City of Westminster

Cabinet

Decision Maker:	Cabinet
Date:	19 February 2024
Classification:	General Release
Title:	Capital Strategy 2024/25 to 2028/29, Forecast Position for 2023/24 and Future Years Forecast to 2037/38
Wards Affected:	All
Key Decision:	Yes
Policy Context:	Capital resources are used in support of the delivery of the Council's Fairer Westminster strategy
Financial Summary:	The Council has a proposed gross capital programme up to 2037/38 of £2.604bn, partially offset by £1.191bn of income, giving a net budget of £1.413bn – which is to be funded by borrowing. The cost of borrowing has been built into the revenue implications of the capital strategy.
Report of:	Gerald Almeroth, Executive Director – Finance & Resources

1. Executive Summary

1.1. The report sets out the Council's capital strategy from 2024/25 to 2028/29 and summarises the position up to 2037/38.

1.2. The general fund capital programme as detailed in Appendix A, proposes a gross budget of £2.604bn and a net budget of £1.413bn (after taking into account income from grants and capital receipts). The capital programme of the Housing Revenue Account is set out separately in the HRA Business Plan which accompanies this report as part of the Council's annual budget setting process.

1.3. The long-term capital investment plan is underpinned by the Council's policy objectives. 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 account of the revenue implications of the projects as part of the revenue budget setting process. The Council continues to set aside additional revenue funding each year to cover the financing costs of the programme in accordance with previously stated plans. Earmarked reserves are also maintained to support the financing of the capital programme and provide a sustainable approach to funding through the Medium-Term Financial Plan.

2. Recommendations

That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 6 March 2024:

2.1. To approve the capital strategy as set out in this report.

2.2. To approve the capital expenditure for the General Fund as set out in Appendix A for 2024/25 to 2028/29 and future years to 2037/38.

2.3. To approve that all development and investment projects, along with all significant projects follow the previously approved business case governance process as set out in section 8 of this report.

2.4. To approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced.

2.5. To approve the proposed financing of the capital programme and revenue implications as set out in section 12 of this report.

2.6. To delegate to the Executive Director of Finance and Resources the decisions surrounding financing of the capital programme to provide sufficient flexibility to allow for the most effective use of the Council's resources.

3. Reasons for Decision

3.1. The objectives of this capital strategy are to:

- Prioritise and co-ordinate funding to achieve the Council's Fairer Westminster vision;
- Ensure that capital resources are directed to maintain the Council's statutory requirements across its asset base;
- Invest in the most beneficial projects to meet Westminster's long-term requirements;
- Manage investment effectively and efficiently.

3.2. The Council is required, under the CIPFA Prudential Code, to agree a capital strategy that is prudent and sustainable. The revenue budget is set as part of the Medium-Term Financial Plan (MTFP), and this supports the financing of the capital programme set out in this report.

3.3. Capital expenditure is defined as expenditure that is predominantly incurred on buying, constructing or improving physical assets such as land, buildings, infrastructure and equipment.

3.4. The Council is required to set a balanced revenue budget, and the capital programme forms part of this overall process.

4. Fairer Westminster Strategy

4.1. Westminster City Council's policy objectives are set out in the Fairer Westminster strategy and this creates the overarching strategic direction that this Capital Strategy supports. The Fairer Westminster strategy can be found here: Fairer Westminster strategy

4.2. The Council has an ambitious yet realistic capital programme with a plan to invest up to £2.604bn (general fund) over the next 15 years. The investment in capital and assets on this scale is a foundation in enabling the Council to achieve its Fairer Westminster ambitions.

4.3. The Council's Fairer Westminster strategy sets out the outcomes it wants to deliver (supported by the Capital Strategy) for the City. The Fairer Westminster ambitions are:

- **Fairer Communities**

  By working with its communities and celebrating diversity, the Council will build a more inclusive city where inequality is reduced, everyone feels welcome and discrimination is tackled, adults can stay healthy, community and voluntary sector organisations prosper, and children have a great place to grow up. Examples are:

- Making physical activity more accessible through our refurbished community leisure centres, playgrounds, and outdoor gyms. Including refurbishment of the Seymour Centre to ensure updated facilities for the local community and incorporating the library.
- Investment in schools including investment in maintained schools to comply with good asset management in accordance with DfE guidelines and adaptions and alterations and expansions of school special needs provision to improve High Needs and Family Support provision through the SEN High Needs and Family Support project.
- Ongoing work within many projects providing facilities and ongoing refurbishment and accessibility within Council Properties for the local communities: Tresham Centre; Queen's Park Family Hub; Droop Street; Landlord Responsibility budget: Accessibility Programme: Access & Inclusion; Health and wellbeing projects; and the Community Hubs project.
- Making improvements to our public toilets including a large-scale renovation programme and new automatic-public conveniences.

➢ **Fairer Environment**

Westminster will be a net zero council by 2030 and a net zero city by 2040. Air quality in the borough will meet World Health Organisation guidelines, our streets will be clean, recycling will increase, and people will be enabled to travel more sustainably. They will also have access to high-quality services within 15 minutes from their homes.

- Enhanced cycle provision within Westminster through the reintroduction of the Cycle Loan Restart scheme after being ceased in 2019/20. Westminster will join 31 other boroughs in encouraging residents to take up active travel; continuing with improvements to the cycling infrastructure across the borough
- Extending footways and reducing carriageways width to prioritise pedestrian movement supporting the promotion of active travel and sustainable transport to support greener neighborhoods, cleaner air and biodiversity
- Carbon Management Programme will help the Council be carbon neutral by 2030
- Trees planting schemes in streets, parks and cemeteries and preservation of existing street trees
- Continue the Waste & Cleansing Fleet Electrification Programme, procuring electric vehicles to deliver waste and recycling collection service and have a suitable charging infrastructure
- The Recycling Programme expands the food waste recycling service and other initiatives across the City.

- **Fairer Housing**

  The housing needs of people living in the borough are met through greener and more genuinely affordable housing, homelessness is reduced, private rented sector properties are well managed, and our tenants and lessees are consistently satisfied with our housing services and the quality and energy efficiency of housing.

  - Building on the work undertaken under the Truly Affordable Housing workstream to continue to maximise the number of affordable homes in our developments.
  - 77 new social homes to rent at 300 Harrow Road, completed in 2023/24.
  - Continuation of Ebury Phase 1, which will rehouse returning secure tenants in new social homes as early as possible.
  - Award of a joint venture partner for Site A of the Church Street Regeneration programme following extensive resident involvement throughout the public procurement process.
  - Westmead will now deliver 34 social and 31 intermediate homes
  - Further acquisition of homes to rent to Westminster residents via Westminster Housing Investments Ltd including 35 homes at Harrow Road in 23/24, 7 homes at Luxborough in 24/25 and 76 homes across three sites in 25/26 (31 Westmead, 27 West End Gate Block H and 18 at Balmoral)
  - Temporary Accommodation Acquisitions Programme anticipates completion (or agreed sale) on 100 properties in 2023/24. A budget allocation of £149m has been included to provide capacity for the acquisition of a further 270 properties from 2023/24 to 2026/27. This is a crucial supply of accommodation to enable Westminster to mitigate some of the demand pressures faced in this area.

- **Fairer Economy**

  Westminster remains economically successful, Oxford Street and the West End are revived and retain their position in the national economy, small businesses are supported to grow and remain, and residents have the right skills to take advantage of the city's employment opportunities.

  - Investment in Oxford Street and surrounding streets following cabinet approval of the Business Case. This will promote a mixed economy and sustain its globally renowned status as a retail and leisure destination
  - Commitment to invest £18m in the North Paddington area masterplan. This is a place-based programme targeted at reducing deprivation in the area through collaborative delivery and a high level of community engagement
  - Enabling a robust connectivity infrastructure to improve residents' broadband connections
  - Over £9m in schemes to Stimulate the Economy including the completed Business School located at Harrow Road, storage facilities and Berwick Street and Tachbrook Street markets, a new community kitchen at

Tachbrook Street market and and Meanwhile On: Oxford Street aimed at improving the experience of shopping in the West End and Oxford Street by reducing 'low-quality' occupiers and supporting the growth of emerging brands.
  - Investment of £10m in our Paddington & Bayswater High Street programme.

- **Fairer Council**

As a Fairer Council, we will make it easier for people to find the information and services they need, make decisions more transparently, be financially sustainable, and ensure our procurement is responsible. The Council will operate in a financially sustainable manner and make plans that are affordable.

  - Investment in digital access to services making being able to do business with Council a better experience via Customer Experience and Smart City programmes.
  - Coroners Court Extension due for completion in 2023/24 delivers a fit for purpose building for the Coroners Service.

5. Summary of the Capital Programme – 2023/24 to 2037/38

5.1. Overview of overall capital figures and breakdown by Directorate is shown in the table below.

Table 1: Proposed General Fund (excluding HRA) capital programme 2023/24 to 2037/38

	Forecast	Five Year Plan					Future to	
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2037/38	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure								
Adult's and Deputy Chief Executive	6,000	36,022	59,375	50,139	-	-	-	151,536
Children's Services	5,846	10,617	4,778	7,422	-	-	-	28,663
Environment, Climate & Public Protection	84,396	83,379	92,661	52,715	36,547	29,248	-	378,946
Finance & Resources	42,163	76,597	106,042	55,158	52,894	30,852	346,317	710,023
Housing & Commercial Partnerships	56,657	56,324	35,665	6,200	1,200	1,200	10,800	168,046
Innovation & Change	6,066	6,181	10,225	614	650	3	-	23,739
Regeneration, Economy and Planning	49,764	68,598	96,168	176,629	162,235	47,251	88,685	689,330
Westminster Builds	2,630	1,789	21,927	144,972	15,546	47,476	219,919	454,259
Total Expenditure	**253,522**	**339,507**	**426,841**	**493,849**	**269,072**	**156,030**	**665,721**	**2,604,542**
Funding								
External Funding	(41,972)	(52,064)	(62,871)	(57,088)	(25,695)	(15,420)	(7,540)	(262,650)
Capital Receipts	(11,845)	(51,378)	(20,658)	(14,277)	(294,630)	(77,257)	(301,963)	(772,008)
s106 and CIL Funding	(9,110)	(40,125)	(46,242)	(11,447)	-	(9,950)	(39,950)	(156,824)
Total Funding	**(62,927)**	**(143,567)**	**(129,771)**	**(82,812)**	**(320,325)**	**(102,627)**	**(349,453)**	**(1,191,482)**
Borrowing Requirement	**190,595**	**195,940**	**297,070**	**411,037**	**(51,253)**	**53,403**	**316,268**	**1,413,060**

5.2. The proposed capital programme for the Council over the next five years including 2023/24 and summarised over the subsequent ten years, is a gross capital expenditure budget of £2.606bn. Over £1.2bn of this expenditure is due to be incurred over the next three years, 2024/25 to 2026/27.

5.3. The Council's capital programme as laid out in Table 1 can be categorised into two key areas: Development and Strategic Investment, and Operational.

Development & Strategic Investment £1,551m	Operational £1,053m
• Major housing developments • Investment in infrastructure and redevelopment • Future regeneration of key strategic sites • Increased income / capital values and diversity of portfolio	• Corporate property rationalisation • Reduce carbon footprint • Reduce running cost and ensure property is fit for purpose • Meet statutory requirements

5.4. A full list of the proposed schemes can be found in Appendix A, as part of the General Fund capital programme.

Development & Strategic Investment - £1,551m

Development

Housing Developments

5.5. Many of the major development schemes will deliver affordable housing or social housing for the Council. These schemes have previously delivered private 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 14. Under Fairer Westminster the proportion of affordable housing in our developments in progress has been reviewed to increase the availability of affordable housing and reduce housing waiting list times.

5.6. The Council's development and regeneration programmes are delivered through either the General Fund, the Housing Revenue Account (HRA) or the Council's wholly owned housing company, Westminster Builds. Together these funding routes assist in the delivery of new housing across the borough. Schemes being delivered from 2024/25 onwards include:

- **Church Street** - In December 2017, the Cabinet approved the Church Street Masterplan as the Council's framework for informing the future regeneration of the Church Street area. The proposed developments of sites A, B & C form part of this wider Masterplan. The regeneration proposals have since been the subject of a successful ballot (held in

December 2022). This provides resident support for the proposed scheme and allows it to attract c.£19m of GLA grant funding which will enable the delivery of greater numbers of affordable housing in line with the Council's Fairer Westminster commitment that aims to ensure that 70% of the affordable housing delivered on its own developments comes in the form of social rent. A joint venture partnership is still the preferred delivery route for Site A and will be progressed further during 2024/25.

- **Ebury Bridge Regeneration** - The Ebury Bridge Estate is one of the priority areas identified within the Council's Housing Renewal Strategy as needing significant improvement and investment. The regeneration plans for the site are split into two phases. In March 2019 a decision was taken by the Council to progress the delivery of Phase 1 through the HRA and this element of the scheme is now in contract (delivering 226 new homes by 2025). The first tranche of Phase 1 private sale homes launched in September 2023. Significant additional GLA grant was awarded in 22/23 as a result of the positive outcome of the ballot held for the wider regeneration in February 2023. This supported tenure changes across the scheme and the delivery of additional homes for social rent. Procurement is underway for Phase 2 of the programme and expected to be completed by autumn 2024.

- **Westmead** - Following the Truly Affordable Housing Review, this scheme will now deliver 100% affordable housing to include 34 social and 31 intermediate units

- **Carlton Dene** - The development project at Carlton Dene comprises the redevelopment of an existing residential care home and one block of nine apartments to provide new housing for older people, specialist housing for people with learning disabilities, affordable housing and private for sale units. The project will deliver 87 new affordable homes, 65 of which will be extra care housing. Site demolition commenced in March 2023 and completed in July 2023. The main construction contract is expected to be awarded in the summer of 2024/25.

- **Balmoral** - The demolition and redevelopment of the Balmoral Public House, Darwin House and associated garages which will provide 52 new affordable homes in two phases including 34 community supportive housing units that will enable the decant of Darwin House residents and 18 intermediate units. First phase construction is underway and progressing well.

- **West End Gate – Block H** - The Council is exploring options to acquire 45 affordable homes from the second phase of the West End Gate development being delivered by Berkeley Homes.

- **Luxborough** - Delivery of 7 social and 7 new intermediate homes, commercial space and improvement and landscaping works to areas surrounding Luxborough Tower.
- **291 Harrow Road** - Plans for this site include the delivery of 133 residential homes including 16 new, high quality specialist residential accommodation for the existing residents of 291 Harrow Road and Elmfield Way. A multi-disciplinary team of professionals was appointed in 2023 to help develop the vision and design of the scheme.

5.7. **Other Key Development Schemes**

- **Lisson Grove Programme** - The programme incorporates the redevelopment of two key Council sites at Orchardson Street and Lilestone St, both of which form part of the wider Church St masterplan. The programme will provide a new Health and Wellbeing Hub alongside new homes. The existing office site will then be available for redevelopment and delivery of a substantial number of high-quality homes. A feasibility study is currently being concluded to establish the extent of the hub and maximise the delivery of new homes.

- **Oxford Street Programme** – The Business case was completed and approved by Cabinet in September 2023. Stage 2 design for Oxford Street is underway and due to be completed by April 2024. Stage 1 design for Oxford Circus is also underway and due to be completed by May 2024. Construction works for Wigmore and Mortimer Streets will be on site in Q4 23/24 with completion expected within one calendar year. Other work packages are in early design stages with the design work of the complimentary schemes due to begin in Q4 23/24.

- **Strand Aldwych** – The Meanwhile space completed in December 2022 and has been well received by local stakeholders, visitors and the general public. The management model is now in place supported by external stakeholders. The expectation is that the Permanent scheme will go ahead, fully funded through external partners, and discussions are ongoing to scope the future scheme.

- **Westminster Ceremonial Streetscapes/Protective Measure** - Integrates public realm improvements which improve resilience against vehicle-borne terrorist attack within the area described as the Westminster Ceremonial Footprint. This involves replacing existing temporary vehicle security measures drawn from the National Barrier Asset with permanent hostile vehicle mitigation measures, specifically designed to be more sensitive and sympathetic to the historic street scene.

- **Queensway's Streetscape** - Improving the public realm on Queensway and its surrounding / connector streets including public space between Bayswater Road and Westbourne Grove/ Bishop's Bridge Road.

- **Regent Street** - Increased pedestrian pavement Increase accessibility and safety for pedestrians. Better air quality from reduced traffic, considering full impact on surrounding area Increased greening and biodiversity.

- **St Martin's Lane** - Build on the success of the alfresco scheme in the area by Increasing pedestrian footway, flush carriageway, new trees and safer, more visible space with better lighting and to reduce collisions and improve personal safety.

- **North Paddington Place Plan** – build on existing work to improve the landscape, revitalise the High Street, enhance community assets and increase local connectivity.

Corporate Property Programme

5.8. The Council has the benefit of valuable land and buildings which are used to deliver operational services to Westminster residents such as libraries. Many of our properties are also occupied by voluntary and community organisations who can apply for support with their rent to occupy these spaces where they deliver demonstrable benefits to residents. The Council also owns properties which are let out to commercial tenants and the rent received is used to support front line services. Key projects within the Property Capital Programme are as follows:

- **Huguenot House** – The process to identify a delivery partner commenced in November last year. The Council are seeking a partner with significant experience of delivering well-designed buildings with high-quality homes and facilities. The project is likely to act as catalyst for investment in the area through construction of a vibrant mixed-used building containing homes of all tenures that meet modern standards, as well as creating new local employment opportunities alongside enhanced public realm, greenery and open space. The partner will be asked by the council to consider all options for the future of Huguenot House whilst delivering best value to the people of Westminster.

  It is anticipated that the procurement process will take at a least a year during which regular stakeholder engagement will be ongoing.

- **Seymour Centre Project** – following approval of the planning application in Summer 2023 a process of design refinement and value engineering has been ongoing to support the commencement of works on site in Spring of 2024. The project will provide new and enhanced facilities including an open plan gym, refurbished swimming pool, contemporary library, café, children's soft play area and improved climbing wall whilst maintaining the building's Listed art deco features. Current users and local residents will be kept updated throughout the project.

- **Consolidating Community Access Westminster at Droop Street** – The services are currently provided at two locations, Lisson Grove and Droop Street. A feasibility study is currently underway to consolidate the services onto one site with Droop Street the main site under active consideration. The new space will meet current standards and be future proofed to meet future demand.

- **Queens Park Family Hub** - Major refurbishment of 17-23 Third Avenue to facilitate high quality space for the Queens Park Family Hub. The service will vacate their current building in Bravington Road and move to Third Avenue once the project is complete. The project comprises refurbishment and new build and will incorporate dedicated space for key NHS services. The Family Hub model is responsive to local need and flexible spaces will be created to ensure that local demands can be met. The project is within the North Paddington Programme area and the activity that will take place at the Hub will contribute significantly to the aims and objectives of that programme.

Strategic Investment

5.9. The Council's capital programme includes a strategic acquisitions budget to allow it to acquire properties to enable the development of key strategic sites for future regeneration and investment opportunities.

5.10. The Property Investment Strategy is based around a vision of having a balanced and diversified portfolio fit for the future that will continue in the long term to appreciate both in revenue and capital terms for the greater benefit of the Council and its residents, whilst at the same time ensuring that plausible losses can be met without significantly impacting service delivery.

5.11. As at March 2023, the Council maintained 287 investment properties, with a value of £525m, generating nearly £40m per annum for the Council to spend of essential services and invest back into its capital programme.

5.12. There are four key objectives that support this:

- Alignment to the Council's wider Fairer Westminster objectives; developing key strategic sites that can benefit residents through future regeneration
- Income optimisation from the existing portfolio
- Streamlining and futureproofing the existing portfolio making it fit for the future

- Investing in new properties within Westminster for strategic and commercial purposes

5.13. Property Investment Acquisition has a budget of £93m within the capital programme to support strategic investment. The portfolio is stock and not sector led. Any new investment should aim to diversify the portfolio in addition to supporting the Council's broader strategic aims. Key principles for new investments are:

- Focus on strategic clusters linked to the Council's long-term regeneration and economic objectives including in the Harrow Road, Edgware Road and Church Street neighbourhoods. Lot sizes or yields can be less than 4% due to the broader strategic benefits, longer term value expectations and the size of the investment portfolio already held in these locations.
- Any other new investment should consider yields of 4-5% in the short to medium term to enhance income.
- All assets acquired must be within Borough unless opportunities arise adjacent to existing out-of-borough holdings or have some other strategic purpose.
- Any investments in commercial property conform with minimum revenue provision (MRP) regulations

5.14. These are a guiding set of principles that will be reviewed in conjunction with CIPFA's publication 'Prudential Property Investment' which sets out guidance for Local Authorities investing in property. In addition, rigorous governance procedures are followed which mitigate risks associated with property acquisitions including seeking advice and guidance from the Property Investment Panel. This Panel includes external industry expert representation.

Operational - £1,053m

5.15. Operational schemes make up a significant proportion of the gross capital budget at £1,053m. The Council's operational capital strategy is centred on capital improvement works to the Council's operational asset portfolio. This falls into two main categories:

- Land and Buildings – 533 assets with a value of £761m (includes Housing Revenue Account assets)

- Infrastructure – asset value of £349m

5.16. The Council undertakes a rolling programme of property condition surveys across the whole operational estate. This high-quality information will be used in several ways including for lifecycle replacement, energy usage to contribute to the Council's zero carbon target and building management; ultimately ensuring the Council's operational estate is fit for purpose. This information will reduce building operational risk and ensure compliance and health & safety obligations are met.

5.17. Decarbonising the operational and commercial estate through the retrofitting programme requires the commitment of significant levels of capital investment. To date the Council has had some success with public sector decarbonisation grant bids to drive the pace of retrofit energy conservation measures and the introduction of renewable energy generation through the installation of solar photovoltaic panels across the estate. Through the implementation of these measures, the Council has achieved more than 20% reduction in its operational carbon footprint. As the Council moves towards lower energy consumption sites, it will become more challenging to meet the grant funding criteria. This will require the Council to use more of its own financial resources if it is to achieve the Fairer Westminster net zero 2030 and 2040 targets.

5.18. The Council continues to embed the Corporate Landlord approach to operational property management. This approach will ensure the effective and efficient management of property by centralising property service activities, decision making and budgets. It ensures that decisions about property are taken from a strategic perspective and that opportunities to deliver efficiencies are captured and assessed via the Strategic Property Board at which all services are represented.

5.19. As part of the forward planning of the operational estate, there are some key areas which will continue to be developed in 2024/25 in line with Council objectives. These include the desire to make buildings dementia and autistic friendly and to rollout ABLE access across the portfolio.

Education

5.20. The Education capital programme falls into two broad categories:

- Schools' expansion
- Building works related to condition surveys, physical impairment, accessibility (e.g., special education needs) and general improvements

5.21. Expenditure on schools' expansions is in response to pupil place planning needs across the borough. Expenditure on other school-related projects is designed to improve the fabric of buildings and/or make them more inclusive for children with special educational needs (SEN) or a physical impairment. The service is making best use of its SEN Capital Grant, School Condition Allocation Grant and funding from Section 106 and Community Infrastructure Levy to ensure schools remain in good condition.

5.22. The proposed capital programme includes approximately £23.112m of expenditure on school/education capital projects over the next five years all of which is funded through external Grants. More information on these funding sources can be found in section 11.

5.23. Providing for school expansion and SEND projects allows the Council to manage expenditure on the High Needs Block of the Dedicated Schools Grant more effectively and ensures it makes best use of the Passenger Transport contracts for children with SEN by providing more capacity in the borough, reducing distances travelled and/or allowing children to become independent travel trained giving them a life skill, improving employment prospects in adulthood, and reducing the Council's expenditure on the General Fund.

Planned Preventive Maintenance/ Structural Works

5.24. Most of this category relates to £77.185m of Planned Preventive Maintenance of the Highways, Lighting and Bridges and Structures within the Borough. The work is aimed at maintaining the durability of the asset and deliver a well-managed, high-quality streetscape whilst protecting and enhancing Westminster's unique heritage.

6. The Council's Assets

6.1. The Council has total long-term assets of £3.674bn across Property, Plant and Equipment, Investment Properties, Heritage and Other Assets. A summary of each asset class is outlined in the table below:

Asset Type	March 2023 £m
Council Dwellings	1,624
Other Land and Buildings	761
Investment Properties	525
Infrastructure Assets	349
Assets under Construction	320
Heritage Assets	45
Community Assets	31
Vehicles, Plant and Equipment	9
Intangible Assets	7
Assets Held for Sale	3
Total	**3,674**

6.2. Based on the Council's current level of assets, the capital strategy as outlined in this report will significantly increase the Council's asset base over the next 15 years across the General Fund and HRA.

6.3. Most of the capital expenditure as set out as part of this strategy will be spent on land and buildings and council dwellings (through the HRA).

6.4. The Council carries out regular maintenance on its properties and infrastructure assets. The capital programme ensures that its highways, operational properties, and council dwellings are continuously maintained to a good standard. These schemes are outlined further in this report.

7. Capital Budget Setting Process

7.1. Every year the Council reviews its capital programme and the projects within it. This is undertaken alongside the revenue budget process to ensure that the impact of both is considered.

7.2. The key criteria for capital projects under consideration are:

- Strategic Fit: how projects align with the Council's Fairer Westminster Objectives and priorities and the positive impacts that are expected
- Financial Implications: what are the financial circumstances for the project, e.g., is external funding readily available, are there ongoing revenue implications, is it affordable and value for money?
- External factors: is the project needed because of another scheme or development, or any other external factors such as health and safety requirements?
- Risk: is the success of the project dependent on mitigating high associated risks?

7.3. The review process supports the Council in making decisions about which projects to progress, especially in an environment of challenging financial and officer resource. 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.

8. Governance

8.1. The capital programme comprises a wide-ranging set of projects with equally wide-ranging budgets. The current programme can be broken down by gross value as follows:

- 32 schemes above £10m in individual value
- 85 projects between £1.5m and £10m projects
- 155 projects below £1.5m in individual value

8.2. The main forum for reviewing all 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 Fairer Westminster, development or other 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.

8.3. Business cases between £0.5m and £1.5m must obtain spend approval in consultation with CRG.

8.4. CRG's governance has been further strengthened by giving it oversight of review projects with a budget above £1.5m that are revenue funded but have the characteristics of capital schemes, allowing it to review and challenge schemes before implementation.

8.5. The Council's governance arrangement deems significant projects to be those with minimum capital expenditure of £10m. These are projects that require 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.

8.6. All projects over £10m must produce the following three business cases:

- Strategic Outline Case (SOC)
- Outline Business Case (OBC)
- Full Business Case (FBC)

8.7. At each of the following stages of the five-case (HM Treasury Green Book) model, business cases must include the following five areas: The Strategic Case, The Economic Case, The Commercial Case, The Financial Case and The Management Case.

8.8. Projects under £10m require a Business Justification Case. However, this will be dependent on the other criteria and factors. The list below is not exhaustive and whether a project can go through a one stage process has to be reviewed on a case-by-case basis and agreed by senior officers and members. The factors include:

- Level of resident engagement required
- Sensitivities
- Strategic aims of the project
- Historical context of the project

8.9. Assessment of business cases 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, the community and resources of the Council.

9. Delivery

9.1. The Council will review the best delivery routes for development projects. Delivery routes largely fall into the following categories:

- Self-develop: where the project is undertaken independently, resulting in the greatest potential return but with the greatest cost and risk exposure.

- The developer: this usually involves selling the opportunity to a developer resulting in the least return, but also the least cost and risk.

- Joint venture: this is a compromise between the above two routes and can be a good option to limit risk and broaden expertise and capacity on the project, whilst still sharing in the returns.

- Delivery through the Council's housing subsidiary companies Westminster Builds – Westminster Housing Investments Limited (WHIL) or Westminster Housing Developments Limited (WHDL)

- The Housing Revenue Account is a ring-fenced account that is a key aspect of how the Council delivers on its Fairer Housing objectives.

9.2. Under a developer or joint-venture delivery route 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.

Westminster Builds

9.3. In June 2018, following Cabinet approval, the Council incorporated two new wholly owned companies, Westminster Housing Investments Limited (WB) and its subsidiary Westminster Housing Developments Limited (WHDL) known collectively as /operating under the brand 'Westminster Builds', for the purpose of helping the Council deliver its ambition to increase the supply of housing affordable to those living and working in Westminster.

9.4. In this two-company structure WHDL will undertake the construction and development of schemes and WB will hold properties for intermediate and market rent.

9.5. The current Westminster Builds Business Plan sets out the programme of planned activity by the company over a five-year period from 2023-2028 to include the acquisition of intermediate and market rent units and plans for development as part of Ebury Regeneration Phases 2 and 3. The updated business plan from 2024-2029 is due to be approved by the Councils Shareholder Committee in March 2024.

9.6. The Council's general fund provides loan financing into the company to support the delivery of these projects. This amounts to £452m over the next 14 years from 2024/25. Over the same period the company will repay £305m of that loan financing. The Business Plan model ensures the company uses its own internal funds in the most efficient way to reduce the reliance on Council debt as much as is reasonably possible.

9.7. The key development and acquisition programmes included in the business plan consists of the following schemes:

- **Ebury Bridge Regeneration Phases 2 and 3** – The Westminster Builds business plan includes a budget for the direct delivery of Phases 2 and 3 of the Council's key regeneration scheme at Ebury Bridge. A final decision on the delivery route is expected to be taken by the Council during the end of 2023/24/beginning of 2024/25.

- **Acquisitions** – Included in the business plan is a budget for acquiring completed intermediate units and/or market homes for the purpose of letting at intermediate or market rent levels. These acquisitions are largely from Council development sites being delivered by either the general fund or the HRA. To retain control of the intermediate / market units on these sites the Council has decided that these will be held by Westminster Builds rather than an external housing association. Planned intermediate unit acquisitions over the next 15 years include Luxborough, Pimlico, West End Gate, Ebury and Church Street. There are also plans to develop and retain market rent units on Ebury Phase 3.

9.8. Each scheme will be approved through the Council's existing governance processes and by the Westminster Builds Board. Current projections show the company will hold 106 homes for rent by the end of March 2024.

HRA Business Plan

9.9. The Council is committed to delivering an ambitious HRA capital programme that, in addition to building new affordable homes, will regenerate existing estates and safeguard the condition of existing social housing stock. The Development element of the overall programme aims to provide a supply of new homes that will enrich and promote healthy neighbourhoods and communities via mixed use developments, proactive place shaping and ensuring there is greater support for local services and amenities.

9.10. Planned HRA capital spend for 2024/25 is £220m, with a total of £2.428bn planned to be spent over the duration of the 30-year business plan. This represents an increase of £152m versus the February 2023 HRA budget report (for the equivalent 30-year period). Overall, the HRA is expected to need to borrow an additional £137m on top of what was approved in the last iteration but required revenue offsets have been made to keep the plan sustainable.

9.11. The HRA programme is financed using various funding sources, including the use of the Affordable Housing Fund, CIL, Capital Receipts, and available government grants. The capital programme includes increased GLA grant (for the regeneration projects at Ebury and Church Street) as well as an improved outlook for AHF receipts (see Section 10). HRA borrowing is used to cover the gap between available funding and planned expenditure. The HRA no longer has an enforced borrowing cap, which allows greater flexibility for investment in building new affordable housing but borrowing still needs to be tightly managed and prudential measures must be taken to ensure that there is sufficient cover within the HRA revenue budget to cover interest costs. The business plan takes several steps to ensure that the HRA debt profile is sustainable, including the provision of a sufficient level interest cover within the revenue budget (to provide financial resilience) and maintaining appropriate levels of HRA reserves (set at an absolute minimum of 10% of turnover).

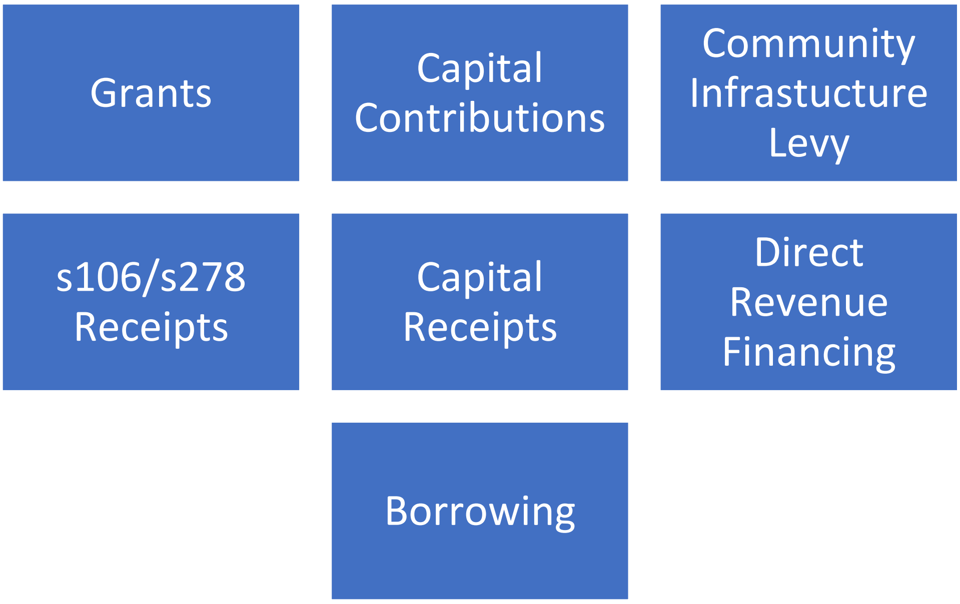
9.12. The HRA Planned Maintenance programme includes a £218m allocation to support the retrofit of the Council's existing housing stock (of which there is £207m remaining to be delivered from 2024/25 onwards). This budget is dependent on the availability of grant funding from central government which is assumed to support 50% of planned spend. The programme is designed to both deliver on the Council's carbon neutral ambition and help tenants save money on energy bills.

9.13. One of the main changes reflected within the revised HRA capital programme is the inclusion of a funding allocation for the works required in relation to the renewal of the Pimlico District Heating Undertaking (PDHU). The Council approved a Strategic Outline Case (SOC) for the PDHU in January 2023 that identified an initial four options for the future of the network. A detailed option appraisal is being developed as part of the Outline Business Case (OBC) that is due to be completed in the summer. This will not only identify the preferred delivery option for the scheme but will also include more accurate costings. In lieu of this detail, an indicative allowance has been included in the HRA business plan based on the mid-point of the estimates for the four options identified in the SOC. The current funding strategy assumes that the HRA will be required to cover the cost of the works required inside blocks and dwellings (on the basis that stock condition is a landlord responsibility).

10. <u>Capital Funding</u>

10.1. The Council is required to have a funded capital programme that is affordable, i.e. all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of the borrowing should be built into a balanced revenue budget.

10.2. The key sources of funding for the Council are:



Grants

10.3. These are predominantly government grants and are usually provided to the Council for the specific use of funding capital expenditure for certain schemes and programmes. The majority of grants the Council receives for capital projects are via the Department for Education (DfE), which are provided to ensure the Council is meeting its statutory duty of providing school places and ensuring school building are in a good condition. Other grants the council receives are detailed in section 11.3.

Capital Contributions

10.4. In comparison to grants, capital contributions are specific contributions received for projects and are normally provided by the government, external agencies or private companies, who have a specific output or outcome they would like achieved through the capital works the Council is providing. Quite often, the scope of these projects is dependent on this external funding, without which the Council may decide to reduce the objectives and scope of a scheme. Examples of capital contributions include several infrastructure projects such as Ceremonial Streetscapes which have specific outcomes that organisations would like to achieve.

Community Infrastructure Levy/ Section 106 Receipts/ S278 Receipts and Affordable Housing Fund Receipts

10.5. Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in May 2016. Developers have to pay a levy linked to planning applications - this is based on a Council approved policy and charging schedule. The income from this levy is held corporately and the Council decides corporately how to allocate these funds.

10.6. CIL monies can be used to fund the provision, improvement, replacement, operation or maintenance of infrastructure to support the development or growth of the area. This may be either capital expenditure or revenue. In Westminster, CIL split into three pots:

- Strategic CIL, which can be spent by the Council in any part of the City on infrastructure of strategic importance;
- Neighbourhood CIL, which is spent in consultation with local people in one of the 21 identified Neighbourhood Areas within which the contributing development was built; and
- Administrative CIL, which can be spent on costs associated with running the CIL programme.

10.7. S106 differs from CIL, as it is essentially a contract between a developer and the Council and, similarly to capital contributions, has to be used for specific projects and outcomes rather than a more general objective.

10.8. S278 receipts are linked to specific highways work linked to planning approvals and are contributions from the developer.

10.9. Affordable Housing Fund (AHF) receipts are income the Council receives from developers in lieu of affordable housing being built in line with the Council's policies on a prospective development. These receipts have to be used toward building new or replacement affordable homes. From 2022/23 all AHF received by the Council is being used to finance projects within the Housing Revenue Account (HRA) and thereby maximising the number of new social rented homes as well as reducing borrowing pressure on the HRA Business Plan.

10.10. Affordable Housing Fund receipts are forecast to fall in future years as the number of new planning applications eligible for affordable housing contributions has reduced. A total of £43m has been received in 2023/24. Whilst this is greater than the previous year's projection, the majority of this contribution relates to one large planning application, therefore a prudent approach is still required. A further £40m has been projected to 2027/28 and has been included within the capital funding assumptions for the HRA capital programme.

10.11. Forecasts for CIL and s106 are £75m over the 15-year period, which reflects development activity post-pandemic. Additional CIL and s106 receipts have been applied to the General Fund capital programme (where stipulations allow), increasing the use of external funding and maintaining the overall affordability of the capital programme. In total, £105.6m CIL has been applied to the General Fund programme (compared to £93.6m last year). In respect of s106, £51.2m has been applied to the General Fund programme (compared to £53.3m last year).

Capital Receipts

10.12. Capital receipts are generated from the sale of non-current assets (i.e., assets such as land and buildings), 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.

10.13. A considerable amount of funding in the capital programme is due from capital receipts. These are expected to be generated from the Council's development schemes. However, the value of the receipts could be subject to market volatility and macroeconomic circumstance could impact on the level of receipts the Council receives.

10.14. Capital receipts have the potential of being the most volatile of capital funding sources and are faraway the most uncertain of all funding sources. To mitigate against this uncertainty, the Council maintains a close brief on the state of the property market, reporting this to senior officers and members (via CRG) and only includes a prudent level of income as part of its capital budget.

Direct Revenue Financing

10.15. The Council can, if it chooses to, fund capital expenditure via its revenue budget. This can be through in year underspends or via general or earmarked revenue reserves. Any funding of the capital programme via revenue resources would have to be considered in light of the Council's overall revenue budget and the Medium-Term Financial Plan.

Borrowing

10.16. Borrowing to finance capital expenditure is normal practice in both the private and public sector. In Local Government the prudential borrowing regime has operated for several years where Councils must take responsibility to ensure that it is both affordable and sustainable for their revenue budget and for the council taxpayer.

10.17. Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested in accordance with the Treasury Management Strategy providing the Council with a return on investment. As such there is an opportunity cost associated with internal borrowing that is built into the revenue implications of the capital programme. The Council's main objective when borrowing externally is to achieve an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

10.18. External borrowing occurs when the Council borrows money from the open market, via financial institutions and investors or the government, via the Public Works Loan Board (PWLB). On 5 November 2020, the Public Works Loan Board (PWLB) reversed its decision to increase the cost of borrowing for local authorities for general fund purposes by 1%, bringing the rates offered in line with those for housing revenue account purposes. All new loans are therefore now subject to the relevant gilt yields +0.8% (certainty rate).

10.19. In November 2020 the PWLB released further guidance confirming local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

10.20. Although the capital programme may identify a need to borrow to fund capital expenditure, the timing and type of borrowing (internal/external) is dependent on cashflow modelling in line with the Council's Treasury Management Strategy.

10.21. The Council's total borrowing requirement based on capital expenditure incurred historically but yet to be financed is represented by the Capital Financing Requirement (CFR). This is published in the statement of accounts, and as of 31st March 2023 was £1,025.843m.

10.22. During 2019/20, the Council arranged forward borrowing loans totaling £400m. These loans enabled the Council to agree competitive rates in advance of need which eliminates the "cost of carry", that is the difference between loan interest cost and the rate of return on cash investments. The table below summarises the counterparties, drawn down and maturity dates for each loan facility.

Table 2: Forward Borrowing Summary

Counterparty	£m		Rate	Start Date	Maturity Date
Barings	150		1.97%	15/08/2022	15/08/2052
Rothesay	200		2.89%	08/05/2023	08/05/2069
Phoenix	37.5		2.71%	15/03/2022	15/03/2062
Phoenix	12.5		2.75%	15/03/2023	15/03/2062
Total:	**400**	**Average:**	**2.58%**		

10.23. All capital financing costs, i.e. interest costs and minimum revenue provision must be treated as a revenue cost and built into the Council's budget plans. In essence, the more the Council borrows, the greater the call on the revenue budget which then requires further service savings to be identified to fund this in the longer term. It is important that borrowing is set at a level that it is both affordable and sustainable for the long-term revenue budget.

11. <u>Capital Programme Funding: 2023/24 to 2037/38</u>

11.1. The table below summarises the Council's funding of the proposed capital programme as outlined in this report:

Table 3: Funding of the Capital Programme

	Forecast	Five Year Plan					Future Years	
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2037/38	Total
	£000	£000	£000	£000	£000	£000	£000	£000
External Funding	41,972	52,064	62,871	57,088	25,695	15,420	7,540	262,650
Capital Receipts	11,845	51,378	20,658	14,277	294,630	77,257	301,963	772,008
S106 and CIL Funding	9,110	40,125	46,242	11,447	-	9,950	39,950	156,824
Borrowing Requirement	190,595	195,940	297,070	411,037	(51,253)	53,403	316,268	1,413,060
Total	**253,522**	**339,507**	**426,841**	**493,849**	**269,072**	**156,030**	**665,721**	**2,604,542**

11.2. In total £1.191bn (46%) of the programme is to be funded via external or internal sources of funding, with the remainder via borrowing (both internal and external).

11.3. The table below outlines the main streams of external funding:

Table 4: Analysis of Proposed External Funding

Financed by	Forecast	Five Year Plan					Future Years	
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2037/38	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Basic Needs	3,064	882	1,450	4,426	-	-	-	9,822
Carbon Management Programme Grant	2,700	2,170	-	-	-	-	-	4,870
CLC SIP funding	-	300	-	-	-	-	-	300
Community Capacity Grant	100	-	-	-	-	-	-	100
DfE High Needs Funding	2,114	4,600	3,158	2,996	-	-	-	12,868
Disabled Facilities Grant	1,400	1,729	1,729	1,729	-	-	-	6,587
ERDF	165	-	-	-	-	-	-	165
External Contributions	2,076	7,517	8,274	12,702	10,778	-	4,178	45,525
External Partners	-	13,036	28,432	12,091	-	-	-	53,559
GLA Funding	9,431	1,142	-	6,289	12	4,840	3,362	25,076
GLA Good Growth Fund	638	95	-	-	-	-	-	733
Other	7,292	598	2,561	-	-	850	-	11,301
Other Grant or Contribution	-	1,008	1,365	850	850	-	-	4,073
S278	10,680	16,848	13,197	13,000	11,050	6,750	-	71,525
School Condition Allocation	1,071	400	400	400	400	400	-	3,071
Sport England Grant	-	400	-	-	-	-	-	400
TfL Grant	1,241	1,339	2,305	2,605	2,605	2,580	-	12,675
Total External	**41,972**	**52,064**	**62,871**	**57,088**	**25,695**	**15,420**	**7,540**	**262,650**
CIL	7,381	30,749	36,172	11,447	-	9,950	9,950	105,649
S106	1,729	9,376	10,070	-	-	-	30,000	51,175
Total s106 and CIL	**9,110**	**40,125**	**46,242**	**11,447**	**-**	**9,950**	**39,950**	**156,824**
Capital Receipts	11,845	51,378	20,658	14,277	294,630	77,257	301,963	772,008
Borrowing Requirement	190,595	195,940	297,070	411,037	(51,253)	53,403	316,268	1,413,060
Total	**253,522**	**339,507**	**426,841**	**493,849**	**269,072**	**156,030**	**665,721**	**2,604,542**

11.4. The main source of external funding is via external partners and Section 278 contributions. Internal Funding includes Community Infrastructure Levy and Section 106 Contributions.

11.5. Rental income from the improved Temporary Accommodation purchasing programme is expected to be used to finance the borrowing costs as opposed to forming MTFP savings.

12. Revenue Implications of the Programme

Table 5: Summary of the Revenue Implications of the Capital Programme

	Forecast	Five Year Plan					Future to	
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2027/28 £000	2037/38 £000	Total £000
Expenditure	253,522	339,507	426,841	493,849	269,072	156,030	665,721	2,604,542
External Funding	(41,972)	(52,064)	(62,871)	(57,088)	(25,695)	(15,420)	(7,540)	(262,650)
Capital Receipts	(11,845)	(51,378)	(20,658)	(14,277)	(294,630)	(77,257)	(301,963)	(772,008)
S106 and CIL Funding	(9,110)	(40,125)	(46,242)	(11,447)	-	(9,950)	(39,950)	(156,824)
Borrowing Requirement	**190,595**	**195,940**	**297,070**	**411,037**	**(51,253)**	**53,403**	**316,268**	**1,413,060**
Revenue Impacts:								
Capital Financing Cost	28,320	29,622	30,700	48,071	67,887	71,904	635,736	912,240
Financed By:								
Commercial Income	(1,592)	(854)	(3,083)	(14,269)	(12,491)	(14,514)	(160,877)	(207,680)
Net Revenue Position	**26,728**	**28,768**	**27,617**	**33,802**	**55,396**	**57,390**	**474,859**	**704,560**
Sinking Fund Adjusted Balance	(6,028)	(5,068)	(917)	(4,102)	(22,935)	(22,098)	(17,591)	(78,740)
MTFP Budget Assumptions	**20,700**	**23,700**	**26,700**	**29,700**	**32,461**	**35,292**	**457,267**	**625,820**

12.1. The Council aims to maximise its balance sheet assets and as such can utilise cash balances derived from working capital (such items as the appeals provision, reserves, affordable housing fund, etc.) rather than borrowing externally to finance the net cost of the capital programme. Over the 15-year capital programme it is currently estimated that the council will incur net financial costs, through its revenue budget of £704.560m.

12.2. The revenue costs of the capital programme are not uniform across the 15 years of the capital programme and are subject to significant fluctuations in line with the profiling of capital expenditure and funding (particularly capital receipts). To manage these fluctuations, the Council is operating a sinking fund which ensures the revenue budget increases are consistent with surplus balances at the start of the programme being transferred to a capital financing reserve, which will then be drawn down in later years. The 2023/24 capital financing budget is £20.7m. The Medium-Term Financial Plan includes a £3m per annum increase to account for the financing requirements of the 15-year programme. This is estimated to level out by 2037/38 by which time the budget will be £64.2m.

12.3. As noted in Section 8, 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 is affordable. Where they assess this not to be the case, action will be taken to bring the programme back to an affordable position.

Minimum Revenue Provision (MRP)

12.4. MRP is applied where the council must 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.

12.5. The Council has an ongoing capital programme and will continue to invest in capital projects beyond 2036/37 and will therefore need to ensure that funds are set aside for the future cost of borrowing.

Revenue Reserves

12.6. In addition to the statutory minimum revenue provision outlined above, the Council also retains discretionary flexibility with earmarked reserves to fund aspects of the programme that may be revenue in nature, projects that are written off, or specific projects where this has a financial benefit to the revenue budget. Each year, capital expenditure is reviewed to ensure that any revenue elements of expenditure is written off to reserves in line with accounting regulations. The Council maintains an earmarked reserve for this purpose.

12.7. Section 25 of the Local Government Act 2003 requires the Council's Section 151 officer to report on the adequacy (or otherwise) of reserves and the robustness of estimates supporting the budget. The total level of reserves that the Council maintains is considered robust and can support the delivery of the capital programme.

13. Risk Management

13.1. 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.

General Risks

13.2. 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:

Interest Rate Risk

13.3. The Council is planning to externally borrow £681.308m as set out in this Capital Strategy over the next five years (over and above the £400m forward borrowing loans outlined in paragraph 10.24). Interest rates are variable and could increase to a point where the cost of servicing debt becomes unaffordable. To mitigate this, the Council has used interest rate forecasts that include a prudent provision against interest rate rises.

13.4. If interest rates rose beyond this forecast plus contingency, the revenue interest cost to the Council would increase for all borrowing not yet entered into (the Council typically borrows on fixed rate terms). The forward borrowing arrangement the Council entered into has mitigated a large extent of this risk, however, a rise of 1% above current interest rate assumptions against the full projected external borrowing of £681.308m would cost an additional £6.813m per annum.

13.5. The Council is currently maintaining an under-borrowed position. This means that the current capital borrowing need (the Capital Financing Requirement) is not fully funded with external loan debt, as current cash supporting the Council's reserves, balances and cash flow has been used as an interim financing measure. This strategy has been prudent as investment returns have remained low and counterparty risk has been minimised. It has also reduced the external interest payable on undeployed capital, known as the 'cost of carry', or the difference between the unutilized debt and the yield this generates whilst invested.

13.6. The Council's treasury management strategy permits borrowing from various sources. The external borrowing position needs to be kept under review to avoid incurring higher borrowing costs (through increased interest rates) in future years when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

Inflation Risk

13.7. Construction inflation over and above that budgeted by the Council's 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 £26.0m. 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.

13.8. There is a cost risk in both the General Fund and HRA around larger regeneration schemes occurring several years into the future where the delivery route is still to be determined. For example, the council could choose to self-deliver a scheme rather than use a development partner, which could place extra pressure on the programme. This risk will need managing in the near term to ascertain the most appropriate mitigation measures.

Legislative Risks

13.9. 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.

Market Health/Commercial Risks

13.10. 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.

13.11. 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.

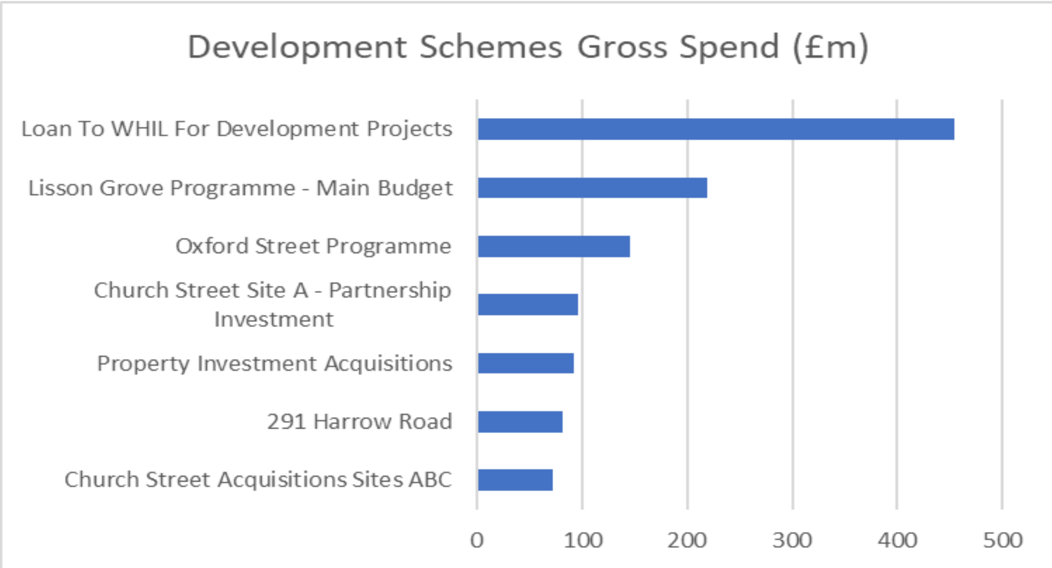
Transfer Risk

13.12. 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.

Development Risk

13.13. One of the key financial risks of development projects from the perspective of the capital strategy is the need to have accurate financial estimates and profiling of expenditure in line with project milestones. To ensure this is as rigorous as possible the Council implements a challenge process for these projects, with further details on the process and governance behind this included earlier in this report.

13.14. Development schemes make up a significant proportion of the gross capital budget at £1,551m, and of the capital receipts in the programme at £758m. Key examples of projects that fall under this category are noted in the graph below. Ebury Phase 2 and 3 exposure is captured in the Loan to Westminster Housing Investments Ltd (WHIL) line as the company will deliver the scheme.



Project Risks

13.15. 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:

- Projects are required to maintain a risk register, to ensure effective monitoring.
- 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.
- Appointment of professional teams - the Development team has recruited and retained the services of experts to provide robust planning and review 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.
- Risk of Revenue 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.

14. Financial Implications

14.1. Financial implications are set out in the main body of this report

15. Legal Implications

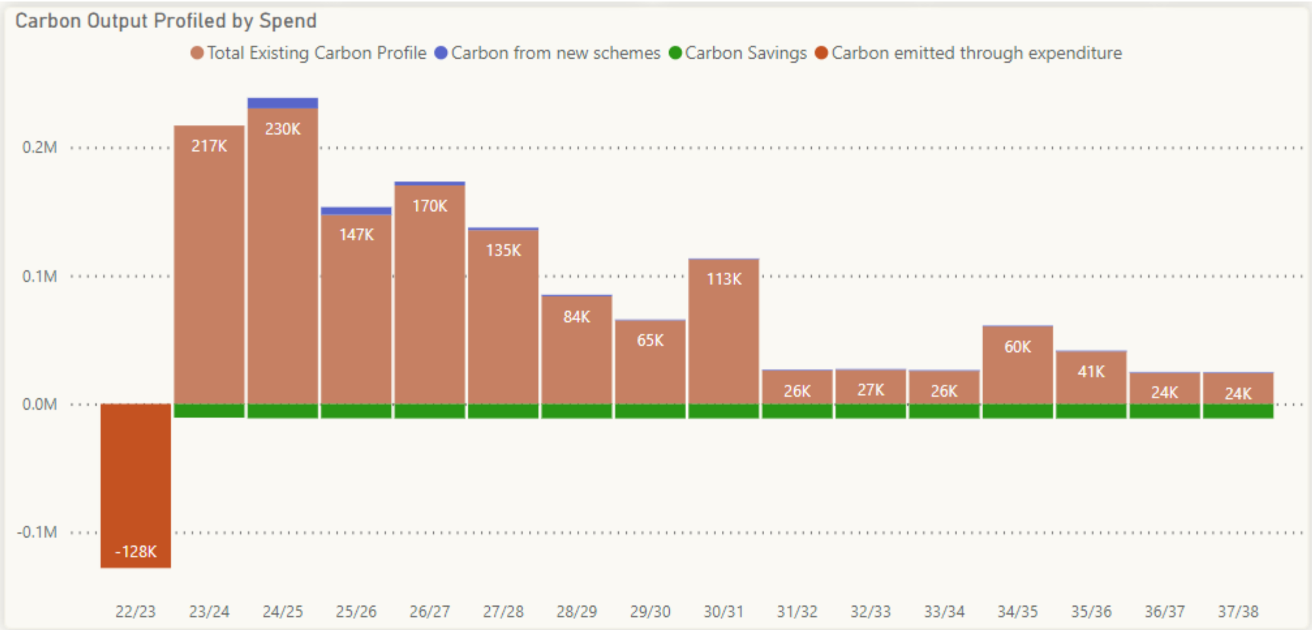
15.1. The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that 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.

15.2. 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.

16. Carbon Implications

16.1. The capital programme has a gross carbon footprint of 1.38m tonnes CO_2, over the course of its 15-year duration (General Fund and HRA inclusive).

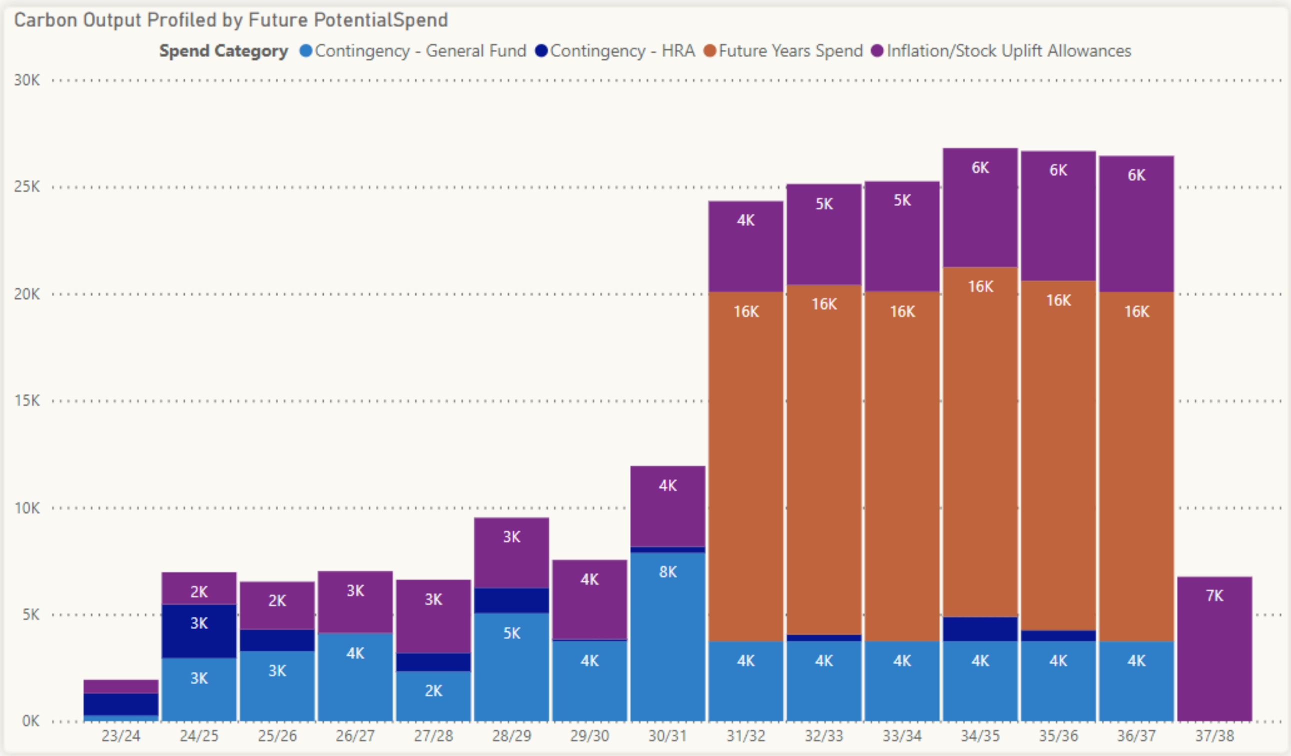
16.2. This is mapped to capital expenditure in the table below as follows:



Bar chart showing the capital programmes profiled emissions over 15 years.

16.3. Included within the capital programme are budget lines for contingency, inflation uplift, and future year's spend. This spend may be incurred but is not guaranteed. The additional emissions not included in the figure mentioned at 16.1 but that could result from this spend ranges from 0 – 219k tCO2e. The profiling of these emissions based on budgets is shown in the table below:

Bar chart showing the capital programmes potential additional emissions profiled emissions over 15 years.



16.4. Carbon emissions are determined using various methodologies ranging from cost-based assessments using industry average emissions factors, and detailed assessments with the aid of external consultants. The majority of emissions quoted above have been calculated using a cost-based assessment, which relies on assumptions.

16.5. The Council's current 2030 net zero target only includes Scope 1, Scope 2, and selected Scope 3 emissions.

- Scope 1 covers direct emissions from owned or controlled sources. This is typically the combustion of gas for heating or fuel for use by vehicles in Westminster.

- Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by Westminster. The emissions are generated outside of Westminster, but the user is within the city, so the indirect emissions are attributed here.

- Scope 3 includes all other indirect emissions that occur in Westminster's value chain, but that Westminster has no control over. This can include purchased goods, services, good, waste and travel outside of the city.

16.6. A significant proportion of the capital programme carbon footprint is scope 3 emissions. As such, the 2030 net zero strategy and the emissions the Council reports publicly will not be significantly impacted by the capital programme.

16.7. Scope 3 emissions are extensive and complex to determine, which is why most scope 3 emissions are not currently included in the Council's emissions baseline and 2030 net zero target. This work helps the organisation to better understand our scope 3 emissions and begin to develop a clear picture of the scope 3 impact. It will enable more informed decision making and a better understanding of the carbon implications of capital schemes, allowing the development of a clear strategy to reduce or offset these.

16.8. Carbon offsetting is a mechanism used to compensate for corporate or individual carbon footprints through the purchase of carbon credits. By investing in carbon offsets, Westminster can "offset" or "cancel out" emissions from its operations that cannot otherwise be reduced or avoided.

16.9. The cost of carbon offsets varies widely and is expected to increase as organisations get closer to the end date of their net zero targets. Indicative pricing is as follows:

- Avoidance Credit - £10/ton
- Nature Based Removal Credit - £50/ton
- Technical Removal Credit - £900/ton

16.10. The choice of offset used impacts on whether the Council reaches net zero or carbon neutral. A net zero outcome requires carbon removal, whereas carbon neutral can reply of carbon avoidance. There is a significant different in cost to each option. There are also additional risks with investing in carbon offsets as the market is still relatively new and does not have an internationally agreed framework governing it. This creates reputational risks around greenwashing if not managed and monitored carefully. There is also an additional risk that any credits purchased now might be deemed invalid should an international framework be developed and determined so at the time. It is therefore officers' preference that offsets are used as a last resort and measures are taken to reduce emissions at source. The capital programme scope 3 emissions are not part of the Council's current targets for net zero, however, there is a growing acceptance that organisations should be considering and reducing scope 3 more, and setting a target for this may be part of addressing that. Officers will continue to consider the implications of carbon offsetting to form a full understanding of the Council's options.

16.11. The Council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the Council by 2030. The following are key capital schemes supporting the delivery of this ambition:

- Waste Collecting and Street Cleansing Vehicles - reduce waste through transforming recycling facilities and enhancing the Councils environmentally friendly and low emission waste collection service. Street Cleansing operations will be delivered using zero emission (electric) specialist vehicles.

- Electric Vehicle Charging Infrastructure - to provide a charge point network of an appropriate size and scope to complement demand from EVs operating in the City.

- Council Buildings - reviewing the environmental credentials of the operational property portfolio, including the retro fit schemes and high specification housing regeneration schemes which are designed to reduce the Council's carbon impact.

16.12. This highlights the role of the capital programme in supporting delivery of the Council's scope 1 and 2 carbon reduction ambitions, which derive from revenue related activities. Whilst the capital programme supports all of Fairer Westminster, within it are vital projects that are required to deliver net zero 2030. This demonstrates that some scope 3 emissions are required in the short term, to improve the longer term position.

16.13. From this ongoing work, and in conjunction with external consultants, the Council will be able to set a scope 3 baseline and consider appropriate net zero targets that encompass scope 3.

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 within the capital programme where it is considered that there will be an impact on residents or service users that warrants consultation.

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

19. Appendices

Appendix A – Capital Programme schedule