| Willesden Green | 61.7 | 0.0 | 0.0 | **61.7** |
| | **724.7** | **145.1** | **53.5** | **923.3** |

Figure 3 Map of Brent overlaid with capital proposals



Consideration of capital proposals attracting specific funding

3.22 Schemes attracting partial external funding, such as grants for affordable housing, will be assessed in the same way as those schemes which require 100% of funding from borrowing and will only be included within the capital programme if they meet the Council's needs, objectives and priorities and where it is clear the Council can meet all of the grant conditions without detriment.

3.23 Schemes attracting 100% external funding would normally be included automatically within the capital programme, subject to confirmation of the external funding and that the scheme meets the Council's priorities. Such schemes are usually supported by Capital Grants, or receipts from agreements under Section 106. A detailed business case still needs to be completed for these proposals.

Exceptions

3.24 It is acknowledged that at times certain projects will need to come forward outside of these parameters. This process does not prevent individual approvals being granted before then, subject of course to Cabinet agreement that there is a valid and viable business case. The route for any such approvals will continue to be via the Council Management Team prior to presentation to Cabinet.

3.25 However, the new programme should be reviewed and approved wholistically as part of budget setting, and we should seek to minimise the number of any requests for funding outside of the overall process, which should in most cases should initially be added to the capital pipeline for review, challenge, scoring, ranking and prioritisation prior to inclusion on the main programme. In principle the proposals set out here cover investment needs over the next five years, and the chairs of the capital sub-boards have been encouraged to be as expansive as possible to ensure that all plausible needs are identified. Realistically, new proposals will always come forward, and a mechanism needs to be designed to allow for a refresh of the programme annually (or bi-annually) with the major updates being carried out perhaps every four years. This has not yet been determined.

Schools Expansion

3.26 Brent has a statutory duty to ensure that sufficient school places are available for its resident children and young people. One of the most significant challenges facing the Council, and many other local authorities nationally, is the impending increase in demand for secondary school places due to a surge in primary school children coming through.

3.27 The school place planning strategy was agreed by Cabinet on the 12th November. This set out demand for additional secondary school places over the next 5 years. This demand can be met through a combination of expansion of current schools and the establishment of a new free school, North Brent (Free School) working title, which is expected to open in September 2020. Officers are working closely with local schools to identify projects which will be introduced via the Capital Investment Pipeline from February 2019.

Project Feasibility Fund / Scoping works

3.28 In some instances, capital projects have been included on the main programme based on only outline or a basic draft business plan. This is not ideal as it contributes to occurrences of capital slippage (due to incorrect profiling) and can tie up resources unnecessarily. This report therefore recommends that Strategic Directors use the departmental reserves already delegated to them to undertake feasibility, scoping and other works that support the creation of detailed business cases for the pipeline. This will ensure that before promotion to the main programme all pipeline projects would have been fully scoped. Thereby increasing the chances of delivering against the stated outcomes. This budget could be funded from existing departmental earmarked reserves and progress would be reported to Members and other Stakeholders in conjunction with existing capital programme reporting protocols.

Housing delivery options

3.29 The increasing funding constraints suffered by local authorities have put considerable strain on revenue and capital budgets. The cap on HRA borrowing, depletion of the housing stock through Right to Buy and the forced decrease in rents are all impacting on the ability of the Council to finance new homes, estate renewal and economic regeneration projects. As a result, the Council is continually considering different delivery mechanisms to meet existing needs.

3.30 The Council has a target to deliver 5,000 new affordable homes over five years and it is planning policy to achieve a split of 70% affordable rent 30% shared ownership. However, given the constraints noted above, in order to fund the Housing schemes included in the pipeline and meet these targets a more flexible approach is required. That includes the adoption of a ‘portfolio’ approach to bringing forward housing sites. This means that although the programme as a whole will be both planning policy compliant and generate a surplus, certain individual schemes may not deliver a planning policy compliant tenure mix or may require net investment. The Council will however always push to maximise the highest number of homes at the most affordable rent levels.

Scheme mix/density

3.31 In order for this programme of works to be financially viable this will likely require the introduction of an element of commercial units or shared ownership for example. This mix of schemes will be necessary to generate sufficient capital receipts and revenue income to cross subsidise other housing development. This will ensure the programme is sustainable and remains within the limits of the borrowing cap and the council’s prudential indicators.

Grants to Registered Providers

3.32 The Council could also consider partnering with established Registered Providers to take advantage of the capacity they have built over time. This would involve the award of grant funding (typically Right to Buy 1 for 1 capital receipts or the provision of land) for which the Council would receive nomination rights.

External Housing Grants

3.33 A further option to bring forward housing development is, wherever possible to utilise external grant funding such as the Mayors Affordable homes programme which has recently secured £3.15bn from the Government to fund new affordable homes in London. According to their prospectus this fund is offering two rates of grant per unit (although this contribution is negotiable)

- £100K - London Affordable Rent, when rent is set at or below the benchmark levels

- £28K - London Living Rent and London Shared Ownership

3.34 Based on these unit rates the delivery of 100 home at affordable rent levels could attract c£10m in grant funding, however this would come with certain conditions that would have to be met. For example projects must start by 2021, homes would be subject to one per cent rent reductions, tenants would retain a right to buy, all of which may well meet Council objectives but could also have implications for programme viability. This will be determined once detailed appraisals are conducted for individual schemes.

3.35 In October 2018 the Council submitted a bid in excess of £100M, to fund the delivery of 1,000 new homes over the next three years. Later that month the GLA confirmed that a number of those schemes were approved (c817 new affordable homes) and awarded £65.6m grant funding (subject to contract). All of the GLA approved housing schemes have therefore been included within the list of schemes recommended for immediate promotion into the main programme (Appendix 2).

HRA Debt Cap

3.36 Subsequent to the compilation of this report, at the Conservative Party annual conference in Birmingham Prime Minister Teresa May announced plans to axe the cap on councils borrowing against assets to build new homes by the end of October 2018. Officers are currently analysing the impact of these plans and will report back in due course, however this is expected to remove one of the main restrictions to delivering affordable housing within the HRA.

Pipeline Linkages to Strategic Objectives

3.37 It is important that the proposals in this report reflect the key strategies and plans of the Council. It is also imperative that pipeline bids (and their subsequent prioritisation) are informed by the other key strategic documents such as the Brent 2020 Vision. The linkages between projects and strategic objectives will need to be explicit in order to properly assess the extent to which we are delivering on the Council's objectives. To support this, it will be a pre-requisite for all detailed business cases to provide a statement explaining how the proposals contribute to our strategic priorities.

Indicative timetable

3.38 The Council's policy is to agree the rolling capital programme on an annual basis at the February Council meeting. Once approved, the programme is published on the Council's website. The timetable for the development of the capital programme is as follows:

| Date | Action |
|---|---|
| Mar-Jun | Develop of outline capital bids within departmental teams |
| Jun | Presentation of draft bids to Capital Investment Panel |
| Jul | Consolidation and prioritisation of proposals by sub-boards |
| Sep/Oct | Summarised proposals and draft report to CMT |
| Nov | Projects considered at budget review panels (PCG) |
| Dec | Leaders briefing |
| Jan | Cabinet considers new capital investment proposals |
| Jan | Revise draft capital programme for further consultation |
| Feb | Capital budget setting report to Cabinet/Council |

3.39 The timetable above provides an outline guide for the process to be followed for this year. Moving forward a process will need to designed to allow for a more regular (in-year) update of the pipeline with more significant updates at say, four year intervals.

## 4.0 Financial Implications

4.1 If successfully delivered these proposals should contribute to the revenue savings targets noted in paragraph 3.10.

4.2 As noted above the current capital programme includes a budgeted allowance for pipeline schemes of £410m. The current draft pipeline proposals amount to £923m which is more than double the current (£410m) pipeline allowance. The proposals have therefore been prioritised according to the criteria explained in section 3 and an initial list of schemes totalling £393m recommended for immediate promotion to the main capital programme.

4.3 If the recommendations in this report are agreed, the £410m budgetary pipeline allowance will reduce by £393m falling to £17m. This balance reflects the remaining budgetary provision available to pay for the Council's capital pipeline of aspirational schemes now totalling some £530m (after the transfer of schemes to the main programme) – See Appendix 1.

4.4 The initial budgetary provision has now been almost fully utilised, therefore in the future if all of the pipeline schemes are to pass the affordability criteria (as specified in the prudential code) and eventually taken forward, alternative strategies will need implemented. Such as the prioritisation of schemes that generate revenue savings and capital receipts or the utilisation of greater levels of external funding such as grants and Strategic CIL.

## 5.0 Risks

5.1 Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital programme. The risks associated for each project will be detailed in business cases however it is worth noting certain strategic risks for this report.

5.2 Interest Rate Risk – as set out in the current programme, if all projects are agreed and delivered on time the Council is planning to externally borrow up to £344m over the next five years (see Appendix 3). Interest rates can be variable, and an increase could increase the cost of servicing debt to a level which is not affordable. To mitigate this, the Council has used interest rate forecasts which include a prudent provision against interest rate rises. The Council, as part of revenue budget setting has also made allowances for interest costs in the capital financing budget. Finally, the Council is considering options such as forward borrowing, borrowing in advance of need, MRP holidays and capitalisation of borrowing costs. The interest rate forecast is shown below.

Table 3

| **Category** | **2018-19** | **2019-20** | **2020-21** | **2021-22** | **2022-23** |
|---|---|---|---|---|---|
| Assumed interest rate | 2.75% | 3.00% | 3.00% | 3.25% | 3.50% |

5.3 In the event that interest rates rose beyond this forecast the revenue interest cost to the Council would increase for all borrowing not yet entered into. A rise of an extra 1% would cost an extra £3.9m per annum on the full £392m estimated borrowing.

5.4 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. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. To some extent this can also be managed through delivery methods such as the agreement of fixed price contracts.

5.5 Regulation Risk – Capital schemes need to comply with the latest law and regulations which can change leading to an impact on construction costs and may be retrospective in their nature. This is mitigated by awareness of pipeline legislative changes and through contingencies.

5.6 Commercial Values – the Council’s capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, generation of capital receipts from property sales in some cases post development, attracting developers to projects based on a potential share of profits and other revenue/capital financial flows. In some cases, it is likely that the Council will commit to large projects, property acquisitions or other forms of expenditure based on assumptions about the market value of future asset or economic values. Should market movements worsen the Council may suffer financially. Conversely if market conditions improve the Council could benefit. The risk of the market worsening is mitigated through contingencies in projects.

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

## 6.0 Legal Implications

6.1 Having a more structured approach to bringing forward individual schemes would enable support services to proactively plan to support schemes. As a result more schemes could be supported using existing internal resources or recruiting temporary staff on fixed term contracts to provide dedicated support to schemes. This would reduce the need to externalise support services (which are generally more expensive than internal provision) save where there is a genuine need to externalise, for example due to the specialised nature of advice/support required.

6.2 Depending on the timing of the work, it is likely that to provide support to deliver the pipeline projects (except for when genuinely specialist external support is needed) two commercial property lawyers and two contract lawyers in addition to the existing establishment of posts in Legal Services, would be needed.

6.3 The legal implications for each individual scheme within the capital pipeline will be fully considered within the detailed business case for that scheme. Each scheme within the capital pipeline will be approved in accordance with the Council's constitution.

## 7.0 Equality Implications

7.1 None specifically in relation to this report.

## 8.0 Consultation with Ward Members and Stakeholders

8.1 Consultation and engagement will be carried out on individual schemes with the capital programme. The proposals set out in this report will be consulted on according to the timetable in section 3.39.

## 9.0 Human Resources/Property Implications (if appropriate)

9.1 None specifically in relation to this report.

***<u>Report sign off:</u>***

***Conrad Hall***
Chief Finance Officer