

Committee(s):	Date(s):
Finance Committee	23 July 2019
Subject: Capital and Supplementary Revenue Projects – 2018/19 Outturn and Prudential Indicators	Public
Report of: The Chamberlain	For Information
Summary	
<p>This report provides details of the 2018/19 outturn for capital and supplementary revenue projects (SRPs) together with the Prudential Indicators for the City Fund.</p> <p>Actual capital and SRP expenditure in 2018/19 amounted to £271.8m, a net £46.2m less than the approved budget of £318m. This reduction was largely due to the re-phasing of £50m of expenditure to later years, including the £25m delayed Crossrail contribution.</p> <p>The CIPFA Prudential Code provides the statutory framework for ensuring that capital expenditure is affordable, prudent and sustainable and requires the calculation of certain prudential indicators in respect of City Fund capital activities only. The 2018/19 actual indicators, drawn from the end of year balance sheet, highlight that the City Fund held no external debt as at 31 March 2019.</p>	
Recommendation(s)	
Members are asked to note the contents of this report.	

Main Report

Background

1. In March each year, the Court of Common Council approves the Capital and SRP budgets as part of the annual budget setting process.
2. Chief Officers, in liaison with the Town Clerk's Programme Office, provide regular reports on the progress of individual schemes against milestones.
3. Capital expenditure generally results in an increase in asset values and typically relates to acquisitions and enhancements, whereas supplementary revenue projects are one-off items which do not fulfil the capital criteria e.g. feasibility and option appraisal costs, major cyclical repairs and maintenance.
4. The capital controls which apply to the City Fund restrict the use of capital reserves (derived from the sale of assets) for financing of capital expenditure (or repayment of debt). In this context, grants to third parties for capital purposes, such as the City Fund contribution to the Museum of London for the relocation project, qualifies as capital expenditure. Crossrail contributions are also included as project items.

5. The Court of Common Council has delegated to me authority to determine the methods of financing capital and supplementary revenue project expenditures. In making such decisions consideration is taken of the strategic and tactical interests of the three funds.
6. The purpose of this report is to provide details of the 2018/19 actual expenditure against the budgets approved by the Court of Common Council in March and to set out the actual Prudential Indicators for the City Fund.

2018/19 Outturn

7. Significant items of Capital and Supplementary Revenue Project expenditure in 2018/19 include three major acquisitions – power companies in Barking to provide the potential site for the markets consolidation project, an investment property on the Fleet Street Estate to complete the site for the new development and the ex-Chartered Insurance Institute building at 20/21 Aldermanbury to add to the Guildhall complex footprint. Other expenditure on operational assets include highways and public realm improvements, HRA dwelling cyclical works and new construction, police decant accommodation, enhancements to the Central Criminal Court and the schools together with funding for the Museum of London relocation and associated landlord enabling works.
8. The total expenditure incurred in 2018/19 was £271.8m which was £46.2m less than the approved capital and SRP budgets of £318m. A breakdown of expenditure analysed by fund is set out below:

2018/19 Actual Capital and Supplementary Revenue Project Expenditure and Financing							
		City Fund	City's Cash	Bridge House Estates	Total	March 2019 Approved	Variation
		£m	£m	£m	£m	£m	£m
Capital/SRP Expenditure							
	Investment	0.9	4.0	1.1	6.0	9.6	-3.6
	Major Projects	39.8	140.4	0.0	180.2	177.5	2.7
	Contribution to Crossrail	0.0	0.0	0.0	0.0	25.0	-25.0
	Other Operational expenditure	53.1	31.5	1.0	85.6	105.9	-20.3
	Total Expenditure	93.8	175.9	2.1	271.8	318.0	-46.2
Funded by:							
	External Grants & contributions	18.7	0.1	0.0	18.8	26.0	-7.2
Internal Resources:							
-	Borrowing - Loan	0.0	125.0	0.0	125.0	125.0	-
-	Reserves and balances	75.1	50.8	2.1	128.0	167.0	- 39.0
	Total Funding Requirement	93.8	175.9	2.1	271.8	318.0	- 46.2
March 2019 Approved Budgets		110.0	205.6	2.4	318.0		
Variation		- 16.2	- 29.7	- 0.3	- 46.2		

9. The following table analyses the variations between budgeted and actual expenditures and the resulting impact on financing in 2018/19.

2018/19 Analysis of Variations compared with Approved Budget

	City Fund	City's Cash	BHE	Total
	£m	£m	£m	£m
Expenditure Variations				
Net rephasing of expenditure to later years	- 19.7	- 30.8	0.1	- 50.4
Cost increases/savings (-)	3.5	1.1	- 0.4	4.2
Total Reduction in Expenditure	- 16.2	- 29.7	- 0.3	- 46.2
Impact of variations on Financing				
External Contributions	- 6.9	- 0.3	-	- 7.2
Internal Funds	- 9.3	- 29.4	- 0.3	- 39.0
Total Reductions in Financing	- 16.2	- 29.7	- 0.3	- 46.2

The net variation of £46.2m is largely comprised of deferred expenditure of £50.4m, partially offset by net cost increases of £4.2m.

10. The deferred project expenditure of £50.4m, which is expected to be incurred in subsequent years, relates mainly to:
- Payment to Crossrail - £25m
 - highways and public realm - £7m
 - Investment property refurbishments £4m
 - Housing schemes - £4m
 - Police Accommodation - £3m
 - Security schemes - £2m

The net cost increases of £4.2m relate to budget increases approved late in the year on various projects including the Richard Cloudesley Site housing and the Smithfield Market preservation works - £5.6m in aggregate, partially offset by unspent contingencies - £1.4m.

11. Of the £46.2m underspend, £7.2m was to be funded from external contributions and £39m from internal sources.

Prudential Indicators

12. The CIPFA Prudential Code¹ provides a framework for ensuring that capital expenditure and financing (in particular borrowing) is affordable, prudent and sustainable, and requires the calculation and monitoring of certain prudential indicators in respect of only City Fund capital activities.

13. In addition to setting indicators for the forthcoming year during each budget cycle, the Code requires authorities to calculate certain indicators drawn from the end of year balance sheet. The appendix contains the actual indicators for 2018/19, including commentaries which highlight, in particular, that there was no underlying need to borrow externally.
14. The City Fund total expenditure figures used for the indicators vary from the figures in the tables above as the indicators relate only to capital, not supplementary revenue expenditure.
15. In the context of borrowing, it should be noted that City's Cash had a loan of £125m as at 31 March 2019.

Appendix: 2018/19 Actual Prudential Indicators

Caroline Al-Beyerty
Financial Services Director

T: 020-7332 1113

E: caroline.al-beyerty@cityoflondon.gov.uk

¹ The Prudential Code is a professional code of practice developed by the Chartered Institute of Public Finance and Accountancy to support capital investment decisions. Local authorities are legally required to have regard to it under the Local Government Act 2003.