

Committee(s):	Date(s):
Finance Committee	12 September 2017
Subject: Capital and Supplementary Revenue Projects – 2016/17 Outturn and Prudential Indicators	Public
Report of: The Chamberlain Report author: Caroline Al-Beyerty – Deputy Chamberlain	For Information
Summary	
<p>This report provides details of the 2016/17 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 2016/17 amounted to £350m, a net £32m less than the forecast of £382m. This reduction was due to the re-phasing of £38.6m of expenditure to later years, partially offset by a net increase of £6.4m as a result of an unplanned investment property purchase opportunity.</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. The 2016/17 actual indicators, drawn from the end of year balance sheet, highlight that the City Fund held no external debt as at 31 March 2017.</p> <p>Recommendation(s)</p> <p>Members are asked to note the contents of this report.</p>	

Main Report

1. Five year programmes of Capital and SRP schemes are maintained for financial planning purposes which inform the preparation of the medium term financial forecasts for each of the three main funds. The forecasts include prudent provision for the latest estimated costs of schemes approved via the Corporate Project Procedure, planned property acquisitions and other significant schemes in the pipeline.
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 Crossrail project, qualifies as capital expenditure.

5. A major source of capital finance for the City Fund is derived from the planned freehold or long leasehold disposal of investment properties. However, accounting standards require certain lease premiums received upon the granting of long leases to be treated as deferred income, to be released over the life of the lease. Nevertheless, the cash held can still be used as a source of capital financing, classified as 'internal borrowing' in accordance with the City Fund system of capital controls.
6. 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.
7. The purpose of this report is to provide details of the 2016/17 actual expenditure against the amounts assumed in the Medium Term Financial Forecasts and to set out the actual Prudential Indicators for the City Fund.

2016/17 Outturn

8. Significant items of Capital and Supplementary Revenue Project expenditure in 2016/17 include the City Fund contribution of £200m to the Crossrail project, investment property acquisitions and refurbishments of £84m and operational project spend amounting to £67m, mainly relating to highways and public realm, HRA dwellings, police accommodation, Tower Bridge, Hampstead Heath Ponds and the schools.
9. The total expenditure incurred in 2016/17 was £349.5m which was £32.2m less than the forecast of £381.7m. A breakdown of expenditure analysed by fund is set out below.

2016/17 Actual Capital and Supplementary Revenue Project Expenditure and Financing

	City Fund	City's Cash	Bridge House Estates	Total	March 2017 Forecast	Variation
	£m	£m	£m	£m	£m	£m
Capital/SRP Expenditure						
Investment	31.6	35.7	16.6	83.9	80.0	3.9
Contribution to Crossrail	200.0	0.0	0.0	200.0	200.0	0.0
Other Operational expenditure	39.6	19.4	6.6	65.6	101.7	-36.1
Total Expenditure	271.2	55.1	23.2	349.5	381.7	-32.2
Funded by:						
External Grants & contributions	18.6	3.7	0.1	22.4	31.4	-9.0
Internal:						
- Capital Reserves and 'Internal Borrowing'	184.8	-	-	184.8	200.0	- 15.2
- Earmarked Revenue Reserves	33.0	39.0	22.7	94.7	85.9	8.8
- Revenue Balances	34.8	12.4	0.4	47.6	64.4	-16.8
Total Funding Requirement	271.2	55.1	23.2	349.5	381.7	-32.2
<i>March 2017 Forecast Figures</i>	<i>296.6</i>	<i>55.5</i>	<i>29.6</i>	<i>381.7</i>		
<i>Variation</i>	<i>-25.4</i>	<i>-0.4</i>	<i>-6.4</i>	<i>-32.2</i>		

10. The following table analyses the variations between forecast and actual expenditures and the resulting impact on financing in 2016/17.

2016/17 Analysis of Variations compared with Forecast

	City Fund	City's Cash	BHE	Total
	£m	£m	£m	£m
Expenditure Variations				
Net rephasing of expenditure to later years	- 24.9	- 7.5	- 6.2	- 38.6
Cost increases/savings (-)	- 0.5	7.1	- 0.2	6.4
Total Reduction in Expenditure	- 25.4	- 0.4	- 6.4	- 32.2
Impact of variations on Financing				
External Contributions	- 9.4	0.2	0.1	- 9.1
Internal Funds	- 16.0	- 0.6	- 6.5	- 23.1
Total Reductions in Financing	- 25.4	- 0.4	- 6.4	- 32.2

The net variation of £32.2m is comprised of deferred expenditure of £38.6m, partially offset by net cost increases of £6.4m.

11. The deferred project expenditure of £38.6m, which is expected to be incurred in subsequent years, relates mainly to:

- investment properties - £7m
- highways and public realm - £7m
- Police (including Accommodation Programme) - £11m
- Corporate IT schemes - £2m

- Housing schemes - £2m
- Freeman's School Masterplan - £2m
- Crossrail Art Contributions - £2m
- Poultry Market Roof - £2m

12. The net cost increase of £6.4m relates to:

- An unplanned property investment opportunity which arose in connection with the Strategic Property Estate - £15m,

partially offset by the following savings:

- A lapsed overage obligation on a strategic estate investment property - £4m
- Lower than anticipated costs of various projects including the Hampstead Heath Ponds etc - £4m in aggregate.

Prudential Indicators

13. 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.

14. 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 2016/17, including commentaries which highlight, in particular, that there was no underlying need to borrow from external sources, although 'internal borrowing' has been undertaken through the use of deferred lease premiums (see paragraph 5 above).

15. 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.

Appendix: 2016/17 Actual Prudential Indicators

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