City of Westminster

Cabinet

Decision Maker:	Cabinet
Date:	15th February 2021
Classification:	General Release
Title:	Capital Strategy 2021/22 to 2025/26, forecast position for 2020/21 and future years' forecasts summarised up to 2034/35.
Wards Affected:	All
Financial Summary:	The Council has a proposed gross capital programme up to 2034/35 of £2.862bn, offset by £1.233bn of income, giving a net budget of £1.629bn – which is to be funded via borrowing. The cost of borrowing has been built into the revenue implications of the capital strategy which is detailed in section 13.
Report of:	Gerald Almeroth, Executive Director – Finance & Resources

1. Executive Summary

1.1. The report sets out the Council's capital strategy from 2021/22 to 2025/26 and summarises the position up to 2034/35.

1.2. The general fund capital programme as detailed in Appendix A, proposes a gross budget of £2.862bn and a net budget of £1.629bn (including 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 Council's long-term capital investment is underpinned by the objectives of City for All. 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 full account of the revenue implications of the projects as part of the revenue budget setting process. Based on the proposed programme at the end of 2034/35 the Council would have to set aside a revenue budget of £60.6m to cover the financing costs of the programme.

1.4. In addition to the capital budgets and revenue implications, the report sets out the following:

- Policy and contextual background
- The Council's asset base
- Delivery Strategies
- Budget setting and prioritisation
- Governance
- Key projects and programmes
- Capital funding
- Risk management

2. Recommendations

That the Cabinet be recommended:

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 2021/22 to 2025/26 and future years to 2034/35.

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 council plans to continue its use of capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). This comes under the MHCLG Guidance on the Flexible Use of Capital Receipts (FCR).

2.6. To approve the proposed financing of the capital programme and revenue implications as set out in section 13 of this report.

2.7. To approve the financing of the capital programme being delegated to the Executive Director of Finance and Resources to provide sufficient flexibility to allow for the most effective use of Council resources.

3. <u>Reasons for Decision</u>

3.1. The Council is required to set a revenue and capital budget. The revenue budget is set as part of the Medium Term Financial Plan (MTFP), where the capital budget is set as part of this strategy document.

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

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

4. <u>Policy and Contextual Background</u>

4.1. Westminster City Council's refreshed vision, City for All, will provide the strategic context for the Capital Strategy and responds to the significant impacts of the COVID-19 pandemic on the city, our communities and the council. Three distinct themes within City for All shape the approach:

- Greener and Cleaner
- Vibrant Communities
- Smart City

4.2. These thematic areas are underpinned and enabled by key plans and programmes including Westminster's City Plan 2019 – 2040, the Customer Experience & Digital Strategy, Climate Action Programme and the delivery of affordable homes. The Capital Strategy is among these key plans. The Council has embarked on an ambitious capital programme with a plan to invest up to £2.862bn (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 City for All ambitions.

4.3. The programme's delivery objectives continue to take place against the background of financial challenges. Covid has had a significant impact on the Council, from delays caused to existing projects meaning budgets being re-profiled and reviewed. The programme reflects the Council's approach to support the rebuilding of the economy and ensure all our residents have access to employment opportunities.

4.4. The ongoing revenue costs of borrowing within the capital programme has to form part of the Council's revenue budget. It is therefore vital that the Council's capital strategy delivers a return on investment that is financial, such as capital receipts or new revenue streams, or delivers key strategic priorities.

4.5. The capital strategy is not intended to be static; it is a dynamic plan that will evolve and change over time. The strategy is set over 15 years but is updated annually and includes short, medium and long-term investment. Further information on this is given in section 6.

4.6. The pandemic has accelerated our ambition to become smarter in how we connect, collaborate and respond to both challenges and opportunities in the city. An ambitious smart city vision has since been outlined which seeks to position Westminster as a global centre of innovation, empowered by creative partnerships that work with our residents and communities to deliver a better quality of life for all. Westminster's smart journey is seen as an outcomes oriented process, not driven by technologies but rather guided by an inclusive, innovative and participatory approach.

4.7. Guided by these principles, we will leverage technology to continually enhance how we deliver our services, as well as ensure our users are enabled to be digital by choice. 'Smart' interventions will be delivered against four wider themes which align with City For All commitments: ensuring extraordinary experiences, empowering people, supporting and driving an innovative economy and employing and testing CleanTech to target our Climate Emergency.

4.8. There are a number of key projects and programmes that require capital investment for the Council to achieve its strategic goals. These always deliver on all three pillars of City for All which are interlinked. These are highlighted below:

<u>Greener and Cleaner</u>

- In recognition of the growing need for greater action to avert the global climate crisis, the council has declared the Climate Emergency a key priority. We have set ambitious targets to achieve carbon neutrality for the council, across Westminster and our communities. This will help harness important co-benefits such as improved air quality. Schemes include:

    - Reduce waste, transform recycling facilities and enhance our environmentally friendly and low emission waste collection service

    - Roll out more electric vehicle charging points

- Reviewing the environmental credentials of our housing stock and property portfolio, including the retro fit scheme
- High specification housing regeneration schemes will be designed to reduce the Council's carbon impact

Vibrant Communities

- This theme addresses inequalities across the City, fosters a thriving local economy and ensures everyone has equal opportunities to live healthy lives, through making the most of the incredible opportunities in our city and building much needed housing for our residents.

- The City Plan will enable the building of around 20,000 new homes by 2040, of which at least 35% will be affordable. A number of large development schemes within the capital programme are planned to help to deliver at least 1,850 new affordable homes by 2023 by the Council. Delivering high quality affordable homes will ensure Westminster is one of the best places for residents and families to live, work and play. Projects include:

  - Schemes being delivered by Westminster Builds including Ebury Bridge Estate and Church Street, major sites for regeneration in the north of the borough
  - Two mixed-use development including Lisson Grove Programme and Huguenot House

- The Council's aspiration to uphold Westminster as the leading centre of tourism in Europe is demonstrated by the investment into the Oxford Street District programme. This broad programme will support the District's adaptation during and post-Covid and sustain its status as a global destination for retail, leisure and tourism. We will work with partners and residents to ensure our plans embrace innovation, sustainability and diversity, with world class retail, dynamic cultural experiences and safe, smart streets for all.

- Continued investment in other public realm projects within Westminster creates and preserves spaces where people enjoy living, working and visiting. The investment reflects the pride we take in our role as custodian of the City, protecting our heritage by managing places and spaces that can be enjoyed both now and in the future. Investment in improving the public realm and pedestrian environment helps to accommodate the safe and efficient movement of growing numbers of people entering and moving around Westminster, managing vehicular traffic and making walking safer and more enjoyable. We will ensure that residents, businesses and stakeholders are at the heart of place shaping to deliver on robust and vibrant places.

- The Council's investment in core infrastructure of carriageways, footways, lighting and bridges, recognises the commitment the council has to manage the performance, risk and expenditure on its infrastructure assets in an optimal and sustainable manner throughout their lifecycle, covering planning, design, development, operation, maintenance and disposal. This programme ensures our infrastructure is in a safe and reliable condition, is efficiently managed and means our residents and visitors can enjoy clean, high quality streets.

Smart City

- The Council will invest significantly in its digital programme. This will not only ensure the key thematic areas are progressed but also use this investment to work towards a Smarter City, where technology is utilised to deliver efficient and good quality services. Projects include:

    - Bolstering the city's innovative economy through creating the conditions for incubation, growth and investment. This will include ensuring reliable, fast connectivity across the city and implementing digital street markets. Exploring solutions with partners is key to this work, as is exploring, piloting and scaling relevant technological solutions through an innovation hub at City Hall.

    - Celebrate the City's iconic status and unique character by delivering extraordinary experiences, by piloting relevant technology in key areas of the city, including Oxford Street District and Strand-Aldwych. Empower those we serve by appropriately embedding assistive and responsive technology to promote independence among some of our most vulnerable, as well as creating a best in class website and contact centre which allows greater choice and ease for customers to find information and complete transactions.

    - We will address our climate challenges by optimising resources and consumption patterns, and tackling their environmental impacts, through a holistic and circular approach to people, planet and technology. We will create not only a Smart City but a CleanTech City, one which trials the use of sensors to manage light, improve safety and ease traffic. We will enable 5G infrastructure and continue to drive electric vehicle charging capability across the city. Most crucially, we will continue to survey and act on opportunities for both our built environment and behaviours to achieve greater climate resilience.

- All of this can only be delivered if it is underpinned by integrated data systems and digital infrastructure.

5. The Council's Assets

5.1. The Council has total long-term assets of £3.222bn across Property, Plant & Equipment, Investment Properties, Heritage Assets and Intangible Assets. A summary of each asset class is outlined in the table below:

Asset Type	March 2020 £m
Council Dwellings	1,549
Other Land & Buildings	676
Investment Properties	499
Infrastructure Assets	265
Assets under Construction	152
Heritage Assets	45
Community Assets	25
Vehicles, Plant & Equipment	10
Intangible Assets	1
Total	**3,222**

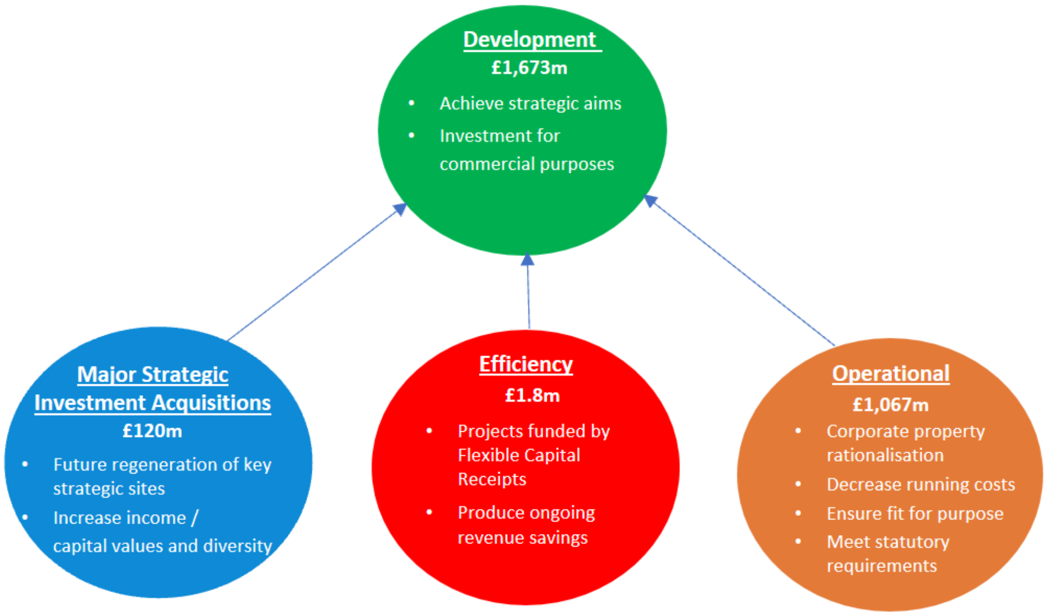
5.2. Based on the Council's current level of assets, the capital strategy as outlined in this report could significantly increase the Council's asset base over the next 15 years across the General Fund and HRA.

5.3. The majority of capital expenditure as set out as part of this strategy will be spent on land and buildings and Council Dwellings (through the HRA). Much of the expenditure in the last 2-3 years on other land and buildings is included as part of the Assets Under Construction – however these will move into the former category upon completion of projects.

The Council carries out regular maintenance on its properties and infrastructure assets.

6. Overview of Delivery Strategies

6.1. The Council's capital programme is categorised into four key areas: Development, Major Strategic Investment Acquisitions, Efficiency and Operational.



6.2. A list of the schemes (with associated expenditure and external funding) can be found in Appendices A, as part of the General Fund capital programme.

Development

6.3. Development projects are long term delivery projects and key schemes that directly support the Council's strategic aims, in line with *City for All*. These include the long-term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration. This will help Westminster's residents and businesses in creating a strong local economy to live and work in, helping to embed the long term aspirations of City for All. Most eminently, development projects will aid the Council in achieving its objectives for tackling the climate emergency; addressing inequalities and ensuring inclusion; and continuously innovating.

6.4. Many of the major development schemes will deliver affordable housing or social housing for the Council. These schemes will also include 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.

6.5. 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, WBst still sharing in the returns.

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

6.6. 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.

6.7. 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. In order 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 as part of sections 7 and 8 of this report. Risks are discussed in more detail in section 14.

6.8. Development schemes make up a significant proportion of the gross capital budget at £1,673.024m, and of the capital receipts in the programme at £951.952m. Key examples of projects that fall under this category include:

- Oxford Street District

- Lisson Grove Programme

- Huguenot House

- Luton Street (through the General Fund and Westminster Builds)

- Church Street Acquisitions (through the General Fund and Westminster Builds)

- Ebury (through the General Fund and Westminster Builds)

Major Strategic Investment Acquisitions

6.9. Strategic acquisitions are where the Council acquires properties to enable the development of key strategic sites for future regeneration and investment opportunities.

Property Investment Strategy

6.10. The Property Investment Strategy is based around a vision of having 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. There are four key objectives that support this vision:

- Meet the Council's strategic objectives, fostering a thriving local economy, as per the Vibrant Communities agenda
- Drive income from the existing portfolio
- Streamline and futureproof the existing portfolio
- Invest in new properties within Westminster

6.11. Property Investment Acquisition has a budget of £120m within the capital programme to support the third objective. The portfolio is stock and not sector led. Any new investment should aim to diversify and streamline the portfolio in addition to supporting the broader strategic aims of the Council. Key principles for new investments are:

- Focus on clusters linked to the Council's long term regeneration and economic objectives including Harrow Road, Edgware Road and Church Street. These do not require the lot sizes or yields identified above due to the broader strategic benefits, long term value expected and size of investment already held in these locations.
- Any new investment should consider yields of 4-5% in the short to medium term.
- All assets acquired must be within Borough unless opportunities arise adjacent to existing out-of-borough holdings.

6.12. This is not a strict list of criteria which all need to be achieved before an acquisition can be made but are a guiding set of principles that will be reviewed in conjunction with CIPFA's recent publication 'Prudential Property Investment' which sets out guidance for Local Authorities investing in property. In addition rigorous governance procedures will be followed which will help to mitigate risks associated with property acquisitions.

Efficiency

6.13. Schemes in this category include those funded from Flexible use Capital Receipts (FCR) and are currently forecasting £1.858m.

6.14. In March 2016, the MHCLG 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 MHCLG extended the original three-year period from 1 April 2016 to cover a further three-year period to 31 March 2022 and applies only to capital receipts generated during this period.

6.15. 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.

Operational

6.16. Operational schemes make up a significant proportion of the gross capital budget at £1,066.793m. The Council’s operational capital strategy is centered on capital improvement works to the Council’s operational asset portfolio. This falls into two main categories:

- Land and Buildings
- Infrastructure

6.17. 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 a number of 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.

6.18. As part of the forward planning of the operational estate, there are some key areas which will be further developed in 2020/21 in line with the objectives of the Council. 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 our estate.

6.19. Work is also underway, in conjunction with Environment and Highways to overhaul the public convenience portfolio, making sure properties retained offer high quality provision and that those no longer in operation are re-purposed for income and/or other community use.

7. Capital Budget Setting & Prioritisation

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

7.2. As part of the yearly capital budget setting process services are required to complete a Capital Programme Submission Request (CPSR) form. These are capital bids which have to be completed for every project in the programme. The CPSR forms are split into the following categories:

- Strategic Fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.
- Financial – what are the financial circumstances for the project, e.g. is funding readily available and is it affordable?
- 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. Project managers are required to complete these forms and self-score them, before submitting them to finance.

7.4. Upon completion and submission of the CPSR forms, a review is carried out for all projects CPSR's by a prioritisation panel. The panel is an officer group from across the Council and reviews all schemes in the programme, with a view to ensuring that all the projects within the capital programme are affordable and in line with the Council's aims and objectives. The recommendations of the report are reported to the Council's Capital Review Group (CRG).

7.5. The prioritisation 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. <u>Governance</u>

8.1. The main forum for reviewing all financial 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 *City for All*, 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. Significant projects include those: with minimum capital expenditure of £10m, requiring 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.

8.2. All Development (as per the General Fund Capital Programme) and regeneration (as per the HRA business plan) projects over £10m will have to produce the following three business cases:

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

8.3. At each of the following stages of the five case 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.

8.4. Projects under £10m will require a Business Justification Case only. 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, members and the Project Management Office (PMO). The factors include:

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

8.5. All business cases will require CRG approval followed by formal approval via a CMR or Cabinet Report. Although development projects may have a budget allocation in the capital programme the approval to draw down the budget will only be obtained via CRG approval and will align to the business case stage the project is at.

8.6. Assessment of the 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, officers and resources of the Council.

9. Summary of the Capital Programme – 2020/21 to 2034/35

9.1. Overview of overall capital figures and breakdown by ELT

Table 1: Proposed General Fund (excluding HRA) capital programme 2020/21 to 2034/35

	Forecast	Five Year Plan					Future	
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Years to 2034/35 £000	Total £000
Expenditure								
Adults' Services	635	1,116	-	-	-	-	-	**1,751**
Children's Services	14,299	22,881	3,246	2,501	1,002	400	-	**44,329**
Environment & City Management	68,789	79,798	115,947	43,808	31,658	19,972	-	**359,972**
Finance and Resources	19,145	24,698	158,618	48,937	84,516	74,324	565,147	**975,385**
Growth, Planning & Housing	48,325	123,426	149,791	123,943	67,238	45,001	155,655	**713,379**
Westminster Builds	16,685	30,845	67,320	61,330	137,540	189,190	263,950	**766,860**
Total Expenditure	**167,877**	**282,764**	**494,922**	**280,519**	**321,954**	**328,887**	**984,752**	**2,861,675**
Funding								
External Funding	(54,284)	(81,757)	(52,230)	(30,909)	(20,299)	(12,079)	(29,000)	**(280,558)**
Capital Receipts	(25,120)	(1,300)	(43,455)	(63,510)	-	(43,420)	(775,147)	**(951,952)**
Total Funding	**(79,404)**	**(83,057)**	**(95,685)**	**(94,419)**	**(20,299)**	**(55,499)**	**(804,147)**	**(1,232,510)**
Borrowing Requirement	**88,473**	**199,707**	**399,237**	**186,100**	**301,655**	**273,388**	**180,605**	**1,629,165**

9.2. The proposed capital programme for the Council over the next five years (including 2020/21 and summarised over the subsequent ten years) is a gross capital expenditure budget of £2.861bn. Over £1bn of this expenditure is due to be incurred over the next three years, 2021/22 to 2023/24. This is in line with the Council's development projects (which sit mostly within the Growth, Planning and Housing directorate).

10. Key Projects & Programmes

Social Care

10.1. The Social Care Projects allow the Council to re-procure the case management system, future-proofing data with the additionalities of predictive analytics and integration with insight tools.

Education

10.2. The education capital programme falls into two broad categories:

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

10.3. Expenditure on schools expansions are in response to pupil place planning needs across the borough. Approximately half of the expenditure in the Children's programme is due to take place in 2021/22. This is primarily due to the St Marylebone Bridge Special School and King Solomon school expansion.

10.4. 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. The proposed capital programme includes approximately £27.786m of expenditure on school/education capital projects over the next five years, of this £22.424m is externally funded with the Council funding £5.362m. More information on these funding sources can be found in section 11.

10.5. Providing for the above 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

10.6. The majority of this relates to £62.810m 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 WBst protecting and enhancing Westminster's unique heritage.

Smart City

10.7. The Council will invest significantly in its digital programme to drive, enhance and ensure the delivery across all City for All pillars. Investments are required both in terms of infrastructure and assets to deliver our commitments, as well as building our digital and data management capabilities. Further detail about the Council's ambitions are set out in section 4.6 and 4.7.

Property Capital Programme

10.8. The Council has the benefit of valuable land and buildings which are used to deliver services to Westminster residents such as libraries. Many of our properties are also occupied by voluntary and community organisations who are able to apply for reductions in 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.

10.9. In 2020/21 the council has been managing the property impacts of Coronavirus to enable Covid safer working for staff and access for the public. This has been utmost priority. However, the Directorate has continued to drive through other high priority work to ensure the continuous improvement to the management of our land and buildings. This work has included:

- Imbedding a "corporate landlord" approach in managing the operational estate
- Focusing on performance management in particular of the new FM contract
- Development of the council's property information system to enable high quality information to be extracted to support decision making

10.10. Early in 2021, there will be a review of the use of operational properties. Working with services and using the new corporate landlord model to ensure the property portfolio is shaped to deliver and support services long into the future. The review will look at locations and across service provision to identify property that can be redeveloped to meet wider corporate objectives or used to increase income to support service delivery. Finally, we will review the investment portfolio with a view to creating a more balanced portfolio considering the market reflections of 2020.

Public Realm Schemes

10.11. This covers a wide variety of schemes that aim to improve the public realm within the Borough. Significant schemes include:

- <u>Oxford Street District</u> - Enabling works on several work packages commenced with the contractor in 20/21, with the delivery plan and vision being organised into eight workstreams. These workstreams maximise delivery efficiency and accelerate the delivery of key strategic aims. The first work package will enter construction in April 2021.
- <u>Strand Aldwych</u> - In light of the coronavirus pandemic, a phased approach to delivery has been introduced. A 'meanWBe' space will be introduced on the Strand, giving the opportunity to support the local economy and the West End's creative and cultural industries as quickly as possible. This approach provides additional flexibility to take account of a changing

economic and cultural landscape and respond to needs as they arise through use and management of the meanWBe space and in developing the final scheme. Cabinet Member approval was received in December 2020 to commence construction on the Aldwych Two-Way and meanWBe space elements of the scheme, which is expected to complete by the Summer of 2022.

- 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.

- Berkeley Square South - Project Realm works to extend footways, reduce carriageway widths, improve crossing points around the southern section of the square following the success of the northern part of Berkeley Square North scheme. The scheme also includes upgrading pedestrian facilities and upgrade of the public realm on Bruton Place, Bruton Lane and Bruton Street.

Grosvenor Square Public Realm Scheme - Project Realm works to extend footways, reduce carriageway widths, improve crossing points around Grosvenor Square. The scheme also includes upgrading pedestrian facilities and upgrade of the public realm.

General Fund Housing

10.12. The Housing capital programme in the General Fund contains schemes to provide additional affordable housing both in and out of borough. This is via temporary accommodation purchases and contributions to registered providers. The Affordable Housing Fund (AHF) comprises Section 106 agreements, which are ring-fenced monies paid to the Council in lieu of the direct provision of new social housing and is used for the delivery of in-borough housing projects by Registered Social Landlords.

Development/Regeneration Programme

10.13. The Council's development and regeneration programme through the general fund assists the Council in achieving its City for All objective of building 1,850 affordable homes. Some of the key projects included in the general fund capital programme as part of this are described below.

Huguenot House

10.14. The Council has continued to consult with residents and stakeholders on options for the site ranging from continued maintenance, refurbishment, partial or comprehensive redevelopment. Procurement of a multidisciplinary consultancy team has commenced to progress the project to a preferred option and subsequent Outline Business Case.

Lisson Grove Programme

10.15. The Lisson Grove 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 re-provide the current Lisson Grove offices located in Orchardson Street at a new Civic, Health and Wellbeing hub at Lilestone St, alongside new homes. The current office site will then be available for redevelopment and delivery of a substantial level of additional housing. The Outline Business Case (part 1) for the planned development was agreed in March 2020. Work is now being undertaken to procure the key consultant team for the programme.

Beachcroft

10.16. The completion of the new care facility at Beachcroft will enable the redevelopment of both Carlton Dene and Westmead. In March 2020 an OBC for the Westmead site was agreed that recommended that Westminster Builds undertake the redevelopment of the site. The Westmead development will deliver 65 units in total to include 41 rented units, 14 intermediate and 10 social rent. Westminster Builds will retain the market and intermediate rent units.

Leisure Review Development

10.17. Options are currently being reviewed for the future best use of the council's physical activity and leisure services and associated site and adjoining site at Queen Mother & Seymour centres.

10.18. The general fund development programme is one branch through which the Council is realising its affordable housing ambitions. The other funding options are through the HRA and the Council's wholly owned housing company – Westminster Builds.

Westminster Builds

10.19. 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.

10.20. In this two-company structure (set up for tax efficiency reasons), WHDL will undertake the construction and development of schemes and WB will hold properties for intermediate and market rent as well as entering into delivery partnerships with third party developers.

10.21. Westminster Builds is part of the Council's implementation of its City for All targets, providing homes at a wider range of price levels for people who live and work in Westminster. The Westminster Builds business plan sets out the Company's vision and objectives. The company's vision is as follows:

'By delivering high quality, modern homes for people from all backgrounds, the company aims to: Build better homes, Build a better city, Build a better future'

10.22. The specific business objectives are:

- to provide more intermediate and market housing in the City
- to offer new tenures and, in particular, intermediate tenures to extend the range of provision available for those living and working in Westminster
- to increase housing delivery at a scale, pace and quality set by the Council and with control and ownership of the assets retained by the Council
- to offer a flexible partner for the Council in delivering housing.

10.23. The Westminster Builds Business Plan sets out the programme of planned activity by the company over a 5 year period from 2021-2026 to include acquisitions, forward funding, collaborative and development opportunities.

10.24. The plan is estimated to deliver 1,947 new homes across all tenures, of which 1,658 will be developed by Westminster Builds either directly or in partnerships and Joint Ventures and 291 will be acquired from third parties. It is expected that in total 921 homes will be retained in management let at either market or intermediate rent.

<u>Westminster Builds Development Programme</u>

10.25. The development programme included in the business plan consists of the following schemes:

Harrow Road

10.26. Harrow Road is a self delivered development providing 112 new homes, a nursery, work space and a community hall. The approved scheme will deliver 49% affordable homes subsidised by open market sales. Delivered by WB through its subsidiary WHDL, the development is expected to start on site Q4 2020/21 with completion programmed for Q3 2023/24.

Westmead

10.27. The Westmead development will be directly delivered by Westminster Builds and will produce a total of 65 new homes on site including a mix of both market and intermediate rent units.

Luton Street

10.28. Following the approval by Full Cabinet and subsequent approval of the Full Business Case by CRG and the Westminster Builds board, the company entered into an LLP with BY Development for the delivery of Luton Street. Unlocking the development of the site, which includes 109 private and 62 affordable homes retained by the Council, the arrangement provides a fixed return to the general fund and Westminster Builds on financing the development as well as a share of the profits generated by the private sale in favour of Westminster Builds. The development is expected to complete in Q2 2022/23.

Ebury Bridge Phase 2

10.29. The Westminster Builds business plan includes a budget for the direct delivery of Phase 2 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 in Q1 2021/22.

Church Street Site A

10.30. The Westminster Builds business Plan also includes a budget for the delivery of Site A of the wider Church Street regeneration programme through partnership with a third party developer.

Pipeline

10.31. In addition, the company is developing a pipeline of activity outside of the Council's existing pipeline to develop both within Westminster but also outside the borough. Outside of Westminster the company is keen to look at opportunities to work in partnership with developers and in public / private partnership with other local authorities and quasi public sector partners to share risk and reward.

Acquisitions

10.32. 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. In order to retain control of the affordable units on these sites the Council has decided that these units will be held by Westminster Builds rather than an external housing association. Each scheme will be approved through the Council's existing governance processes, however the Westminster Builds business plan currently includes planned acquisitions on the following sites; Parsons North, Ashbridge St, Farm St, Luxborough St, Pimlico and within the first phase of the Ebury Bridge regeneration and Lisson Grove programme in the Church St regeneration area.

10.33. The value of the properties from the Council is determined through a capitalized rent calculation based on the achievable intermediate rent, ensuring a market facing price acceptable to both the Council and WB.

Financial Performance

Luton Street

10.34. Following negotiations with BY Development (BYD), Westminster Builds has entered into an LLP for the delivery of Luton Street. Acting as a residential investor, WB has invested £43m into the partnership, half of the vehicle's total financing requirement. WB's investment consists of a £15m member's loan, matched by an equal investment from BYD, and half of a £56m senior loan facility provided by WB and WCC, pari passu, to the LLP.

10.35. The LLP will deliver 109 private homes, enabling the construction of 62 affordable units at Luton and Fisherton Street. The senior loans, plus interest, and the members' loans will be repaid from private sales and the post financing profit distributed 60% to WB and 40% to BYD.

10.36. Part of the Members' agreement, the takeout, requires WB to purchase any private homes unsold 13 months after practical completion. If triggered, the takeout agreement would signify a significant drop in the housing market, as the fixed takeout price is a 25% discount to the current Red Book value of the properties. Any units acquired under the takeout could be held as private rental properties, until the market recovers.

10.37. The LLP is governed through the LLP board with decisions taken by 2 representatives from each partner. Westminster Build's representatives will report back to the Westminster Builds board, escalating decisions as required through its governance framework.

10.38. To enable Westminster Builds to invest into the LLP, it has agreed a loan facility with the Council and, as at the end of December 2020, a total of £17.6m of Council funding has been drawn down.

Jubilee Phase 2

10.39. Following completion of the legal documents on Westminster Build's acquisition of 19 units on Jubilee phase 2 for £10.2m, the company entered into a further loan agreement with the Council in Q2 2020/21. The acquisition will be part-funded by £3.9m of affordable housing fund and a grant of £0.7m from the GLA. The acquisitions will be made by staged payments to the developer, with three payments totaling £3.190m being made as at Q3 2020/21. The units are expected to be completed in Q3 of 2021/22.

HRA Business Plan

10.40. The Council is engaged in an ambitious development programme within the HRA that, in addition to building new homes, will redevelop and regenerate existing properties. The development programme will create new homes that will enrich and promote healthy neighbourhoods and communities via mixed use developments, proactive place shaping and providing greater support to local services and amenities.

10.41. The HRA will play a significant role in the delivery of the Housing Programme and will work with the Council's General Fund and the wholly owned subsidiaries to ensure the aspiration of the housing plan is delivered. The planned capital spend for 2021/22 is £210m with a total of £2.092bn planned to be spent over the 30 year business plan. This is an increase of £338m since the February 2020 HRA budget report. This programme will be funded using various funding sources, including the use of the Affordable Housing Fund, Capital Receipts and HRA Borrowing. In October 2018 the HRA borrowing cap was removed, allowing greater investment into building affordable housing. However, borrowing within the HRA needs to be tightly managed and a prudent approach has to be taken, with the limit being revenue funding for borrowing and the HRA's long term reserve target of 10-15% of rental income.

10.42. This plan has been developed at a time of increasing construction costs and a challenging residential market and WBe the council cannot resolve these problems, this plan is designed to minimise their impact on both our affordable housing target of 1,850 homes by 2022/23 and the impact on our own development and regeneration programme.

10.43. To ensure this plan is robust, a review of all our development schemes will be carried out to ensure the Council is generating efficiencies and delivering on value for money to the residents.

10.44. Two key regeneration schemes being developed within the HRA are Church Street and Ebury Bridge Regeneration.

Church Street

10.45. 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. Site A will be the first of the three sites to be redeveloped and a decision has been taken for this to be undertaken by Westminster Builds. A decision is yet to be taken on the delivery routes for sites B & C.

Ebury Bridge

10.46. The Ebury Bridge Estate is one of the key priority estates 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. A decision is due to be taken during early 2021/22 as to the most appropriate delivery route for Phase 2.

11. Capital Funding

11.1. 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.

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

- Grants
- Contributions
- S106/CIL
- Capital Receipts
- Direct Revenue Funding
- Borrowing

Grants

11.3. 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 include TfL grant funding for infrastructure improvements across the City, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.

Capital Contributions

11.4. 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 a number of 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

11.5. 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 how to allocate these funds via a Cabinet CIL Committee which meets quarterly. The majority of CIL funding is used to fund infrastructure projects but an element is also used towards education, community services and open spaces.

11.6. 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.

11.7. S278 receipts are linked to highways work and are contributions from a developer. This is related to highways works the Council carries out on behalf of the developer in line with planning approvals.

11.8. Affordable Housing Fund 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.

Capital Receipts

11.9. 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.

11.10. 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.

11.11. Overarchingly, capital receipts have the potential of being the most volatile of capital funding sources and are faraway the most uncertain of all funding sources. In order 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

11.12. 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

11.13. 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 on a medium to long term basis 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.

11.14. 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).

11.15. 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.

11.16. 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.

11.17. 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 2020 was £830.186m.

11.18. During 2019/20, the Council has arranged forward borrowing loans totalling £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
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%**		

11.19. All capital financing costs – i.e. interest costs and minimum revenue provision have to be treated as a revenue cost and built into the Council's MTFP. 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.

12. Capital Programme Funding: 2020/21 to 2034/35

12.1. 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 to 2034/35	Total
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	£000	£000
External Funding	54,284	81,757	52,230	30,909	20,299	12,079	29,000	**280,558**
Capital Receipts	25,120	1,300	43,455	63,510	-	43,420	775,147	**951,952**
Borrowing	**88,473**	**199,707**	**399,237**	**186,100**	**301,655**	**273,388**	**180,605**	**1,629,165**
Total	**167,877**	**282,764**	**494,922**	**280,519**	**321,954**	**328,887**	**984,752**	**2,861,675**

12.2. In total £1.233bn (43%) of the programme is to be funded via external or internal sources of funding, with the remainder via borrowing (both internal and external).

12.3. The tables below outline the main streams of external funding

Table 4: Analysis of Proposed External Funding

Financed by	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 to 2034/35 £000	Total £000
Section 278 Contributions	14,655	29,488	27,171	12,910	8,000	5,000	-	**97,224**
Affordable Housing Fund Contributions	7,741	19,189	14,920	10,140	7,000	-	18,000	**76,990**
Community Infrastructure Levy (CIL)	5,328	4,456	1,900	1,000	1,000	1,000	11,000	**25,684**
Section 106 Contributions	9,099	6,696	2,000	500	-	-	-	**18,295**
DfE Basic Needs Grant	2,383	7,446	1,300	1,000	-	-	-	**12,129**
DCLG Disabled Facilities Grant	1,524	1,524	1,524	1,524	1,524	1,524	-	**9,144**
Education & Schools Funding Agency (ESFA)	2,575	6,541	-	-	-	-	-	**9,116**
External Contributions	6,273	275	275	275	275	275	-	**7,648**
Transport for London (TfL) Grant	387	1,000	2,000	2,000	1,000	1,000	-	**7,387**
Sport England Grant	-	310	290	1,160	1,100	2,880	-	**5,740**
Other Grants and Contribution	1,308	1,827	-	-	-	-	-	**3,135**
DfE Schools Condition Allocation	512	498	400	400	400	400	-	**2,610**
GLA Good Growth Fund	635	1,241	-	-	-	-	-	**1,876**
DoH Community Capacity Grant	635	816	-	-	-	-	-	**1,451**
London Business Rates Pool Strategic Investment Pot	400	450	450	-	-	-	-	**1,300**
European Regional Development Fund	829	-	-	-	-	-	-	**829**
Total	**54,284**	**81,757**	**52,230**	**30,909**	**20,299**	**12,079**	**29,000**	**280,558**
Capital Receipts	25,120	1,300	43,455	63,510	-	43,420	775,147	**951,952**
Borrowing	**88,473**	**199,707**	**399,237**	**186,100**	**301,655**	**273,388**	**180,605**	**1,629,165**
Total	**167,877**	**282,764**	**494,922**	**280,519**	**321,954**	**328,887**	**984,752**	**2,861,675**

12.4. The main source of external funding is via contributions towards Highways projects, these include Section 278 and Section 106 Contributions and Community Infrastructure Levy. Another significant source of funding is the Affordable Housing Fund (AHF). Within the General Fund programme this is primarily related to AHF contributions to registered providers.

13. Revenue Implications of the Programme

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

	Forecast	Five Year Plan					Future Years to	
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2034/35 £000	Total £000
Expenditure	167,877	282,764	494,922	280,519	321,954	328,887	984,752	**2,861,675**
External Funding	(54,284)	(81,757)	(52,230)	(30,909)	(20,299)	(12,079)	(29,000)	**(280,558)**
Capital Receipts	(25,120)	(1,300)	(43,455)	(63,510)	-	(43,420)	(775,147)	**(951,952)**
Borrowing Requirement	**88,473**	**199,707**	**399,237**	**186,100**	**301,655**	**273,388**	**180,605**	**1,629,165**
Revenue Impacts:								
Capital Financing Cost	15,530	11,949	20,144	45,076	54,153	62,836	560,683	**770,372**
Financed By:								
Commercial Income	(3,800)	(3,800)	(10,091)	(6,140)	(7,976)	(16,496)	(176,645)	**(224,949)**
Net Revenue Position	11,730	8,149	10,053	38,936	46,177	46,340	384,038	**545,423**
Sinking Fund Adjusted Balance	3,075	9,256	10,052	(15,831)	(20,067)	(17,150)	30,664	**(0)**
MTP Budget Assumptions	**14,805**	**17,405**	**20,105**	**23,105**	**26,110**	**29,191**	**414,702**	**545,423**

13.1. The council aims to maximise its balance sheet assets and as such is able to 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 £545.423m. This includes £770.372m of financing costs (including MRP), offset by £224.949m of commercial income.

13.2. 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). In order 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. Based on current estimates and assumptions at the end of 2034/35 the capital financing budget will be approximately £61m, this represents an increase of about £46m compared to the current base budgets for capital financing. This is an annual budget that would have to be put aside as part of the Council's revenue budget.

13.3. 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, as a whole, 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)

13.4. MRP is applied where the council has to 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.

13.5. The Council has an on-going capital programme and will continue to invest in capital projects beyond 2034/35 and will therefore need to ensure that funds are set aside for the future cost of borrowing.

14. Risk Management

14.1. 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

14.2. 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

14.3. The Council is planning to externally borrow £638.273m as set out in this Capital Strategy over the next five years. 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.

14.4. In the event that interest rates rose beyond this forecast plus contingency, the revenue interest cost to the Council would increase for all borrowing not yet entered into (we would typically borrow on fixed rate terms). The forward borrowing arrangement the Council has entered into has mitigated a large extent of this risk, however, a rise of 1% above current interest rate assumptions would cost an extra £6.383m per annum on the full £638.273m borrowed by the end of 2025/26. The extra cost of a 1% rise in interest rates would be £72.141m by 2034/35 over the 15 years, if the full projected external borrowing of £703.392m were to be realised.

Inflation Risk

14.5. Construction inflation over and above that budgeted by the council's professionals and advisors, and built into project budgets, could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by approximately £28.6m. 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

14.6. Change in Law Risk – 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

14.7. 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.

14.8. 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

14.9. 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.

Project Risks

14.10. 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 in order 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.

15. Financial Implications

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

16. Legal Implications

16.1. 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.

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:

19.1. Capital programme working papers

19.2. Capital Programme Submission Requests for individual projects

20. Appendices

Appendix A (i) – Capital Programme – ELT

Appendix A (ii) – Capital Programme – Cabinet Portfolio