



City of Westminster

Cabinet

Decision Maker: Cabinet

Date: 13 February 2023

Classification: General Release

Title: Capital Strategy 2023/24 to 2027/28, Forecast Position for 2022/23 and Future Years Forecast to 2036/37

Wards Affected: All

Financial Summary: The Council has a proposed gross capital programme up to 2036/37 of £2.740bn, partially offset by £1.363bn of income, giving a net budget of £1.377bn – 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 2023/24 to 2027/28 and summarises the position up to 2036/37.
- 1.2. The general fund capital programme as detailed in Appendix A, proposes a gross budget of £2.740bn and a net budget of £1.377bn (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 objectives of 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 recommend to Full Council:

- 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 2023/24 to 2027/28 and future years to 2036/37.
- 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.
- 4.2. The Council has an ambitious yet realistic capital programme with a plan to invest up to £2.740bn (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 launched its new Fairer Westminster strategy on 4 October 2022 to set 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 improvements to our public toilets including re-opening the ones at Maida Hill Market, upgrading Broadwick Street's auto-toilet and reviewing the West End's temporary toilets.
- 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 adaptations and alterations of schools 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; Changing Places; Community Facing Facilities, Landlord Responsibility budget, and Accessibility Programme: Access & Inclusion and the new Community Hubs project.

➤ **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 the city including cycle lanes and introducing an additional 600 secure cycle parking spaces by the end of March 2023 to encourage more people to cycle.
- Installing 1,000 more electric vehicle charge points by 2024 to make low emission travel more attractive.
- Carbon Management Programme will help the Council be carbon neutral by 2030
- 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 introduces 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.

- Reviewing and changing the proportion of affordable housing in our developments in progress, as part of our efforts to increase the availability of affordable housing and reduce housing waiting list times:

- 300 Harrow Road will now deliver 77 social and 34 intermediate homes, as well as Enterprise space a café and community hall
- Westmead will now deliver 34 social and 31 intermediate homes
- Further acquisition of homes to rent to Westminster residents including 29 intermediate homes at West End Gate, 9 intermediate homes at Parsons North, 7 homes at Luxborough and 35 homes at Harrow Road.
- Temporary Accommodation Acquisitions Programme anticipates completion (or agreed sale) on over 50 properties in 2022/23. An extra £85m budget allocation 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 to promote a mixed economy and sustain its globally renowned status as a retail and leisure destination
- Commitment to invest £20m in the North Paddington area masterplan
- Investment of £9.5m from 2023/24 in our District High Street programme, a commitment to support local residents and businesses across Westminster
- Investment in Strand/Aldwych, encompassing traffic management improvements to the gyratory to create a new public space for events and animation, an improved setting for the surrounding education and culture institutions as well as safe routes and space to dwell for pedestrians

➤ **Fairer Council**

As a Fairer Council, we will make it easier for people to find the information and services they need, the 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.
- 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 – 2022/23 to 2036/37

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 2022/23 to 2036/37

	Forecast	Five Year Plan					Future Years	Total £000
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	to 2036/37 £000	
Expenditure								
Adults and Deputy Chief Executive	5,460	15,239	20,800	45,000	39,080	-	-	125,579
Children's Services	10,333	4,101	3,890	3,608	3,422	-	-	25,354
Environment & City Management	78,976	103,769	92,025	44,298	31,528	25,159	-	375,755
Finance & Resources	55,737	46,274	90,844	77,079	92,481	82,929	436,222	881,566
Growth, Planning & Housing	100,226	82,591	154,263	164,609	160,673	94,356	115,151	871,869
Innovation & Change	1,570	5,813	1,540	9,040	610	-	-	18,573
Westminster Builds	14,700	31,886	-	77,235	72,082	33,872	211,877	441,652
Total Expenditure	267,002	289,673	363,362	420,869	399,876	236,316	763,250	2,740,348
Funding								
External Funding	(42,170)	(79,066)	(97,575)	(107,402)	(57,820)	(21,978)	(36,680)	(442,691)
Capital Receipts	(58,137)	(28,589)	(17,883)	(21,086)	(116,392)	(273,689)	(404,332)	(920,108)
Total Funding	(100,307)	(107,655)	(115,458)	(128,488)	(174,212)	(295,667)	(441,012)	(1,362,799)
Borrowing Requirement	166,695	182,018	247,904	292,381	225,664	(59,351)	322,238	1,377,549

5.2. The proposed capital programme for the Council over the next five years including 2022/23 and summarised over the subsequent ten years, is a gross capital expenditure budget of £2.740bn. Over £1bn of this expenditure is due to be incurred over the next three years, 2023/24 to 2025/26. This is in line with the Council's housing development projects, which sit mostly within the Growth, Planning and Housing directorate.

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 £1,610m	Operational £1,130m
<ul style="list-style-type: none"> • Major housing developments • Investment in infrastructure and redevelopment • Future regeneration of key strategic sites • Increased income / capital values and diversity of portfolio 	<ul style="list-style-type: none"> • 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 - £1,610m

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 2023/24 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.

- **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). A ballot is also being held for the wider regeneration that, if successful, could attract significant grant funding and support tenure changes across the scheme that are expected to deliver in excess of 100 extra homes for social rent (over and above the substantial affordable provision already incorporated into the existing version of the scheme).
- **300 Harrow Road** - Delivery of 112 new affordable homes plus a nursery, a community hall and workspace and public open and play space
- **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.
- **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.
- **Paddington Green** - 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 newly acquired 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.

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 level of additional housing. A feasibility study is currently underway to develop a range of options for the scheme.
- **Oxford Street Programme** - Temporary improvement works on Oxford Street and the Soho Photography Quarter are now complete. The delivery plan and business case are currently being revised considering new programme objectives. These will ensure the delivery of an enhanced public realm scheme that addresses accessibility, safety and sustainability issues whilst respecting the historic character of the area.
- **Strand Aldwych** – with the coronavirus pandemic, a phased approach to deliver was introduced. The completed meanwhile space was successfully launched on Strand in December 2022 along with the switch to two way traffic on Aldwych which was completed in 21/22. The use of this space by the West End’s creative and cultural industries gives an invaluable opportunity to support the local economy. Work has progressed well with key partners in outlining a collaborative management model for the future maintenance of the space with financial contributions.
- **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 recent 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.

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** – this development has been under consideration for many years, it could be a 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. Enhanced public realm, greenery and open space will also be the aim. Regular stakeholder engagement and consultation underpins the whole design and delivery strategy.
- **Seymour Centre Project** – following extensive consultation and engagement, the stage 2 design of the scheme is now complete and agreed. This incorporates the Marylebone library and greater community space. This design will be brought forward in a planning application later this month.
- **Coroners Court Extension** - The existing coroners court will be extended and updated to increase capacity and thereby enable the building to meet the demands placed on the Coroner's Service. The project is underway and is funded by the four boroughs of the coroner's jurisdiction.

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 2022, the Council maintained 279 of investment properties, with a value of £463m, generating nearly £40m per annum for the Council to spend on 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 £120m (including 22/23) 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 - £1,130m

5.15. Operational schemes make up a significant proportion of the gross capital budget at £1,130m. 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 – 473 assets with a value of £746m (includes Housing Revenue Account assets)
- Infrastructure – asset value of £329m

5.16. The Council is in the process of undertaking a comprehensive programme of 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. The Council has completed the implementation of 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.

5.18. As part of the forward planning of the operational estate, there are some key areas which will continue to be developed in 2022/23 in line with Council objectives. These include the desire to make buildings dementia and autistic friendly and to rollout ABLE access across the portfolio. In terms of accessing buildings, work is underway to look at the options of implementing a single smart card for access across the estate.

Education

5.19. 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

5.20. 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.

5.21. The proposed capital programme includes approximately £14.881m 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.

5.22. 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

5.23. Most of this category relates to £71.593m 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 £3.548bn 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 2022 £m
Council Dwellings	1,667
Other Land and Buildings	746
Investment Properties	463
Infrastructure Assets	329
Assets under Construction	233
Heritage Assets	45
Community Assets	30
Vehicles, Plant and Equipment	9
Intangible Assets	5
Assets Held for Sale	22
Total	3,548

- 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 re 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. This year all existing projects within the programme were reviewed, with a view to ensuring that all the projects within the capital programme are affordable and in line with the Council's new Fairer Westminster objectives.

7.4. 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:

- 31 schemes above £10m in individual value
- 84 projects between £1.5m and £10m projects
- 150 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.

9.6. The Council's general fund provides loan financing into the company to support the delivery of these projects. This amounts to £427m over the next 14 years from 2023/24, in addition to the £8.2m forecast drawdown in 2022/23. Loan financing by project is shown in the table below. Over the same period the company will repay £283m of that loan financing.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29 onwards	TOTAL
Scheme	£000	£000	£000	£000	£000	£000	£000
Development Scheme							
Ebury Phase 2	12,785	-	72,808	53,129	-	-	138,722
Ebury Phase 3	-	-	-	1,330	33,872	73,135	108,337
Acquisition Schemes							
Luxborough	1,735	-	-	-	-	-	1,735
300 Harrow Road	9,800	-	-	-	-	-	9,800
Westmead	7,566	-	-	-	-	-	7,566
Pimlico/Balmoral	-	-	4,427	-	-	-	4,427
Lisson Grove Programme	-	-	-	-	-	13,416	13,416
Church Street Site A	-	-	-	8,001	-	-	8,001
Ebury Phase 2	-	-	-	9,622	-	-	9,622
Ebury Phase 3	-	-	-	-	-	125,326	125,326
TOTAL	31,886	-	77,235	72,082	33,872	211,877	426,952

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 2023/24.
- **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, 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 71 homes for rent by the end of March 2023.

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

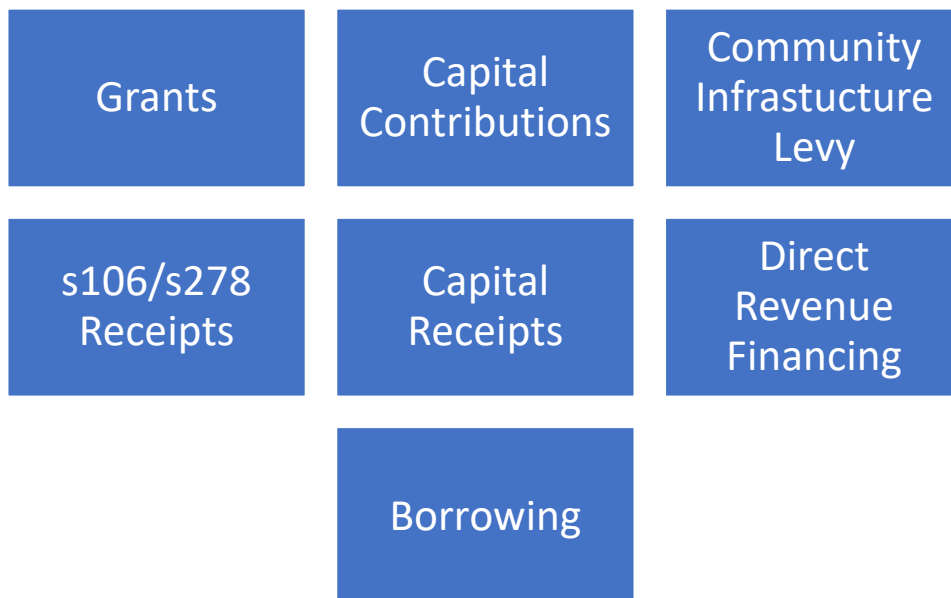
Development element of the overall programme aims to provide a supply of new homes that will enrich and promote healthy neighbourhoods and communities via mixed use developments, proactive place shaping and ensuring there is greater support for local services and amenities.

- 9.10. Planned HRA capital spend for 2023/24 is £207m with a total of £2.357bn planned to be spent over the duration of the 30-year business plan. This represents an increase of £142m since the February 2022 HRA budget report (largely due to the impact of cost inflation). Overall, the HRA is expected to need to borrow an additional £50m on top of what was approved in the last iteration but required 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. In the revised HRA capital programme, additional opportunities to attract GLA grant and apply CIL have been utilised to secure the deliverability of the programme. 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 business plan has been developed at a time of significant cost volatility in the construction sector. A cross-programme inflation review was undertaken in 2022 and required £50m of the existing contingency to be applied to mitigate anticipated cost growth. Risks are also present in relation to the residential market and the ability to generate projected capital receipts. The business plan attempts to mitigate these risks by including a contingency across both aspects of the programme (development and planned maintenance). It has also created a flexible revenue contribution to capital within the revenue budget that can be re-purposed to support further borrowing if there is any significant adverse movement on the key financial assumptions included within the business plan or the capital programme.
- 9.13. The HRA Planned Maintenance programme includes a £218m allocation to support the retrofit of the Council's existing housing stock (although this is dependent on the availability of grant support from central government). This is designed to both deliver on the Council's carbon neutral ambition and help tenants save money on energy bills.

- 9.14. The programme also includes an initial allocation for emergency network upgrades for the Pimlico District Heating Undertaking (PDHU) to resolve urgent operating issues at Lillington & Longmore. The Council also approved a Strategic Outline Case (SOC) for the PDHU in January 2023 that will see it develop four viable options for the future of the network. This will aim to both decarbonise the PDHU (the Council's largest emitter of carbon) and improve the service provided to tenants. It will require substantial investment and, whilst this is not yet built into Council's capital programme, a strategy has been developed that provides viable options for funding at least 75% of the c£200m of investment needed at this point in time.
- 9.15. The business plan also includes the delivery of the Council's two key regeneration schemes at Church Street and Ebury Bridge and other development schemes as outlined in paragraphs 5.6.

10. Capital Funding

- 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 12.

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, have 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.

10.10. Affordable Housing Fund receipts are forecast to fall significantly as the number of deeds submitted to the Council has reduced. Of the £68m of open deeds, £19m was received in 2022/23. A further £20.5m to 2027/28 is forecast to be received. This is a significant fall in receipts since 2021/22. Adjustments to forecast future receipts post-pandemic have led to a reduction from £25m per annum to £5m per annum to 2027/28. Therefore, from 2022/23, all AHF received will be prioritised to finance projects within the Housing Revenue Account (HRA) and thereby maximising the number of new social rented homes.

10.11. Forecasts for CIL and s106 are £15m per annum and £5m per annum, respectively both of which reflect 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, £93.6 CIL has been applied to the General Fund programme (compared to £25.2m last year). In respect of s106, £53.3m has been applied to the General Fund programme, £8.3m more than 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.

- 10.15. In March 2016, the DLUHC issued statutory guidance allowing the flexible use of capital receipts to support local authorities in delivering more efficient and sustainable services. Updated guidance issued by DLUHC extended the original three-year period from 1 April 2016 and in February 2021 confirmed a further three-year extension from 2022/23 onwards. This applies only to capital receipts generated during this period.
- 10.16. It allows local authorities to use capital receipts received in the year to fund the revenue costs of service reform and transformation, provided that this expenditure yields ongoing savings to an authority's net service expenditure. Capital receipts applied to revenue expenditure in any given year must have been generated in that same year.

Direct Revenue Financing

- 10.17. 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

- 10.18. 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.
- 10.19. 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.
- 10.20. 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).

- 10.21. 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.
- 10.22. 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.
- 10.23. 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 2022 was £997.775m.
- 10.24. During 2019/20, the Council has arranged forward borrowing loans totaling £400m. These loans have 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
Rothsay	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%		

- 10.25. 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 in revenue budget terms.

11. Capital Programme Funding: 2022/23 to 2036/37

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	Total £000
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	to 2036/37 £000	
External Funding	42,170	79,066	97,575	107,402	57,820	21,978	36,680	442,691
Capital Receipts	58,137	28,589	17,883	21,086	116,392	273,689	404,332	920,108
Borrowing Requirement	166,695	182,018	247,904	292,381	225,664	(59,351)	322,238	1,377,549
Total	267,002	289,673	363,362	420,869	399,876	236,316	763,250	2,740,348

11.2. In total £1.363bn (50%) 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	Total £000
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	to 2036/37 £000	
Community Infrastructure Levy (CIL)	2,979	24,287	31,981	34,063	330	-	-	93,640
Temporary Accommodation Funding	-	-	22,000	33,000	30,000	-	-	85,000
Section 278 Contributions	11,839	13,682	14,667	11,000	11,000	8,000	-	70,188
Section 106 Contributions	1,453	5,980	7,329	8,500	-	-	30,000	53,262
External Contributions	4,392	10,521	11,000	12,577	7,222	150	4,628	50,490
Other Grants and Contribution	3,860	4,402	375	375	375	10,275	-	19,662
GLA Funding	4,236	2,320	2,344	-	2,192	2,003	2,052	15,147
DfE High Needs Funding	1,500	3,500	3,324	3,158	2,996	-	-	14,478
DCLG Disabled Facilities Grant	1,400	1,729	1,729	1,729	1,729	-	-	8,316
Transport for London (TfL) Grant	300	2,150	650	2,150	1,150	1,150	-	7,550
GLA Good Growth Fund	900	4,642	-	-	-	-	-	5,542
Carbon Management Programme Grant	1,488	3,800	250	-	-	-	-	5,538
DfE Grant - St Marylebone Bridge Special School	4,749	-	-	-	-	-	-	4,749
DfE Basic Needs Grant	1,828	500	526	450	426	-	-	3,730
DfE Schools Condition Allocation	320	803	400	400	400	400	-	2,723
Sport England Grant	-	750	1,000	-	-	-	-	1,750
European Regional Development Fund	926	-	-	-	-	-	-	926
Total	42,170	79,066	97,575	107,402	57,820	21,978	36,680	442,691
Capital Receipts	58,137	28,589	17,883	21,086	116,392	273,689	404,332	920,108
Borrowing Requirement	166,695	182,018	247,904	292,381	225,664	(59,351)	322,238	1,377,549
Total	267,002	289,673	363,362	420,869	399,876	236,316	763,250	2,740,348

- 11.4. The main source of external funding is via developer contributions, these include Community Infrastructure Levy, Section 278 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 Years	Total £000
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	to 2036/37 £000	
Expenditure	267,002	289,673	363,362	420,869	399,876	236,316	763,250	2,740,348
External Funding	(42,170)	(78,566)	(97,575)	(107,902)	(57,820)	(21,978)	(36,680)	(442,691)
Capital Receipts	(58,137)	(28,589)	(17,883)	(21,086)	(116,392)	(273,689)	(404,332)	(920,108)
Borrowing Requirement	166,695	182,518	247,904	291,881	225,664	(59,351)	322,238	1,377,549
Revenue Impacts:								
Capital Financing Cost	21,068	27,617	34,837	40,446	47,548	56,109	557,947	785,572
Financed By:								
Commercial Income	(3,073)	(855)	(1,209)	(4,098)	(4,320)	(6,343)	(104,091)	(123,989)
Net Revenue Position	17,995	26,762	33,628	36,348	43,228	49,766	453,856	661,583
Sinking Fund Adjusted Balance	(295)	(6,062)	(9,928)	(9,648)	(13,463)	(16,860)	(2,716)	(58,972)
MTP Budget Assumptions	17,700	20,700	23,700	26,700	29,765	32,906	451,140	602,611

- 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 £661.583m.
- 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 2022/23 capital financing budget is £17.7m. 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 2036/37 by which time the budget will be £65m.
- 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 2035/36 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 £540.411m 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 a rise could increase the cost of servicing debt to a level that is not affordable. 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 (the Council typically borrows on fixed rate terms). The forward borrowing arrangement the Council has entered has mitigated a large extent of this risk, however, a rise of 1% above current interest rate assumptions would cost an extra £2.726m per annum on the full £272.572m borrowed by the end of 2029/30. If the full projected external borrowing of £540.411m were to be realised by 2036/37, the extra cost of a 1% rise in interest rates would be £5.404m per annum from 2036/37.
- 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 saved a considerable amount of external interest payable, known as the 'cost of carry'.
- 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 £27.4m. 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.

Legislative Risks

- 13.8. 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

- 13.9. 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.
- 13.10. 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

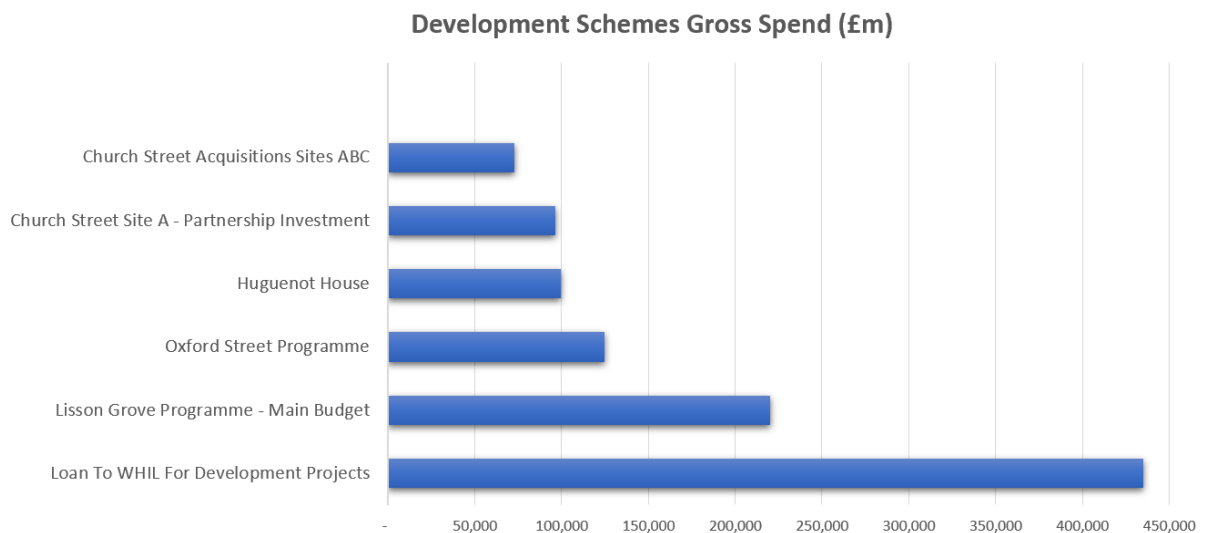
- 13.11. When the Council plans and delivers projects, it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as Westminster Housing Investment Ltd) is the best placed to take on that risk. A key consideration for major capital schemes is whether 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

- 13.12. 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.

13.13. Development schemes make up a significant proportion of the gross capital budget at £1,490m, and of the capital receipts in the programme at £753m. 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

13.14. 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

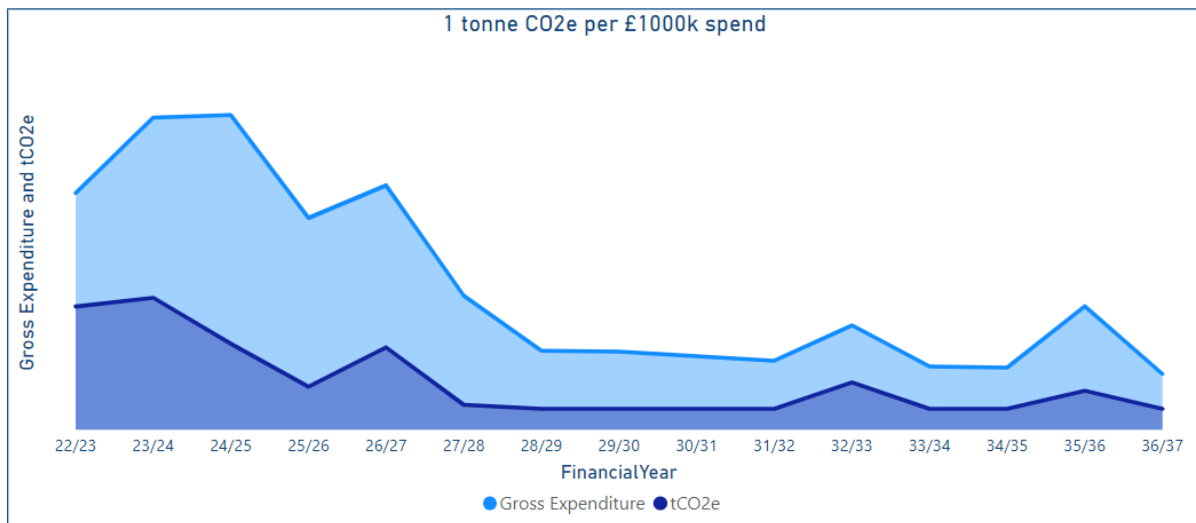
15. Legal Implications

- 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 1.2m tonnes CO₂, over the course of its 15-year duration.

16.2. This is mapped to capital expenditure as follows:



Line chart showing the carbon footprint relative to spend over 15 years

16.3. 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.

16.4. 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 report publicly will not be significantly impacted by the capital programme.

16.5. 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.

- 16.6. From this 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.
- 16.7. The Council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the Council by 2030. Key schemes in train that address the Climate Emergency issues include:
- 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 will be designed to reduce the Council's carbon impact

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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19. Background Papers:

Capital programme working papers

Capital Programme Submission Requests for individual projects

20. Appendices

Appendix A – Capital Programme schedule