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Committee Agenda

City of Westminster

Title:	**Cabinet**
Meeting Date:	**Monday 30th October, 2023**
Time:	**6.30 pm**
Venue:	**Rooms 18.01 & 18.02 - 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Adam Hug (Chair) Tim Roca Aicha Less Nafsika Butler-Thalassis Geoff Barraclough David Boothroyd Paul Dimoldenberg Liza Begum Matt Noble Cara Sanquest

This will be an in-person meeting and members of the public and press are welcome to follow the meeting and listen to discussion to Part 1 of the Agenda. This meeting will be live streamed and recorded. To access the recording after the meeting please revisit the link.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Amy Just, Cabinet Manager (Interim).

Email: ajust@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any pecuniary interests or any other significant interest in matters on this agenda.	
2.	**WELCOME**	
3.	**MINUTES** To approve the minutes of the meeting held on 11 September 2023.	**(Pages 3 - 6)**
4.	**REVIEW OF HOUSING DELIVERY GOVERNANCE AND ARRANGEMENTS** To consider the findings of a review of the Council's affordable housing delivery programme and the governance of subsidiary companies.	**(Pages 7 - 200)**
5.	**CAPITAL INVESTMENT IN COMMUNITY ASSETS** To approve a capital funding policy and supplementary guidance to the Property Investment Strategy which aim to support VCSOs to deliver services.	**(Pages 201 - 234)**
6.	**VCS CORE FUNDING** To approve for a programme of core funding grants for small to medium sized voluntary and community sector organisations and approve a wider approach to supporting key strategic VCS partners in the borough.	**(Pages 235 - 244)**

Stuart Love
Chief Executive
20 October 2023

CITY OF WESTMINSTER

MINUTES

Cabinet

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Cabinet** held on **Monday 11th September, 2023**, Rooms 18.06 & 18.07 - 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Adam Hug (Chair), Aicha Less, Nafsika Butler-Thalassis, Geoff Barraclough, David Boothroyd, Paul Dimoldenberg, Liza Begum, Matt Noble and Cara Sanquest

Also Present: Bernie Flaherty, Parveen Akhtar, Frances Martin, Pedro Wrobel, Sarah Newman, Debbie Jackson, Gerald Almeroth, Sarah Warman, Manisha Patel, Richard Cressey

Apologies for Absence: Councillor Tim Roca

1 WELCOME

Cllr Adam Hug welcomed people to the meeting and noted the Cllr Tim Roca had sent apologies for the meeting.

2 DECLARATIONS OF INTEREST

There were no declarations of interest received.

3 MINUTES OF THE LAST MEETING

Councillor Adam Hug, with the consent of the Members present, agreed that the minutes of the meeting held on 10th July were a true and correct record of the proceedings

4 OXFORD STREET PROGRAMME

Cllr Hug introduced the item, noting that appendix 2 is exempt from publication and any Cabinet Members wishing to raise comments relating to that appendix should request that the meeting be moved into private session. No Cabinet Members notified that they wished to discuss the contents of this appendix.

Cllr Hug introduced Manisha Patel, Programme Director, Bernie Flaherty, Deputy Chief Executive, to the meeting before handing over the Cllr Barraclough to speak to the report.

Cllr Barraclough noted the changes that have been made to the Oxford Street Programme over the past year, including improved working relationships with key stakeholders and delivery partners.

Cllr Barraclough noted that a consultation had recently closed and analysis was being undertaken before the results would be reported back.

Cllr Barraclough highlighted that funding had previously been an issue but than a Memorandum of Understanding (MoU) had been signed with the New West End Company for the contribution of private sector funding towards the programme.

Cllr Barraclough, Bernie Flaherty and Manisha Patel emphasised the recommendations before Cabinet; to approve the business case and to approve the draw down of money from the approved capital budget for stage 2 design work.

Manisha Patel detailed how the business case had been developed, with input from a range of internal and external experts, noting the robust nature of the process undertaken and the high return on investment which is considered likely.

Cllr Boothroyd added his thanks for the work of officers and Members to develop these proposals and noted that he had reviewed documents as they developed but also in these papers and confirmed that he supported the proposals as robust and thoroughly tested.

Cllr Hug concluded by adding his support and thanks for the work undertaken before inviting Cabinet to vote on the recommendations.

RESOLVED: Cabinet approved the following recommendations:

1. Approve the full business case for the Oxford Street and Oxford Circus projects;
2. Approve the draw-down of £7.767m from the OSP budget for Stage 2 of the Oxford Street project, Stage 1 of the Oxford Circus project and all associated costs for both.

5 NEIGHBOURHOOD CIL APPLICATIONS (GREENHOUSE SPORTS CENTRE)

Cllr Hug introduced the item, noting that this decision was being brought forward in line with the approach to Neighbourhood CIL approved by Cabinet last year which requires that any single decision on an application over £250k, must be approved by Cabinet.

Cllr Hug further noted that the application relates to critical repair works which have kept the building at 35 Cosway Street closed for nearly two years and that the amount requested is 10% of the overall cost, most of which the charity will fund directly itself.

Cllr Hug concluded his opening remarks by noting that the proposed investment is consistent with the principles emerging from ongoing work to develop a third-party community asset investment policy, which itself will be considered in the coming months.

Pedro Wrobel noted detail on the extent of building repair work required as well as small amounts of additional external funding the charity has sourced, in addition to the majority of the funds coming from the charity's own sustainability reserve fund.

Pedro Wrobel further noted that it is proposed that monies would come from the Church Street NCIL Budget and the Outside Neighbourhood Areas part of the NCIL structure in a 50:50 split, which was justified based on the activity and reach of the charity.

Pedro concluded his remarks by noting the applicant have worked closely with the Council on this and thanked them for doing so, including on maximising their green credentials as part of the project.

Cllr Butler-Thalassis noted that it is important to get this building back into community use for the benefit of residents and families.

Cllr Noble lent his support for the proposal as a Ward Cllr for Church Street.

RESOLVED: Cabinet approved the following recommendations:

1. Approves in principle £0.45m of NCIL funding to Greenhouse Sports.
2. Delegates authority to the Executive Director of Innovation & Change to produce a final funding agreement in conjunction with the Director of Law and Governance that ensures value for money and safeguards the investment for community benefit.

6 CITIZENS CLIMATE ASSEMBLY - RECOMMENDATIONS

Cllr Hug introduced the report and invited Cllr Noble to speak to the report.

Cllr Noble thanks the residents who sat on the Citizen's Climate Assembly and the officers who supported its work.

Cllr Noble set out how the Assembly went about its work and the journey that the resident group had been on as part of the exercise which has produced a set of actions for the Council as well as actions where the Council may need to engage with partners across the city and in Government to take forward.

Cllr Noble concluded by noting that this is an ongoing piece of work and the Assembly will continue to be engaged as the Council proceeds with its work in this area.

Cllr Hug added his thanks to the residents who participated.

Frances Martin noted the enthusiasm of the participants and echoed Cllr Noble's comment that some of the recommendations are for the Council to respond to whereas others require engagement with partners.

RESOLVED: Cabinet approved the following recommendations:

1. Notes the final recommendations from the Westminster Citizens' Climate Assembly, as set out under Appendix 1 of this report.
2. Approves the initiation of a programme of cross-council work, led by individual Cabinet Members, to develop responses to each recommendation of the Climate Assembly, identifying what action is possible or where the Council may need to influence stakeholders to take them forward.
3. Approves that all recommendations brought forward for implementation will be subject to further financial and legal consideration and, where necessary, individual Cabinet or Cabinet Member decisions will need be undertaken.

7 ANY OTHER BUSINESS

There was no other business.

The Meeting ended at 19.02

CHAIRMAN: ____________________ **DATE** __________________

City of Westminster

Cabinet Report

Meeting or Decision Maker:	Cabinet
Date:	30th October
Title:	Review of housing delivery governance and arrangements
Wards Affected:	All Wards
Policy Context:	Fairer Housing
Financial Summary:	There are no direct financial implications arising from the recommendations of this report.
Report of:	Debbie Jackson, Executive Director of Regeneration, Economy and Planning, and Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

1.1. In October 2022, Cabinet approved the Truly Affordable Housing Strategy Cabinet Paper which created an additional 143 social rented homes across the existing programme, with intention to further explore opportunities at the Council's major regeneration projects at Church Street and Ebury where a further 163 social rent homes have been created.

1.2. In tandem with producing the strategy, the Council appointed 31Ten to undertake a review of its affordable housing delivery programme and the governance of its subsidiaries. The review provided several proposals to enhance the delivery of affordable housing, which the Council has reviewed and responded to.

1.3. This review was progressed in tandem with the Future of Westminster Commission and a number of the commission's recommendations for the delivery of affordable housing relate to 31Ten's findings presented in this report.

1.4. The review considers the governance of the Council's subsidiaries, and the paper puts forward the Council's proposals on how these proposals will be adapted and taken forward in a more cross cutting housing strategy.

2. Recommendations

2.1. That Cabinet:

2.1.1 Notes the findings of the 31Ten report (appendix 2) as summarised in section 4 of this report and the Council's proposals for developing their recommendations (as set out in appendix 1).

2.1.2 Approve the creation of a Member-led Housing Supply Strategic Board (HSSB) as detailed in section 6 of this report.

2.1.3 Notes the proposals for changes to Westminster Builds Board in Section 6 of this report which will be tabled at a future shareholder committee for approval.

3 Reasons for Decision

3.1 The Council appointed 31Ten to review its affordable housing delivery programme and this report responds to that review and looks at how the Council will integrate the recommendations into business as usual.

3.2 The review was undertaken in tandem with the Truly Affordable Housing Strategy Cabinet Paper and builds on the work presented in October 2022.

3.3 The Governance proposals set out in paragraph 6 which will enable the Council to improve the management of its subsidiaries and its wider housing programme.

4 Background, including Policy Context

Truly Affordable Housing Strategy

4.1 In October 2022, Cabinet approved the Truly Affordable Housing Strategy Cabinet report which created an additional 143 social rented homes across the existing programme and set the intention to explore further opportunities including one of the council's major regenerations schemes at Ebury Estate.

4.2 Following that report the Council has achieved the following:

- Planning approval to convert 102 private sale homes on Council developments at 300 Harrow and Westmead to 18 new Intermediate and 84 new social rent.

- Achieved planning approval to convert 59 intermediate homes across 6 Council schemes to social rent.
- Planning amendment to increase the provision of affordable on Ebury to 56% and remove the intermediate homes in favour of social rent. This has created an additional 131 social rent homes on the development.
- Planning approved for Church Street Site A with an uplift in social rent to 70% of the affordable homes on the project, creating an additional 27 social rent homes.
- Other changes have resulted in a further 36 social rent homes.

4.3 In total, a further 337 social rent homes have been created across the existing programme following the October 2022 Cabinet report.

Housing Delivery Review

4.4 31Ten were appointed by the Council to undertake a review of its affordable housing delivery programme. The review followed the launch of the Council's Fairer Westminster strategy which included as one of the five pillars Fairer Housing.

4.5 The 31Ten review considered the Council's programme of delivering affordable housing, reflecting recent commitments in the Truly Affordable Housing Cabinet Paper. and considered:

- Opportunities to maximise delivery of Truly Affordable Housing,
- Review the financial resources available,
- Review the existing delivery vehicles available to the Council,
- Consider alternative delivery options for housing delivery.

4.6 Through engagement with Council officers, the Housing Commission and Members, 31Ten have produced an extensive report into the Council's affordable housing delivery, appended to this report. Throughout this engagement it was clear that there is a strong alignment between 31Ten's recommendations and work already undertaken or underway as a result of the Truly Affordable Housing Cabinet paper. 31Ten noted that the Council's affordable housing programme was in a good position and while actions could be taken to maximise existing potential there was no need for a fundamental shift in approach.

4.7 This report summarises 31Ten's key recommendations and comments on the Council's actions undertaken or planned to be undertaken to enact those recommendations.

4.8 31Ten's proposals can be summarised as:

- Using intermediate housing to support households that work and do not qualify for social housing.
- Assess the value for money of housing delivered and how that is measured.

- Increase the Council's viability by adopting formula rent on new build social homes (for non-returning tenants).
- Work with registered providers, enabling them to buy Council built affordable homes built by the Council, freeing up Council resources.
- Seek out additional funding sources by leveraging the Council's financial covenant to secure low-cost finance.
- Acquire more affordable homes by acquiring street properties both in and out of borough.
- Create more supply by pushing what the wider development market delivers.

4.9 31Ten explored these options and presented the effectiveness of each by expressing the number of additional affordable homes that could be created per 100 homes. This analysis used the Council's build costs, income levels and assumptions on values, however the loss or gain in GLA grant was considered only in the narrative, as movements in homes does not have a strictly linear relationship with changes in grant. These proposals are analysed in full in appendix 1 of this report.

4.10 The collaborative nature of the 31Ten report means several workstreams have already commenced in response to their recommendations where these strongly aligned with the Council's objectives.

4.11 The report considered the range of housing subsidiarises, i.e., Westminster Builds (WB) and Westminster Community Homes (WCH) and endorsed continuing to deploy them in pursuit of the Council's housing strategy. 31Ten provided recommendations on how these entities should be managed and governed, section 5 of this report, and the Council have presented how these will be incorporated into its governance in section 6.

4.12 Other recommendations have been taken onboard and will be applied to future projects where appropriate. A few however do not fit with the Council's overall strategy or are not considered appropriate in the current environment as detailed below.

4.13 31Ten recommended exploring providing intermediate rent above London Living Rent (LLR) levels which, by increasing the net rents achieved by the Council, could increase the number of affordable homes. However, the Council have committed to LLR and receives GLA grant which requires rents at this level.

4.14 It was recommended that the Council explore selling new affordable homes to Registered Providers (RPs) reducing Council borrowing which could then be redirected to deliver more affordable homes. The Council, however, have concerns over the quality of RP's housing management and due to the small, short term financial gain do not intend to pursue this option.

4.15 31Ten considered the difference between the Council's cost to build new affordable homes and the cost of acquiring street properties out of borough, concluding that the Council could deliver vastly more affordable homes by buying street properties and converting them to social or intermediate rent. While the Council have explored something similar in the past with Westminster Builds, the HRA is at peak capacity and cannot allocate additional funding to street purchases. There are also other benefits besides housing numbers to delivering in-borough, especially the quality of living benefits from estate regeneration which must be considered.

4.16 However, the Council will continue to explore S106 opportunities from third party schemes to acquire both social and intermediate rent which tend to be less expensive and can be self-funding. The General Fund has also allocated a budget of £85m to purchase street properties to use as temporary accommodation homes in and out of borough, although targeted towards approved geographies.

5 31Ten's Review of Governance

5.1 The review also considered the governance and operation of the Council's housing subsidiaries, namely: Westminster Community Homes (WCH), a charitable Registered Provider, and Westminster Builds (WB), the trading name of two wholly owned Council companies limited by shares.

5.2 The report recognised that the Council has an appropriate set of tools to deliver its housing aspiration, however there is a lack of clarity over which vehicle should be used for which purpose.

5.3 Westminster Builds offers an alternative delivery vehicle to Council delivery which can be utilised at the Council's discretion. It can hold and operate intermediate rent housing with greater freedom to deliver the Council's objectives than can be done through the Council, reflecting the quasi-market nature of intermediate housing. If operated in the Council, these homes could only be offered on secure or flexible tenancies and to key workers.

5.4 The 31Ten report appended to this report sets out their findings in full. The table below summarises it alongside additional reflections from Council officers. Section 6 of this report develops this into the proposed governance structure.

Theme	Analysis	Detail
Current Governance Model	Shareholder Committee is the decision-making body	Member led board taking decisions reserved for shareholder. Approves business plans and monitors performance
	Separate boards and operational teams	WCH employs own staff and CEX, has an independent board member and three WCC officers as directors. Currently seeking new external board members following a skills audit.

		WB is fully staffed by WCC, with costs recharged. Board currently has three WCC directors
Need for Change	Organically Grown Independent Vehicles	WCH and WB have been created and grown separately, while some work was undertaken to look at how they could work together this not been acted on
	Siloed day to day operation	Limited collaboration leads to an either/or approach to how the companies are deployed by WCC
	Lack of Understanding of when to deploy	Disjointed approach manufactures competition rather than acting in concert. Strategic lack of understanding of capability of each structure
	Governance lacks resilience	Boards and governance processes have grown and changed overtime organically and not through an intentional process with clear understanding of skill sets required.
	Need for RP	GLA requires an RP which could be fulfilled by WCH or by a new for-profit RP in WB.
Proposed Governance Model	Create a Strategic Oversight Board	Member Led board providing oversight for both WB and WCH Separate from the Shareholder Committee, whose role remains to discharge the Council's powers as shareholder, the Oversight Board would oversee the Council's overall strategy for the delivery of additional housing supply by the Council and through its subsidiaries, ensuring the latter remains aligned to Council's objectives.
	Setup a Housing Working Group	This would work in a similar manner to a joint board for WB and WCH, bringing together the directors of both organisations and would report into the Member led Strategic Oversight Board. The group would ensure a joined-up approach with clarity across all areas of the organisations, ensuring plans developed in a consistent and transparent manner. This group could help facilitate a sharing of resources and ultimately a joint board overtime if desired.
Introduce External Expertise	Align resources with aspirations	Subsidiaries provide opportunities beyond those normally available to the Council to delivery housing. Therefore, the Council would need to assess its skills and grow and widen the ability of internal resources complemented by procuring external expertise to unlock these opportunities.
	Procure a wide range of non-executive	In addition to housing experts the Council could invite local business leaders and resident

	directors (NEDs) from housing and beyond	representation to widen the discussion and effectiveness of the Council's developments. WCH have undertaken a review of its Board through a skills audit and are currently advertising for external expertise to compliment the current board. WB however intends to remain fully resourced by Council employees. This approach ensures alignment with the Council's objectives as well as the flexibility engendered by dual hatted officers. The membership of WB's board is being assessed to avoid potential perceived conflicts. The Terms of Reference for WB will allow it to invite external expertise as required, and this is likely to be a requirement in its future registered provider.
Future Direction of Governance	Establish a common board and operational model.	Within 9 months of the creation of the Oversight Board and Working Group it is proposed that a single board is created with a single managing director complimented by NEDs and executive directors. With a common board, a single business plan and shared resources there would be clarity on how each part of the Council's housing subsidiaries achieves the Council's objectives.

6 The Council's Proposed Governance

6.1 Council officers have considered 31Ten's report and considered the wider Council ecosystem and how these subsidiaries work within them. The resulting proposals are outlined below.

Proposal	Detail
The Shareholder Committee will continue to discharge the Council's role as shareholder	The Shareholder Committee is an established, public committee and should continue to undertake the Council's role and responsibilities as shareholder of its subsidiaries including undertaking all matters reserved for the Council as shareholder which include signing off business plans. It needs to remain strategic and focused to continue its effectiveness.
Creation of a Housing Supply Strategic Board (HSSB) with responsibility for Housing Supply across the Council and its Subsidiaries	By aligning the Council's development, regeneration, and housing supply activities through the creation of a single strategic body, the Council can increase collaboration across these departments and ensure decisions are taken with regards to the whole process of creating and managing housing, to the resident's benefit. This goes one step further than aligning the Council's subsidiaries and includes officers from each department which contributes to Westminster's provision of affordable housing.

	This will rationalise Cabinet Member Briefings and provide a forum to discuss the Council's Housing Supply Strategy, increasing collaboration and fostering a joined-up approach. The HSSB would consider proposals regarding utilising Westminster Builds and Westminster Community Homes to develop housing supply and achieving the Council's objectives. The Board would not be a formally constituted committee of the Council and would therefore not be subject to access to information rules. Any decisions arising from the Board would be handled through established formal governance arrangements such as Cabinet Member decision reports. The purpose of the Board is to act in an challenge and advisory capacity in a manner akin to the Capital Review Group.
Creation of a Housing Supply Strategy	It is clear from this review that an overarching strategy for new housing supply is needed, especially considering the ongoing work in WCC housing. This strategy would bring together all the individual strands of housing that contribute to the supply of new housing, including operation and development. Ensure consistency from a project's conception to development, handover, and operation, linking all stages to housing and resident's needs. This will take 31Ten's proposals one step further and ensure full alignment across development, regeneration and housing and beyond, e.g., Adult Social Care. With a clear strategy to deliver against, individual business plans and project objectives would have an overarching aim to refer to. Directors would also have more freedom to achieve strategic, outcome-based objectives. The detail and scope of the strategy will be agreed by the HSSB and approved through the Council's governance.
Reassessment of Westminster Builds Board and its interaction with the Council	Westminster Communities Homes have already begun seeking out additional Board Members as a result of a skills audit that looked at the gaps in the current structure. Westminster Builds however has maintained a Board with a director from each Housing, Development and Finance. The changing scope of Westminster Builds over previous years and the pending decision of whether or not Ebury and Church Street will be delivered through WB, or the Council will impact the make-up of the Board and skills sets required. As WB now intends to incorporate an RP additional Board Members will be required therefore it would be prudent to have a full review of the company's board membership, with reference to the next proposal below.
Separation of roles and conflicts of interest	All of WB's directors are twin hatted with their substantive director roles in the Council. This has not created any conflicts of interest, but it can be unclear and can lead to situation where individuals are acting for both sides of the arrangement.

	It would be beneficial to separate those who make decisions on delivery routes from the boards of subsidiaries. This would enable the giving of high-quality advice to Members acting as shareholder on the performance and financial health of the company so Members can robustly challenge assumptions and analyse risk.

7 Financial Implications

7.1 As the recommendations of this report are primarily concerned with implementing new governance arrangements, there are no direct financial implications.

7.2 The council has already implemented some report recommendations, with £85m of additional funding being allocated from the General Fund for both in and out of borough TA purchases. The valuation method for affordable homes outlined in option #2 of appendix 1 will also be considered for future schemes.

8 Legal Implications

8.1 The Council has a general power of competence under section 1 of the Localism Act 2011; this is the power to do anything an individual can do provided it is not prohibited by other legislation.

8.2 The Council has the power under section 111 of the Local Government Act 1972 to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its functions.

9 Carbon Impact

9.1 The recommendations in this report are not expected to have a carbon impact. Individual projects which contribute towards the Council's, WB or WCH's development programme will consider their carbon impact separately.

10 Equalities Impact

10.1 The recommendations in this report are not expected to have an equalities impact.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Tim Hampton thampton@westminster.gov.uk

APPENDICES

Appendix 1 – Analysis of 31Ten recommendations and Council Responses

Appendix 2 – 31Ten’s Report

BACKGROUND PAPERS

Truly Affordable Housing Strategy Cabinet Paper October 2022

Appendix 1 – 31Ten Report Options and Council Response

No.	Option	Homes Gained	Detail	Constraints	WCC Response	Action
1	**Intermediate Homes** Increasing London Living Rent (LLR) to Discount Market Rent (DMR)	+8	The Council could increase intermediate rents to above LLR. DMR at 55% of market rent would still cater for 25% of the intermediate waiting list while producing an additional £45k receipt per home to the Council.	The Council have committed to LLR as part of Fairer Housing and has secured grant from the GLA averaging £60k per home contingent on rents being no more than LLR across most of the programme. The loss of grant would not be mitigated by the increased receipt.	At this stage, the benefit of the grant outweighs the increased receipt. Alongside the Council's commitment to LLR this option will not be actively pursued.	Not taken forward.
2	**Value for Money** Adjusting the HRA's valuation methodology to increase value.	+7 to +9	When appraising schemes, the Council converts ongoing cashflows of rental income and expenditure into a single £ figure by applying a development yield. The Council could instead adopt a breakeven methodology which would increase that £ figure	While the Council generally uses development yields across the programme, both Church Street and Ebury as well as the HRA Business Plan use the breakeven methodology. Development yields are generally simpler and provide a buffer against adverse movements in assumptions.	The Council will reconsider how it values affordable homes. Historically the breakeven methodology has been used as a sensitivity in estate regenerations which carry significant deficits to evidence how the Council will afford these deficits.	To be considered through the HRA Business Plan setting
3	**Value for Money** Build at Private Sector Rates	+30	Based on current live schemes the Council builds new homes for an average cost of £750k. Benchmark data from Arcadis places private sector developers' build costs closer to £575k per home. Achieving this rate would significantly increase the number of homes built across the borough.	Like for like comparison is challenging with the Council's relatively few data points including schemes significantly above and below that figure. Many factors contribute to the Council's higher costs. The Council seeks to achieve a high specification beyond what the market would normally provide, including high sustainability, increasing build costs but generating life cycle savings. The Council approaches each site as a unique opportunity rather than having a set design and layout, creating higher quality communities but reducing	The Council will continue to monitor build costs and ensure best value; however, it retains its commitment to building high quality housing with strong sustainability credentials to support its zero carbon ambitions. The Council often manages a significant proportion of the homes its builds and the additional lifecycle costs can outweigh upfront savings.	Accepted but balanced against competing objectives

Appendix 1 – 31Ten Report Options and Council Response

No.	Option	Homes Gained	Detail	Constraints	WCC Response	Action
				economies of scale. Council sites often would not be delivered by the market, either due to abnormal costs, constraints or significant vacant possession costs. Public procurement can limit the Council's ability to use SME contractors who may have lower overheads for smaller sites		
4	**Formula Rent** Increase Social Rents to Formula Rents	+3	While existing tenant's rents are fixed, only increasing annually, the Council can set rents for newly built homes based on the government's formula rent, up to a rent cap. The Council's appraisals use a blended average rent, which is below the rent cap.	This only applies to new tenancies and a significant amount of the Council's developments include returning tenants whose rents are maintained at existing levels.	While not reflected in the Council's appraisal methodology, Housing use formula rent for new build social homes. This has now been captured in the Council's appraisal. Due to the deficits being carried on a number of schemes this hasn't translated into additional homes but will allow future schemes to deliver more affordable homes.	Accepted
5	**Registered Provider** Engage RPs to acquire Council built affordable homes	+3	Engaging registered providers to forward fund, own and operate affordable homes built by the Council would reduce Council borrowing and increase receipts, as RPs will typically pay more than the Council can for affordable homes. The Council still retains nomination rights.	Most RPs operate in a wider geographical area than Westminster and have historically disposed of affordable properties in the borough in favour of homes outside. While the Council retains nomination rights, it does lose its ability to control the quality of management, which there are concerns about on homes delivered by RPs in Westminster, while remaining responsible to residents for their wellbeing.	Due to the relatively small gain in affordable housing, the non-financial advantage of managing the homes currently outweighs the capital return. These new homes also provide an opportunity to decant residents and assist with achieving vacant possession on regeneration sites.	Not taken forward but monitored

Appendix 1 – 31Ten Report Options and Council Response

No.	Option	Homes Gained	Detail	Constraints	WCC Response	Action
6	**Additional Funding Sources** Utilising institutional funding as an alternative to the Public Works Loan Board (PWLB)	Tbc	Accessing finance which offers more flexibility than PWLB at the cost of an overall higher interest cost. Index linked borrowing enables the Council to align its interest costs against the net rent generated from the new homes it funds, enabling the Council, in the short run, to borrow more affordably.	Institutional finance can be more complex to arrange than PWLB, is project specific and will overall lead to higher interest costs. Index linked borrowing relies upon matched increases in rent, which may not always occur with regulated rents.	The Council currently has capacity in its forward borrowing arrangement which has enabled it to maintain a low cost of finance. The Council will consider project specific finance as opportunities arise; however, it is unlikely to be competitive with its forward borrowing in the current interest rate environment.	Accepted and to be explored further with appropriate schemes
7	**Street Purchases** Acquire in borough instead of building	+31	The Council could divert funding from building new homes to instead acquire existing street properties, refurbish them and let them at social or other affordable rents	While increasing the number of affordable houses it does not increase the total housing in the borough, its scalability relies on stock being available and may lead to rises in house prices in the borough. Dispersed street purchases can be more difficult to manage than a concentrated block of housing.	£85m of extra funding has already been allocated from the General Fund to purchase temporary accommodation homes both in and out of borough. At this stage the HRA does not have any further headroom to acquire homes and further investment would have an opportunity cost elsewhere in the business plan (e.g., reduced spend on new build development or increased commercialisation of schemes, for example). With in-house capacity being increased to support TA acquisition, the Council can choose to access this pipeline of purchases at any time and switch identified units to social rent if resources are available. Furthermore, modelling indicates that the current budget provision for the acquisition of homes for TA will, in effect, exhaust available supply over coming years. As	Actively Pursued through £85m funding

Appendix 1 – 31Ten Report Options and Council Response

No.	Option	Homes Gained	Detail	Constraints	WCC Response	Action
					such, there is not capacity in the market to enable more homes to be acquired. The Council continues to explore options to acquire further S.106 homes, particularly where these support wider programme objectives.	
9	**Street Purchases** Buy Properties for TA Out of Borough	+38	Average houses prices are approximately 20% lower within a 5km radius of Victoria Street, compared to within the borough. By concentrating acquisitions to surrounding boroughs the Council could generate more affordable homes for its investment	Mainly political and perception. The Council does acquire out of borough currently. A key constraint to this proposal, however, is the much lower rental income available outside of the Central BRMA (under the HB Subsidy rules). This can massively restrict the break-even price point for out-of-borough purchases that are still within a politically palatable distance of Westminster.	£85m of extra funding has been allocated from the General Fund to purchase temporary accommodation homes both in and out of borough. This will almost double the planned future investment in TA acquisition. A catchment area has been agreed with members to target acquisition areas towards approved geographies.	Actively Pursued through £85m funding
10	**Street Purchase** Acquire out of borough instead of build	+59	The Council could benefit from an even greater differential between build costs and acquisition costs if homes were acquired out of borough.	Does not increase the overall housing in London but does increase affordable housing. May pose issues managing a dispersed portfolio. May cause political or perception issues. Reduces the ability for the Council to actively regenerate areas of the borough.	As noted against option 8 and 9, the Council has allocated funding to acquire TA both in and out of borough, and while non-TA affordable homes are actively pursued, this mainly driven by s106 acquisitions as the HRA does not have the headroom to acquire street properties for social rent. There are also non-financial benefits of building, such as regeneration and improving health and wellbeing outcomes.	Not taken forward, focus remains on building.

Westminster Housing Supply Review

Final Report

June 2023

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Section 0: Introduction

Background & Context

Westminster City Council ('WCC' or 'The Council') is committed to maximising the delivery of Truly Affordable Housing (TAH) across the Council's housebuilding pipeline.

The 2022 Westminster City Council election took place on 5 May 2022. In the previous election in 2018 the Conservative Party had maintained their longstanding control of the Council, with the Labour Party forming the council opposition. In 2022, Labour won an 8 seat council majority for the first time since 1964. The Council set out its priorities including:

1. Make building new Council (social) and lower rent homes the Council's top priority policy
2. Conduct a day-one review of all current regeneration and infill programmes to find ways to increase the amount of social and truly affordable rented housing they provide and improve the proportion of affordable housing that is for social rent

Following the 2022 local election, the Council undertook to complete a review of the Council's housing led regeneration programme considering the new administration's ambition to deliver more Truly Affordable Housing

Following the local election, the new administration implemented a cross-council plan to deliver more truly affordable homes. Cabinet Members requested a review of the Council's development programme, and A Future of Westminster Commission was established to review opportunities and look at options for increasing Truly Affordable Housing. Subsequently, the Council completed a review of current council-led development schemes to ensure that low cost social rent housing was prioritised in their delivery. A report was presented to Cabinet in October 2022 summarising the outcome of the review and confirming the opportunity to see the initial delivery of at least 143 new social rented homes in Westminster.

The Council have also published 'Our Strategy for a Fairer Westminster' 2022 – 26 which makes the commitment to 'put residents' at the centre of our housing offer' with one of its five main ambitions being to deliver 'Fairer Housing – where *the housing needs of residents families and social care users are met through the provision of greener and more genuinely affordable housing, the majority of which is for council rent, aiming for 70% on council-owned developments.*

Scope of the Review

Following the report to Cabinet, the Council committed to developing a Review of Housing Supply as a comprehensive strategy to deliver as many affordable homes as possible.

The context for the Housing Supply Review is the Council's commitment to delivering a Fairer Westminster and in particular the pledge by the new administration to "make building new council, social, and lower rent homes the council's top policy priority".

The objective of the Westminster Review of Housing Supply was to:

- Review current financial, delivery and tenure mix proposals for existing schemes within the Council' s housing led regeneration programme
- Identify opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council's own land holdings or the wider development market
- Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA
- Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity
- Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk
- Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme

Scope of the Housing Supply Review

Objectives….	….How this has been delivered
Review current financial, delivery and tenure mix proposals for existing schemes within the Council' s housing led regeneration programme	Deep dive analysis and review of key housing regeneration schemes was completed to understand approach and cost assumptions
Identify opportunities to maximise delivery of social & Truly Affordable Housing; through the Council's own land holdings or the wider development market	Section 3 sets out 7 different Options that could be implemented to maximise the delivery of TAH
Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA	Option 5 provides details of additional funding sources available to the Council and Section 7 sets out a Housing Financing Strategy and the range of traditional and non-traditional sources of funding
Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity	Section 5 provides a detailed review of existing delivery vehicles
Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk	Section 4, 9 and 10 provide analysis & commentary on the Options to enable the Council to make informed decisions about which alternative options they may wish to pursue
Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme	Section 5 and 6 provides options for governance and resourcing together with a recommendation

Purpose of this Document

This document provides an overview of the work undertaken as part of the Housing Supply Review to assess the opportunities for the Council to maximise and accelerate the delivery of social and Truly Affordable Housing in Westminster. It provides the following:

- Data and analysis to understand need and demand for affordable housing in Westminster and consider how affordable the current Housing ecosystem is for residents living in the borough; in the context of household income levels.
- Proposes a definition for 'Truly Affordable Housing' to clearly interpret the need and demand for this type of housing in Westminster.
- Identifies a series of Options for maximising the provision and accelerating the delivery of Truly Affordable Housing; either through delivery of additional housing units or creation of additional headroom in the HRA and General Fund that will in turn finance additional homes.
- Demonstrates the financial impact of different Options using financial modelling and case study examples.
- A review of delivery mechanisms, staffing resources and the role of different housing delivery vehicles to ensure delivery is not held back by capacity issues.
- Provides Legal advice to govern and support housing delivery.

This document aims to provide the Council with a series of options that act as a menu of interventions for delivering additional 'Truly Affordable Housing'. The analysis will give the Council an understanding of the potential impact of these options on housing supply, the financial implications and how this correlates with risk. It will communicate the structure, resource and governance requirements for delivery and will explain any wider legal considerations that need to be accounted for in implementing these options alongside the council's future housing led regeneration programme.

Inputs, Approach & Methodology

To conduct our analysis, we utilised 5 key sources:

1. Stakeholder Interviews
2. Housing Ecosystem Documents
3. Consultations
4. Case Study Learnings
5. Financial Modelling

Our methodology for the report, was segmented into 5 key components:

1) Truly Affordable Housing

Understanding the definition of **Truly Affordable Housing**, and the **scale of the gap** to be addressed in order to achieve this

2) Truly Affordable Housing Options

Baseline position of all schemes within scope, with **identification** of **future improvement options** and **opportunities**

3) Delivery Structures

Deep dive analysis on the **role**, **remit**, **viability**, and **future opportunities** in relation to existing **delivery structures**

4) Programme Funding

Identification of **current capital resources being utilized**, and the impact of options on this baseline

5) Programme Resourcing

Current state analysis of the **resourcing model**, and **future resourcing options**

Section 1: Executive Summary

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Executive Summary Contents

The Executive Summary focuses on highlighting the key areas and critical analysis underpinning our recommendations for increasing Truly Affordable Housing in Westminster.

Further detail and analysis can be found in the main body of the report.

The key areas addressed in the Executive Summary include:

- Defining Truly Affordable Housing
- Options for increasing Truly Affordable Housing
- Delivery structures: Key findings
- Resourcing: Key findings
- Future governance proposals
- Financing Strategy

We have concluded the executive summary by providing responses to key questions requested by WCC.

Purpose of the review

The Housing Supply Review explores options to increase Truly Affordable Housing (TAH) in Westminster

Objectives....	....How this has been delivered
Review current financial, delivery and tenure mix proposals for existing schemes within the Council' s housing led regeneration programme	Deep dive analysis and review of key housing regeneration schemes was completed to understand approach and cost assumptions
Identify opportunities to maximise delivery of social & Truly Affordable Housing; through the Council's own land holdings or the wider development market	Section 3 sets out 7 different Options that could be implemented to maximise the delivery of TAH
Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA	Option 5 provides details of additional funding sources available to the Council and Section 7 sets out a Housing Financing Strategy and the range of traditional and non-traditional sources of funding
Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity	Section 5 provides a detailed review of existing delivery vehicles
Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk	Section 4, 9 and 10 provide analysis & commentary on the Options to enable the Council to make informed decisions about which alternative options they may wish to pursue
Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme	Section 5 and 6 provides options for governance and resourcing together with a recommendation

7 Options have been developed which, if delivered in a complementary way, could deliver additional TAH

Truly Affordable Housing definition: "Truly Affordable Housing is housing for **sale or rent at below market rates** that is **available in a variety of tenure and types**, at costs that **reflect local incomes** and are at a level that households could **afford and reasonably be expected to sustain in the medium term**"

The Mayor of London guidance is that annual housing costs should be **no greater than 40%** of net household income*. This guidance has been assumed throughout the affordability metrics referenced in this document

We propose Truly Affordable Housing delivery can be increased through application of the following toolkit:

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Internal			External			
1 Intermediate Products	**2 Value for Money (VFM) Analysis**	**3 Increasing Social Rent to Formula Rent**	**4 RP Purchase of Properties**	**5 Additional Funding Sources**	**6 Street Purchases in/out of borough**	**7 Wider Development Market**
There is a need for intermediate products to support those households that work and do not qualify for Social Housing, this satisfies the definition of Truly Affordable Housing, even in the three most deprived wards.	There are four key areas where there are potential levers to deliver more TAH: • Build programme cost assumptions • HRA valuation approach • NPV policy position • Regular review of inflation allowances	Subject to an affordability assessment of tenants, the Council could raise the rent levels on new build homes to more closely align to formula rent. This would support the financial sustainability of the HRA and allow more units to be delivered.	The Council could work with a range of local RP's to agree forward funding deals. The RP could acquire affordable housing developed on a site, or series of sites, providing additional resources for WCC to deliver social rent product.	Utilising the Council's financial strength to secure low-risk long-term funding solutions and developing a financing strategy that creates the ability to align the repayment of these sources to the income received through rent.	The Council could look to purchase "for sale" properties within the borough as a more cost effective method to creating additional units. In addition to in Council could purchase properties out of borough within a fixed distance from the town hall.	Historically, commuted sums have been accepted by the Council from developers. Typically, the value of the commuted sum is significantly less than the cost of the council building affordable units, rendering the commuted sum a 'bad deal'.

The current priority and focus of the Council is not on delivering Truly Affordable Housing for sale and the emphasis of this Housing Supply Review, in order to meet the Council's objectives, is on maximising the opportunities to deliver additional 'Truly Affordable Housing' for social rent.

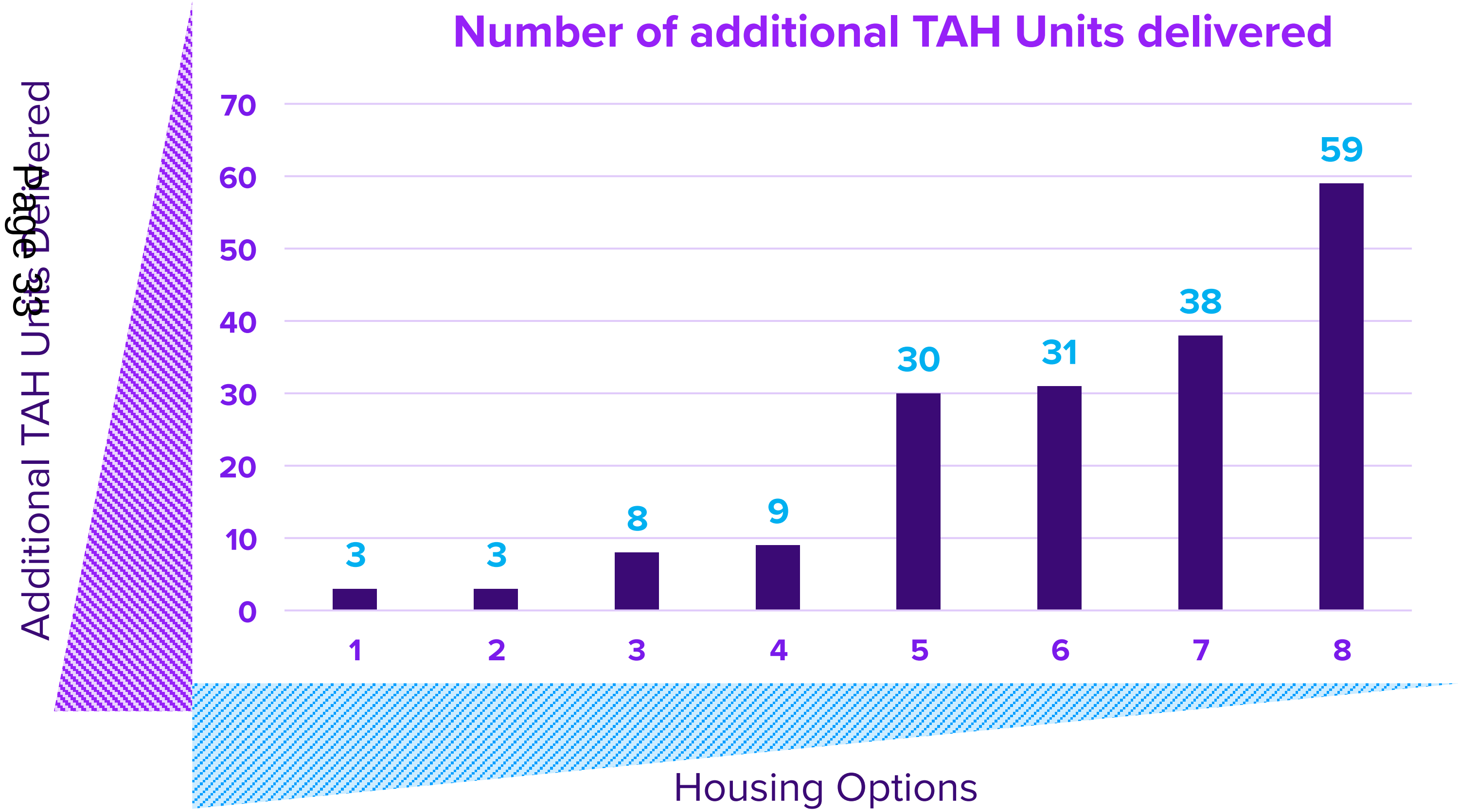
*income after tax and benefits

Total Cost vs Additional Units Delivered

We have adopted a '100 unit scheme' analysis to demonstrate the impact of the options

The potential impact of each of the Housing Supply Options has been mapped together on the graph below to show the number of additional Truly Affordable Housing (TAH) units that could be delivered based on a 100-unit scheme. **Some of the original 7 options that were analysed have given rise to several different opportunities – leading to 8 proposed interventions.**

When mapping out the impact of the options, options 5,6,7, and 8 are the most impactful in terms of delivering additional units of housing.



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The Options:

1. **RP purchase: Increase Valuation to RP Methodology**
2. **Increase Social Rent to Formula Rent**
3. **Intermediate Products: Increase LLR to DMR**
4. **VFM Analysis: Increase HRA Valuation**
5. **VFM Analysis: Build at Private Sector rates**
6. **Street Purchases: Acquire in borough instead of Build**
7. **Street Purchases: Buy Properties for TA Out-of-Borough**
8. **Street Purchases: Acquire out of borough instead of Build**

Delivery Structures – Key Findings

In order to deliver the proposed options, the appropriate delivery mechanisms must be in place

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

The Council largely has the correct delivery structures	When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that is wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle. The only potential exception to this is the form and structure of WCH as a Charitable RP, this is discussed further below.
Lack of Strategic Direction	The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.
Operating in Silos	Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.
Vehicle Selection	There appears to be a lack of understanding of the capabilities of each vehicle and which should be used for which purpose, including what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other.

Resourcing: Key Findings

Analysis on the current resourcing has shown there is a need to establish a future governance framework

The review of the current resourcing arrangements and the development of proposals for governance and the future operating model have highlighted or been guided by some key findings. These are identified below:

There are a range of governance and resource models in place across London and the wider Housing sector that suggests a flexible and bespoke approach can be used to design the optimum arrangements for Westminster.

There are some clear guiding principles and key ingredients that should be in place to support successful governance. Predominantly, the council should aim to have a clear, systematic governance framework in place which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded.

Good practice would see the Council using a consistent approach when it comes to engaging with its entities. For example, applying arrangements in a similar legal model e.g. through using standard articles of association or shareholder's agreements. This is beneficial to standardise and make the approach to managing multiple entities efficient

A future governance and resourcing model should focus on providing additional oversight, streamlining resourcing and facilitate a joint strategic approach through with the Housing Strategic Objectives and Housing Delivery Plan can be delivered. This is recommended through establishment of a Strategic Oversight Board and Housing Working Group.

In the future, there is the option to move to a consolidated group structure (see option 3 in appendix 4) which may provide a single point of focus for managing the council's commercial activity and an even more effective use of resources.

The council anecdotally has a current reliance on 'buying in' external resource to close any shortfall in resource. A strategic approach should be agreed for the recruitment and retention of staff and to enable internal skills to be built over time. A detailed skills audit may be required to identify areas of skill gap. A review of pay and conditions may be required to support the recruitment and retention strategy.

It is recommended that the council take action to agree a future governance framework and implement this in the short term so that Housing Strategic Objectives and a Housing Delivery Plan can be agreed and start to be delivered to optimise the delivery of Truly Affordable Housing in Westminster.

Proposal for Future Governance – Strategic Oversight & Streamlining

A Housing Working Group has been suggested to align governance and create an accountability framework

Lack of Strategic Direction – Whilst the Council has <u>all of the appropriate tools and delivery vehicles</u> it needs to develop and operate the full spectrum of housing it needs; it has not set an appropriate strategic framework to maximise the benefits of this toolkit.

Streamlining – The current governance structure can be streamlined and this strategic focus added through the establishment of a **Strategic Oversight Board** that will own a set of **Housing Strategic Objectives** that sit across the different delivery structures, and these should be extended to the Business Plans of each entity in order to drive the entire housing delivery ecosystem. This body will then develop an amalgamated **Housing Delivery Plan** that will provide business planning for the longer term. This Board will be merged with the existing Shareholder Committee and will facilitate political scrutiny and assurance. This will enable a focus on delivery and performance against the overall Housing Delivery Plan.

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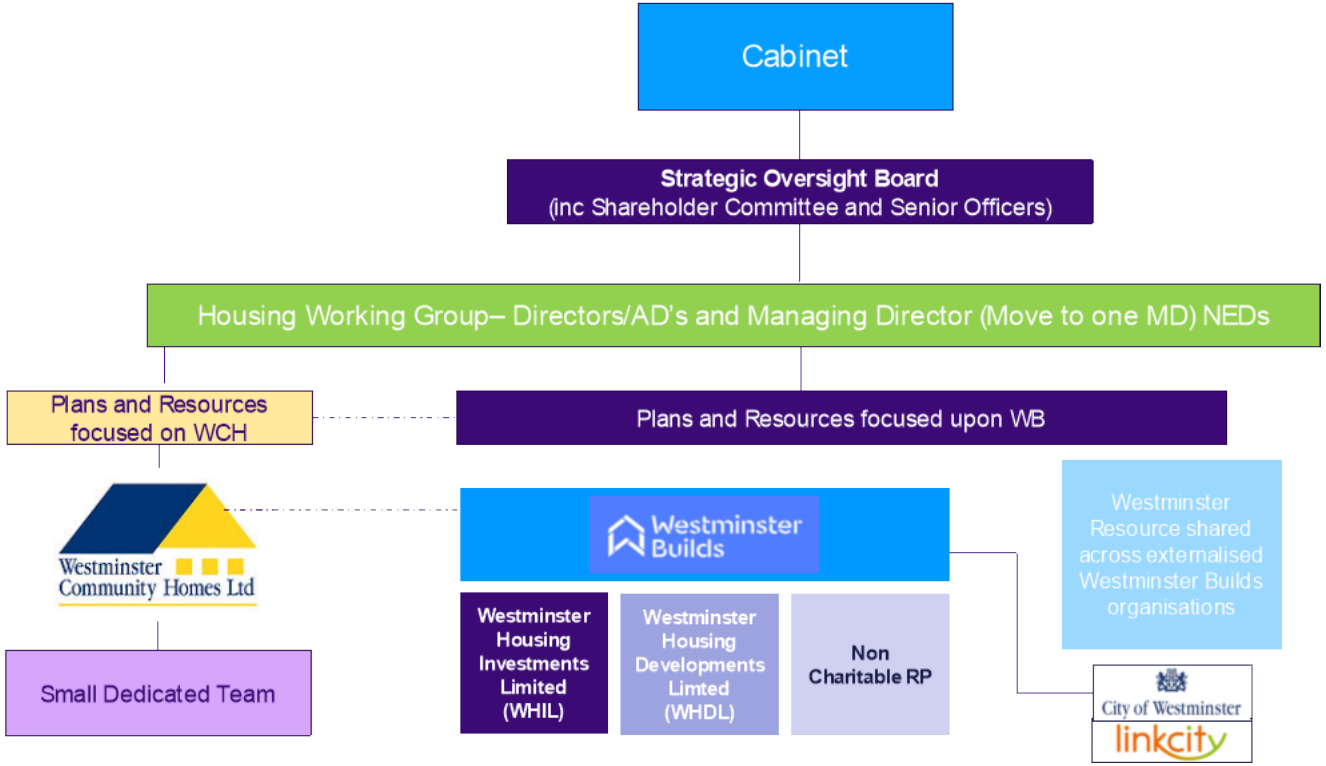

A **Housing Working Group** is created to bring together the governance and create an accountability framework for the different delivery entities. This will enable a focus on operational delivery and monitoring performance of each entity's Business Plan.

The Housing Working Group will have a key role in implementing the Housing Delivery Plan and specifically in **determining which delivery vehicle should be used for which purpose**.

There is also the potential to add experts, such as NEDs, to the Housing Working Group who provide an external voice and challenge.

The Housing Delivery & Management Ecosystem – Which structure to use?

There is a lack of clarity over which delivery vehicle should be used for which purpose.

The diagrams below bring out the key types of development / operation that is best suited to the vehicle that is in place. Appendix 3 provides additional detail to explain why these vehicles should be used.

Westminster Builds			City of Westminster	Westminster Community Homes Ltd
Westminster Housing Investments Limited (WHIL)	**Westminster Housing Developments Limted (WHDL)**	**Non Charitable RP**		
• Ownership and Management of private rented units • Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired) • Purchase, ownership and management of temporary accommodation	• Development of schemes of housing for private sale / rent with an objective of generating surpluses • Development of affordable housing to be sold to third party RPs • Development of schemes of other non residential uses with an objective of generating surpluses	• Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control • Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL)	• Development of mixed use schemes where the purpose is not predominantly to generate financial returns, Schemes can include private sale / rent, affordable and commercial uses. • Development of affordable housing schemes • Ownership and Management of social rent units within the HRA • Ownership and Management of intermediate rent units for key workers on secured tenancies	• Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control • Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units

Housing Financing Strategy

A robust housing financing strategy will underpin the success of improving Truly Affordable Housing

A financing strategy is a key part of the Council's framework and provides the tools to:

Raise financing for investment into service delivery, sustainable development and addressing corporate objectives; ensuring alignment of existing financing policies with, medium- and long-term local and national priorities;

Prioritise finance to take advantage of housing opportunities in the near-term, and identify financing policy areas for the medium- and long-term;

Ensure that financing policies and regulatory frameworks from across different areas are coherent, sustainable, and risk-informed for example, pay regard to current and future rules regarding accessing Public Works Loan Board;

Identify opportunities to access technical assistance & capacity building support to undertake due diligence, risk analysis and affordability reviews on non-traditional approaches to accessing finance where a category of spend lends itself to such an approach.

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A financing strategy aims to detail an approach that ensures any housing investment is aligned with the Council's corporate objectives and is made in a cost effective and efficient manner. It will provide a framework that seeks to:

- Avoid fragmented decision-making
- Better align efforts
- Identify gaps and opportunities for the optimum use of the Council's resources.

The strategy should build and feed into the existing methodologies and tools that the Council may already make use of, such as medium-term financial strategy, planning gain strategies and any future revenue savings strategies and provides a key part of a strategic capital framework.

It will support financial decision making as part of the capital programme governance and will allow strategic longer term financial planning by supporting financing decisions for the longer-term housing pipeline. A strategy sets out the approach to assessing financing opportunities. The route to sourcing this finance will be governed by the Council's Treasury Management Strategy, which in turn will be responsive to the wider macro-conditions prevailing at the time.

Traditional and Non-Traditional Sources of Funding

Traditional sources of funding derive from both internal and external sources

Many Councils are now looking at financing housing through both the traditional route of the HRA and through the General Fund for additional flexibility. An integrated financing strategy that uses both traditional and non-traditional sources of funding can support the Council to make the most out of its housing delivery programme by focusing resources in a coherent, consistent and affordable manner. It can be used to address short-term financing requirements and support the long-term strategic aims of the Council; allowing for more consistent planning. There are considerations to guide the use of different funding types, risks and mitigations which are set out in further detail in Section 7.

Traditional Sources of Funding

Internal Sources of Funding

- Capital Receipts
- Revenue Contributions
- Internal Borrowing

External Sources of Funding

- Government Grants
- External Borrowing
- Development Contributions
- Match/Part Funding

Non-Traditional Sources of Funding

Non-Traditional Sources of Funding

- Sale/ Lease & leaseback
- Empty Property Tax
- A bond issuance
- Income Strip Solution
- CPO Purchases
- JV/ Partnership Approaches

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Answering Key Questions (1)

Question	Response
1. Can the review develop an understanding of the Council's current financial, delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme?	The basis of the review has been predicated in developing a deep understanding of the Council existing programmes and the local context of Westminster. This has been achieved through • Reviewing each of the major schemes with the Council team; and • Reviewing the work undertaken by the Council in reviewing these schemes to increase levels of social rented housing. The findings of this review have been developed based on this evidence base and a set of bespoke options developed from best practice examples to address the Council's objectives.
2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council's own land holdings or the wider development market?	**Yes**. The Council team undertook a quick win review that highlighted significant new social rented homes that could be enabled from the portfolio. This review has built upon the initial review work to develop a menu of interventions that can be applied by the Council to enable increased delivery of social and Truly Affordable Housing. These interventions have been categorised into three areas on the basis of the whether they: *Provide better value out of existing investments (i.e. more homes for the same money); and / or;* *Increase the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent); and / or* *Introduce additional funding from alternative sources to increase the scale of affordable housing delivery* The approaches range from working with external partners to changing valuation methods and from securing additional funding from institutional funds to delivering different types of housing. The report has also developed the key conditions for the application of these interventions and how they can be applied in a complementary fashion in order to maximise their impact.

Answering Key Questions (2)

Question	Response
3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?	**Yes.** There are a variety of ways to maximise financial resources, however, these need to be balanced with the Council's appetite for risk and its broader objectives. The Council has brought forward significant number of truly affordable homes and continues to do so across its schemes, through utilising its HRA and General Fund, however the review has developed a number of potential additional ways in which to both utilise its own financial resources to deliver increased numbers of Truly Affordable Housing and also the ability to secure additional funding to maximise potential delivery. Key interventions include: • Working with RPs to enable their funding of units through direct purchase from Council schemes; • The delivery of a broader spectrum of truly affordable homes, including intermediate rent to enable cross subsidy between different rental products, although this needs to be carefully utilised in areas where demand for these units is appropriate; • The Council has yet to fully utilise private sector and institutional finance to deliver housing. Given the range of sites coming forward, the Council should consider whether this financing approach could add to the financial toolkit by addressing any short term affordability constraints, this may be particularly appropriate for large schemes or a portfolio of temporary accommodation; and • Alternative valuation techniques that can unlock additional funding from the HRA. However, this delivery would decrease the financial sustainability of the HRA and this impact must be considered, particularly in terms services to current residents; • There is the potential for the Council to increase its reliance on General Fund resources to deliver housing. The General Fund has additional flexibilities that could allow it to provide subsidy to the HRA or other delivery options.

Answering Key Questions (3)

Question	Response
4. Are the Council's existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?	When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that is wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle. There are, however, a number of improvements that can be made to the Council's housing ecosystem at large to enable these tools to be deployed more effectively. In particular: • There appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way; • There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other; and • It has been questioned by the Council as to whether the existing RP can deliver the Council's broader objectives, including accessing grant from the GLA. As a result, the Council is not currently in a position to achieve the potential from these vehicles as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used. This should be reviewed by the Council and an holistic approach developed in line with the recommendations in this report.
5. What is the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme?	The work has concluded that there is a need to update the governance arrangements for the Housing Ecosystem to create additional strategic oversight and to streamline the governance. It is also recommended to implement a further detailed review of the Council's resourcing model in relation to skills. The resourcing review has highlighted: In the short term, there is the opportunity to bring in additional external skills to support in specialist areas e.g. finance, but there is anecdotally an over reliance upon external resource provision which may need to change to address and close the current skills gap. It has been recommended that, in order to provide stability, career pathways, the "right" culture, a learning environment and sustainability, then there is a need to establish a refreshed governance model, recruit and then grow the skills internally; The business planning of the Council and its various delivery structures would be better served as a consolidated plan to enable the impact as a whole to be managed. There is a need to implement overarching governance arrangements via a Strategic Oversight Board and Housing Working Group to establish the Council's housing delivery strategy and then to monitor progress on it. The Council may wish to consider a longer-term consolidated structure to better enable planning, leadership and strategic direction with regard delivery.

Next Steps

01 Socialise the report, the toolkit of options and test the appetite and parameters for implementing different or a combination of options

02 Adopt and communicate an agreed definition for Truly Affordable Housing

03 Develop a set of strategic objectives and Housing Delivery Plan to guide the current and future housing delivery programme. Instigate a refresh of the delivery ecosystem and Business Plans for delivery vehicles to reflect objectives.

04 Develop an implementation plan to move to new governance arrangements

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Section 2: Truly Affordable Housing

What is Truly Affordable Housing?

With a new administration in place, tackling the affordable housing shortage is a priority and at the forefront of the housing agenda.

In order to accurately depict the need and demand for Truly Affordable Housing in Westminster, it's critical to define what is meant by 'Truly Affordable Housing'. Whilst is there is **no industry standard, widely agreed or recognised definition**, unpacking the meaning of 'truly affordable' is complex due to both the ambiguity of the phrase, as well as the differing interpretations of different stakeholders within the housing ecosystem. For example affordable housing means different things when defined by the Government, a Developer or a Resident:

GOVERNMENT

Subsidised housing through a variety of means such as **social rented housing, affordable rent housing, shared ownership, and intermediate rent homes**. The Government state affordable housing to rent should cost no **more than 80%** of the average **local market rent**

DEVELOPER

The **affordability** and **viability** of delivering housing in accordance with **set budgets and regulations**

RESIDENT

The **cost** of housing in **relation to earnings** – Shelter defines affordable housing as that which costs no more than **35% of net household income**. The Mayor of London guidance (London Housing Strategy 2018) states that annual housing costs should be **no greater than 40%** of net household income

- It is recommended that a definition of 'Truly Affordable Housing' is adopted by the Council to provide a consensus and remove any ambiguity as to what affordability means in housing terms.
- By providing clarity and an agreed definition for what is meant by 'Truly Affordable Housing' the Council can select the optimum combination of options for delivering additional affordable housing and it allows the implications of this approach on existing and planned development of affordable and private housing to be more clearly understood.
- It is important to note that there has been a significant shift in housing inflation since the 40% metric was issued in the 2018 London Housing Strategy and WCC may want to determine its own percentage threshold of net household income that reflects the current housing market and resident's earnings in the borough.

Defining Truly Affordable Housing

Truly Affordable Housing can be broken down into 4 key components:

Below Market Rates	Available in a variety of Tenure and Types	Reflect Local Incomes	Affordable, Sustainable, and Secure

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A working definition for Truly Affordable Housing is proposed below:

"Truly Affordable Housing is housing for **sale or rent at below market rates** that is **available in a variety of tenure and types**, at costs that **reflect local incomes** and are at a level that households could **afford and reasonably be expected to sustain in the medium term**"

The Mayor of London guidance (London Housing Strategy 2018) states that annual housing costs should be **no greater than 40%** of net household income*, which has been assumed throughout the affordability metrics referenced in this document.

For clarity, the current focus of the Council and priority is not on delivering Truly Affordable Housing for sale and the emphasis of this Housing Supply Review, in order to meet the Council's objectives, is on:

- **Maximising the opportunities to deliver additional 'Truly Affordable Housing' for social rent**

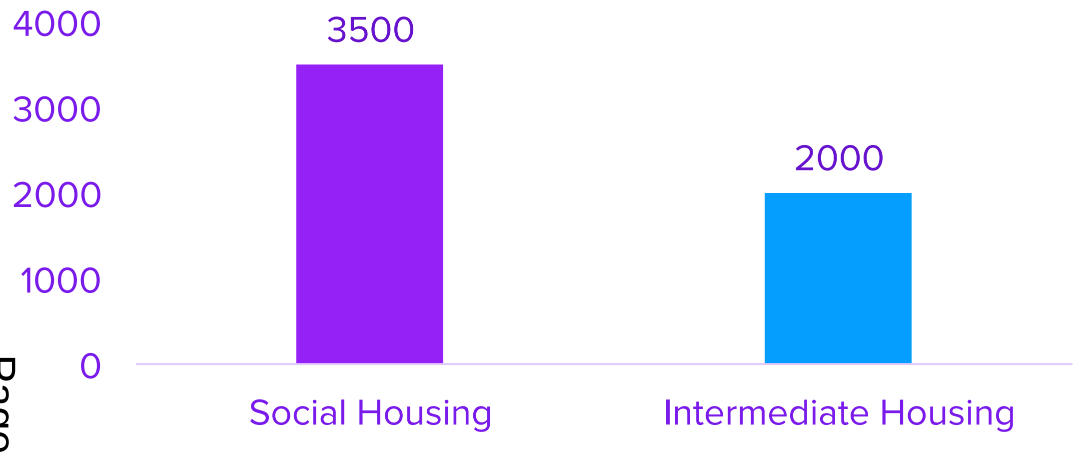
However, the options provided in the following sections of the report provide a range of opportunities for the Council to maximise and accelerate its delivery of affordable housing, including via other tenures. Adopting a broader definition may be useful in that context.

*income after tax and benefits. For the purposes of the TAH analysis in the following slides, housing costs are assumed to be rental costs only.

Truly Affordable Housing in Westminster

The current housing landscape within WCC indicates the scale of delivering on this challenge

Number of households registered for housing



Circa 5,500 households are either on the social or intermediate housing waiting list, which demonstrates the scale of need and demand for housing within Westminster

We have undertaken analysis of housing and income data from CACI to understand the existing housing landscape in Westminster. By doing this we can demonstrate at what cost point the real need is for housing that is affordable in relation to local earnings. This has demonstrated that

- **The median household income across Westminster is £52,311.**

However, we understand that because the income levels in WCC are skewed significantly, overall averages can be misleading.

In order to demonstrate affordability in a more accurate way we have selected 3 of the statistically most deprived wards (Church Street, Westbourne and Queens Park) to demonstrate the affordable housing gap in WCC. The table on the **next slide** show the average household income and the average rental cost and accordingly what the % of household income would be used in paying the rental costs for different tenures in the borough.

This analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs.

The housing landscape within Westminster is diverse, with significant income variances across different wards

The average household income across Westminster is **£60,994**, Because the **income** levels in WCC are **skewed** significantly, overall **averages** can be **misleading**. Because of this, we have selected **3** of the **statistically most deprived wards** to demonstrate the affordable housing **gap** in WCC.

Average income in these wards is assumed to be a good representation of households seeking affordable housing in the absence of distributional income data.

Ward	Avg. Gross Household income	Avg Net Household Income	Average Rental Cost	% of Net Household Income
Church Street	£33,692	£28,762	WCC Social: £7,572 Target: £8,289 LLR: £12,815 DMR 50%: £12,841 DMR 65%: £16,693 LHA: £18,387	Social: 26% Target: 29% LLR: 45% DMR 50%: 45% DMR 65%: 53% LHA: 64%
West-bourne	£37,702	£31,438	WCC Social: £7,572 Target: £8,103 LLR: £13,443 DMR 50%: £15,031 LHA: £18,387 DMR 65%: £19,541	Social: 24% Target: 26% LLR: 43% DMR 50%: 48% LHA: 58% DMR 65%: 62%
Queen's Park	£39,194	£32,435	WCC Social: £7,572 Target: £7,573 LLR: £12,765 DMR 50%: £13,125 DMR 65%: £17,062 LHA: £18,387	Social: 23% Target: 23% LLR: 39% DMR 50%: 40% DMR 65%: 53% LHA: 57%

Westminster Housing Affordability - Tenure Analysis

We have undertaken an affordability analysis by tenure which is set out in the table:

Rental costs for intermediate and market rent units are based on data from the Ebury Scheme.

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	Rate	Social	Target Rent	LLR	DMR (50%)	LHA	DMR (65%)	Market Rent	Market Sale
Gross Rent	£ / Month	£631	£691	£1,120	£1,248	£1,532	£1,623	£2,497	N/A
Gross Rent	£ / Year	£7,572	£8,289	£13,444	£14,980	£18,387	£19,475	£29,961	N/A
Rental Cost	% of Rent	57.50%	52.52%	42.63%	42.63%	42.63%	42.63%	29.03%	N/A
Net Rent	£ / Year	£3,218	£3,936	£7,713	£8,594	£10,548	£11,173	£21,263	N/A
Yield	% Net	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	N/A
Valuation	£ / Unit	£80,449	£98,388	£192,826	£214,857	£263,709	£279,315	£567,021	£987,409
If GLA Grant is applicable	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Value	% OMS	23.7%	25.6%	25.9%	21.8%	26.7%	28.3%	57.4%	100.0%
Capital Value	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Expenditure	£ / Unit	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000
Net Position	**£ / Unit**	**-£515,551**	**-£497,612**	**-£494,174**	**-£535,143**	**-£486,291**	**-£470,685**	**-£182,979**	**£237,409**
Market Unit Cross-Subsidy	Per 1 Market Sale	2.17	2.10	2.08	2.25	2.05	1.98	N/A	N/A
Affordability	% of Net Income	25%	27%	44%	49%	60%	63%	N/A	N/A

This analysis demonstrates the following findings:

That assuming an average build rate of £750k per unit, only market sale units generate enough capital value to produce a surplus, with every other tenure showing a net loss:

Affordable Tenures show losses ranging from £570k (social rent) to £470k (65% DMR)

Assuming a 70/30 split between social and intermediate tenures, the results show that only 30% of units can be provided onsite as affordable

Truly Affordable Housing: Recommendations

1) Recommendation
A definition for 'Truly Affordable Housing' should be adopted and communicated by WCC to remove any ambiguity as to what as to what affordability means in housing terms.

2) Recommendation
The analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs. Given the GLA definition on affordability, this means that the average income for residents should support and be affordable at a range of rental points with the potential for an increase from current social rent levels. The Council should provide consideration to those that fall below this "average" level of income and to be truly affordable the Council should ensure that there are rent levels to address all needs.

3) Recommendation
Only market sale units generate a surplus over costs, with every other tenure showing a net loss. Therefore, to deliver additional numbers of Truly Affordable Housing units market sales units will need to be built to provide cross subsidy to the truly affordable programme.

Section 3: Housing Options

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Housing Options

Through analysing the current baseline delivery position, we have identified and analysed 7 potential options to create a toolkits of viable sustainable solutions that, if delivered individually or on a complimentary basis could deliver the greatest impact on Truly Affordable Housing within Westminster

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Internal

- **Intermediate Products**
- **Value for Money (VFM) Analysis**
  Build @ Private Sector Rates / - HRA Valuation Approach
- **Increasing Social Rent to Formula Rent**

External

- **RP Purchase of Properties**
- **Additional Funding Sources**
- **Street Purchases in/out of borough**
- **Wider Development Market**

Each option has been analysed to determine if used how this could positively impact on the delivery programme. Consideration is given to the feasibility and viability within the current market, considering both financial and non-financial impacts of implementation and whether options are complimentary or mutual exclusive, i.e. which options can work together or on their own.

Housing Options Categorisation

The housing options have been categorised into three key themes:

(a) Providing better value out of existing investments (i.e. more homes for the same money)

Increasing Social Rent to Formula Rent

Intermediate Products

Value for Money (VFM) Analysis

(b) Increasing the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent)

Wider Development Market

Street Purchases in/out of borough

RP Purchase of Properties

(c) Introduce additional funding from alternative sources to increase the scale of affordable housing delivery

Additional Funding Sources

It should be noted that some options deliver benefits across two or three of these categories, however they have been categorized into the most dominant section for this analysis. This is explained for each option in the following section

Case Study Analysis

Throughout our analysis, we have utilised case studies and worked examples to demonstrate the impact of the Housing Supply options on a housing scheme.

100 units example

The '100 units' example, applies each Housing Supply option on a base case example of a 100 unit scheme to demonstrate its potential impact if implemented.

For example, "when applying the principles of 'Option X' on a base case of 100 units, an additional 25 units can be realised'.

The analysis is based on 21/22 figures and does not account for the impact of the recent inflationary rise for the 22/23 figures.

Ebury Bridge

In terms of worked example case studies, we have used Ebury Bridge as the base case, and applied the options to Ebury to demonstrate the impact of the numbers.

The base case for Ebury bridge is as follows:

- Ebury Phase 1 is a Westminster Development with available data to conduct a case study on some of the options to increase affordable housing
- Phase 1 is developing 226 units, 142 of which are affordable split 98 social and 44 intermediate
- Current data shows an "all-in" capital costs of circa £778k per unit, including fees, continency and financing costs
- The capital value for the social units is assumed as follows:

	Studio	1 bed	2 bed	3 bed
Social (Baseline)*	£59,775	£59,775	£71,054	£75,004

*The Social values baseline predate the 7% agreed inflation for 2022/2023

Option 1: Value for Money Analysis (VFM)

Introduction to Value for Money Analysis

In addition to options that deliver additional housing units it is important to first identify opportunities to create additional headroom in the HRA and General Fund that will in turn finance delivery of additional homes. Our Value for Money (VFM) analysis has included a detailed review of the Council's current housing programme, the approach taken to develop assets including the cost metrics and valuation methodology used, the risk appetite applied, and assumptions embedded into the viability assessment and cost of schemes.

The VFM analysis has identified the following approaches that could enable WCC to identify cost saving efficiencies:

1) Build Programme Cost Assumptions

We have used benchmark data to compare average build cost of private sector developers with the council's current housing programme forecast costs to provide analysis on the average build cost of the council developing its own assets as opposed to the private sector.

3) NPV Policy Position

NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project. The council would benefit from gaining consensus and agreeing a policy position on what assumptions are used to assess NPV and what range of NPV should be targeted across the portfolio. A key benefit of agreeing a policy position is unlocking the ability to conduct scenario analysis to understand how and what variations away from NPV would impact the programme.

2) HRA Valuation Approach

The HRA approach includes covering interest from Year 1 and repaying debt within 50 years. A change in valuation approach could yield cost efficiencies

4) Inflation Allowances

With the current of living and inflation crisis, embedding robust inflation assumptions into financial modelling and calculations is critical to understanding the viability and cost of schemes. Regular scenario analysis and updates are required to ensure the most relevant data is factored into decision making.

The cost of the council building properties is significantly higher than the private sector and therefore should consideration be given to mechanisms which allow the wider development market to deliver more homes on sites not yet under contract e.g. future pipeline schemes.

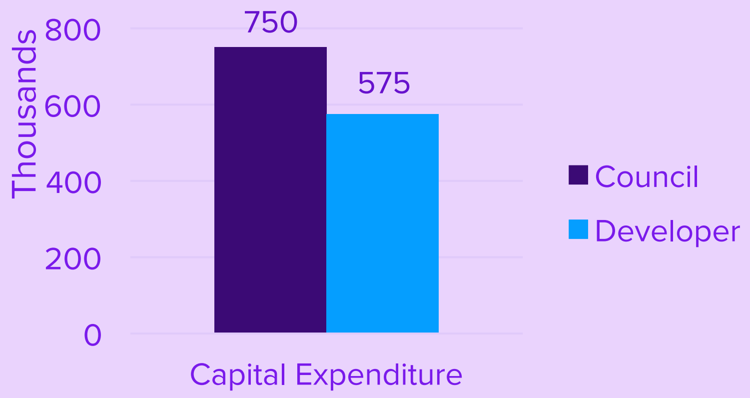
Given the dynamic nature of the economy, regular confirmation that any assumptions used in the HRA are valid and represent the most appropriate measure for future costs and incomes could offer further opportunities for the delivery of truly affordable units.

VFM Analysis: Build at Private Sector Rates

Build At Private Sector Rates

The Council has or is developing assets on a range of sites within the City. Each of the sites has its own characteristics and unique requirements. However, it is this uniqueness of each site that provides us with a typical programme of work for our analysis. Analysis is applied to the five sites chosen for this element of the review. The average build cost across these sites, without accounting for land value is c£750,000 before potential grant allocation is considered, (with land value the figure is closer to £900,000). Benchmark data, extracted from Arcadis London benchmark data, and uplifted for Westminster shows a similar cost for private sector developers of £575,000 per unit.

Analysis



On average, the council spends **30%** *more on building properties, or* ***£175k per unit****, when compared to private sector developers*

Key Considerations

In comparing the figure of £750,000 to other benchmark figures several considerations stand out:

- The Council is committed to delivering to a quality standard that allows it to meet wider objectives e.g. climate emergency, cost of living crisis etc.
- The Council is undertaking delivery on sites that the market consider "difficult" and unviable
- The Private sector figure is drawn from a range of developers across London whose size would offer efficiencies of scale in delivery;
- It would be difficult for the Council to just “reduce costs” and the implications of reducing costs down; and
- The Westminster average cost figure, although drawn from a range of sites, maybe skewed by outliers e.g. Cosway Street.

In a 100-unit scheme, this would equate to 30 additional social units

VFM Analysis: Build at Private Sector Rates

Build At Private Sector Rates (continued)

For the purpose of the Build Cost analysis, the average cost of a Council building a single unit is based on the 261 units delivered across 5 sites.

Scheme	Total Units	CAPEX per Unit	Adj. CAPEX per Unit
Luxborough	14	£989k	£1,139k
300 Harrow Road	112	£591k	£691k
Ashbridge	26	£936k	£1,111k
Cosway Street	49	£991k	£1,216k
Lisson Arches	60	£723k	£873k
Total	**261**	**£752k**	**£898k**

Cost of building a unit

- The 5 capital expenditure totals for schemes underway in Westminster have an average rate of circa £750k per unit. However, there is a range of c£700k up to £1,140k
- This excludes the opportunity cost of forgoing land value in the form of receipts, estimated at £145k per unit
- The total capital cost of building a unit is circa £900k per unit

VFM Analysis: Change in HRA Valuation Approach

HRA Valuation Approach

The Council is required to produce a HRA Business Plan that sets out its strategic plan for managing and maintaining its social housing stock. The plan sets out in detail the short to medium term plans and priorities for the management of its housing asset (5 years) and provides a long term (30 year) forecast on stock investment and financial planning. The plan needs to be flexible and agile to allow it to both meet its medium-term requirements but also address the strategic objectives of the Council and the impact of Government policies on rents, disposals and regeneration. With this in mind, any assumptions made within the Plan need to be robust, but also dynamic so as not to adversely impact on the financial sustainability of the plan.

When considering the Plan, the Council has made a number of assumptions, based on its medium to long term assessment of the housing stock and its risk appetite in ensuring the financial sustainability of the HRA.

One of the key assumptions is the value that the HRA can pay for any new build units. Currently, the Council's risk appetite dictates that all units should be valued on a development yield basis. This approach delivers long-term financial strength to the HRA and allows value to be generated from each unit that can support the wider stock. However, by taking a different approach to this valuation methodology the Council could use a portion of this value to support a higher price paid per unit.

VFM Analysis: Change in HRA Valuation Approach

HRA Valuation KPI Basis

Two methods that have been test as part of this review are detailed below. However, the Council could through a use of a portfolio view of the Net Present Value, or a dynamic review of assumptions, look to calculate the price paid on a site-by-site basis, whilst considering the impact on the wider HRA. The two approaches detailed below provide a "bookend" approach, with the Council assessing its risk appetite and the financial health of the HRA at regular intervals.

1. The valuation must not have a negative impact on the HRA, such that the impact of the unit as a minimum breaks-even in its first year of occupation.
2. The longer-term value of the units are of prime consideration whereby the unit provides a break-even position over a 50 year asset life, I.e. the cost of purchase and the long term operational costs do not have a negative impact on the HRA over this period.

These KPI's lead to two valuations that are significantly higher than the value derived from the development yield approach (as shown in the impact table to the right), thus indicating a potential disconnect between the values used on the development viability versus what the HRA can afford.

In order to facilitate more streamlined viability and value engineering processes, a more connected and transparent approach is required.

Impact

	Development Yield	Year 1 Breakeven	50-year breakeven
Capital Value	£80,449	£123,730	£137,366

In a 100-unit scheme (assuming £750k capex), this equates to between 7-9 additional social units

Value for Money: Findings

Delivery Structure	There is no requirement for the Council to use any additional delivery structures to implement these opportunities.
Viability	By implementing these opportunities, the Council could increase the number of affordable units delivered on a 100 units scheme by up to 39 units.
Resources	The Council will need to assess its new build programme to assess how, and if resources need to be put in place to reduce costs.
Legal Considerations	There are no additional legal requirements that the Council must consider if these opportunities are implemented.
Potential Risks	The Council must consider its requirements as landlord if it takes an approach to risk that could impact detrimentally on the financial sustainability of the HRA. A reduction in the quality of new build units could impact on the Council's ability to address wider priorities e.g. climate emergency
Scalability	The opportunities in this section provide the Council tools with which to ensure its assumptions and assertions are regularly checked to ensure they are making the most out of its available resources.

Value for Money: Recommendations

This section has concluded that there is potential to better understand some of the key aspects of the build programme as a tool to increase the level of Truly Affordable Housing. It's recognised that the Council has already enacted some of the points raised and has made positive steps to enhancing the ability of the Council to deliver more. We would therefore make the following recommendations in order to take this forward:

4) Recommendation
The Council should conduct a review of its costs to ensure they are comparable to external market rates. Where deviation does occur then the Council should ensure that additional costs are adding value to the development and/or are contributing to wider Council objectives, e.g., climate emergency

5) Recommendation
There is currently a disconnect in the valuation methodology used by the development appraisals and HRA business plan. The valuation per the HRA business plan (the amount the HRA can afford) is significantly higher than the value derived from the development yield approach (that used in the development appraisals); indicating a potential disconnect between the values used on the development viability versus what the HRA can afford. This could lead to developments not being considered viable or the level of affordable being reduced.

As with this and other assumptions used. The Council should regularly review key drivers of delivery to ensure they are up to date and consistent.

6) Recommendation
The Council could consider to moving to an approach whereby the affordability of a unit is assessed over 50 years, rather than 30 years. This increased duration could allow a higher premium to be paid. However, this approach is not without risk and the overall impact on the financial sustainability of the HRA must be considered.

Option 2: Street Purchases in/out of Borough

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Introduction to Street Purchases

As a result of the lack of affordable developable land within Westminster, the Council could look to purchase "for sale" properties within the borough or within a defined distance from the borough. The purchase of suitable properties would give the Council a relatively quick route to increasing its access to housing units for both truly affordable rent and the potential use of Temporary Accommodation. Subject to a viability assessment these houses could then be used to provide a range of different tenure, from truly affordable rental provision to the use of the unit to discharge the Council's homelessness pressures.

The scarcity of land in Westminster has meant that development is inhibited by high land costs. This, in turn has a negative impact on viability and the ability to deliver significant levels of affordable housing in the City. Additionally, such is the complexity of developing in the City, when land is available and development is viable, the development cycle is length, often taking up to 5 years to deliver homes.

Street properties could provide a costs effective alternative to accessing additional units in relatively short timescales. This should not replace the development activities, but compliment. The units, being outside of the Housing Act requirements could sit in the General Fund (TA) or in a separate company and be funded by a variety of different approaches, e.g., Bromley has used institutional funding to support this initiative. Once identified, housing units can be purchased in a matter of months, rather than years.

In-borough

Analysis has shown that the average cost of a unit in Westminster, when compared to a comparably sized new build unit is considerably less. However, as previously stated, new build units have the added benefit of allowing the Council to address a wider range of priorities, e.g., energy efficiency leading to lower whole life costs for tenants.

Out-borough

In addition to purchasing units in the City, the Council could benefit to a greater extent when it compares the value of units outside of Westminster against the rents that each unit commands . Analysis has shown that like for like for sale properties are cheaper in neighbouring boroughs and therefore would offer a greater saving to the Council when compared to a new build. Whilst the Council has a preference for ensuring that housing needs are delivered within the City. Additional units that offer significant savings could be used to free up units where tenants wish to downsize, where units are used to discharged homelessness responsibilities or where there is a need for decant. By increasing the overall housing stock the Council will increase the flexibility it has to address a range of housing needs and financial pressures.

Street Purchases in/out of borough – Results

Analysis shows adopting a street purchase programme could potentially improve the number of Truly Affordable Housing units available

Acquisition data spans from 2014 to 2022, and so it is difficult to assess current costs per unit

We used a property sourcing software to show the likely costs both in Westminster and surrounding boroughs

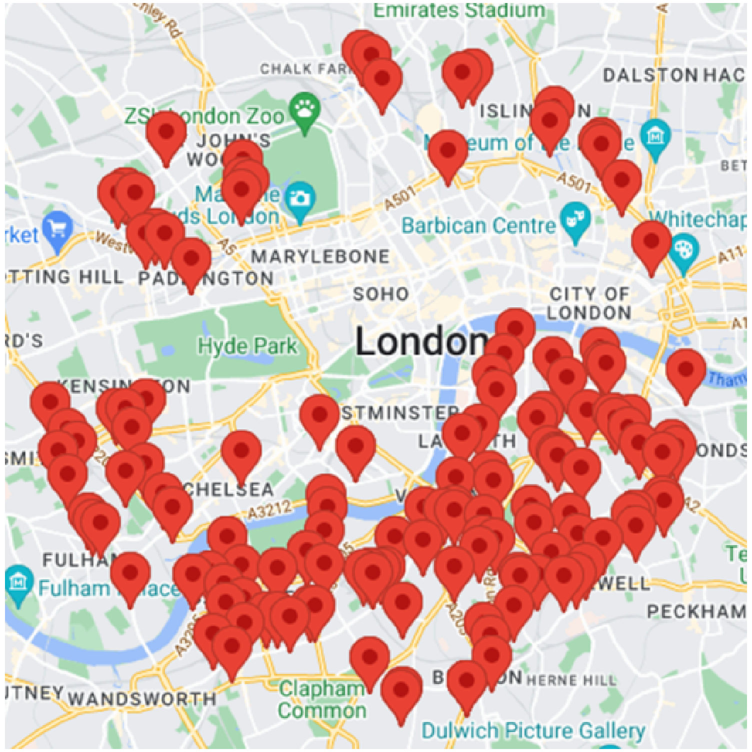
- Average property price in Westminster is £531k per unit (assuming same bedroom mix as typical WCC Development scheme)
- Average property price within 5km radius of Westminster Council offices are £438k per unit

If purchasing units of this type outside of borough is compared to purchasing them inside the Borough it delivers the following results:

In a 100-unit portfolio, acquiring units outside of Westminster would equate to 21 additional units based on price point

Yields and investment opportunities will improve with a wider search area, with the sourcing software showing likely yields in Westminster of 3.0% assuming LHA rent versus 4.15% in a 5km radius. Therefore if the above results are updated to enable purchasing outside Borough, it delivers the following results:

If the increased affordability from better yields was added on top of cheaper prices, than in a 100-unit portfolio this would equate to 38 additional units



The Image above visualizes the high-yielding property advertisements located within 5km of council's offices over a 1-week period

Street Purchases – VFM Analysis

Scheme	Total Units	CAPEX per Unit	Grant per Unit	RLV per Unit	Adj. CAPEX per Unit
Luxborough	14	£989k	-£153k	£150k	£986k
300 Harrow Road	112	£591k	-£153k	£100k	£538k
Ashbridge	26	£936k	-£153k	£175k	£958k
Cosway Street	49	£991k	-£153k	£225k	£1,063k
Lisson Arches	60	£723k	-£153k	£150k	£720k
Total	**261**	**£752k**	**-£153k**	**£145k**	**£750k**

Cost of building a unit

- The table to left shows 5 Capital Expenditure totals for schemes underway in Westminster with rates averaging circa £750k per unit, netting to circa £600k with grant
- This excludes the opportunity cost of forgoing land value in the form of receipts, estimated at £145k per unit

The total net capital cost of building a unit is circa £750k per unit

Cost of acquiring a unit

- The average property price for an investment property in Westminster is £531k, though with on-costs the capital cost totals circa £570k unit (assuming 7.5% on-costs)
- The average property price for an investment in a 5km radius is £438k, with a capital cost of £470k per unit (assuming 7.5% on-costs)

In a 100-unit scheme (assuming £750k capital), this would equate to 31 additional units in Westminster or 59 additional units in a 5km radius

Street Purchases: Case Study

Case Study

The London Borough of Bromley started a street purchase programme in partnership with Orchard & Shipman.

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The £85m programme is funded by £18m from Council resources and £67m from the Pension Insurance Corporation for fifty years. Up to 300 homes will be acquired to enable households to be moved out of temporary accommodation. The access to additional units will deliver significant savings for the Council when compared to its current costs.

The programme sees the homes fully refurbished and then let by O&S to local residents nominated by the Council.

The use of specialist property agents significantly improves the speed and value for money of acquisitions as this is not a natural local authority skill set. Aligning an agent fee structure to reducing the purchase price also improves value for money.
Need to adequately identify the cost of refurbishment to lettable standard as well as the likely medium- and long-term investment requirements of homes. Also need to ensure there is sufficient capacity in house or in the supply chain to survey and refurbish homes to ensure opportunities are not lost and newly acquired homes do not remain empty for sustained periods.

Important to consider the ability to improve the future energy efficiency and required investment in the home as part of the appraisal process. Whilst it may offer good value for money initially, this can change if the home is difficult to adapt towards net zero targets.

Be aware of additional costs of managing the home, e.g. service charges in private blocks, which can materially impact the viability of individual properties.

Street Purchases: Recommendations

This section has concluded that there is significant potential to utilise street purchases as a key tool to increase the level of Truly Affordable Housing. We would therefore make the following recommendations in order to take this forward.

7) Recommendation
The Council should consider the scale of investment it would wish to dedicate to this programme, with a focus on which tenures / unit types it would target for the programme. For example, Temporary Accommodation / Social Rent / Intermediate Rent and 2 bed / 3 bed homes

8) Recommendation
The Council should review the delivery approach it would wish to use for the programme. Depending on the unit types and the tenures to be used the HRA or individual delivery vehicles could be used for different types of unit. For example, certain rental types on short term tenancies may need to be undertaken through a management vehicle, such as Westminster Builds, whereas Social rented properties could be let from the HRA or RPs

9) Recommendation
The Council should consider the tools and resources it dedicates to the street purchase programme to ensure it is targeting available properties effectively and efficiently and can select appropriate properties and transact them appropriately

10) Recommendation
The Council should consider the funding options available to it for this programme including utilising internal / PWLB borrowing, potential bonds to institutional investors. It should consider this on a programme basis to ensure the appropriate route is elected.

Street Purchases: Findings

Delivery Structure	If the Council rely on private or institutional finance to purchase the assets, then there will be a requirement for a structure that sits wholly outside the Council. This position could be taken by Westminster Builds, giving the Council additional flexibility to meet a range of housing needs.
Viability	This option increases the number of units for the same financial envelope. Although, this relies on the Council's programme accurately assessing any initial renovations and does not consider the whole life costs of the assets once bought.
Resources	This option would require resources to source and purchase the units, including conveyance, property finder and finance. Any renovations required could be completed by the Council's current HRA service, that being similar to a Void turnaround. However, a purchase programme that provided a disparate property portfolio may increase costs.
Legal Considerations	This option would not require any specific legal powers. Legal consideration may be needed to agree any private finance deal
Potential Risks	Potential risks could include artificially inflating the price of properties on the local market, the political risk of discharging housing requirements out of the City and the impact on tenants of being placed outside of the City. Using HRA resources for the refurbishment of homes could divert capacity from maintenance and investment in current stock. In addition, a break-even position over a longer period means you are using existing resource to support the new units.
Scalability	This approach is scalable across the Borough / out of Borough and is only really limited by the Council appetite and demand. Significant funding routes have been followed by Boroughs across London, including bond issues for this purpose as well as institutional funding arrangements across programmes

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Does Street Purchase represent Value for Money?	Street Purchase units has been shown to be a cost-effective method of increasing housing supply at a rate that is below the cost of a new build. However, the potential disparate nature of this units and the potential impact on the Council's quality standards mean that it is not a substitute for a new build programme and should be used to complement and increase supply.
What are the main consideration of this approach?	The purchase of these units allows the Council additional flexibility as they can be bought outside of the Housing Act requirements. Many Councils have used a similar programme to support their homelessness provision, thereby reducing pressure on existing or new build stock. Consideration should be given to ensuring the yield offered by each property is sufficient to support the unit and in doing this the Council should consider the benefits of purchasing units out of boorugh. Consideration should be given as to whether Street Purchase properties should sit in the GF, the HRA or an arms-length entity. Most Council have decided that to increase future flexibility these are kept outside of the HRA.

Option 3: RP Purchase of Properties

Introduction to RP Purchase of Properties

Under this approach the Council works with a range of local Registered Providers (RPs) to agree forward funding deals to acquire the affordable housing developed on a site, or series of sites.

The diagram to the right shows a potential approach to increase the Council's resources for the development of more affordable homes. This approach is explained as follows:

(1.) Development is undertaken by the Council, either directly or through one of its wholly owned companies (WOC);

(2.) Private and commercial units are funded by the Council;

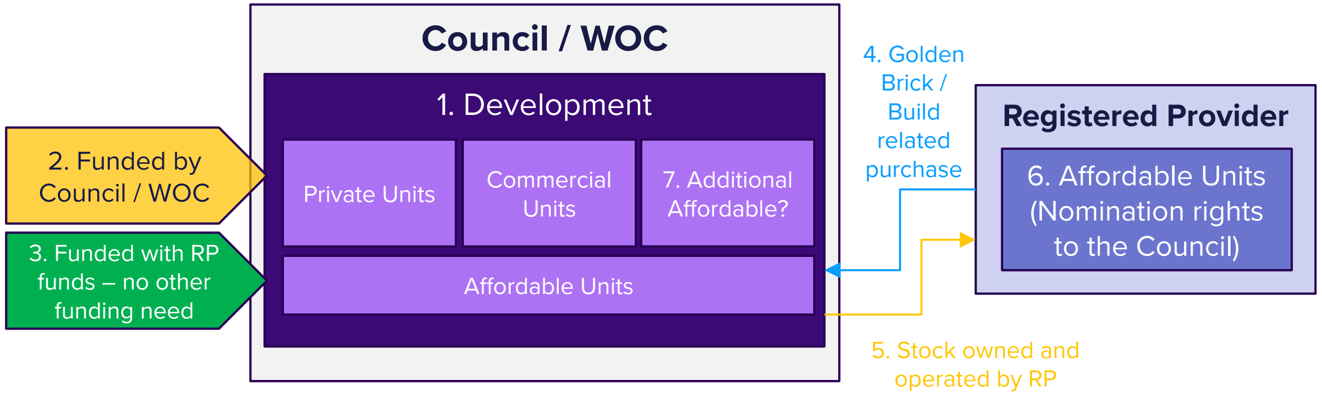
(3.) The affordable units are not funded by the council, instead they are funded by an RP, who purchases and operates them;

(4.) These are funded on a forward funded basis, meaning the RP agrees to purchase them in advance of development and pays the purchase price in instalments that match the development costs, thus negating the need for any other funding (Golden Brick);

(5.) The stock is then owned and operated by the RP; BUT

(6.) The Council receives the nomination rights to these units on an ongoing basis to address its housing waiting list.

This results in (7.), the potential for the Council to develop more affordable homes due to:



- The saving in funding costs enabling these resources to be applied to other units;
- The fact that an RP will typically pay more for these units than the Council would to purchase them into the HRA, the principal reasons for this are:
  - The valuation model used by RPs which is more commercially focused; and
  - The supply chain savings a number of RPs experience enabling the net value of the units to be appraised as higher.

The combined saving from these elements can result in the potential for the Council to either develop more units on the site or future sites.

RP Purchase of properties: Case Study

Case Study

Southend-on-Sea
City Council

This is a very common solution for Council's that do not own their own affordable housing, or for sites where the Council does not have an overriding desire to own the affordable units that are delivered.

Southend on Sea City Council are regenerating the Queensway housing estate in central Southend into a new residential led mixed use development of c. 1,600 units situated next to Southend Victoria station. A forward funding deal has been put in place with an RP to fund all affordable on the site, c.500 units.

The RP funds all development of the units through the purchase. Payments are made on a monthly basis to cover the development costs. The units, once complete are owned and managed by the RP with all nominations to the Council. As patrt of procuring he RP the Council required a number of commitments on the terms and conditions to be used, including quality of management and rent levels

This case study is a good example of a Council and an RP working effectively in partnership.

The business models of the 2 organisations differ in terms of the way that the RP funds and operates the units it owns, however, the overall goal of the two organisations of providing high quality sustainable affordable housing tailored to the needs of local people, means that a partnership arrangement that met the needs of both could be put in place.

The RP, in this scenario, wished to increase the critical mass of their stock in the Southend area, and the efficiency and effectiveness of the management arrangements to be put in place could be considered in advance to ensure the units were developed to the appropriate quality for both parties and that they could be situated well in terms of buildings and cores to ensure maintenance and management costs were efficient.

Early-stage engagement with the market was the key lesson learned from this process for Councils such as Westminster, to maximise the value to the delivery of Truly Affordable Housing. Developing the understanding of the RP delivery model was critical to ensuring that the scheme could be delivered effectively in partnership

RP Purchase of properties – Data Analysis

RP vs. HRA Purchase Values

RP's principal goal is to develop and manage affordable homes in an efficient and effective way. As such, the organisations' business model is structured almost entirely with this goal in mind.

When compared to a Local Authority model, whose strategy and goals is far wider, this typically demonstrates a number of ways in which their efficiency and cost effectiveness can be maximised.

In order to demonstrate this, the Council's HRA valuation approach has been compared with benchmarked RP valuation approaches to demonstrate the typical differences, and their resultant impact.

	Council	Typical RP
Gross Rent	£631	£691
Operating Exp.	57.5%*	42.5%**
Yield	4.00%	4.82%***
Capital Value	£80,449	£98,886
Range - Low	£66,252	£84,427
Range – High	£94,646	£117,024

* Council's gross to net ranges between 50%-65%

** RP gross to net ranges between 40%-45%

*** RP Yield ranges between 4.25%-5.40%

The table to the left shows the key metrics that impact the potential value (shown in the blue shaded cells) that the council's HRA could pay for the units vs. what an RP would pay, based on their delivery model.

The key differences relate to:

- Operating Expenditure – The RP can deliver management and maintenance more efficiently due to stronger supply chains and focused business models; and
- Yields – Council funding rates can lead to a small yield advantage, however, this is typically not offset by the Operating expenditure differences

The impact on values is on average an increase of c. £18.5k per unit or an increase of 23%, with a range depending on unit size of between £13k ands £23k.

If this analysis were applied to a 100 unit scheme this would result in an increase in the number of truly affordable homes that could be developed as shown to the right.

In a 100-unit scheme (assuming £750k capex), this would equate to 3 additional social units

RP Purchase of properties – Operational Considerations

The RP sector works extensively with Council's across the country on arrangements of this type. However, there are some key operational considerations for the Council should it choose to implement a strategy of working more closely in this way. Key points include:

Scale and unit configuration – RPs are typically interested in purchasing properties from Council's. however, a key consideration for them will be the scale of units that are available and how they are configured. The more units that are situated together in the same buildings / area, the more attractive this offer becomes. This is due to the economies in management arrangements where local servicing and arrangements around supply chain can be established effectively. In multi occupier buildings / groups of buildings the clustering of units around specific cores / areas is more attractive.

However, this is not to say that RPs will not be interested where smaller groups of units become available. Smaller scale locally based RPs will typically be interested in taking, even small numbers of units, provided they are either near existing stock of their own, or there is a potential for a portfolio of units to be developed in partnership with the Council. There are a number of smaller RPs that are active in Westminster that could be interested

Quality of RP – The Council needs to consider the potential RP market and what the key criteria are for the type of RP is wishes to work with. Key things to consider include:

- Management Arrangements – A focus on the quality of management arrangements and tenant satisfaction of the RP
- Scale – There are a variety of RPs working in borough ranging from very large national providers to small niche ones. Consideration of the values and approach that are driven by this scale is key
- Commercialism – some RPs are more commercially minded than others with a focus on efficiency and generating surpluses, sometimes at the expense of some elements of pastoral care.
- Demand – An assessment needs to be made of the likely interest from different RPs for the specific opportunities that are highlighted.

RP Purchase of properties: Findings

Delivery Structure	No specific delivery structure is required for this approach to be delivered as external RP's will generally be the purchaser of the units. It is possible for the Council's own RP (Westminster Community Homes) to purchase the units, however, this would result in the Council's own housing ecosystem still funding the assets negating much of the benefit of this approach.
Viability	This approach supports an improvement in viability as a result of 2 main factors. • The saving in funding costs by virtue of the units being funded through the RP purchase; and • The increase in value paid by an RP compared to the Council's own purchase costs into the HRA
Resources	There is limited impact on development resources, however, this approach does impact resources in 2 other main ways: • The Council no longer manage and maintain these assets, as they are owned and operated by the RP; and • The Council's funding requirements are reduced due to the golden brick approach
Legal Considerations	The Council is undertaking development through this approach in the same way as all other approaches included in this analysis, it is then selling he assets, as such beyond ensuring it receives best consideration for these assets, additional legal considerations are few.
Potential Risks	The Council must consider the quality of the RP that purchases the assets and ensure that they are selected on the basis of their strong management and maintenance experience. The potential local market in RPs needs to be assessed to ensure there is appropriate demand from quality RPs.
Scalability	Developing a partnership with an RP or series of RPs can be beneficial in developing a programme of purchases of this type. Through this approach the parties start to understand how each other operates and the values / market interest of different parties. Through this approach this becomes a scalable solution for Councils and their affordable housing programmes.

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RP Purchase of properties: Recommendations

11) Recommendation
If the council is keen to take this approach forward, it should build on its existing relationships with local RPs and potentially cast the net more widely to undertake a formal soft market testing exercise with this group. This exercise should be used to develop a register of interested parties on which it should capture an understanding of each party's appetite, what scale of units they would be interested in, and in what location. Subsequently a protocol / approach should be developed for how these parties are engaged as opportunities arrive.

RP Purchase of properties: Key Questions

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Would the selling of new affordable units to RPs support an increase in Truly Affordable Housing?	Yes – By selling these units to an RP this enables external funding to enter the housing delivery ecosystem freeing up funds from the HRA / Council owned RPs to deliver / purchase other units, thus resulting in an increase in Truly Affordable Housing
Would such a sale impact on the quality of tenant experience for Westminster's tenants?	This is largely in the Council's control. The way the RP would be selected could be based on the quality of management services they would offer and performance elements can be built into the contractual arrangements to ensure ongoing quality
Would the RP market be interested?	Yes – This will be defined by the scale of units developed and their location, but typically the RP market has moved heavily into working with Council's in the current climate. Smaller groups of units are likely to appeal to more local RPs, whilst larger groups could be more attractive to larger G15 parties
What are the key risks in this approach that the Council need to consider?	Demand from the RP sector / selection of the right RP to deliver the quality of services the Council requires / Engagement at the appropriate time with the market

Option 4: Increasing Social Rent to Formula Rent

Introduction: Increasing Social Rent to Formula Rent

The Council's requirement is to increase the delivery of truly affordable units in the City. The previous section within this report sets out a definition for "Truly Affordable" and assesses how that translates into a rental product. It is clear from this analysis that there are a range of rent price points that would satisfy this definition.
In addition, the Council has recently implemented a policy whereby new build properties are let at market rent. This section sets out the impact on viability of delivering new build or void units at a range of rent points

The Council is set to deliver a significant number of new build units on sites within the City. To deliver truly affordable units on these sites will require subsidy from either the development (through the development viability appraisal) or from the Council (through additional resource). When considering the rent levels that can be achieved the two levers set out above can be moved to support the Council's requirements.

The following analysis considers the impact on the viability of the schemes by varying the rent, against two recognised rent levels:

- The Council's Social Rent product;
- Target (Formula) Rent; and

The Council is prohibited from raising rents with current tenants at a rate above that directed by Government (CPI linked), however, where new build properties or Voids are let the Council has the scope to increase rents to better reflect market conditions. However, we note that, in places, the Council has made the commitment to return displaced residents on their previous rents. Subject to an affordability assessment of tenants, the Council could ensure all new units have a rent that is comparable to the target rent.

The next table sets out a range of rents from Social to Market to better understand the impact of rent levels on viability.

Increasing Social Rent to Formula Rent : Tenure Analysis

	Rate	Social	Target Rent	LLR	DMR (50%)	LHA	DMR (65%)	Market Rent	Market Sale
Gross Rent	£ / Month	£631	£691	£1,120	£1,248	£1,532	£1,623	£2,497	N/A
Gross Rent	£ / Year	£7,572	£8,289	£13,444	£14,980	£18,387	£19,475	£29,961	N/A
Rental Cost	% of Rent	57.50%	52.52%	42.63%	42.63%	42.63%	42.63%	29.03%	N/A
Net Rent	£ / Year	£3,218	£3,936	£7,713	£8,594	£10,548	£11,173	£21,263	N/A
Yield	% Net	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	N/A
Valuation	£ / Unit	£80,449	£98,388	£192,826	£214,857	£263,709	£279,315	£567,021	£987,409
If GLA Grant is applicable	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Value	% OMS	23.7%	25.6%	25.9%	21.8%	26.7%	28.3%	57.4%	100.0%
Capital Value	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Expenditure	£ / Unit	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000
Net Position	**£ / Unit**	**-£515,551**	**-£497,612**	**-£494,174**	**-£535,143**	**-£486,291**	**-£470,685**	**-£182,979**	**£237,409**
Market Unit Cross-Subsidy	Per 1 Market Sale	2.17	2.10	2.08	2.25	2.05	1.98	N/A	N/A
Affordability	% of Net Income	25%	27%	44%	49%	60%	63%	N/A	N/A

Based on the analysis, 1 social rent unit needs 2.17 market sale for cross-subsidy. Alternatively, the Council could seek to use other resources, with £515,551 supporting the delivery of 1 social rent unit.

Increasing Social Rent to Formula Rent – Data Analysis

As set out there is a financial gap between current social rent charged by the Council **(25.3% OMR) and the target formula rent (28% OMR).**

By increase the rent levels from social to target rent the capital value of the unit increases by c.£18,000. This additional value could be used to support the delivery of more units on a development within the same cost envelope.

There is scope for the Council to increase the rent on new build and Void units, whilst still maintaining affordability for the most at need. Any increase in rents will allow the HRA to be more financially resilient and allow it to support more "truly affordable" housing

	Rate	Social	Target Rent
Gross Rent	£ / Month	£631	£691
Gross Rent	£ / Year	£7,572	£8,289
Rental Cost	% of Rent	57.50%	52.52%
Net Rent	£ / Year	£3,218	£3,936
Yield	% Net	4.00%	4.00%
Valuation	£ / Unit	£80,449	£98,388
With GLA Grant	£ / Unit	£234,449	£252,388
Capital Value	% OMS	23.7%	25.6%
Affordability	% of Net Income	25%	27%

Increasing Social Rent to Formula Rent: Findings

Delivery Structure	The Council must consider the impact of a range of rent levels on the requirement to hold homes in a range of different structure. Currently, any home that attracts LHA grant can be held in the HRA. However, if the Council is looking at a cross subsidy model to support more truly affordable units, then it may wish to consider whether these are held outside of the HRA – potentially under Westminster Builds.
Viability	The rent level charged directly impacts on the value of the truly affordable unit. Where the Council is looking to reduce or maintain rents at a social or target rent then to increase numbers then additional Council resources will be required.
Resources	No additional resource are required to implement these opportunities. However, if rents fall outside of the rent setting regime of the HRA, then consideration must be given to any additional resources that could be required in one of the Council's management companies.
Legal Considerations	The Council must pay regard to legal requirements around rent setting and residents tenure when it assesses the rent payable on its properties. If the property is classed as 'low cost accommodation' then the rent standard would apply. Further detail can be found in the legal section of this report, and the legal papers
Potential Risks	The Council must consider the impact on tenants of any rent level, particularly in light of the move to universal credit and the current cost of living crisis.
Scalability	This approach can be adopted across the entire portfolio for new tenancies in new build properties or relet properties

12) Recommendation
The Council should review its rent approach for social rent levels on new build and relet properties. If it is not already charging target rent on these units, it should move to this basis, unless there are specific local reasons not to do so.

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Is the Council currently charging appropriate social rent levels to tenants?	The Council has not always moved to a target rent approach for its social rented properties meaning that there is potential headroom to increase rents within the guidance
Is there the opportunity to increase the value from social rents whilst still ensuring affordability for local people?	There is the opportunity to increase rents for new lettings in new or existing units and the analysis has demonstrated that this would still be affordable tenants
Could an increase to target rents support the delivery of more Truly Affordable Housing?	Yes – an increase in rents will enable the HRA to be more viable and thus potentially support further development in the future.

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Option 5: Additional Funding Sources

Introduction to Alternate Debt Finance

Local authorities traditionally borrow from the Public Works Loan Board to finance capital investment but there are an increasing number of examples of utilising institutional funding as an alternative.

For funding of 100% social rent homes in the Housing Revenue Account, where there is no requirement for MRP, it makes sense to borrow from the PWLB on an effective interest only basis, although alternative funding can be used as part of a mixed approach.

However, for other tenures which are outside of the HRA and where repayment of any debt must be incorporated, alternative forms of funding may provide a better option. It can enable a greater number of homes to be developed in a more affordable manner that traditional sources of finance.

Whilst the PWLB has a low headline rate, it is relatively inflexible and incorporating MRP leads to challenges in early years viability and large surpluses towards the end of financing period.

Large institutional funders offer debt financing on a different profile with a substantially lower year one payment which indexes annually for the duration of the loan. This aids early years viability meaning substantially more homes can be provided and is a more efficient form of finance where the rental income generated can be expected to index.

In addition, structured finance can allow the Council to address specific risk, viability gaps or affordability issues; working with funders to put forward a package of finance to specifically meet its requirement.

However, where PWLB is a fixed rate offer over a defined period, many of the alternate debt finance offerings introduce an additional inflationary risk into the model where there is a risk that rents and debt payment increases do not mirror each other.

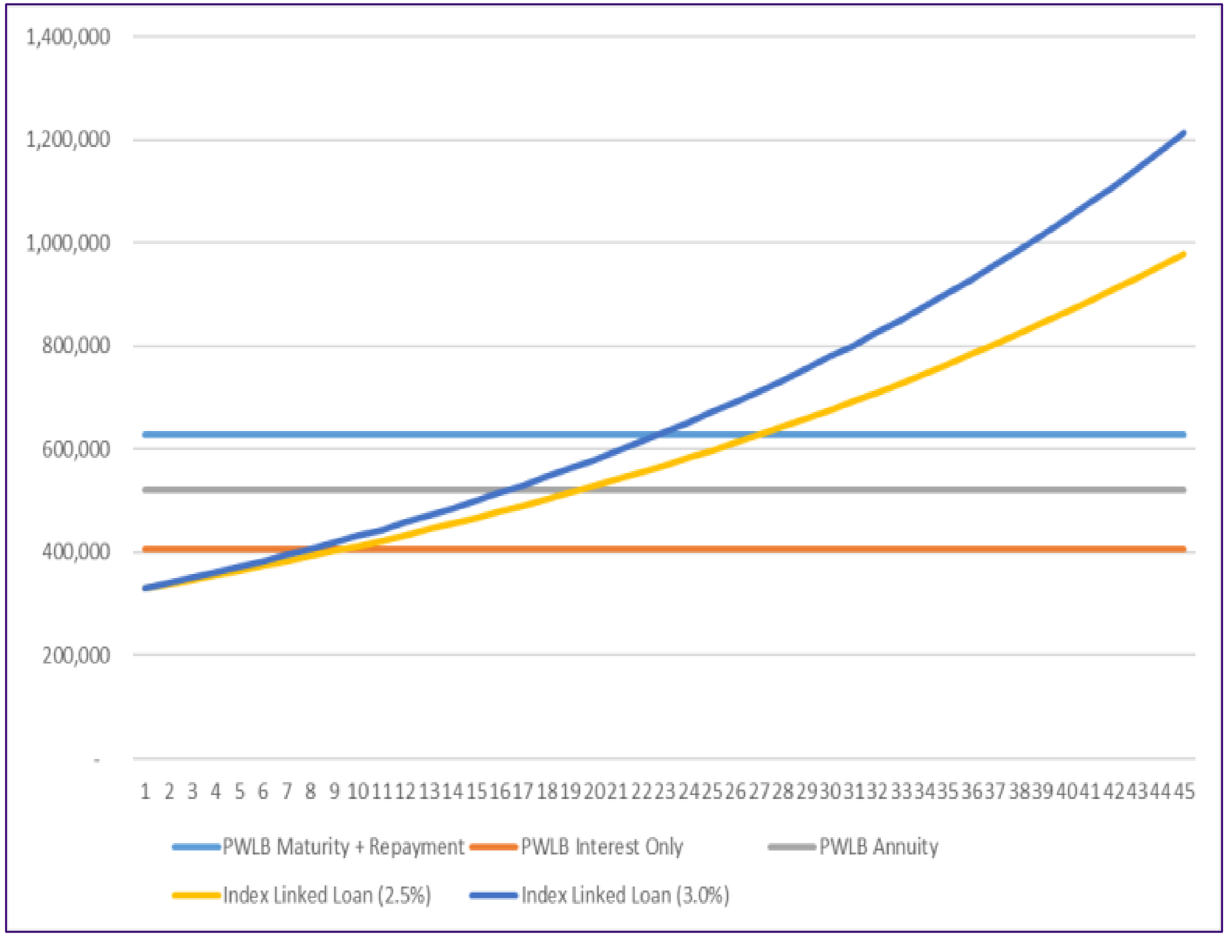
Debt Cost Comparison – Notional £10m

The analysis below is based on available rates on 12/12/2022 and demonstrate the different repayment profile of a range of debt packages.

- Traditional PWLB debt provides absolute certainty for the duration of the loan, with the Total Cost being a fixed amount
- An index linked loan starts substantially cheaper in year one but increases annually based on an agreed index
- The two index linked loan examples illustrate the impact of annual inflation of 2.5% and 3.0%
- The total cost of the loans in nominal terms are similar but differences emerge when the net present value is calculated

	Year One Cost	Total Cost (Notional)	Total Cost (NPV)
PWLB Maturity + Repayment	628,222	28,270,000	14,132,142
PWLB Interest Only	406,000	18,270,000	9,133,153
PWLB Annuity	522,020	23,490,908	11,743,079
Index Linked Loan (2.5%)	330,352	26,928,998	11,693,190
Index Linked Loan (3.0%)	330,352	30,630,170	12,937,150

PWLB Annuity and Index linked loan are comparable in terms of NPV, but have a distinctly different profile.



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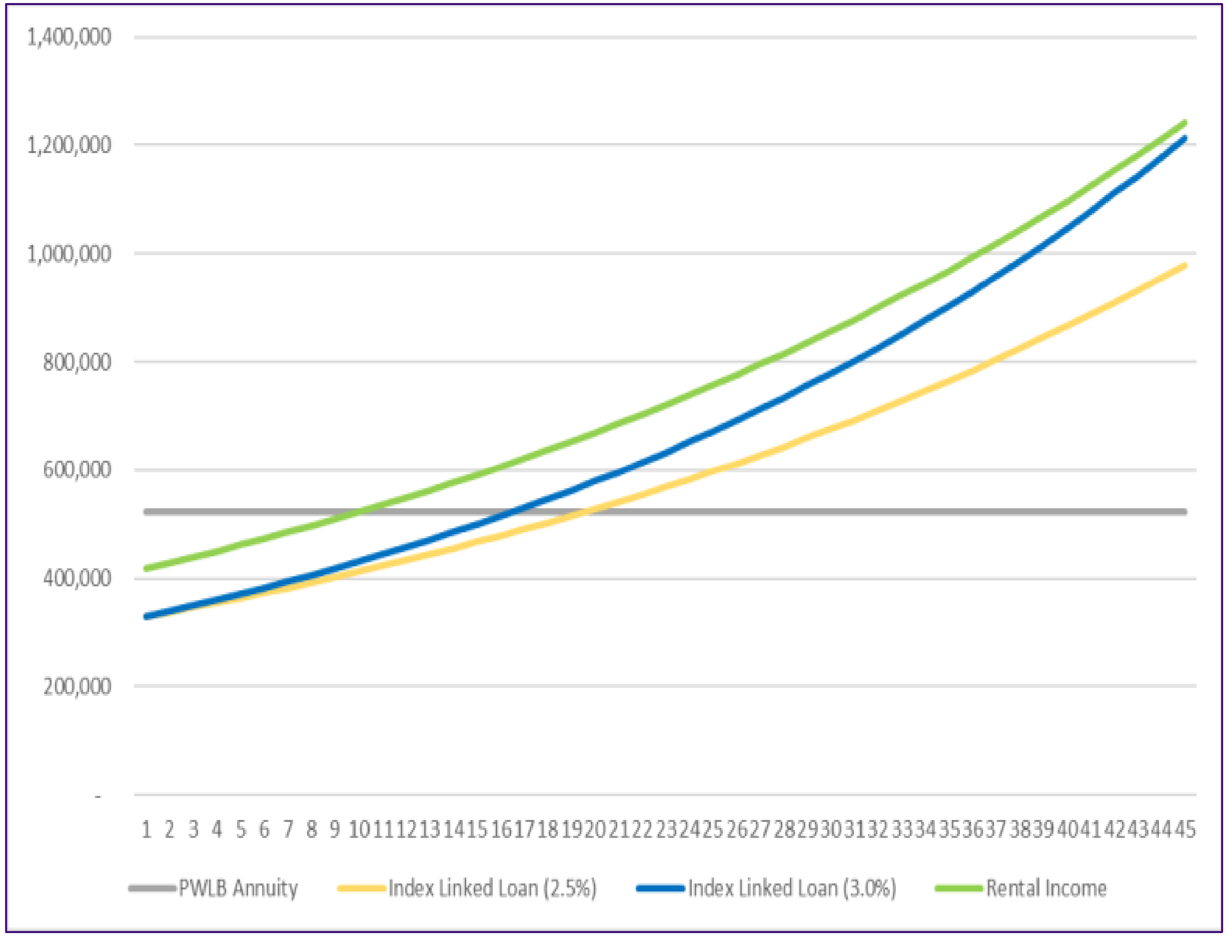
Relationship between Debt and Income

The shape of the financing curve becomes more relevant when the profile of rental income is incorporated. Where it is reasonable to assume that rents will increase annually, e.g. non-social affordable, key worker, market rent, shared ownership, it is more efficient to fund with an increasing debt cost

The alternative of a fixed debt cost, though certain, requires Council subsidy in the early years until rents increase sufficiently. In the example provided, PWLB debt costs do not equal rent until year 10 and the repayment of the prior years subsidy takes until c. year 18.

An index linked loan can be structured to mirror the rental agreements in place, e.g. CPI/RPI, and to incorporate caps, e.g. the annual payment will never increase by more than 5%

Index linked loans can enable an immediate surplus rather than require subsidy though has a different risk profile so it is important to identify potential mitigations as part of the business planning process. Many authorities use these surpluses to build up a general reserve to protect against future risks.



B&D Reside: Case Study

Case Study

Barking & Dagenham created B&D Reside to develop Truly Affordable Housing as a complement to its social rent in the HRA.

Homes were let at a mix of 50%, 65% and 80% of market rent targeting local people in employment but unable to afford private rents.

The developments were funded by an institutional investor on an index linked RPI lease structure. Homes were let on long term assured shorthold tenancies and indexed annually in line with RPI. The timing of the increase in the institutional lease and tenancy agreements mirror to ensure no mismatch exposing the Council.

The Council passed on the inflation risk through the tenancy agreements to ensure that annual indexation in the head lease was perfectly mirrored in the annual rent increases.
The financial model was linked to % of market rent rather than social rents or local housing allowance. As HPI traditionally outstrips RPI, over time, this has provided headroom for increasing rents upon relet.
There is flexibility in adjusting the mix of tenures to mitigate the risks of a) ensuring sufficient rental income to ensure the investor is paid its return and b) to adapt to changing demand for housing in the borough.
The homes were let to local tenants based on income levels which caused an additional administrative burden at the initial let stage due to the volume of new homes and applications.
There were also some instances of fraudulent applications being accepted until improvements were made in the systems.

Additional Funding Sources: Findings

Delivery Structure	Can be applied to any housing delivery structure but is normally used for affordable and market rent tenures outside of the HRA
Viability	Can aid the viability of housing programmes due to a lower cost of financing in the early years compared to traditional borrowing options
Resources	May require specialist support to advise on and arrange institutional finance
Legal Considerations	• Creates long term arrangement with an institutional funder • Institutional lease and loan agreements may need third party legal advice
Potential Risks	• Index linked loans/leases are subject to annual increases which may not mirror the yearly rental income changes • Longer lead time to arrange creating market exposure risk until rates are confirmed • Overly complex finance structures can be poorly understood creating risk within the Authority
Scalability	Alternate finance could provide a stepped change in the Council's ability to support the delivery of Truly Affordable Housing. Risks are ring-fenced to the specific units developed with the finance and as such remediation action can be agreed if risk of non-payment occur. In addition, the long-term nature of the deal and the amount of finance available from funders both support housing delivery, allowing the Council to access relatively large amounts of finance for long periods that reflect the use of the home.

Key Questions

Key Question	Commentary
When would you use alternate finance?	Alternate finance can be used to complement existing finance strategies. It is particularly useful where early year affordability is an issue, or where a specific site has been identified to deliver a range of affordable tenures. Its ability to better match costs and incomes allows the Council a more clarity on risk and therefore the ability to manage risk proactively. The main application would be on housing (or commercial) developments where there is a high long-term expectation (on average) of inflation/higher than inflation rental increases. This would typically be market rent housing or non-regulated affordable rents such as key worker/sub-market rent homes. It would not normally be used for homes which are regulated and subject to government rent policy, e.g. the HRA. That is not to say it could not be applied but there is a risk that the ability to raise the rent annually could be taken out of the HRA's control by central government meaning the rental income increase would not mirror the indexation applied to the debt servicing costs.

Additional Funding : Key Questions

Key Questions

Key Question	Commentary
Which finance sources or approach move the dial on debt that can be supported?	Alternative finance is generally provided by institutional funders who are looking to match their long term (pension) liabilities with an income stream from a strong counter party that protects pensions from inflationary risk. This makes it a good partner for Local Authorities who are seen by funders as a low-risk counter party. Given the nature of the income stream and the relatively strong correlation between rent increases and index linked funding the use of this finance can provide a more affordable route for Council's looking to delivery large scale mixed tenure developments. The particular characteristic of alternative financing routes is the substantially lower year one cost compared to traditional sources of debt, e.g. fixed rate loans. On the assumption that the operational delivery of the homes has to break even in year one, the largest cost is that of debt service and therefore significantly reducing that cost can enable a far higher proportion of affordable homes to be delivered.

Key Questions

Key Question	Commentary
Which finance approaches are just a way to do thing differently?	Alternate finance is similar to any finance option that the Council can access. However, where it does support a stepped change in delivery is the ability to better match financing costs to rental income. By doing this the Council can mitigate affordability risks that arise in the early years from more traditional forms of finance. Many local authorities use this type of finance to complement their financing strategy rather than it being the main form of finance. It is particularly useful when a specific project or programme is identified, as risks can be ringfenced and managed to that particular scheme

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Option 6: Intermediate Products

Introduction to Intermediate Rented Products

There is a need for intermediate products to support those households that work and do not qualify for social rented housing. It is critical, however, that any Intermediate products delivered in Westminster are targeted at those in need of them locally, and therefore a "truly affordable" for local people.

Truly Affordable Intermediate Rented Units

The previous section has defined "Truly Affordable Housing" as housing that can be paid for with less that 40% of net household income. Even in Westminster's most deprived wards, this evidence has shown that there are some households who can afford intermediate products that are capped at this 40% level (£1,030 per month). If these housing solutions are not provided, there can be a whole section of the resident population who are disregarded by either not qualifying for social rented housing, or not being able to afford private rented housing. When residents of mid tier and upper tier wards in terms of average income levels are examined there are potentially significant numbers of households that would benefit from the provision of intermediate rented units at this level.

Powers

Under the Council's existing statutory powers, and, as articulated in the policy statement on rents for social housing, the Council is able to directly provide these intermediate rented units to Key Workers. The definition of whom is to be largely set at the Council's discretion. If it wished to provide intermediate homes to non Key Workers, it is likely that it would need to utilise one of its delivery vehicles, most likely the management arm of Westminster Builds.

Benefits to the increase affordable units

Intermediate rented units generate a higher income than social rented units and therefore generally improve viability either by virtue of achieving a higher sale price to an external party or being operated at a surplus within the Council / delivery vehicle. These returns can in turn be used to subsidise more social rent unit delivery.

The key caveat to this is the potential of achieving affordable housing grant on units at different rent levels, for example current policy enables a grant of c60k per unit to be achieved on units at London Living Rent (LLR) levels. As such the interplay between the 40% income threshold that is proposed for Intermediate Rent, and LLR needs to be examined scheme by scheme to understand viability impacts of different tenures

Intermediate Rent : A Case Study

Case Study

Milton Keynes City Council

Milton Keynes City Council developed a definition of Truly Affordable Housing for the City and undertook a research exercise to establish where the RP and private markets were failing its population.

This study found that whilst demand for social housing was high, the second highest need was for intermediate products for residents who had little chance of accessing "affordable" rent housing, but who are not able to afford to rent or buy a home on the open market, for example local key workers.

This study led to a twin tracked approach to drive up social rent and intermediate rented products tailored to address true affordability in the City.

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There are a lot of similarities between the Milton Keynes experience and the evidence generated from the review of housing provision and income demographics of the Borough.

Key points include:

- Significant evidence that a large number of Westminster residents fall between a position of qualifying for social rent and being able to afford private sector rents within the Borough. This typically leads to an "underserved middle" who lose their home and present as homeless, requiring temporary accommodation provision.

- Research in Milton Keynes showed that there was private sector and RP market failure in this area as the intermediate products in question are less profitable that private rent, and as such are underprovided by the market, leading to a need for public intervention. This correlates with the evidence in Westminster.

- Milton Keynes were focusing almost exclusively on social rent delivery, however, this change in emphasis was driven by the needs of their local population and enabled cross subsidy to be generated. This has the same potential in the Borough

Adjusting Rents with Affordability

The table on the right shows an analysis of Westminster's' waiting list for households applying for intermediate housing. This shows that, again assuming up to 40% of a household's income can be used to pay their housing rent costs, then households earning between £26k and £46k are best accommodated in homes paying the average London Living Rent (blue shaded cells). However, those earning between £46k and £60k can afford top pay a discounted market rent at a higher level.

If the rent levels were increased above this then those earning between £46k and £60k could afford to pay up to 55% of market rent (purple shaded cells), which is 23% higher than LLR. This equates to over 25% of the households on the waiting list.

	Rate	LLR	DMR (55%)
Gross Rent	£ / Month	£1,120	£1,373
Gross Rent	£ / Year	£13,444	£16,479
Rental Cost	% of Rent	42.63%	42.63%
Net Rent	£ / Year	£7,713	£9,454
Yield	% Net	4.00%	4.00%
Valuation	**£ / Unit**	**£192,826**	**£236,343**
Capital Value	% OMS	19.5%	23.9%

The table on the left shows how this rent level is built up to generate a capital value for the asset, or what a third party, such as Westminster Builds, or an RP, would pay to purchase this unit today. This shows, in the blue cells that the value increases from £193k to £236k when rent is increased from LLR to 55% of market rent.

If this analysis were applied to a 100 unit scheme this would result in an increase in the number of truly affordable homes that could be developed as shown below.

In a 100-unit scheme (assuming £750k capex), this would equate to 8 additional Intermediate units based on 55% DMR

Households on the intermediate list

Income Band	No	%
£0k-£10k	30	1.39
£11k-15k	15	0.70
£16k-£20k	68	3.17
£21k-£25k	114	5.33
£26k-£30k	219	10.2
£31k-£35k	254	11.82
£36k-£40k	262	12.21
£41k-£45k	206	9.58
£46k-£50k	203	9.43
£51k-£55k	169	7.88
£56k-£60k	171	7.96
£61k-£65k	131	6.11
£66k-£70k	81	3.79
£71k-£75k	83	3.86
£76k-£80k	70	3.25
£81k-£85k	38	1.78
£86k-£90k	33	1.55

Intermediate Products – Data Analysis

LLR Grants

Currently the GLA are making grant available to Council's that are delivering new housing at LLR levels. The Council has received indications that in the event that they develop these LLR units they are likely to receive £60k per unit in affordable housing grant to offset the capital costs of development.

In this scenario this skews the analysis undertaken on the previous page as whilst this has shown that third parties would pay an additional £43.5k per unit for 55% market rent units this is £16.5k less than the grant they would receive, as such in this circumstance these units would have a negative impact on viability.

However rents based on median Westminster rents represents…

In the higher value wards across Westminster this tips – In 7 (35%) of Westminster wards the value of a 55% DMR capital value of these units is more than £60k higher , as such this rent level is a key consideration in applying this approach.

Moving forward with this option here are therefore 2 key considerations for the council:

- The current grant rates are achievable for intermediate rented products, and the impact this has on overall viability; and
- The sections of the population that are targeted for this intermediate product to ensure that it is both viable and of need in the areas in which it is developed.

Intermediate Products: Findings

Delivery Structure	Where the Council develops intermediate rented housing it can choose to operate this within the Council should it be classed as Key Worker Housing, however, if it is developed and let to any other resident group it could not do so within the Council. In this event the stock could be held by a company, such as Westminster Builds or it could be sold to a third party, such as an RP.
Viability	Intermediate rented units let above social rent levels will always have a positive impact on viability, subject to the availability of affordable housing grant for these units. If grants area available then the level of grant needs to be reviewed to ascertain whether this more than offsets the capital value of these units.
Resources	Intermediate rented units require the same resources to develop and manage as any other of the social rented units identified within the development programme. Should these be let to non Key Workers, and the Council wished to own and operate these units, then a company would need to be used. In this circumstance, management / maintenance services would need to be let back to the Council or to a third party
Legal Considerations	There are no key legal constraints on the Council developing these units. The key legal consideration for the Council is its powers to own and operate the units once developed. The policy statement on rents for social housing enables the Council to do so where the units are let to Key Workers, the designation of whom can be defined by the Council. Beyond this group, any Intermediate rented units let to others would need to be operated from a company.
Potential Risks	The Council would be taking the same risks on development and operation as for the rest of its housing programme. In addition key risks relevant to intermediate units relate to the level of grant available for these units, any changes in government policy regarding Local Authorities powers to develop and operate these types of units and the types of residents that are targeted and their designation as key workers
Scalability	The diversity of household incomes across the Borough make this a significant solution in some wards / areas in order to provide TAH to an underserved section of the population. This makes this solution scalable across the Borough based on a set of critical factors such as demand and household demographics.

Intermediate Products: Recommendations

13) Recommendation
The Council should review its approach to intermediate housing and consider its delivery in areas where income levels support it. Where intermediate housing is considered appropriate, the Council should:

- Undertake modeling to understand the interplay between the sourcing of GLA grant vs the benefits of increasing rents to intermediate levels; and
- Consider which delivery mechanism(s) should be considered for the development and operation of the intermediate homes as part of the Council's housing delivery ecosystem to ensure the appropriate vehicle(s) are used.

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Should the Council consider intermediate housing as an appropriate tenure when delivering Truly Affordable Housing in the Borough?	Yes – The analysis shows that intermediate rented housing is an appropriate housing type that would be "truly affordable" to those in housing need in the Borough. In particular, in areas where incomes are not at their lowest
Would the use of Intermediate Housing result in an increase in the level of Truly Affordable Housing that could be delivered?	Yes – Intermediate housing delivers a higher financial return to the Council than social rented housing. This return can be used to support the delivery of more Truly Affordable Housing, and provide cross subsidy to more challenging tenures such as social rent
What are the conditions under which Intermediate Housing should be considered?	Where housing need is significant and there are prospective tenants on the intermediate housing weighting list / Where income levels would support housing costs (household income between £46k and £60k)
What about the impact on the available GLA grant?	The impact on grant capture from other tenures should be considered and the interplay between grant levels and the extra value of rents considered in selecting he tenure.

Option 7: Wider Development Market

Introduction to Wider Development Market

As well as being a housing developer within the City, the Council, through its role as the Local Planning Authority, also has an impact on the housing delivered by other sectors. Other local authorities have found that having a supportive, partnering arrangement, through the LPA and their wider stewardship role has allowed it to deliver better housing outcomes.

This section assesses how the Council could consider its use of some of the tools and powers offered through its role as the Local Planning Authority, its guardianship and stewardship of the City and its wider requirements to deliver its corporate plan. It builds on a range of activities taking place in authorities across the country to deliver better housing outcomes and includes:

- The Local Planning Authority will only support those applications that include the minimum level of truly affordable units;
- The Council could look to support developers through financial interventions and support to enable private led schemes to meet a minimum level of affordable provision or better align it to a truly affordable offer;
- The Council could partner with developers, including RPs to de-risk developments and ensure that delivery of affordable is a priority;
- The Council will require housing units over commuted sums or ensure that information is available to negotiate commuted sums that at least cover the costs of delivery, thereby maximising the delivery of truly affordable units.

Wider Development Market : Case Study

Minimum Levels of Affordable

The City of Westminster, as a local authority area has some of the highest residential values in the country. As such, developments within the City can support above average costs. Whilst land values are significantly higher than elsewhere there is still significant opportunities for development.

The LPA taking account of the Westminster City Plan and the GLA policy guidance supports the delivery of policy compliant development and going forward it should maintain its approach. However, the City Plan sets out a requirement of 60% intermediate rent/sale and 40% social rent. By defining truly affordable within the Plan the Council could encourage the delivery of more units that meets its requirements.

Partnering Approach

Councils across the England have adopted a more collaborative approach to the delivery of affordable housing. Working with the wider development market Councils have partnered or collaborated to better understand the risks and viability levers that can be used to allow development to come forward whilst maintaining or increasing the levels of affordable units delivered on site.

Examples include:

- The release of land near the development to provide additional value;
- Support in, or the removal of onerous or spurious conditions;
- Use of CPO powers to support land assembly and delivery; and
- De-risking the sales process through guaranteed purchase schemes

Wider Development Market : Case Study

Financial Support

In a period where finance is becoming more expensive, and the banking sector is taking a more risk averse approach to lending local authorities are assessing whether they can use their financial strength to support development.

The previous section set out how alternative forms of institutional finance is being attracted to the sector be long term return offered by housing management. In a similar fashion, the Council can provide financial guarantees, short term development loans or longer-term financial assistance to support the delivery of sites. Where this has been particularly successful, and noting the Council's wider objectives, is where financial assistance has been linked to enhanced delivery. This could include enhanced public realm, more sustainable development or increase levels of affordable housing.

In acting as a "bank" to support schemes the Council needs to be clear on its financial and wider objectives when entering these arrangements, i.e. foregoing financial return to deliver more truly affordable or supporting the viability on inherently unviable sites.

The current economic situation has led many developers to stall or rethink their approach to delivery. Distressed sites could provide the Council with access to new projects that, where its intervention could help secure affordable housing.

Wider Development Market – Results

Changing the council policy position on commuted sums could improve the number of additional housing units

Historically, commuted sums have been accepted by the council from developers. Typically, the value of the commuted sum is significantly less than the cost of the council building affordable units, therefore rendering accepting the commuted sum a 'bad deal'

Considerations

- Existing data on commuted sums is historic and very limited.
- The councils planning policy has already pivoted to be stronger on requiring residential developers to provide on site. The council's position is that acceptance of commuted sums is on the way out.
- Should further data be made available on commuted sums, analysis can be conducted to understand the impact of maintaining a strong stance in line with policy compliance.
- This could in turn lead to additional units due to the additional funding gained or more units delivered onsite.

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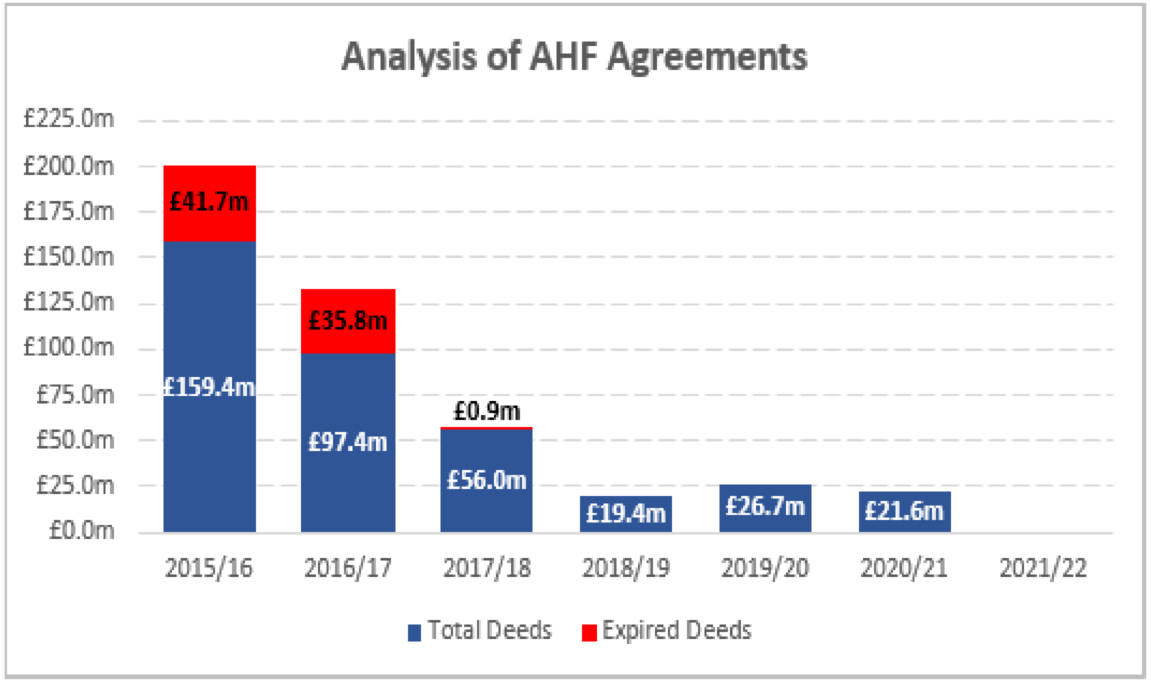

The Affordable Housing Fund (AHF) is funded by commuted sums. The reduction is a result of changes in policy around office developments. Currently, there is no data to align the payments to number of units delivered.

There is insufficient data to calculate the impact and potential additional units that could be delivered through this approach

Wider Development Market : Findings

Delivery Structure	No specific delivery structures are required for this option
Viability	Interventions here will increase the levels of truly affordable provision by providing cheaper finance, working in partnership to increase viability, ensuring commuted sums are sufficient to support housing delivery and ensuring the development market has a better understanding of the Council's housing requirements
Resources	No additional resources are required for this option. However, any financial support will impact on the Council's balance sheet and will need to be considered in line with wider Council considerations and medium term financial sustainability.
Legal Considerations	The Council must be mindful of Planning Act legislation. In addition, any support given to the wider market must be considered against the new Subsidy Control Regime due to commence on the 3 January 2023.
Potential Risks	The Council must consider the potential for financial loss or the achieving outcomes that represent poor value for money when considering any financial support. There is also an increased political risk when engaging with the wider market to achieve specific policy outcomes, particularly where there is the risk or loss or the potential to be favoring specific developments or developers.
Scalability	This is an important tool that could be used to bring forward stalled or marginally viable developments. This could lead to increased scale, particularly that it is supporting delivery on sites not owned by the Council. Other interventions would support additional delivery but, importantly allows the Council to set the tone, particularly of levels of affordable and rejecting the use of Commuted Sums.

Wider Development Market: Recommendations

This section has concluded that there is significant potential to engage with the external development market as a key tool to increase the level of Truly Affordable Housing. We would therefore make the following recommendations in order to take this forward.

14) Recommendation

The Council should consider the benefits of ensuring that all developments brought through the planning system deliver, as a minimum, the policy requirements for affordable homes.

15) Recommendation

Where development capacity is a constraint on delivery, the Council should consider partnership approach to access spare capacity in other organisations. This is particularly relevant when considering the current capacity in the RP market. A focus on commercial covenants, increased costs and cladding issues has resulted in RPs slowing down their development programmes in order to ensure financial sustainability.

16) Recommendation

The Council should assess whether key sites within the City have stalled as a result of viability issues. Consideration should be given as to whether, through the injection of finance, the Council could support the schemes and thereby get an enhanced in level of affordable homes.

17) Recommendation

Through our analysis we found that the level of commuted sums previously received by the Council has not always given rise to a commensurate increase in affordable provision. However, the information held was inconclusive as to the reasons.

The Council has already started to implement a policy whereby commuted sums are not considered and this report recommends that this policy is continued moving forward.

Key Questions

This slide summarises and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Can the Council support the delivery of increased numbers of affordable homes through the wider development market?	• The Council can use its planning powers to ensure that all development undertaken meets the minimum requirement for affordable delivery • The Council can partner with external developers, particularly RPs, to access spare capacity and skills, potentially supporting a more efficient delivery programme. • The Council can use the strength of its financial covenant to support stalled or marginally viable developments. In doing this, the Council would expect enhanced affordable provision. • The Council can ensure that commuted sums are only considered after all other available options have been exhausted, supporting actual delivery of units. In addressing all the points above the Council can set the tone with the external development market that looks to support, encourage and enhance the delivery of Truly Affordable Housing across the City.

Section 4: Analysis of the Options

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Housing Options: Implications for the Council

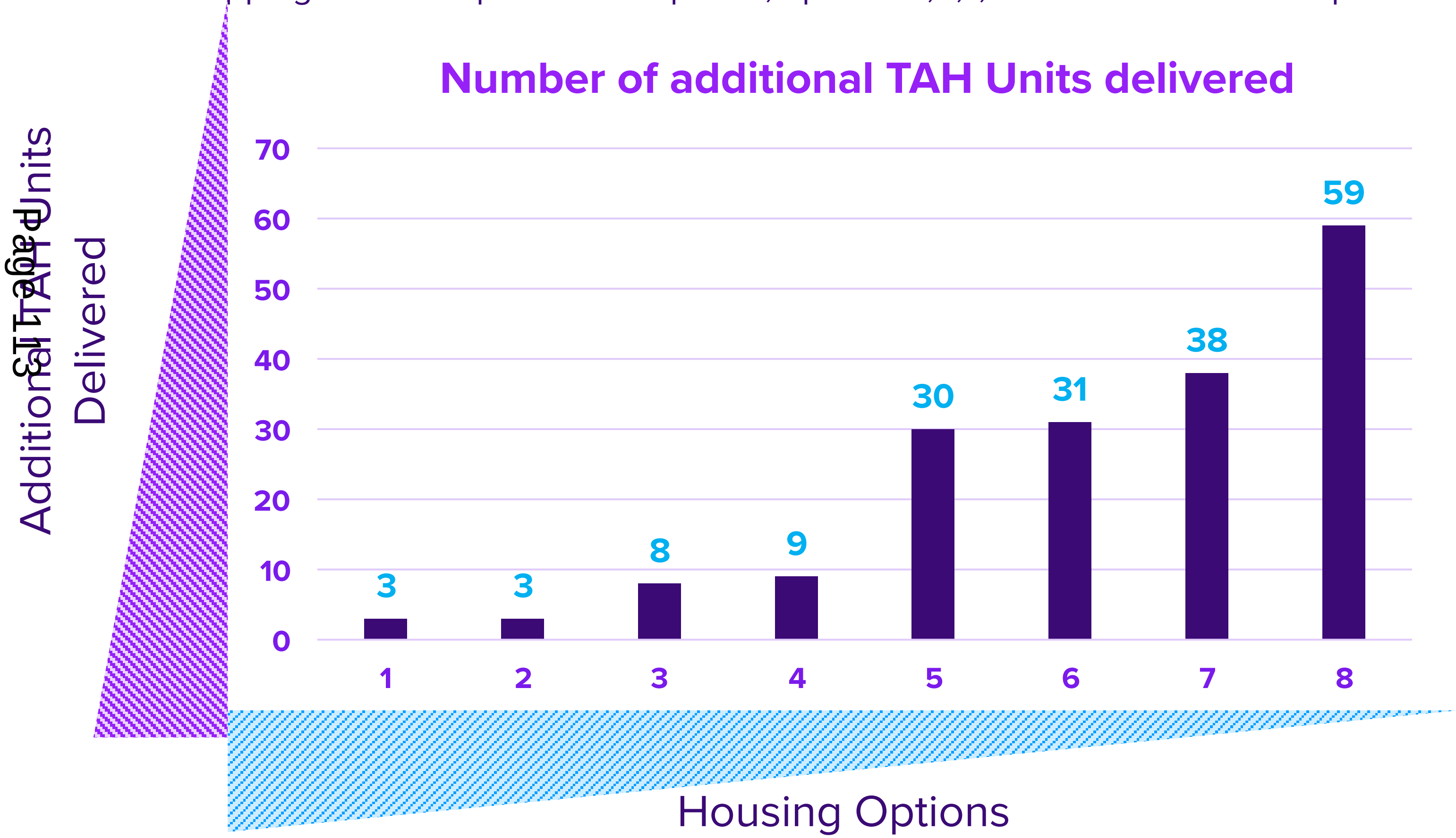
- This section sets out the impact of implementing the relevant elements of each of the key opportunities set out in the previous sections. When considering each option and its applicability as an intervention to the Council's build programme there are a number of considerations when assessing its likely impact.
- Each of the options will need to be considered in terms of:
  - Any additional financial risk or burden placed on to the Council;
  - How the option best meets the wider strategic objectives of the Council e.g.:
    - Keeping rents at the lowest level;
    - Building high quality units;
    - Supporting the Council's climate emergency activities; and
    - Addressing wider resident consideration, e.g., building safe and resilient communities.
  - Timescales for delivery (short/ medium and long-term options)
  - The delivery and resourcing models currently available to the Council
  - Future recommendations regarding the financial, resourcing and legal impact of this report.
- The following slide sets out the analysis on the potential options for delivering additional truly affordable units, when compared to the current baseline demonstrates that between 3 and 91 additional units could be delivered by taking a different approach.

Total Cost vs Additional Units Delivered

Impact Analysis

The potential impact of each of the Housing Supply Options has been mapped together on the graph below to show the number of additional Truly Affordable Housing (TAH) units that could be delivered based on a 100-unit scheme. **Some of the original 7 options that were analysed have given rise to several different opportunities – leading to 8 proposed interventions.**

When mapping out the impact of the options, options 5,6,7, and 8 are the most impactful in terms of delivering additional units of housing.



The Options:

1. **RP purchase: Increase Valuation to RP Methodology**
2. **Increase Social Rent to Formula Rent**
3. **Intermediate Products: Increase LLR to DMR**
4. **VFM Analysis: Increase HRA Valuation**
5. **VFM Analysis: Build at Private Sector rates**
6. **Street Purchases: Acquire in borough instead of Build**
7. **Street Purchases: Buy Properties for TA Out-of-Borough**
8. **Street Purchases: Acquire out of borough instead of Build**

Housing Options: Ebury Bridge Case Study

Ebury Bridge Estate has been used as a case study to better understand how options could be applied. It is an ongoing development in Westminster which will see the creation of 781 affordable homes, with over 50% being affordable housing. The proposed programme will see the development of new homes, alongside redevelopment of the current estate in the heart of London.

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Ebury Phase 1 is a "typical" Westminster Development and was chosen for analysis as it has available data to conduct a case study on some of the options to increase affordable housing. For the purposes of this analysis, we have excluded from this analysis is the Council policy to allow 198 resident the right to return at their current rents.

Phase 1 is developing:

- 226 units, 142 of which are affordable
- split 98 social and 44 intermediate

Housing Options: Ebury Bridge Worked Example

Current data shows an "all-in" capital costs of circa £778k per unit, including fees, continency and financing costs

- The capital value for the social units is assumed as follows:

	Studio	1 bed	2 bed	3 bed
Social (Baseline)	£59,775	£59,775	£71,054	£75,004

- Modelling assessed what the likely capital receipt would be under the following three scenarios:
  1. Increasing rents to Target Rent
  2. Assuming a disposal to an RP
  3. Optimising HRA valuation to a Day 1 breakeven rate

	Studio	1 bed	2 bed	3 bed	Increased Affordable Units
Social (Baseline)	£59,775	£59,775	£71,054	£75,004	
Increase to Target Rent	£75,565	£86,337	£91,404	£96,482	+ 4 units
RP Valuation	£84,814	£116,809	£102,592	£108,292	+ 7 units
HRA Day 1 Breakeven	£91,934	£91,934	£109,281	£115,356	+ 6 units

- An estimated 4-7 additional units could have been provided if any of these options were implemented. However, it must be noted that each of these options are mutually exclusive and cannot be used together.

Note: Westminster has already agreed to implement a move to target rent on those new residents to the scheme providing a financial boost and quick win.

NB: This worked example is for demonstration purposes only

Application of the Options

Each of the 7 options identified carry the potential to individually increase the delivery of Truly Affordable Housing units. However, it is more likely that these approaches would be used in a complementary way, with more than one being applied on the same scheme(s). To exemplify this each of the approaches have been detailed below with high level guidance of the conditions for their application.

Which approaches can then be applied together in a complementary fashion have been shown in 2 groups (&)

Internal

Intermediate Products

Most appropriate to develop in wards with:

i. Mixed incomes with demand for SR and Intermediate

ii. Demand for Key Worker Accom.

- Developed in W.B. or Council and operated from W.B/ Mgt. Veh.
- Most effective in terms of viability where differential between LHA and costs is highest.

Value for Money (VFM) Analysis

Build @ Private Sector Rates

- Consideration site by site to benchmark Council delivery
- Potential to partner more closely with construction partner to drive down costs

HRA Valuation Approach

- The Council should review and assessed whether to adopt this approach across the board.

Increasing Social Rent to Formula Rent

- Applicable to new build units only as existing rent increases are capped
- Most useful where there is a significant difference between Formula Rent and current Social Rent
- Consideration of rent levels in geographical areas – different rents for very similar properties can cause issues

External

RP Purchase of Properties

- Most applicable for new build larger schemes in order to attract RPs (10+)
- Can be approached on multi site for smaller unit numbers
- Partnering with quality RPs is critical
- Used where the Council is comfortable with a third party owning the units, but with Council nomination

Additional Funding Sources

- Most applicable for larger sites or programmes of sites
- Addresses a portfolio of affordable, market rented or TA properties, or a combination of the 3
- Partnering arrangements with institutional funders to agree long term position on cost and income

Street Purchases in/out of borough

- Utilised when purchase price is supported by LHA yield / Comparison with TA costs is positive
- Consideration of a programme of purchases with an institutional funder
- Applied in particular to areas close to the Westminster border but out of borough based on financial benefits

Wider Development Market

- The Council generally signal its intent to work proactively with developers, it then
  - Examines opportunities site by site to partner to provide finance / land arrgts that support increased TAH
  - Robustly defend planning positions and avoid commuted sums

Section 5: Delivery Structures

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Housing Delivery & Management Ecosystem

There are currently 4 main delivery and operational approaches for the Council's housing growth agenda. These are each detailed within the table below, along with the key features of each.

Approach	Features
City of Westminster	The Council develops and operates its own housing stock within the HRA. The HRA growth plan is significant with in excess of £950m of capital investment planned over the next 5 years which will fund the delivery of c. 1,500 new by 2025/26.
Westminster Builds; Westminster Housing Investments Limited (WHIL); Westminster Housing Developments Limted (WHDL)	The Council owns a group of 2 companies branded as Westminster Builds which has been established to develop (through Westminster Housing Developments Ltd) and hold and operate housing (through Westminster Housing Investments Limited. These companies are 100% owned by the Council. They currently own and operate 71 intermediate units, however, no development activity has been undertaken to date. The housing is managed and maintained through service contracts let back to the Council's HRA
Westminster Community Homes Ltd	The Council also owns a charitable RP, in the form of Westminster Community Homes (WCH). This RP was established in 2009 to develop, manage and maintain affordable homes within the Borough. WCH currently owns and operates in excess of 500 units, these are operated through a management contract with the Council.
City of Westminster; linkcity	The Council entered into a Joint Venture (JV) in 2019 with Link City, the development arm of the Bouygues group. The Linkcity JV was a financial intervention to safeguard delivery of affordable housing and is tailored to this scheme. The JV delivers a mixed tenure housing scheme comprising 171 units across 2 sites at Luton Street. The 62 homes developed comprise social rent, which is purchased by the Council's HRA, and intermediate rent, which are purchased by Westminster Builds. This arrangements is coming to an end, at this juncture, the benefits of it should be reviewed for the Council to consider similar arrangements being put in place in the future.

Each of these bodies was reviewed to understand the key features of each, the key activity that each undertook and how they inter-related in the delivery of the Council's growth agenda. The key advantages and disadvantages of each are detailed in Appendix 3, and the key findings of this review are detailed below.

Delivery Structures – Key Findings

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

The Council largely has the correct delivery structures	When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that is wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle. The only potential exception to this is the form and structure of WCH as a Charitable RP, this is discussed further below.
Lack of Strategic Direction	The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.
Operating in Silos	Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.
Vehicle Selection	There appears to be a lack of understanding of the capabilities of each vehicle and which should be used for which purpose, including what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other.

Registered Provider – WCH vs. an alternative RP.

The Council is seeking to establish a housing delivery ecosystem that enables it to be in control of the development and selection of management arrangements of the Truly Affordable Housing that it delivers, and to do this in the most efficient and effective way possible.

In order to maximise the potential for the delivery of TAH the Council is seeking to include all of the appropriate tools that it needs to address this objective. The inclusion of a Registered Provider is a key potential tool that could be included. The Council currently has a Charitable RP within its ecosystem, in the form of WCH, however, there are some challenges with the form and function of this RP.

The key advantages of the inclusion of an RP in the Council's housing toolkit are considered below against the current arrangements in place.

Key Feature	WCH
Ability to secure grant from the GLA for the development and management of Truly Affordable Housing grant	WCH does provide access to these grants through its RP status, as such grant can be secured for the development and operation of TAH
Closely controlled by the Council to enable the RP's objectives to be adapted to be utilised effectively alongside the other housing delivery and management tools	WCH does not provide the Council with this level of control. The RP has a charitable status and is controlled by the Board with little to no influence from the Council beyond the financial support it provides.
Council control over the long term of the assets developed and ability to influence the ongoing management, maintenance and develop activities of these assets	WCH does not provide control over these assets as again the charities board is in control of its activities. A s such, should the Council wish to move assets / change the arrangements it has no direct levers to do so

The lack of control over the RP arrangements is the key disadvantage of WCH. This could be addressed through the establishment of a Non-Charitable RP within the Council delivery ecosystem. A non-charitable RP could be established within the Westminster Builds group. The Council as shareholder would have typical shareholder controls which would address the above issues.

The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.

Housing Delivery & Management Ecosystem – Lack of Strategic Direction

Lack of Strategic Direction – Whilst the Council has <u>all</u> of the appropriate tools it needs to develop and operate the full spectrum of housing it needs, it has not set an appropriate strategic framework to maximise the benefits of this toolkit.

The Council needs to establish a strategic approach to their use by putting in place a set of **Housing Strategic Objectives** that sit across the different delivery structures, and these should be extended to the Business Plans of each entity. These are then implemented by a **Strategic Oversight Board**

Subsequently a set of operational structures / principles then need to be agreed that informs the selection of the different delivery structures on an ongoing basis. This structure is shown below, and the approach to the use of the different vehicles in the Council's toolkit is addressed in the following slide.

Overall **Strategic Objectives** across the Housing delivery programme

Operational considerations to select appropriate delivery mechanism

(Skill sets / Powers / Access to Grant / Tax Considerations)

Westminster Community Homes Ltd

Westminster Builds

Westminster Housing Investments Limited (WHIL)	Westminster Housing Developments Limted (WHDL)	Non Charitable RP

City of Westminster linkcity

City of Westminster

The Housing Delivery & Management Ecosystem – Which structure to use?

Determining the appropriate structure - The Council has an appropriate set of tools to deliver its housing aspirations, however there is a lack of clarity over which vehicle should be used for which purpose.

The diagrams below bring out the key types of development / operation that is best suited to the vehicle that is in place. Appendix 3 provides additional detail to explain why these vehicles should be used. The following slide also provides an example decision tree to demonstrate how the appropriate vehicle is selected.

Westminster Builds

Westminster Housing Investments Limited (WHIL)

- Ownership and Management of private rented units
- Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired)
- Purchase, ownership and management of temporary accommodation

Westminster Housing Developments Limted (WHDL)

- Development of schemes of housing for private sale / rent with an objective of generating surpluses
- Development of affordable housing to be sold to third party RPs
- Development of schemes of other non residential uses with an objective of generating surpluses

Non Charitable RP

- Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control
- Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL)

City of Westminster

- Development of mixed use schemes where the purpose is not predominantly to generate financial returns, Schemes can include private sale / rent, affordable and commercial uses.
- Development of affordable housing schemes
- Ownership and Management of social rent units within the HRA
- Ownership and Management of intermediate rent units for key workers on secured tenancies

Westminster Community Homes Ltd

- Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control
- Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units

The Housing Delivery & Management Ecosystem – Example Decision Tree

A decision tree process could be used for development and management of different types of unit. An example tree is shown below for the question:

Do the Council want to own and operate Intermediate Rented Housing it develops?

- **Yes** → Will the Intermediate Units be let to "Key Workers" as defined by the Council
  - **Yes** → Will the intermediate housing be let on Secured tenancies
    - **Yes** → Own and operate within the Council (City of Westminster)
    - **No** → Own and operate through WHIL (**Westminster Housing Investments Limited (WHIL)**)
  - **No** → Units should be owned and operated by WHIL (**Westminster Housing Investments Limited (WHIL)**)
- **No** → Are the units being developed predominantly to generate financial reward?
  - **Yes** → Develop through WHDL (**Westminster Housing Developments Limted (WHDL)**)
  - **No** → Develop through Council (City of Westminster)

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Delivery Structures: Recommendations

This section has concluded that the Council has a largely fit for purpose set of delivery structures, however, there are significant improvements needed to maximise the potential that these structures have to deliver the Council's objectives. We would therefore make the following recommendations.

18) Recommendation
The Council needs to establish a strategic approach to its housing delivery ecosystem. To accomplish this, it needs to establish a **Strategic Oversight Board** to oversea the housing delivery ecosystem. This Board should develop a set of Housing Strategic Objectives that sit across the different delivery structures. These objectives should then form the basis of the development of the Business Plans for each entity. These Business Plans should be amalgamated to form the basis of a new Housing Delivery Plan.

19) Recommendation
The Council should seek to agree the key criteria for which vehicle should be used for which purpose in delivering its Housing Delivery Plan.

20) Recommendation
The Council should seek to establish a new non charitable RP as a body within the Westminster Builds brand. The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.

21) Recommendation
As the Link City JV comes to an end, the Council should review the performance of the JV in order to

- Examine what has gone well and less well in the performance of the vehicle
- Identify any lessons learned for partnership arrangements in the future
- Identify the skill sets the Council has developed through its partnership working.

On the back of the review the Council's approach to partnership working with the private sector should be reviewed and key principles developed for how the Council could maximise the potential for these arrangements in the future.

Section 6: Resourcing

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Resourcing – Introduction, Objective and Approach

A key objective of the Review of Housing Supply is to identify what the optimum position is on management and staffing resources for delivery of the Council's housing led regeneration programme

The previous section has examined the housing delivery ecosystem that the Council currently has in place and concluded that:

- **The Council needs to establish a strategic approach to its housing delivery ecosystem via a set of Housing Strategic Objectives and a Housing Delivery Plan.**
- **The Council has a strong set of delivery structures that can deliver the full spectrum of housing, with the exception of the establishment of a "for Profit" Registered Provider.**

This section of the report now overlays the governance and resourcing requirements to support the current and future housing delivery ecosystem.

Approach

The approach to reviewing the resourcing arrangement has been:

- A mixture of desktop research and conversations with key internal housing experts from across Housing and other key functions from the Council.
- A range of conversations and desktop research undertaken across the wider Housing sector, including conversations with experts at a national level, where in general terms, consideration has been undertaken of the optimum operating models and resourcing options available.
- To consider the best options and opportunities for Westminster, consideration has also been made of what happens pan London in terms of delivery models and the associated skill sets required via desktop research across a range of documents.

Sources of Research:

- London Councils Housing Group
- North London Housing Partnership and their skills academy
- New approaches to Housing Management – Chartered Institute of Housing
- Housing Learning and Improvement Network
- Local Authority Direct Delivery of Housing Research – Royal Town Planning Institute/UCL
- Local Government Association focus upon Housing advice and best practice
- Local Partnerships – Local Authority Company Review Guidance

Findings

In order to consider the best possible future outcome and operating model for WCC in terms of resources, consideration has been made of current & historical models utilised, as well as relationships across the Housing sector. Below is a summary of the key findings:

Pan London Research Summary

- There are a range of governance and resource models in place across London that suggests a flexible and bespoke approach can be used to design the optimum arrangements.
- The predominant approach for delivery is via Development Agreements and a Direct Development Partner approach (61% of delivery is through this approach).
- Public/Private joint ventures are preferred by 22% of London Boroughs with only 8% favouring provision through wholly owned companies.

Wider Housing Sector Research Summary

- Nationally there are a range of delivery, governance and resource models.
- Walsall is considered a relevant and exemplar model for WCC. They have an externalised organisation which comprises of 5 companies operating as different delivery vehicles, together with a joint overarching Board. They have been successful in establishing succession planning, learning and development. Further information on this model and example is available in appendix 4.

- Research plus conversations with key stakeholders and market experts identified that there are a range of operating model options for WCC to implement from a governance and resources perspective.
- There are a range of varying people skills required to enable delivery and sustainability of the optimum operating model.
- **A flexible and bespoke approach can be used to design the optimum arrangements**
- Appendix 4 provides more of the detail from the research.

Key ingredients for successful governance

Governance Aims

Good corporate governance requires councils to carry out their functions in a way that demonstrates:

Accountability	Transparency	Effectiveness	Value	Integrity	Inclusivity

- The Governance arrangements for council owned entities should seek to ensure that:
  - The entity should have **sufficient freedoms to achieve its objectives**
  - The council should have **sufficient control to ensure that its investment is protected**, appropriate returns on investment can be obtained and that the **activities of the entity are aligned with the values and strategic objectives of the council**
  - The entity continues to be **relevant and required (in its existing form)** and if not, appropriate steps are taken (for example, amending constitutional documents or changing form or terminating the vehicle)
  - Sufficient **checks and balances are in place**
  - **Risks are appropriately recognised and managed**
  - There is an **effective scrutiny function** and that challenge of political priorities by both members and officers is seen as a positive
- The council must have a designated “shareholder” to represent its ownership of the entity.
  - The process for appointing a shareholder needs to be set out in the council’s constitution which should also detail how the shareholder reports on the exercise of delegated powers.
  - There should be clarity regarding the role of shareholder, with reserved matters clearly documented

Key ingredients for successful governance

Council oversight, scrutiny, and governance framework

The council should have a clear, systematic framework which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded. The framework should be underpinned by:

Governance Framework

Accountability	Transparency	Effectiveness	Value	Integrity	Inclusivity
Clear governance principles, such as keeping the role of shareholder separate from that of the board	Applying arrangements in a similar legal model e.g. by using standard articles of association or shareholder's agreements so the overall approach is standardised	Clear Housing Strategic Objectives and be able to articulate clearly what success looks like in terms of achieving social outcomes and/or a return on investment	Objectives of the entity should be regularly reviewed to ensure that its operation continues to support council policy and strategy	Regular review of risks	Codes of conduct should promote diversity and inclusion

There should also be:

- Commercial agreements which set out any assistance provided to that entity and the associated terms. This can relate to assistance in the form of Loan or parent guarantee, or Goods, services or staff.
- Evidence that a culture exists whereby actual or potential conflicts of interests are identified, declared, and acted upon, including evidence of appropriate training across the organisation
- Clearly defined and documented roles, responsibilities and reporting lines of officers and members who are involved in council oversight of the entities, the provision of services between the entities or the running of the entities

Key Ingredients for successful governance

Key ingredients

There are several key ingredients required to be in place in order to provide the best possible governance and to enable best practice to be developed and recognised. These are delivered through a mixed economy of people and process and are set out below:

- Financial Plans
- Business Plans & Delivery Plans
- Strategic Objectives
- Vision & Values
- Delivery Vehicles
- Organisation function & form
- People & Skills
- Political Leadership
- Organisational Leadership
- Performance Management
- Residents Engagement

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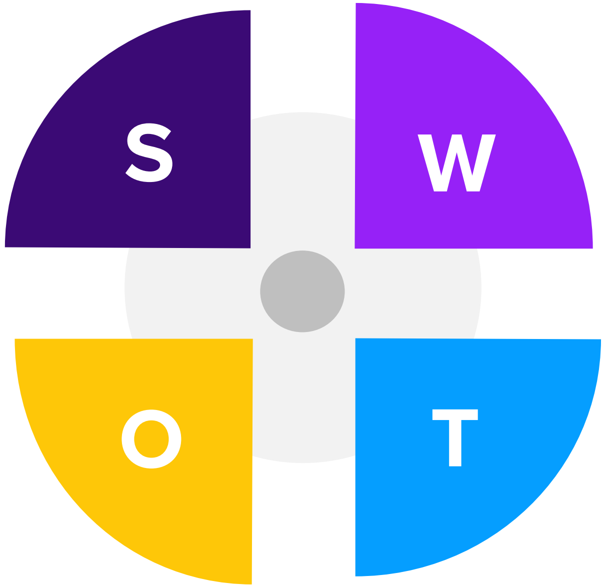
Current Governance & Resourcing Model

S.W.O.T Analysis

A SWOT analysis has been undertaken to consider the current governance and resourcing model and to understand the environment in which the current Housing programme is being delivered. This approach is an effective way of identifying the Council's capabilities of delivering the future housing delivery programme and identifying where there are areas needing change.

Strengths:
- Creates focused activity in respective organisations
- Offers relatively simple governance
- Allows organisations to develop in specific areas and to provide focus
- Allows each entity to raise and utilise funding as appropriate
- Uses existing and experienced staff within the organisation

Opportunities
- Simplify the governance to enable a better delivery model
- Provide combined strategies and business plan/development
- Provide career pathways for housing professionals
- Provide clearer assurance opportunities
- Clearer management of funding opportunities and utilisation
- Potential for external enterprise to be better utilised

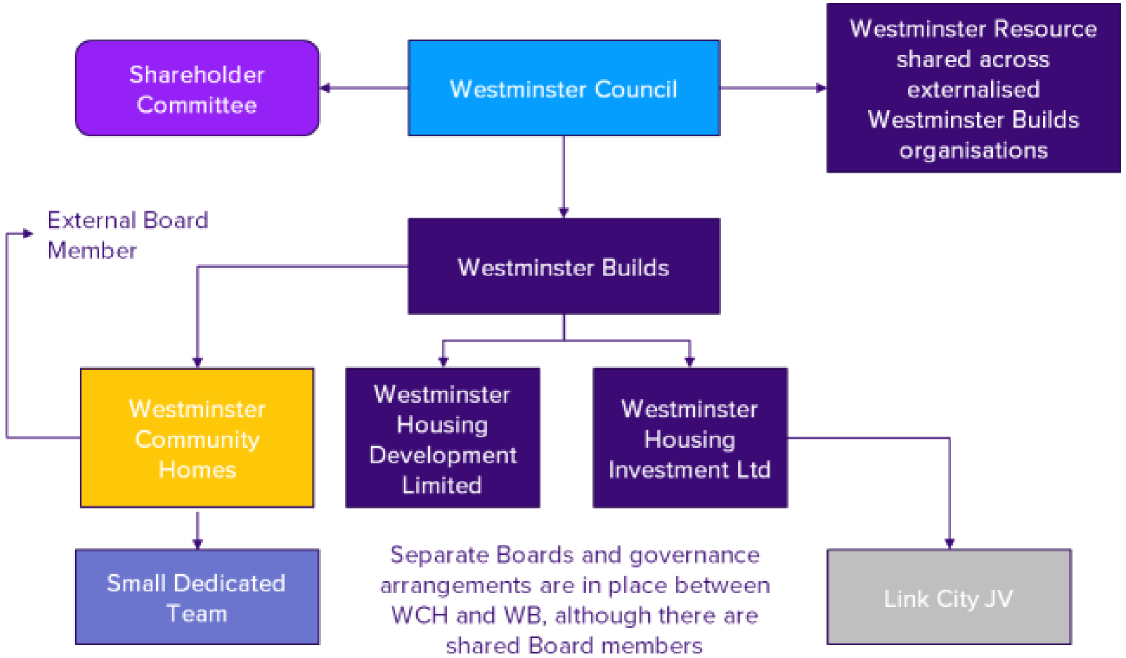


Weaknesses
- Inward focus - No sense of overall strategy or application
- Funding opportunities may be difficult to manage
- Business plans do not necessarily complement each other
- A mixed economy of delivery - commercial v social
- Residents may lose out in terms of influencing opportunities
- Overarching assurance of delivery and development is complex
- Hard for staff to develop skills and close skills gaps. – reliance on buying in skills

Threats
- Culture and change ability restricted as no common strategy/business plans
- Overall political scrutiny/assurance unclear
- Skill gap not clear in terms of commercial and social development of staff
- External skills not attracted into the functions – difficulty to recruit due to inability to pay market rates

Current Governance & Resourcing Model

The detail below represents an understanding of the current resourcing and operating model across the Housing ecosystem at Westminster City Council



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Management and Staffing Analysis

- The roles which currently exist within Development appear to be very functional. There is an improvement opportunity to secure skills and establish new roles that create a dynamic business environment to deliver an ambitious housing strategy. There does not appear to be any skill gap analysis being undertaken, nor a review of function and form to consider the types of skills required in support of strategic aims or business/service plans.
- There are gaps in resource needed to take advantage of commercial opportunities, develop strategy, provide legal support, manage and develop specialist procurement knowledge as well as planning, customer and resident skills. Further detail of the types of roles required is set out on slide 112 and 113.

Example Resource Profile - Development

Assistant Development Manager
Assistant Development Delivery Manager
Client Care Manager
Commercial Manager
Construction Manager

Data Analyst
Development Delivery Manager
Development Finance Manager
Development Manager
Development Sales Coordinator

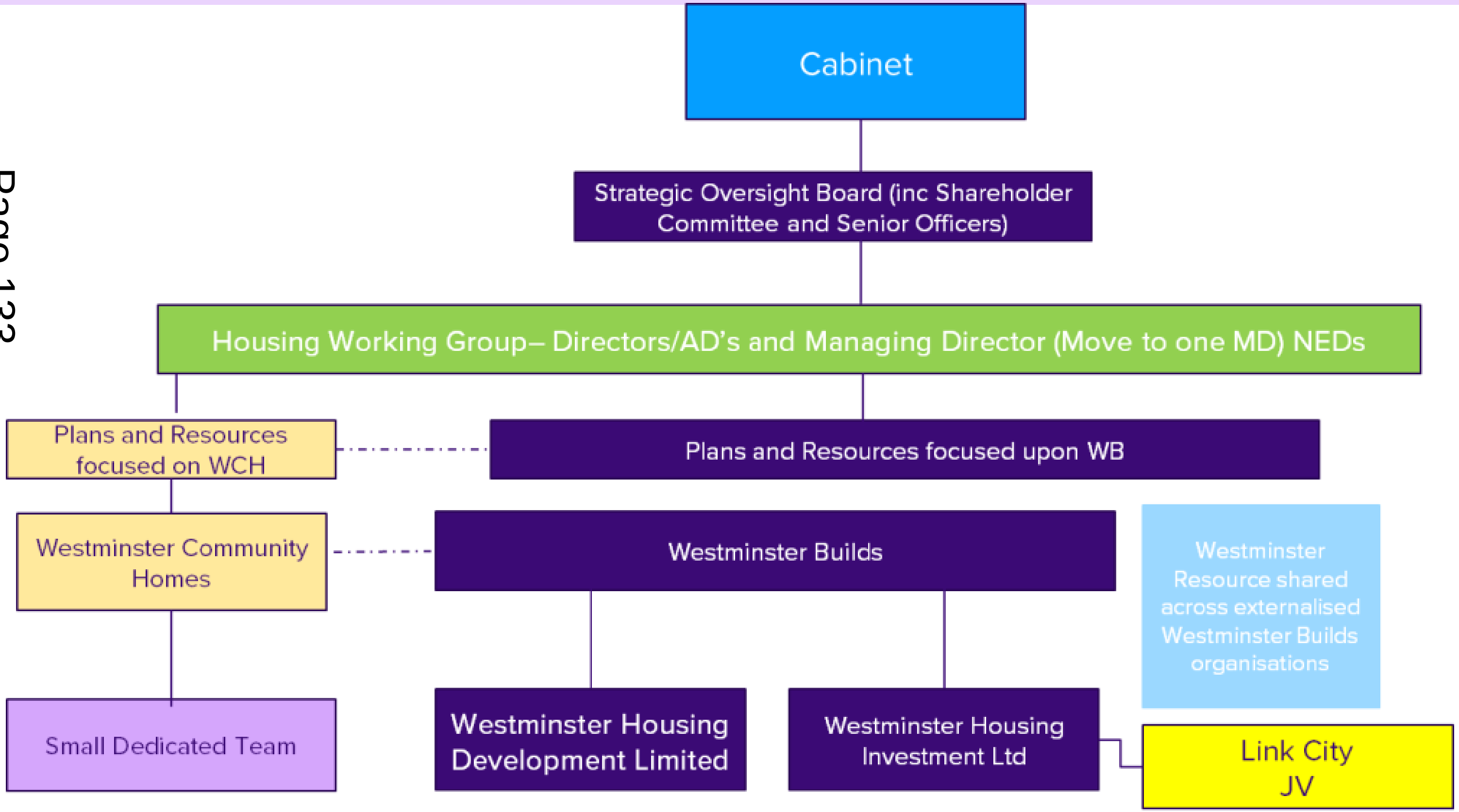
Development Sales Manager
Group Resource Manager
Programme Manager
Programme Officer
Quantity Surveyor

Senior Asset & Development Manager
Senior Construction Manager
Senior Development Delivery Manager
Senior Development Finance Manager
Senior Development Manager
Senior Programme Manager

Proposal for Future Governance

The Council have an ambition to streamline the current governance arrangements whilst retaining the appropriate level of oversight

The structure below sets out a proposal for future governance in order to establish a strategic approach to its housing delivery ecosystem. It establishes a **Strategic Oversight Board** to facilitate a joint strategic approach – to set Housing Strategic Objectives and develop an amalgamated Housing Delivery Plan that will provide business planning for the longer term. This Board will be merged with the existing Shareholder Committee and will facilitate political scrutiny and assurance. This will enable a focus on delivery and performance against the overall Housing Delivery Plan.



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A **Housing Working Group** is created to bring together the governance and create an accountability framework for the different delivery entities. This will enable a focus on operational delivery and monitoring performance of each entity's Business Plan.

The Housing Working Group will have a key role in implementing the Housing Delivery Plan and specifically in **determining which delivery vehicle should be used for which purpose**.

There is also the potential to add experts, such as NEDs, to the Housing Working Group who provide an external voice and challenge.

Proposal for Future Governance

High Level Terms of Reference for the future governance

Strategic Oversight Board is accountable for:

- Developing and agreeing the Council's Housing Strategic Objectives
- Political Oversight between the council and the housing entities
- Establishing the framework for strategic oversight and management performance through a memorandum of understanding
- Agreeing the Strategic and Business plans, direction of travel, as well as profit and loss targets
- The financial performance and management within national guidance of the HRA and General fund, as well as Grant provision
- The Housing Working Group membership and focus
- Legal compliance of the housing entities
- Workforce development and skills frameworks
- Assuring that all national legislation and resident charters in respect of Housing are adhered to
- Considering the voice of the Westminster resident or potential residents in relation to the Housing Strategy

Membership:

- **The Board is comprised of the Political Leadership (4 Cabinet Members plus Executive Director of Finance and Resources and Executive Director of Growth Planning and Housing)**

Housing Working Group is accountable & responsible for:

- Delivery of the memorandum of understanding as agreed with the Strategic Oversight Board
- Production of the Strategic and Business plans of the housing entities
- Delivery of all plans and strategic direction
- The provision of all relevant skills and staffing – including their recruitment and retention through the development and delivery of a workforce strategy and plan
- The delivery of all agreed performance targets – whether these be KPI's or profit and loss
- The recruitment of external support and advice to the Board
- The delivery of all relevant legislation and charters on behalf of residents.
- The delivery of all housing plans in accordance to agreements with the Strategic Oversight Board around use of the HRA/General Fund and any Grant provision

Membership:

- **The Working Group is comprised of the Director of Housing, Director of Development, Managing Director of WCH –it should also have HR, Finance and Technology Board members and Non Executive Directors**

The resourcing requirements for the future governance will need to achieve the optimum balance of external and internal resources

The new governance framework will need to be supported by a resource profile that achieves the optimum balance of external and internal resources, supports people development in order to recruit and retain talent and reduce the reliance on external support. The resource profile to support the future governance is set out in more detail below:

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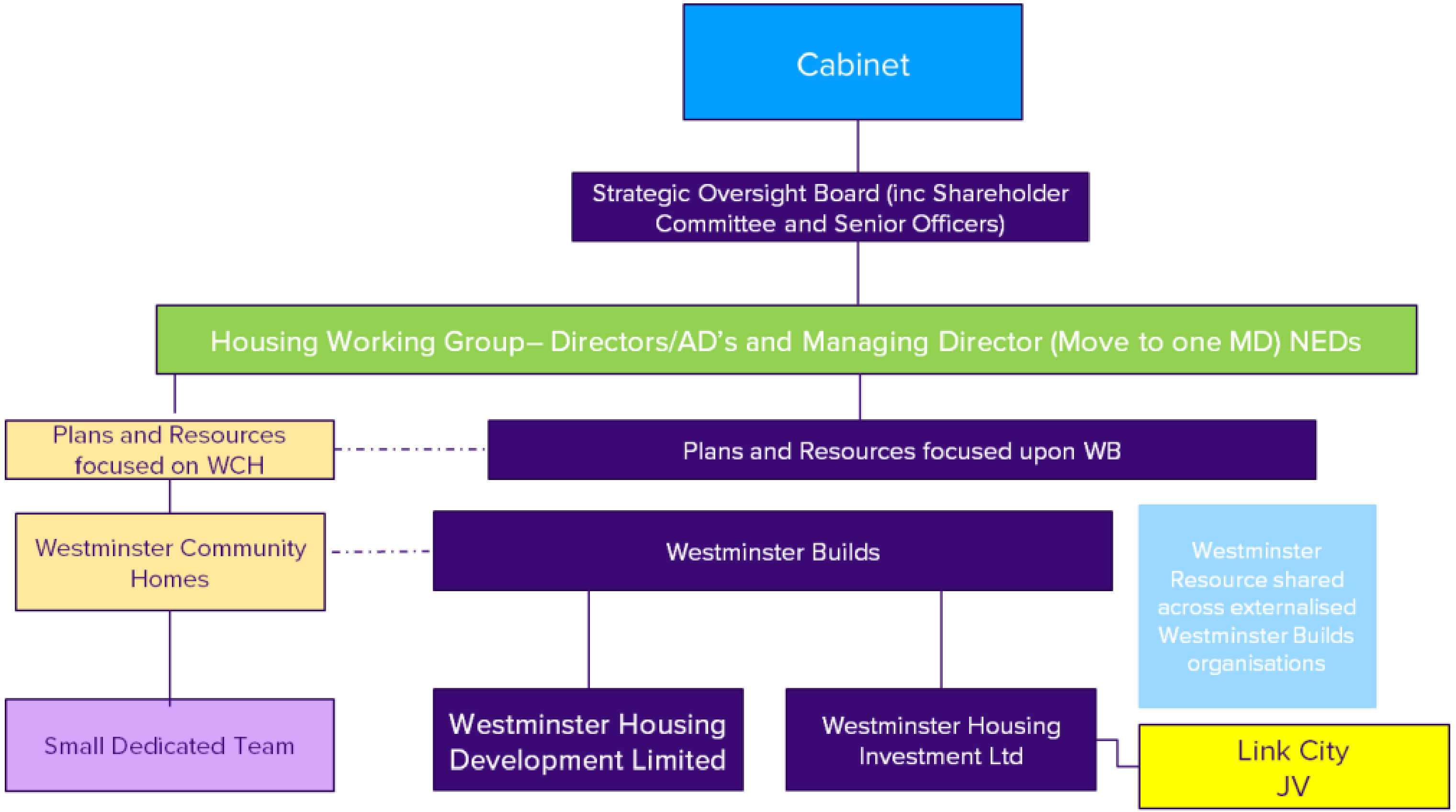


Aim to develop a range of additional future Specialist/Technical skills:

- Contract Managers
- Various Policy and Planning experts
- Design Specialists
- Specialist Programme Directors/Managers
- Specialist Housing/Regeneration/Build Project Managers
- Commissioning Managers – Contractors/Site Design/Regeneration/OPE
- Commercial managers – Sales (Private)/Land Management
- Procurement Specialists
- Development Appraisal Specialists (Finance/Investment)
- Customer and Resident Managers
- Strategic Managers
- Legal expertise (to avoid continued use of external advice)

Future Resourcing – Types of skills and Roles required

In order to develop a range of opportunities and skills which will enable Westminster to grow and develop its Housing approach and offer, there are a range of skills which are identified as being key to enabling, and then sustaining the way forward. **The roles identified enable Westminster to develop its Truly Affordable Housing offer, whilst at the same time developing some key skills in house, potentially reducing the reliance upon external support.**

Additionally, there are examples of the types of role and Board additions which might be considered to help embed the chosen operating model approach as well as some key enablers in terms of culture, learning and development and development of clear strategic aims and business plans across the housing environment.

Types of Roles which enable the delivery of the future governance model.

Group Managing Director
Non-Executive Directors from across Housing and Beyond
Local Business Leader(s) for Commercial thinking development
Director of Commercial Operations
Commissioning and Procurement Leads
Programme Directors
Finance Directors focused upon Investment and ROI
Resident representation
Head of Legal for Property Services

Enabled by a ”shopping bag of”:

- A review of pay and conditions to attract and retain the best talent
- Potential to pay market rates or incentives to join/stay with the organisation where this doesn’t fit council existing approach - to enable internal skills to be built over time
- Creating a learning culture
- Reviewing vision, values and behaviours required to enable delivery
- Ensure progress is based upon skill and potential
- Ensuring that the community is at the heart of all thinking
- Having the right “can do” mindset – so ensuring that there is freedom (within legal constraints) to act commercially
- Having strategic plans, business plans, financial plans and development/delivery plans in place
- Appropriate controls and application in place to enable an integrated approach to delivery
- Cradle to grave delivery approach for residents & property

Proposal for Future Governance

The benefits of this proposal:

The new governance framework can deliver a number of benefits in the short term and sustain a way forward to support longer term delivery of the Council's housing programme and maximise the delivery of Truly Affordable Housing via the housing delivery ecosystem.

In terms of immediate and Business as Usual the benefits are:

- Enables existing structures to remain to allow restructure in council's Development Team to progress and external specialist skills to be utilised in the short term.
- Allows the council via consolidated governance to focus on immediate challenges e.g. recession, mould and potential referral to Social Housing Regulator
- Would not be a formal organisational change.
- Addresses the ambition to streamline governance and signifies a shift in operational arrangements to start to develop culture change

In the longer term:

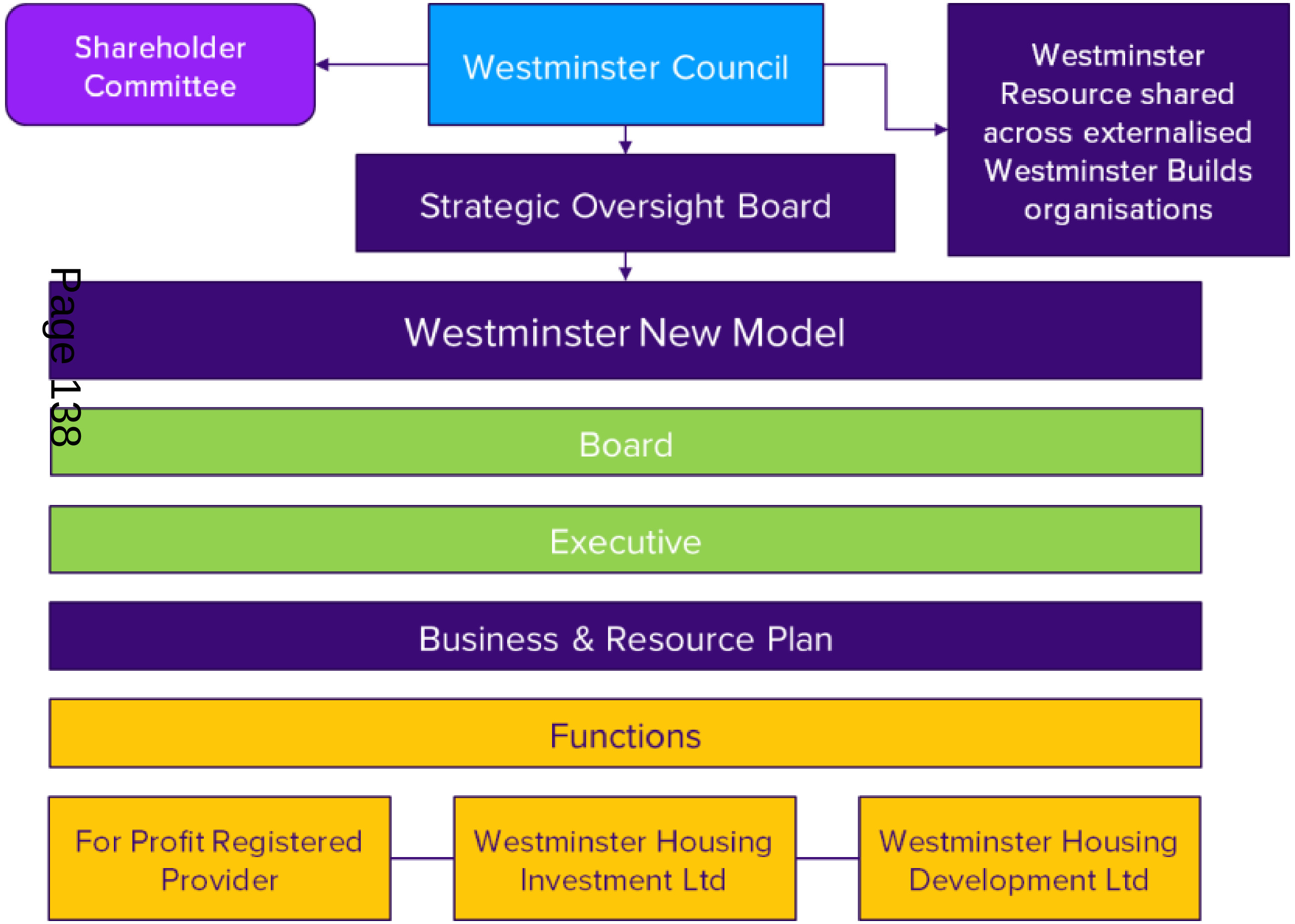
- Allows time to identify and develop skills which challenge internal capability
- By creating the environment for strategy and business plans to be seen through a similar lens – this enables opportunities to see synergies, identify gaps and manage risk more effectively
- Enables recruitment of new skills through clearer line of sight and opportunity for career development and progression
- Reduces reliance upon external support for resource
- Provides a basis to consider future operating models such as a consolidated group structure

The new governance framework will support delivery of the Council's housing programme in the following ways:

- Enables a joined-up approach and clarity of purpose across all areas of the organisations in the housing delivery ecosystem
- Facilitates development of Strategic Objectives and a Housing Delivery Plan and then Business Plans to emerge for each delivery vehicle that align with overall objectives
- Creates a governance framework that provides oversight and accountability
- Provides a framework for political scrutiny
- Enables risks to be appropriately identified and effectively managed
- Would enable existing plans to be changed, updated and developed in a consistent and transparent manner across the group
- Allows the potential to add experts to the Housing Working Group who provide an external voice and challenge

Alternative Longer term Governance & Resourcing Model

There is opportunity for Westminster City Council to continue to develop and evolve their governance and resourcing model. Over time it may determine a consolidated group structure is a more appropriate model for the future that would further develop resources, along with culture and a review of terms and conditions to attract talent.



In Summary a Consolidated Group Structure would:

- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two.
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance

Resourcing: Key Findings

Key Findings

The review of the current resourcing arrangements and the development of proposals for governance and the future operating model have highlighted or been guided by some key findings. These are identified below:

There are a range of governance and resource models in place across London and the wider Housing sector that suggests a flexible and bespoke approach can be used to design the optimum arrangements for Westminster.

There are some clear guiding principles and key ingredients that should be in place to support successful governance. Predominantly, the council should aim to have a clear, systematic governance framework in place which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded.

Good practice would see the Council using a consistent approach when it comes to engaging with its entities. For example, applying arrangements in a similar legal model e.g. through using standard articles of association or shareholder's agreements. This is beneficial to standardise and make the approach to managing multiple entities efficient

The future governance and resourcing model should focus on providing additional oversight, streamlining resourcing and facilitate a joint strategic approach through with the Housing Strategic Objectives and Housing Delivery Plan can be delivered. This is recommended through establishment of a Strategic Oversight Board and Housing Working Group.

In the future, there is the option to move to a consolidated group structure (see option 3 in appendix 4) which may provide a single point of focus for managing the council's commercial activity and an even more effective use of resources.

The council anecdotally has a current reliance on 'buying in' external resource to close any shortfall in resource. A strategic approach should be agreed for the recruitment and retention of staff and to enable internal skills to be built over time. A detailed skills audit may be required to identify areas of skill gap. A review of pay and conditions may be required to support the recruitment and retention strategy.

It is recommended that the council take action to agree a future governance framework and implement this in the short term so that Housing Strategic Objectives and a Housing Delivery Plan can be agreed and start to be delivered to optimise the delivery of Truly Affordable Housing in Westminster.

Resourcing : Recommendations

This section has concluded that the establishment of new governance arrangements that include a Strategic Oversight Board and a Housing Working Group initially provides WCC with the opportunity to make progress to a joint strategy, business plan and ability to focus upon closing the skills gap . We would therefore make the following recommendations.

22) Recommendation:
Create a Strategic Oversight Board which includes Political and Shareholder oversight, along with Senior Officers –at Executive Director level to have oversight, set strategic direction and business plans across all of the Housing delivery ecosystem. This Board would be accountable for the performance management of all Housing delivery through establishment of KPI, as well as profit and loss targets. This should be enacted with immediate effect and be in place within 3 months.

23) Recommendation
Establish a Housing Working Group, initially with existing Directors and Managing Directors to work joining on strategic ambition across Westminster, delivering joint business plans and also taking action to maintain and deliver through the provision of the skills agreed to enable the strategic and business plan. Agree board membership and time limited structure to move towards one Managing Director across the Housing Group. This should be enacted within immediate effect and be in place within 3 months

24) Recommendation
Secure External support through the recruitment of Non-Executive Directors (NED) will help to drive the strategy and planning, as well as providing advice around profit and loss. Additionally, the NEDs will ensure that due diligence and governance is delivered as agreed with the Strategic Oversight Board, as well as providing insight and advice around market development and housing delivery. This should be enacted with immediate effect and be in place within 6 months.

25) Recommendation

Undertake a deep dive skills audit across the Housing function to identify exiting skill set and potential gaps in strategic direction of travel. Assess capability to delivery long term business plans and through the skills audit reconsider the key roles and competencies required to enable and enact delivery. This will include consideration of pay and reward elements of any new job creation. This should be completed within a 3 month time period.

Key Questions

This slide summarises and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Are the existing governance structures and processes for managing risk sufficiently robust?	• The Shareholder Committee through its articles of association provides an approach to managing risk. Through a joint Strategic Oversight Board with senior officer membership and a Housing Working Group with external support (NED) this would enable risk to be managed in a robust manner and with sufficient oversight.
What is the optimum position on management and staffing resources (internal vs external) for delivery of the Council's housing led regeneration programme?	• There needs to be a skills audit in relation to and in support of any published Housing strategy and Business Plans. There is a balance between functional delivery and specialist knowledge, as well what is determined to be specialist. Ideally the council would be able to recruit and "grow" their own skilled people reducing any dependence on continued consultancy or contractors – for example Legal advice and Commercial knowledge. This though comes down to a deeper review of the current operating model versus thinking around a new operating model for the future.
Is WCC currently taking advantage of all external support which can help to grow and shape their housing entities in the long run and to be sustainable?	• From conversations within WCC, there has been a reliance upon external consultancy and contractor support in the past. The challenge for Westminster is whether this is acceptable going forward, or it wants to have these skills available in house – where it might be felt that sustainability is delivered. Use of specialist skills externally might be advantageous in the short term – however longer term the "knowledge" gap is invariably never closed – which places more risk onto the system than is necessary. • Use of skills from across the sector to sit at Board level will help shape the housing entities over the longer term. Non-Executive Director support will provide challenge, help manage risk, develop strategy and enable sustainability in the long run.

Section 7: Financing Strategy

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Housing Financing Strategy

The Council's housing programme is being delivered by a number of structures, but ultimately the finance for this programme is from either:

- The Housing Revenue Account
- Or the General Fund.

As such, the Capital Programme and the HRA business plan will be informed by a Capital Strategy that sets out the longer-term context for future investment and is developed to ensure the Council can take capital and investment decisions in line with the Council priorities and provides a framework to consider **stewardship, value for money, prudence, risk, sustainability and affordability**.

Many Councils are now looking at financing housing through both the traditional route of the HRA and through the General Fund for additional flexibility.

An integrated financing strategy can support the Council to make the most out of its housing delivery programme by focusing resources in a coherent, consistent and affordable manner. It can be used to address short-term financing requirements and support the long-term strategic aims of the Council; allowing for more consistent planning.

Housing Financing Strategy

A financing strategy is a key part of the Council's framework and provides the tools to:

Raise financing for investment into service delivery, sustainable development and addressing corporate objectives; ensuring alignment of existing financing policies with, medium- and long-term local and national priorities;

Prioritise finance to take advantage of housing opportunities in the near-term, and identify financing policy areas for the medium- and long-term;

Ensure that financing policies and regulatory frameworks from across different areas are coherent, sustainable, and risk-informed for example, pay regard to current and future rules regarding accessing Public Works Loan Board;

Identify opportunities to access technical assistance & capacity building support to undertake due diligence, risk analysis and affordability reviews on non-traditional approaches to accessing finance where a category of spend lends itself to such an approach.

A financing strategy aims to detail an approach that ensures any housing investment is aligned with the Council's corporate objectives and is made in a cost effective and efficient manner. It will provide a framework that seeks to:

- Avoid fragmented decision-making
- Better align efforts
- Identify gaps and opportunities for the optimum use of the Council's resources.

The strategy should build and feed into the existing methodologies and tools that the Council may already make use of, such as medium-term financial strategy, planning gain strategies and any future revenue savings strategies and provides a key part of a strategic capital framework.

It will support financial decision making as part of the capital programme governance and will allow strategic longer term financial planning by supporting financing decisions for the longer-term housing pipeline. A strategy sets out the approach to assessing financing opportunities. The route to sourcing this finance will be governed by the Council's Treasury Management Strategy, which in turn will be responsive to the wider macro-conditions prevailing at the time.

Traditional Sources of Funding

Traditional sources of funding derive from both internal and external sources

Traditional Sources of Funding

Internal Sources of Funding

- *Capital Receipts*
- *Revenue Contributions*
- *Internal Borrowing*

External Sources of Funding

- *Government Grants*
- *External Borrowing*
- *Development Contributions*
- *Match/Part Funding*

Traditional Types of Finance

Source	Narrative
External	
Grants	Given the national priority given to house building significant grant programmes are available to support delivery. As a priority programmes should be aligned to access grants to improve viability and increase the provision of affordable homes.
Other Contributions (incl S106 & CIL)	Contributions are created as a result of the impact of wider physical development that creates a planning obligation. The Contribution is generally paid to support the costs of a specific intervention (s106) or provided to address wider more strategic interventions that may be needed as a result of any development (CIL, s106).
Match/ Part Funding	Finance may be available from a number of different external and internal sources to support or increase the viability of schemes or programmes of work. Examples could include housing contributions to increase policy led provision and include Right to Buy receipts for 30% of new housing delivery, which the Council must utilise or repay to Central Government, whilst also incurring an interest payment.
Internal	
Capital Receipts excl. RTB	The Council can utilise any capital receipts it generates from the disposal of its assets to delivery its capital programme
Revenue Contributions	The Council can make direct revenue contributions to support the delivery of capital programme. However, this is generally for low level or short asset life expenditure.
Borrowing	The Council can use the powers enshrined on the Prudential Code to support borrowing. Traditionally, Local Authority borrowing is sourced from the Public Works Loans Board (PWLB), a statutory body of the UK Government that provided loans to public bodies from the National Loans Fund. In addition, Council can undertake “internal” borrowing, using internal cash balance to support its capital programme

External Financing

Source	Narrative	Use of Finance Narrative
External		
Grants	Grants have a specific focus to support nationally and regionally identified outcomes. Grant applications are generally made where local and national outcomes are aligned. Examples would include London Affordable Homes Programme, Home Building Fund or specific grants to support increased affordable provision or green initiatives e.g., Green Heat Network Fund.	Grants support a wide range of initiatives and are targets to support local or national schemes or housing delivery or initiatives. Grants that are aligned with both corporate plan and wider external objectives should be considered for inclusion in the programme to support delivery of either additional units or to reduce the development burden e.g, support higher quality, green solutions. However, if it is identified through the revised bidding forms that there is an ongoing revenue impact associated with this investment then priority will be given to those that confirm costs are included within departments budgets and they are affordable.
Other Contributions **(Incl S106 & CIL)**	Contributions are created as a result of the impact of wider physical development that creates a planning obligation. The Contribution is generally paid to support the costs of a specific intervention (s106) or provided to address wider more strategic interventions that may be needed as a result of any development (CIL, s106).	Sources of finance such as these will often be defined by the Council's wider infrastructure strategy (CIL), or the planning obligations of a specific scheme (S.106) will be tied to specific outputs and be time limited. Again, where these are used to deliver schemes the bidding form must pick up any future liabilities that result in this expenditure to ensure they are affordable and included within the Council's revenue budget

External Financing (Cont.)

Source	Narrative	Use of Finance Narrative
External		
Match/ Part Funding	Finance may be available from a number of different external and internal sources to support or increase the viability of schemes or programmes of work. Examples could include housing contributions to increase policy led provision and include Right to Buy receipts for 30% of new housing delivery, which the Council must utilise or repay to Central Government, whilst also incurring an interest payment.	Where schemes attract match funding or part funding finance that improve the viability and deliverability of the scheme then any Council contribution should be consider in line with other capital projects. Inclusion of these schemes will be based on the outcomes delivered by each scheme against the available resources and any Council contribution will be considered in terms of the level of match funding required and the impact on the revenue accounts. As projects are generally development focused and long term in nature other authorities have used borrowing to support these programmes. And, in the context of the Council must be considered in light of other competing projects requiring this support.

Internal Financing

Source	Narrative	Use of Finance Narrative
Internal		
Capital Receipts excl RTB	The Council can utilise any capital receipts it generates from the disposal of its assets to delivery its capital programme	The use of Capital Receipts does not raise the Council's Capital Financing Requirements (CFR) and therefore does not have a direct impact on the Council's revenue account. Any capital receipts should be held for corporate use to ensure they are allocated efficiently. Generally, their use will be dependent on the nature of the asset and its expected life. should be used to reduce the impact of any borrowing, with a focus on those assets where the Council's policy would require MRP to be provided over shorted periods (<25 years). Crucially, the use of the capital pipeline will allow the Council to preserve the flexibility of capital receipts by considering other financing options ahead of their use.
Borrowing	The Council can use the powers enshrined on the Prudential Code to support borrowing. Traditionally, Local Authority borrowing is sourced from the Public Works Loans Board (PWLB), a statutory body of the UK Government that provided loans to public bodies from the National Loans Fund. In addition, Council can undertake "internal" borrowing, using internal cash balance to support its capital programme	The Council can use revenue contributions to support the capital programme, however, this method should be seen as a last resort as it has the biggest impact on the revenue account for each £(pound) spent, i.e., it is the least affordable.

Internal Financing (Cont.)

Source	Narrative	Use of Finance Narrative
Internal		
Revenue Contributions	The Council can make direct revenue contributions to support the delivery of capital programme	Where the capital programme is not fully supported by previous financing sources then consideration must be given to accessing external finance; guided by the Prudential Code. The Council should seek to access the most efficient and effective sources of finance to support any residual capital programme expenditure and the level of borrowing will, in turn, be supported by the Council’s current and future cash requirements. Where cash is available (internal borrowing), then this should be used to minimise financing costs (not MRP, which will still apply). Where the Council needs to borrow externally, then it will use its Treasury Management Function to access the most cost effective manner of doing this.

Key risks

Source	Risks/ Considerations	Management/ Mitigation
Grants	• May be insufficient to complete works as a result of poor scoping or project overspends; • Investment leads to an ongoing and unbudgeted revenue impact; • Grant focus may not align with corporate objectives making other schemes or projects unviable.	• The Capital Bidding form should detail how each project supports a corporate priority and any future revenue impact associated with the investment; • The project scoping should be robust to ensure programme costs are linked to grant amounts; • A central corporate overhead should be utilised where costs rises are due to macro impacts.
Other Contributions **(Incl S106 & CIL)**	• Focus of intervention may not compliment future Council priorities e.g. traffic positive interventions; • Insufficient finance to support strategic infrastructure interventions leaving a residual liability with the Council; • May insufficient to complete works as a result of poor scoping or project overspends; • Investment leads to an ongoing and unbudgeted revenue impact;	• The Capital Bidding form should detail how each project supports a corporate priority and any future revenue impact associated with the investment; • The project scoping should be robust to ensure programme costs are linked to grant amounts; • Projects should be included on the Council's Strategic Infrastructure Plan
Match/ Part Funding	• Despite match funding viability may still require additional financial support; • Match-funding may not align with the Council's corporate objectives; • Often any overspends will be the responsibility of the Council	• Projects scoping should include the same rigour as other projects; • Using the Capital Bidding Forms, each project should demonstrate how it meets the Council's corporate objectives; • Terms of match fundings should be reviewed to ensure any risk of overspend its appropriately balanced

Key risks (Cont.)

Source	Risks/ Considerations	Management/ Mitigation
Capital Receipts	• No accurate estimate of quantum or timing of capital receipts; • Receipts used to support viability on projects which they are generated rather than corporately applied;	• The Council should ensure it has a robust and up to date asset management plan, allowing it to manage the use of Capital receipts centrally; • Receipts should be set aside for short life investment
Borrowing	• If the Council identifies a scheme with the need for future borrowing it should consider the impact of changes to interest rates on the viability of this project; • The Council should consider new guidance regarding its financial standing and whether it has more than a negligible ability to repay any future borrowing; • The Council should consider its MRP policy in light of future borrowing requirements • The Council should regularly review its revenue impact target to ensure it aligns with its current risk appetite; • The Council has stated it does not invest primarily to generate a yield; however, it must ensure that where a project does create a return that this is commensurate with the risk it takes.	• Avoiding borrowing in advance of need, the Council should review its borrowing requirements to best take advantage of the current economic forecasts; • The Council should ensure that all borrowing is affordable and in line with its Prudential indicators; • The Council should have a clear policy on MRP especially when charging in advance of need or where capital repayments are received on loans to its associated companies; • The agreement of the Capital Pipeline and Programme will set the capital need for the MTFP; • Through the use of the Capital Bidding Forms, the Council demonstrate that projects are impacting on a range of corporate objectives
Revenue Contributions	• Revenue contributions are used to support capital projects that could be better served by borrowing	• Revenue contributions should only be used as an exception and by signed off by the S151 officer.

Non-Traditional funding sources provide affordable alternatives to securing finances

Non-Traditional Sources of Funding

There are other sources of finance that Westminster could potentially utilise to support specific programmes or schemes, where the source could provide a more affordable solution or supports specific scheme or financing risks when compared to traditional sources.

- *Sale/ Lease & leaseback*
- *Empty Property Tax*
- *A bond issuance*
- *Income Strip Solution*
- *CPO Purchases*
- *JV/ Partnership Approaches*

Non-Traditional Funding

Source	Narrative
Income Strip Solution	Where finance is provided by an external entity and repayment is through a long-term index linked structure. The income strip is generally calculated against the future income of a particular project or programme, but once active security is generally taken through a guarantee of payment rather than a charge over an asset.
Empty Property Tax	Councils throughout the England are looking at the impact on communities of empty properties. Properties are considered empty when they are vacant for over two years. Legislation allows that the Council can charged up to 4 times the normal Council Tax bill if the property has been empty for 10 years or more. By taking a vigorous approach to this, those properties that are unfit for use, or are used as second homes, can provide an income stream to support housing delivery.
Sale/ Lease and leaseback	Finance is created through the sale of the freehold or leasehold of an operational Council asset; thereby realising a capital receipt. The Council then (generally) continue to use the operational asset and enter into a long-term amortising lease. There is usually a clause that once the lease is completed then the Council will have the right to repurchase the asset.
A bond issuance	An external provider would issue a bond in the name of the local authority, generally through a private placement to a range of institutional investors, although a number of authorities have investigated local bonds, sold to residents. The Council then commits to an annual payment to all bond holders until the bond is either amortised or repaid through a bullet payment.
CPO Purchases	Councils have used their powers the purchase of those units that are considered derelict or unfit for habitation on a long-term basis. In addition, Westminster has assessed the whether powers granted by the Proceeds of Crime Act can allow it to seize housing. In both cases the additional units can be used to provide additional units through either redevelopment or sale.
Joint Ventures or Partnership Approaches	The Council can support its project objectives through the use of its assets to generate a matched or comparable finance source from a partner. Many local authorities use the value of their land to provide match funding into a partnership vehicle with the partner matching this value with cash. Upon transfer the land is unencumbered by local authority financial rules and the partnership can use this value to seek leveraged finance from external funders.

Non-Traditional Funding Risks

Source	Risks/ Considerations	Management/ Mitigation
Income Strip Solution	• Borrowing although set based on a projected income is then divorced from these amounts i.e., income strip finance is another form of borrowing and should be treated as such • Repayments are generally linked to an indexed increase and although cheaper initially have the ability to become expensive in future years; • Although becoming more prevalent, the costs associated with funding agreements are in excess of PWLB; • Early repayment terms are punitive	• The Council should consider the whole life costs and the value for money consideration of any income strip; • Income strip solutions are better suited to underlying long life assets that have an income stream that are also indexed linked e.g., housing; • Income strips can be beneficial in a high/low inflationary environment when supported by the use of appropriate collars and caps.
Empty Property Tax	• Resource heavy in assessing whether a unit is empty. The financial impact may be outweighed by costs; • Risk of appeal and need to repay receipts • Tax will feed into wider GF balances and may not be allocated for housing	• The Council should implement systems to allow it track empty properties to ensure of successful collection of income. • Consideration should be given to hypothecate EPT to housing delivery
Sale/ Lease and leaseback	• Sale and Leaseback is a form of Project Finance, and the affordability is related to the underlying assets; • Long Term Finance with an index linked repayments so significant risk that the underlying rents may not keep up with the lease; • Generally, requires additional terms to ensure that the asset value is maintained to a sufficient standard; • Early repayments terms are punitive; • Generally, requires the use of a separate entity/SPV to avoid vires complications; • Unclear of how the future impact of IFRS16 may impact on the accounting for this commercial structure.	• The Council should consider the whole life costs and the value for money consideration of any deal; • Solutions are better suited to underlying long life assets that have an income stream that are also indexed linked e.g., housing; • The asset must be clearly identified in the Asset Management Plan as having the right characteristics for this type of deal; • The Council must have a clear maintenance plan for the asset • Deals can be beneficial in a high/low inflationary environment when supported by the use of appropriate collars and caps.

Non-Traditional Funding Risks (Cont.)

Source	Risks/ Considerations	Management/ Mitigation
A bond issuance	• Long term fixed or variable finance • Expensive to set up; • No or limited control over the counter-party; • No ability to repay the finance before its maturity.	• Bond finance could be used to support a specific Council initiative e.g., a Green Bond. Under these circumstances there maybe additional central government support in its delivery. • If a Bond is an attractive option, the Council could use the Municipal Bond Agency to support its delivery
Compulsory Purchase	• The CPO purchase can be cumbersome and take considerable amount of time and resource • Significant political risk and challenge associated with CPO homes using the POCA	• Potential to use external support to address process and legal risk
Joint Ventures or Partnership Approaches	• Complicated structures that generally require procurement and significant investment in set up costs; • Council will cede an element of control on the project delivery • Objectives for use need to be clear and are generally defined by more than just access to finance.	• Joint Ventures and Partnership agreements should be considered where each side has complimentary considerations, but both have the same or compatible objectives, for example: • The Council owns land that it wishes to see developed • Additional skills are required to complete the project; • The delivery risk of the schemes is higher that the market supports, inhibiting value; • The Council wishes to control the objectives but reduce its risk exposure.

Section 8: Legal Advice and Considerations

Direct Delivery of Housing through GF

There are 3 key powers which WCC can utilise to develop housing through the General Fund

POWERS TO DEVELOP LAND

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The general power of competence (GPC)

(Section 1, Localism Act 2011)

Local authorities have the power to do anything that an individual may do, for "the benefit of the authority, its area or persons resident or present in its area."

- ✓ WCC could seek to rely on the GPC to develop housing for rent or sale in WCC's area
- ✗ Subject to several limitations e.g. can only use GPC for commercial purposes through a company

The power to carry out works on land

(Section 2, LA Land Act 1963)

This provides that WCC may: "for the benefit or improvement of their area, erect any building and construct or carry out works on land"

- ✓ Power explicitly provides WCC with the ability to develop on land for the improvement of WCC's area
- ✓ WCC could consider the use of this where the GPC is not an appropriate option

The power to provide housing accommodation

(Section 9, Housing Act 1985)

A local housing authority may provide housing accommodation by (a) erecting houses, or converting buildings into houses, on land acquired by them for the purposes of this Part, or (b) by acquiring houses

- ✓ Can be used for land that is not accounted for in the HRA
- ✗ Can cause a degree of confusion as to the 'right' account which should be used for the development

Appropriation to HRA of GF developed property

Affordable housing can be held in the HRA upon appropriation of the developed land, pending assessment of the key considerations

To hold affordable housing within the **HRA**, the developed land would need to be **"appropriated"** from the **General Fund** into the HRA.

To appropriate land, a decision would need to be made by the **appropriate decision-making body.**

The Council will wish to be **satisfied** that the developed land is **no longer required** for the **purposes it was held.**

Key Considerations:

Appropriation does not involve a sale and purchase, therefore an accounting **adjustment,** rather than a payment is required. The adjustment can be lower than the build cost paid by the General Fund for the development, however there are several considerations to factor when making the adjustment:

- **Best Value Duty:** an authority should consider overall value when reviewing its functions. This includes economic, environmental and social value.
- **Fiduciary Duty:** Councillors would need to take such an approach and ensure there was a reasonable basis for the decision and that each accounting adjustment was considered on its own terms.
- **Balancing Budgets:** Statutory duty to deliver a balanced revenue budget. this duty is of relevance for accounting adjustments which would be at an “undervalue”.

WCC is subject to the Rent Standard, and can let properties directly via the HRA

If properties are classified as 'low cost rental accommodation', then the Rent Standard would apply to them.

The **Rent Standard** has applied to local housing authorities since 1 April 2020 and applies to any **'low cost rental accommodation'**, other than that provided to high income social tenants or to which the "Policy statement on rents for social housing" does not apply

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Accommodation is low cost rental accommodation if:

- it is made available for rent,
- the rent is below the market rate, and
- The accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

Market rent properties can be acquired & let directly by the Council via the HRA, however there are key issues to consider:

- We are **not aware** of other local authorities letting market rent properties within the HRA.
- Letting market rent properties could be seen as **commercial activity**, thus requiring the use of a company.
- Tenancies would either be secure, introductory or flexible tenancies – unlike a company, the Council **cannot** grant assured or assured shorthold tenancies.
- Tenants would have the statutory Right to Buy (**RTB**).

Section 9: Summary & Recommendations

Summary

The context for this review was a strong cross council commitment to review its activities with the aim of delivering more truly affordable homes. This was supported by the establishment of "A Future of Westminster Commission" to review opportunities and examine options to support this ambition.

The Council itself undertook an immediate review of its existing council-led development schemes to ensure that low cost social rent housing was prioritised in their delivery. This resulted in a report being presented to Cabinet in October 2022 which listed a series of actions that resulted in the opportunity to increase the delivery of new social rented homes by 143 units.

Following production of this work, the Council subsequently committed to a 'Review of Housing Supply' as a comprehensive strategy to deliver as many truly affordable homes as possible. This report was commissioned to support this strategy and to provide the analysis of a range of options to drive forward increasing levels of Truly Affordable Housing.

The scope of this review was to address a series of 5 key questions in partnership with the Council:

1. Can the review develop an understanding of the Council's current financial; delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme?
2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council's own land holdings or the wider development market?
3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?
4. Are the Council's existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?
5. What is the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme?

This section of the report summarises the answers to these questions that this review has provided together with considerations for implementation of the range of options to increase levels of Truly Affordable Housing.

Answering the Questions (1)

1. Can the review develop an understanding of the Council's current financial, delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme?

The basis of the review has been predicated in developing a deep understanding of the Council existing programmes and the local context of Westminster. This has been achieved through

- Reviewing each of the major schemes with the Council team; and
- Reviewing the work undertaken by the Council in reviewing these schemes to increase levels of social rented housing.

The findings of this review have been developed based on this evidence base and a set of bespoke options developed from best practice examples to address the Council's objectives.

2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council's own land holdings or the wider development market?

Yes. The Council team undertook a quick win review that highlighted significant new social rented homes that could be enabled from the portfolio. This review has built upon the initial review work to develop a menu of interventions that can be applied by the Council to enable increased delivery of social and Truly Affordable Housing. These interventions have been categorised into three areas on the basis of the whether they:

- *Provide better value out of existing investments (i.e. more homes for the same money); and / or;*
- *Increase the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent); and / or*
- *Introduce additional funding from alternative sources to increase the scale of affordable housing delivery*

The approaches range from working with external partners to changing valuation methods and from securing additional funding from institutional funds to delivering different types of housing.

The report has also developed the key conditions for the application of these interventions and how they can be applied in a complementary fashion in order to maximise their impact.

Answering the Questions (2)

3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?

Yes.

There are a variety of ways to maximise financial resources, however, these need to be balanced with the Council's appetite for risk and its broader objectives.

The Council has brought forward significant number of truly affordable homes and continues to do so across its schemes, through utilising its HRA and General Fund, however the review has developed a number of potential additional ways in which to both utilise its own financial resources to deliver increased numbers of Truly Affordable Housing and also the ability to secure additional funding to maximise potential delivery.

Key interventions include:

- Working with RPs to enable their funding of units through direct purchase from Council schemes;
- The delivery of a broader spectrum of truly affordable homes, including intermediate rent to enable cross subsidy between different rental products, although this needs to be carefully utilised in areas where demand for these units is appropriate;
- The Council has yet to fully utilise private sector and institutional finance to deliver housing. Given the range of sites coming forward, the Council should consider whether this financing approach could add to the financial toolkit by addressing any short term affordability constraints, this may be particularly appropriate for large schemes or a portfolio of temporary accommodation; and
- Alternative valuation techniques that can unlock additional funding from the HRA. However, this delivery would decrease the financial sustainability of the HRA and this impact must be considered, particularly in terms services to current residents;
- There is the potential for the Council to increase its reliance on General Fund resources to deliver housing. The General Fund has additional flexibilities that could allow it to provide subsidy to the HRA or other delivery options.

Answering the Questions (3)

4. Are the Council's existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?

When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that is wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle.

There are, however, a number of improvements that can be made to the Council's housing ecosystem at large to enable these tools to be deployed more effectively. In particular:

- There currently appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way;
- There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other; and
- It has been questioned by the Council as to whether the existing RP can deliver the Council's broader objectives, including accessing grant from the GLA.

As a result, the Council is not currently in a position to achieve the potential from these vehicles as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used.

This should be reviewed by the Council and an holistic approach developed in line with the recommendations in this report.

Answering the Questions (4)

5. What is the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme?

The work has concluded that there is a need to update the governance arrangements for the Housing Ecosystem to create additional strategic oversight and to streamline the governance. It is also recommended to implement a further detailed review of the Council's resourcing model in relation to skills. The resourcing review has highlighted:

- In the short term, there is the opportunity to bring in additional external skills to support in specialist areas e.g. finance, but there is anecdotally an over reliance upon external resource provision which may need to change to address and close the current skills gap. It has been recommended that, in order to provide stability, career pathways, the "right" culture, a learning environment and sustainability, then there is a need to establish a refreshed governance model, recruit and then grow the skills internally;
- The business planning of the Council and its various delivery structures would be better served as a consolidated Plan to enable the impact as a whole to be managed. There is, therefore, a need to implement overarching governance arrangements via a Strategic Oversight Board and Housing Working Group to establish the Council's housing delivery strategy and then to monitor progress on it; and
- The Council may wish to consider a longer term consolidated structure to better enable planning, leadership and strategic direction with regard delivery.

Implementation and Application of Options

A menu of interventions have been developed in order to maximise the impact in the delivery of Truly Affordable Housing for the Council.

In applying this toolkit of options, the Council will need to moderate the selection and use of the options depending on a number of factors including:

- **Pace of implementation**, relating to resource availability;
- **Risk Appetite**, including risks from a political, financial and quality perspective; and
- **Viability**, including how the impact of each is maximised.

For example, if the Council were driven purely by the interventions that could maximise the number of Truly Affordable homes delivered, then it would seek to apply the toolkit in purely unit impact order from **Option 8 (acquire out of borough instead of build)** down to **Option 1 (Increasing valuation to RP methodology).**

However, in all likelihood this impact will be moderated by the above factors. For example:

- Were the Council only seeking to implement interventions within Borough then this would discount **Options 8 (acquire out of borough instead of build)** and **7 (Buy properties for TA out of borough),**

or

- Were the Council not keen to increase rents above LLR then this would discount **Option 3 (Increase LLR to DMR).**

As is stated in the summary section - it should be noted that there is no single solution that alone can deliver a step change in the quantum of Truly Affordable Housing delivery and for the quantum of delivery to increase significantly then a shift in position on some significant areas may be needed.

Considerations for Implementation of the Options

In answering the 5 questions set for this review a set of interventions have been developed that can be applied to different types of schemes, units and circumstances in order to specifically increase the level of Truly Affordable Housing that can be delivered.

Delivery & Implementation

In order to determine a prioritisation of Options and plan for implementation, understanding the typical timescale for delivery is key. Each of the Options has been appraised at a high level to determine which of those are quick wins versus a longer timeframe based on availability of current resource and suitability of existing delivery vehicles and governance to support implementation. These options are set out by number on the spectrum below:

The Options:

1. **RP purchase: Increase Valuation to RP Methodology**
2. **Increase Social Rent to Formula Rent**
3. **Intermediate Products: Increase LLR to DMR**
4. **VFM Analysis: Increase HRA Valuation**
5. **VFM Analysis: Build at Private Sector rates**
6. **Street Purchases: Acquire in borough instead of Build**
7. **Street Purchases: Buy Properties for TA Out-of-Borough**
8. **Street Purchases: Acquire out of borough instead of Build**

Risk Appetite

The analysis throughout the report has been used to highlight the maximum additional units that could be delivered by implementing the option. In practice, this approach would expose the Council to the maximum level of risk and therefore a more prudent level of risk will a result in a lower impact.

The analysis pays regard to financial and legal considerations and provides a maximum intervention. However, it does not attempt to overlay these results with any political imperatives regarding residents and future housing strategy decisions.

Quality

Specifically relating to Westminster's build costs being significantly above private sector levels, no work was undertaken to understand the increased quality, the desire to address the climate emergency and any other specific Council-led design requirements and their impact costs. Anecdotally, the Council recognised that it desire to use its build programme to address wider Council priorities would impact negatively on development viability.

Considerations for Implementation of the Options (2)

Key Decisions

This suite of options set out in earlier sections of this report has provided a toolkit of interventions for the Council to take forward, however, it should be noted that there is no single solution that alone can deliver a step change in the quantum of Truly Affordable Housing delivery, instead, it is through a more refined application of a set of tools to different circumstances that increases can be achieved.

It should also be noted that for the quantum of delivery to increase significantly then a shift in position on some significant areas may be needed, for example:

- A new commitment to the development of a **clear strategy for housing delivery** that maximises the role and remit of the housing delivery ecosystem, including the delivery vehicles as part of an overarching delivery strategy;
- Consideration of **options that have previously been less politically palatable** such as Street Purchase out of borough or the development of intermediate tenures that serve residents on slightly higher incomes, but are currently underserved; and
- An examination of the balance of risk the Council will take, for example such as through bringing in institutional funding utilising its covenant strength.

These measures can then be partnered with the interventions and the conditions for implementation that have been developed for each option in order to maximise the potential for increased delivery across the portfolio of schemes and units.

Recommendations

A consolidated set of Recommendations pertaining to this report are set out in Appendix 2.

Section 10: Next Steps

Next Steps

In order for the Council to be in the optimum position to maximise the delivery of Truly Affordable Housing we recommend that the following are undertaken as next steps:

- Consider the options and socialise these internally amongst the Council to test the appetite for implementing different or a combination of options
- Confirm the risk appetite of the Council for the delivery of TAH and identify any parameters that will guide implementation
- Adopt and communicate an agreed definition for Truly Affordable Housing (TAH)
- Develop a set of strategic objectives to guide the future council housing delivery programme and how the delivery ecosystem can best be used. Instigate a refresh of Business Plans for the delivery vehicles to reflect the strategic objectives.
- Commence preparation of a Housing Delivery Plan - determine the prioritisation of options and develop a detailed implementation plan across the current development programme and future housing pipeline
- Consider the Governance recommendations, select the preferred governance arrangements and develop an implementation plan to move to the new governance arrangements, including the development of updated Terms of Reference and membership of different groups.
- Consider the enablers for resourcing and determine those to pursue such as the skills audit.

Section 11: Appendix

Appendix 1 - Key Assumptions

Appendix 1 - Key Assumptions

The table below outlines the key assumptions underpinning the analysis throughout the report

Value	Key Assumption Commentary
Assumed Bedroom Mix across Developments / Acquisitions	44% 1 Bed / 38% 2 Bed / 17% 3 bed / 2% 4 bed
Social Grant / Intermediate Grant (LLR only)	£154k per unit / £63k per unit
Affordability Definition	Rent is no more than 40% of net household income (GLA definition) For Gross wages to Net calculations (i.e. income tax) it was estimated that there were 1.5 earners per house
Target Rent	Capped formula rent (based on standard calculation) using following market sales values: £540k 1 Bed / £660k 2 Bed / £810k 3 Bed / £1,020k 4 Bed
Acquisition On-Costs	Assumed to be 7.5% of on-costs on top of price
Three wards used for household income	Church Street, Westbourne, Queen's Park
Private Rent Rates	£1,741 pm 1 Bed / £2,385 pm 2 Bed / £2,578 pm 3 Bed (ONS data)

Appendix 2 – Recommendations: Collated View

Appendix 2 - Recommendations: Collated View (1)

Section	#	Recommendation
TAH	1	A definition for 'Truly Affordable Housing' should be adopted to remove any ambiguity as to what as to what affordability means in housing terms.
TAH	2	The analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs. Given the GLA definition on affordability, this means that the average income for residents should support and be affordable at a range of rental points with the potential for an increase from current social rent levels. The Council should provide consideration to those that fall below this "average" level of income and to be truly affordable the Council should ensure that there are rent levels to address all needs.
TAH	3	Only market sale units generate a surplus over costs, with every other tenure showing a net loss. Therefore, to deliver additional numbers of Truly Affordable Housing units market sales units will need to be built to provide cross subsidy to the truly affordable programme.
VFM	4	The Council should conduct a review of its costs to ensure they are comparable to external market rates. Where deviation does occur then the Council should ensure that additional costs are adding value to the development and/or are contributing to wider Council objectives, e.g., climate emergency
VFM	5	There is currently a disconnect in the valuation methodology used by the development appraisals and HRA business plan. The valuation per the HRA business plan (the amount the HRA can afford) is significantly higher than the value derived from the development yield approach (that used in the development appraisals); indicating a potential disconnect between the values used on the development viability versus what the HRA can afford. This could lead to developments not being considered viable or the level of affordable being reduced. As with this and other assumptions used. The Council should regularly review key drivers of delivery to ensure they are up to date and consistent.

Recommendations: Collated View (2)

Section	#	Recommendation
VFM	6	The Council could consider to moving to an approach whereby the affordability of a unit is assessed over 50 years, rather than 30 years. This increased duration could allow a higher premium to be paid. However, this approach is not without risk and the overall impact on the financial sustainability of the HRA must be considered.
Street Purchases	7	The Council should consider the scale of investment it would wish to dedicate to this programme, with a focus on which tenures / unit types it would target for the programme. For example, Temporary Accommodation / Social Rent / Intermediate Rent and 2 bed / 3 bed homes.
Street Purchases	8	The Council should review the delivery approach it would wish to use for the programme. Depending on the unit types and the tenures to be used the HRA or individual delivery vehicles could be used for different types of unit. For example, certain rental types on short term tenancies may need to be undertaken through a management vehicle, such as Westminster Builds, whereas Social rented properties could be let from the HRA or RPs.
Street Purchases	9	The Council should consider the tools and resources it dedicates to the street purchase programme to ensure it is targeting available properties effectively and efficiently and can select appropriate properties and transact them appropriately.
Street Purchases	10	The Council should consider the funding options available to it for this programme including utilising internal / PWLB borrowing, potential bonds to institutional investors. It should consider this on a programme basis to ensure the appropriate route is elected.

Recommendations: Collated View (3)

Section	#	Recommendation
RP purchase	11	If the council is keen to take this approach forward, it should build on its existing relationships with local RPs and potentially cast the net more widely to undertake a formal soft market testing exercise with this group. This exercise should be used to develop a register of interested parties on which it should capture an understanding of each party's appetite, what scale of units they would be interested in, and in what location. Subsequently a protocol / approach should be developed for how these parties are engaged as opportunities arrive.
Increasing Social Rent to Formula Rent	12	The Council should review its rent approach for social rent levels on new build and relet properties. If it is not already charging target rent on these units, it should move to this basis, unless there are specific local reasons not to do so.
Intermediate Products	13	The Council should review its approach to intermediate housing and consider its delivery in areas where income levels support it. Where intermediate housing is considered appropriate, the Council should: • Undertake modeling to understand the interplay between the sourcing of GLA grant vs the benefits of increasing rents to intermediate levels; and • Consider which delivery mechanism(s) should be considered for the development and operation of the intermediate homes as part of the Council's housing delivery ecosystem to ensure the appropriate vehicle(s) are used.
Wider development market	14	The Council should consider the benefits of ensuring that all developments brought through the planning system deliver, as a minimum, the policy requirements for affordable homes.

Recommendations: Collated View (4)

Section	#	Recommendation
Wider development market	15	Where development capacity is a constraint on delivery, the Council should consider partnership approach to access spare capacity in other organisations. This is particularly relevant when considering the current capacity in the RP market. A focus on commercial covenants, increased costs and cladding issues has resulted in RPs slowing down their development programmes in order to ensure financial sustainability.
Wider development market	16	The Council should assess whether key sites within the City have stalled as a result of viability issues. Consideration should be given as to whether, through the injection of finance, the Council could support the schemes and thereby get an enhanced in level of affordable homes.
Wider development market	17	Through our analysis we found that the level of commuted sums previously received by the Council has not always given rise to a commensurate increase in affordable provision. However, the information held was inconclusive as to the reasons. The Council has already started to implement a policy whereby commuted sums are not considered and this report recommends that this policy is continued moving forward.
Delivery Structures	18	The Council needs to establish a strategic approach to its housing delivery ecosystem. To accomplish this, it needs to establish a **Strategic Oversight Board** to oversea the housing delivery ecosystem. This Board should develop a set of Housing Strategic Objectives that sit across the different delivery structures. These objectives should then form the basis of the development of the Business Plans for each entity. These Business Plans should be amalgamated to form the basis of a new Housing Delivery Plan.
Delivery Structures	19	The Council should seek to agree the key criteria for which vehicle should be used for which purpose in delivering its Housing Delivery Plan.

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Recommendations: Collated View (4)

Section	#	Recommendation
Delivery Structures	20	The Council should seek to establish a new non charitable RP as a body within the Westminster Builds brand. The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.
Delivery Structures	21	As the Link City JV comes to an end, the Council should review the performance of the JV in order to • Examine what has gone well and less well in the performance of the vehicle • Identify any lessons learned for partnership arrangements in the future • Identify the skill sets the Council has developed through its partnership working. On the back of the review the Council's approach to partnership working with the private sector should be reviewed and key principles developed for how the Council could maximise the potential for these arrangements in the future.
Resourcing	22	Create a Strategic Oversight Board which includes Political and Shareholder oversight, along with Senior Officers –at Executive Director level to have oversight, set strategic direction and business plans across all of the Housing delivery ecosystem. This Board would be accountable for the performance management of all Housing delivery through establishment of KPI, as well as profit and loss targets. This should be enacted with immediate effect and be in place within 3 months.

Recommendations: Collated View (4)

Section	#	Recommendation
Resourcing	23	Establish a Housing Working Group, initially with existing Directors and Managing Directors to work joining on strategic ambition across Westminster, delivering joint business plans and also taking action to maintain and deliver through the provision of the skills agreed to enable the strategic and business plan. Agree board membership and time limited structure to move towards one Managing Director across the Housing Group. This should be enacted within immediate effect and be in place within 3 months
Resourcing	24	Secure External support through the recruitment of Non-Executive Directors (NED) will help to drive the strategy and planning, as well as providing advice around profit and loss. Additionally, the NEDs will ensure that due diligence and governance is delivered as agreed with the Strategic Oversight Board, as well as providing insight and advice around market development and housing delivery. This should be enacted with immediate effect and be in place within 6 months.
Resourcing	25	Undertake a deep dive skills audit across the Housing function to identify exiting skill set and potential gaps in strategic direction of travel. Assess capability to delivery long term business plans and through the skills audit reconsider the key roles and competencies required to enable and enact delivery. This will include consideration of pay and reward elements of any new job creation. This should be completed within a 3 month time period.

Appendix 3 – Delivery Structures

Existing Delivery Structures – Advantages & Disadvantages

Approach	Advantages	Disadvantages
City of Westminster	• All units developed are controlled by the Council • Council can define specification and have some flexibility on social rent levels for new units. • Council can own and operate intermediate housing for "Key Workers"	• Limited resources of HRA to develop / purchase units • Limited Intermediate products developed and operated from HRA • Units developed are subject to government policy / regulations changes • Units are subject to Right to Buy • HRA prudential limits act as natural barrier to significant expansion.
Westminster Builds Westminster Housing Investments Limited (WHIL) Westminster Housing Developments Limited (WHDL)	• Enables housing to be built and managed for profit utilising trading powers • Enables tax efficient dev't / mg't through 2 company structures • Organisation has focused purpose of delivery and management of housing, underpinned by the rigor of the Business Plan process • Units held are exempt from Right to Buy	• Currently, there is a lack of strategic direction to its use by the Council • Tax leakage from profits (Corporation Tax) • Arms length from Council, therefore, the Council has less control • The vehicles are not currently developing units
Westminster Community Homes Ltd	• Vehicle can deliver housing with the use of Affordable Housing Grant • Organisation has a focused purpose of delivery and management of Affordable Housing, underpinned by the rigor of the Business Plan process • Independent NEDs can bring skills to the organisation • Ring fencing of risks in the organization	• Arms length from Council and run as an independent charity, therefore, the Council has less control • Currently there is a lack of strategic direction to its use by the Council • Some grant benefits can now be realised by the Council • Units have the potential to Right to Acquire but currently a lower risk than RTB.
City of Westminster linkcity	• Council have 50% control over the development of the units • Council can acquire units in Westminster Builds for operation • Units are exempt from Right to Buy if held outside the Council • Delivers wider leisure and community space	• Council is providing financial support which could be used to support other schemes • Council provides an underwrite to acquire homes if sales price drops below floor

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The Housing Delivery & Management Ecosystem – Which structure to use?

Westminster Builds

Westminster Housing Investments Limited (WHIL)

Westminster Housing Developments Limted (WHDL)

The Council is not able to undertake activities for the expressed purpose of profit. It is required to undertake these activities through a company limited by shares, such as Westminster Builds.

It is therefore **is best used for the following purposes:**

- **Development of schemes of housing for private sale / rent with an objective of generating surpluses**
- **Development of affordable housing to be sold to third party RPs**
- **Development of schemes of other non residential uses with an objective of generating surpluses**
- **Ownership and Management of private rented units**
- **Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired)**
- **Purchase, ownership and management of temporary accommodation**

The 2 company structure in place is ideal to develop and manage properties in a tax efficient structure

Westminster Builds Non Charitable RP

The Council is not always able to access grant funding that is available to the Registered Provider sector, as such many Council's have established Registered Providers in their delivery ecosystem. .

However, the Council wishes to have more control over the activities of the RP, retaining the potential to bring units back into the Council in the future and to utilise the RP as an extension of its Ecosystem. A Charitable RP has to be independent of the Council, and therefore WCH does not fulfil this role.

This new RP **is best used for the following purposes:**

- **Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control**
- **Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL)**

City of Westminster

Development and management through the Council's Housing Revenue Account continues to be a key tool in its housing programme.

The HRA is best used for the following purposes

- **Development of mixed use schemes where the purpose is not predominantly to generate financial returns**
- **Schemes can include private sale / rent, affordable and commercial uses.**
- **Development of affordable housing schemes**
- **Ownership and Management of social rent units within the HRA**
- **Ownership and Management of intermediate rent units for key workers on secured tenancies**

Westminster Community Homes Ltd

The Council is not always able to access grant funding that is available to the Registered Provider sector, as such many Council's have established Registered Providers in their delivery ecosystem. A charitable RP is established with expressed charitable purposes and is independent of the Council

This RP is best used for the following purposes:

- **Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control**
- **Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units**

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Key Findings

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

1. The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.
2. Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.
3. There appears to be a lack of understanding of which vehicle should be used for which purpose. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other
4. There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance.
5. It has been questioned by the Council as to whether the existing RP can deliver the Council's broader objectives, including accessing grant from the GLA

Each of these issues combine to question the benefit of the different structures in their current form, however, they do not undercut the potential ability of this mix of companies to deliver the council's objectives.

When compared with best practice across the sector, **the Council is in a strong position to deliver the full spectrum of housing that is wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle.** The only potential exception to this is the form and structure of the RP in place which should be reviewed by the Council.

However, the Council is not currently in a position to achieve this effectively as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used.

Appendix 4 – Resourcing – Detailed View

Research - Pan London Delivery

Various models of delivery which operate pan London were investigated to help consideration of options and opportunities going forward. The detail below was sourced from a report into this area completed by London Councils Housing Group

Type of Delivery Model	Number of Models	% of Total Models	Examples
Development Agreement – Direct Development Partner	88	61%	Development Agreement - Direct Development Partner *LB Haringey selected Lendlease as preferred development partner for its High Road West development in Tottenham. Lendlease will deliver more than 2,500 new homes including at least 750 affordable*
Development Agreement/Strategic Development Partner	3	2%	Development Agreement - Master/ Strategic Development Partner *ASF Group Ltd and LB Barking & Dagenham are working together to deliver a major infrastructure and development project in the Castle Green area of Barking, including ~15,000 new homes.*
Direct Public Sector Delivery	8	6%	Direct Public Sector Delivery *LB Camden has a well-established direct delivery programme with 14 projects delivering more than 2,000 new homes.*
Public/private Contractual Joint Venture	2	1%	Public/Private Contractual Joint Venture (JV) *LB Hammersmith & Fulham has a de facto contractual JV with CapCo at Earl's Court (Land Sale Agreement with overage clauses), set to deliver ~7,500 new homes.*
Public/Private Corporate Joint Venture	32	22%	Public/Private Corporate Joint Venture (JV) *Barking Reside Ltd is a JV development company owned by the GLA (49%) and L&Q (51%), scheduled to deliver 10,800 new homes.*
Wholly Owned Public Vehicle	12	8%	Wholly-Owned Public Vehicle *Sutton Living, with a pipeline of Council owned sites earmarked to delivery a range of commercial and residential developments.*

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Pan London Delivery (cont.) - Governance and Resource

Alongside considering the outputs of an investigation by London Councils, the next slides consider the governance and resource models from across London and at national level.

London Borough of Barking & Dagenham – Reside

- Six independent limited liability and limited companies plus new RP Barking & Dagenham Homes Limited
- Reside led by 5 Independent Directors including Chair and an MD (also a Part time PA)
- Has Finance and Governance Lead Part Time
- Has full time Commissioning Manager
- Utilises external Housing organisation for sales
- Had own set of performance targets, has vision and values, purchase Legal advice and also invests in Resident engagement

London Borough of Bexley – Bexley Group

- Sought to develop several sites (10) and to provide an income stream
- Struggled to settle with a Chief Executive to deliver and enable their ambition
- Have a Chair/Chief Executive, Finance Director, Development Director
- Commissions from Planning professionals and also uses a range of consultants
- Business Plan struggled to be developed and delivered – struggle to agree objectives and to retain Chief Executives
- Has a fairly “safe” approach to development – risk averse

Pan London Delivery/National Example - Governance and Resource (Cont.)

London Borough of Sutton – Sutton Living

- Had long term Chief Executive in place – very commercially focused – potentially "forgot" about the Council
- Light touch structure – Part time Managing Director/Chief Executive
- Part time Finance Director
- Also use Regen Officers
- Have a new Chair – ex Lewisham – now have 3 new people on their Board

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Stoke City Council – Fortior Homes

- Wholly Owned Company by Stoke City Council – Direct Regen Partnerships with Private Sector and Government, rather than City West Homes
- 6 NEDS, (Including Leader of the Council), Director of Housing and Customer Services, Director of Place, Growth and Prosperity, A local Civil Servant and a Local Business Owner
- Mixed economy of build – Affordable, commercial and repurposed Public Sector property

Walsall Housing Group (WHG)

- Comprised of 5 companies – Anthem Homes (sales) WHG Trading CO (management and professional services to external customers), Buy for Good (CiC Social value Procurement) WHG Treasury (SPV provides funds as a money lender of bonds to parent co) WHG Developments (Design and build services)
- Has 4 committees Audit and Assurance, Governance and Remuneration, Customer Experience, Development made up of WHG Board and Independents – assurance to the Business that all duties discharged appropriately.
- Has succession planning, Learning and Development plans

Future Options

Operating Model

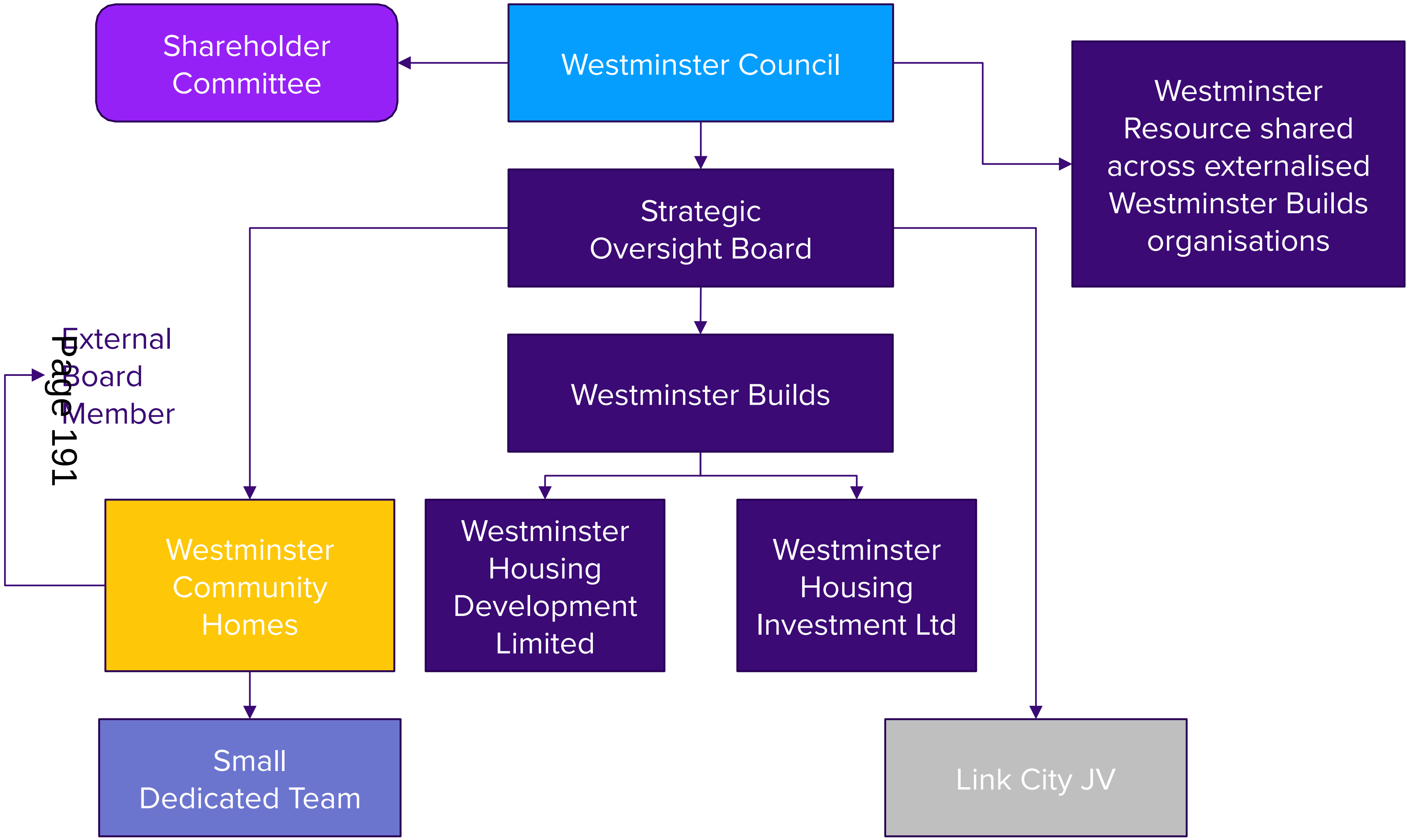
In order to consider the best possible future outcome and operating model for Westminster City Council in terms of resources, consideration has been made of historical models utilised, as well as relationships across the Housing sector. Such an approach has enabled the production of potential governance arrangements as well as skill sets and these are outlined in more detail later within this report. Although there has not been an explicit set of design principles developed for this work, the following areas have been considered to shape the recommendations.

- Previous models of delivery – for example – City West Homes
- Experience of staff and customers of the existing models of delivery
- Ability to act strategically, delivering business plans to agreed outcomes
- Cultural considerations
- Skills required to lever the best possible outcomes for WCC going forward
- The current environment – attitude to risk, focus upon delivery and positive outcomes for the customers of WCC
- Appetite for change and likelihood
- Added value e.g., Vision, Values, Performance
- Options being utilised by other Councils pan London

Governance

The following slides consider a range of options in terms of delivery approach and resources required.

Option 1 Governance – Future Options – Strategic Oversight Board

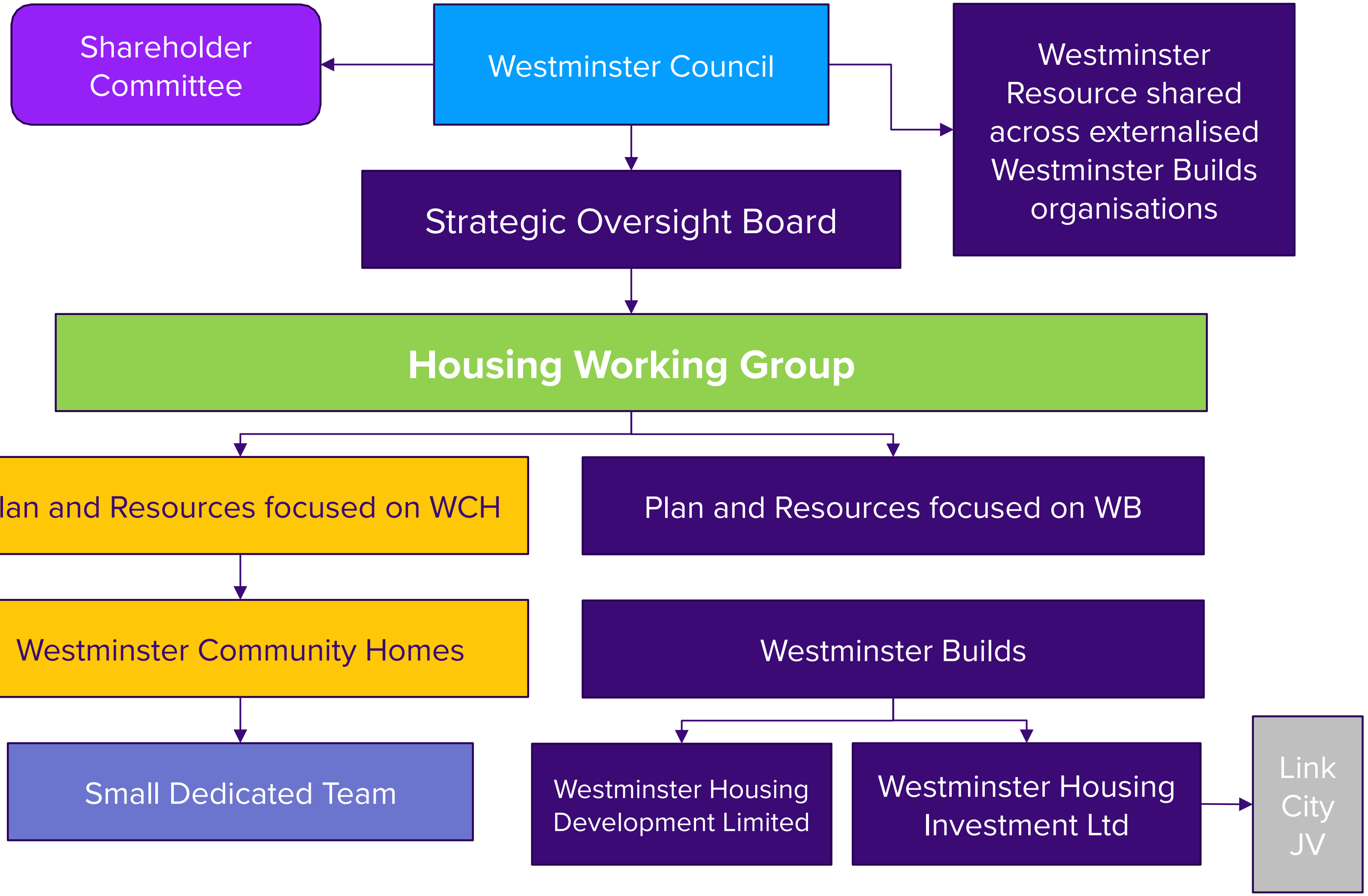


Strategic Oversight Board created would:

- Enable a clear focus upon direction of travel
- Be Member led linking to Shareholder committee
- Provide a joined-up approach for clarity and line of sight in terms of purpose, investment, key development, balance between total affordable homes and development opportunities
- Accountability and Control would be “in plain sight”
- Allow current structures to be maintained beneath the board
- Allow existing plans to continue yet undergo potentially more vigorous scrutiny
- New opportunities would be considered across the “whole” structure.
- Maintain the existing culture, vision and values
- Core structures would remain the same using internal WCC staff as well as specialist advisors
- Enable strong control for the council in operations and evolving strategy

Option 2

Governance – Future Options – Housing Working Group



Creating a Housing Working Group would:

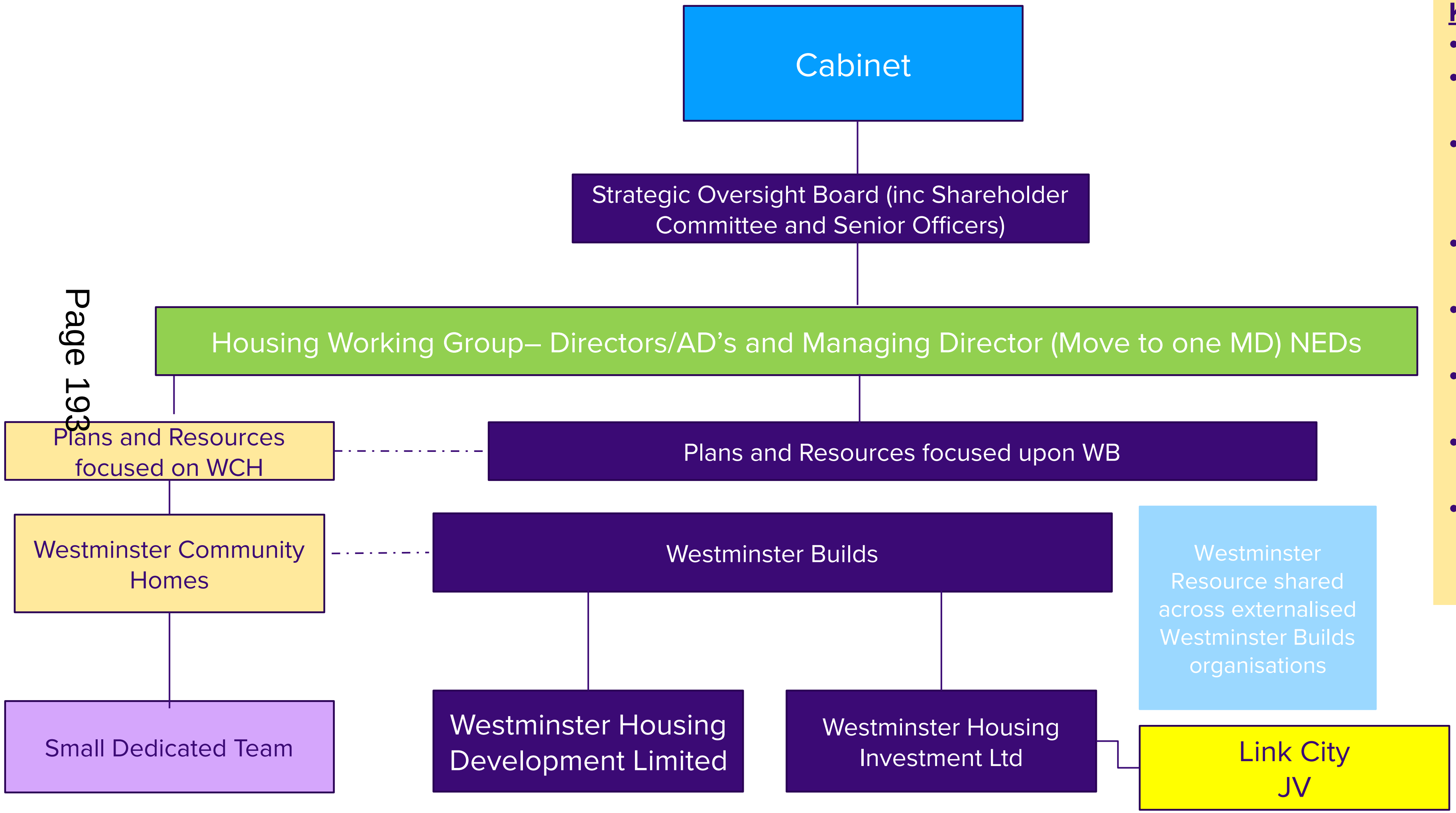
- Enable existing structures to remain
- One Working Group would bring together organisational settings into one as an executive – providing strategic, development and financial/planning oversight as well as accountability
- Would enable a joined-up approach and clarity across all areas of the organisations
- Would enable continued and change activity with better clarity of purpose.
- Would enable plans to be changed, updated and developed in a consistent and transparent manner across the group
- Would not be a formal organisational change
- Potential to add experts to the Board who provide an external voice and challenge
- Would identify skill gaps and potential for these to be closed over time.
- Develop a balance between internal and external expertise – potential better line of sight in terms of skill sets and people development
- Maintain the existing culture, vision and values
- External specialist skills still be required unless recruited to which challenges pay, terms and conditions

However:

- Doesn't grow the culture of the organisations/council

Proposal for Future Governance – Selected Option

The Council have a ambition to streamline the current governance arrangements whilst retaining the appropriate level of oversight



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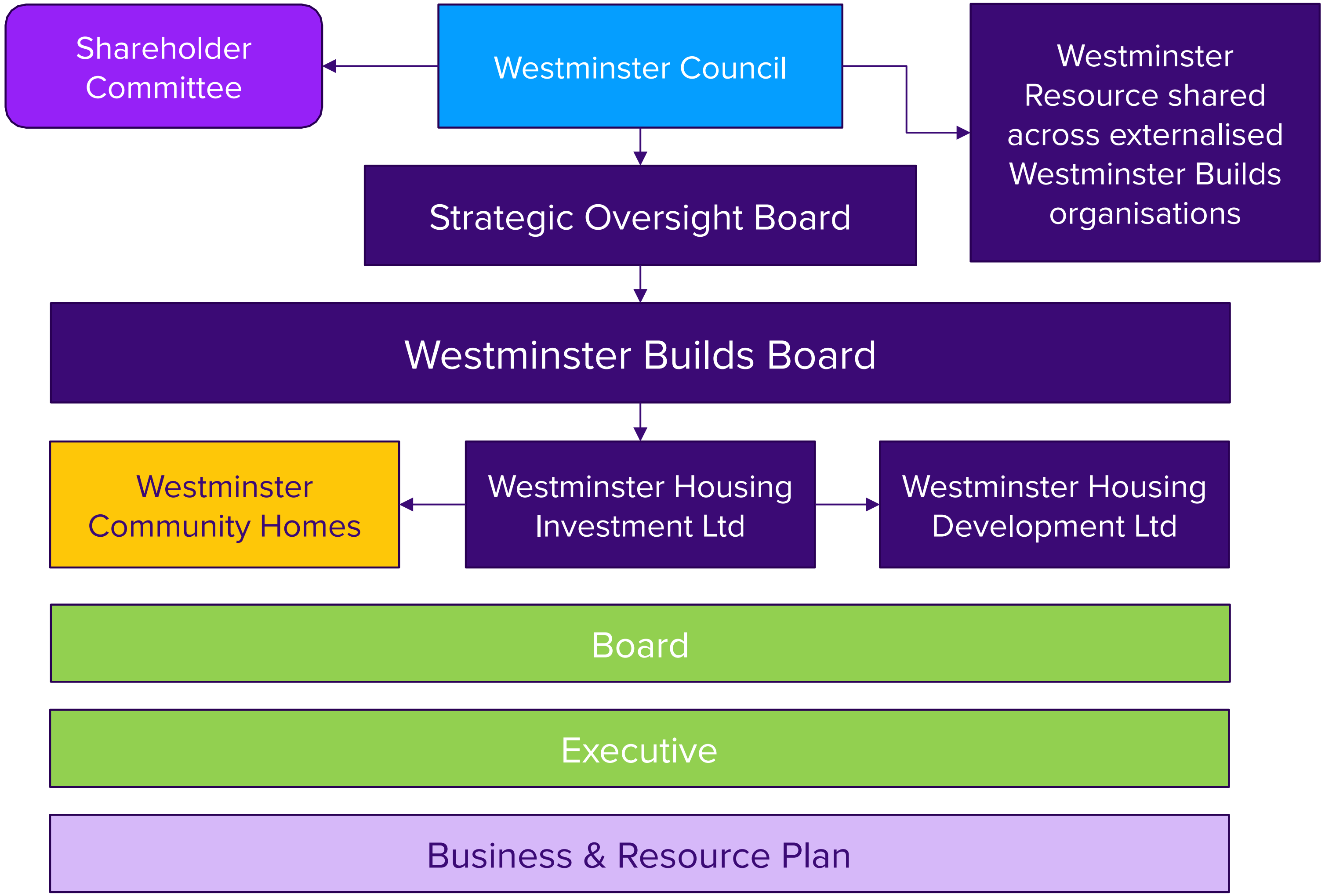
Key Changes
- One oversight Board
- Opportunity to streamline function and form
- Political scrutiny with key senior officers for assurance via the Strategic Oversight Board
- Facilitates developing joint strategic approach
- Business plans can be developed for the long term
- Allows time to identify and develop skills which challenge internal capability
- Allows recruitment of new skills – reduces reliance upon external support
- Brings external support and challenge onto board through NEDs

Governance – Future Options – New Strategic and BAU Board

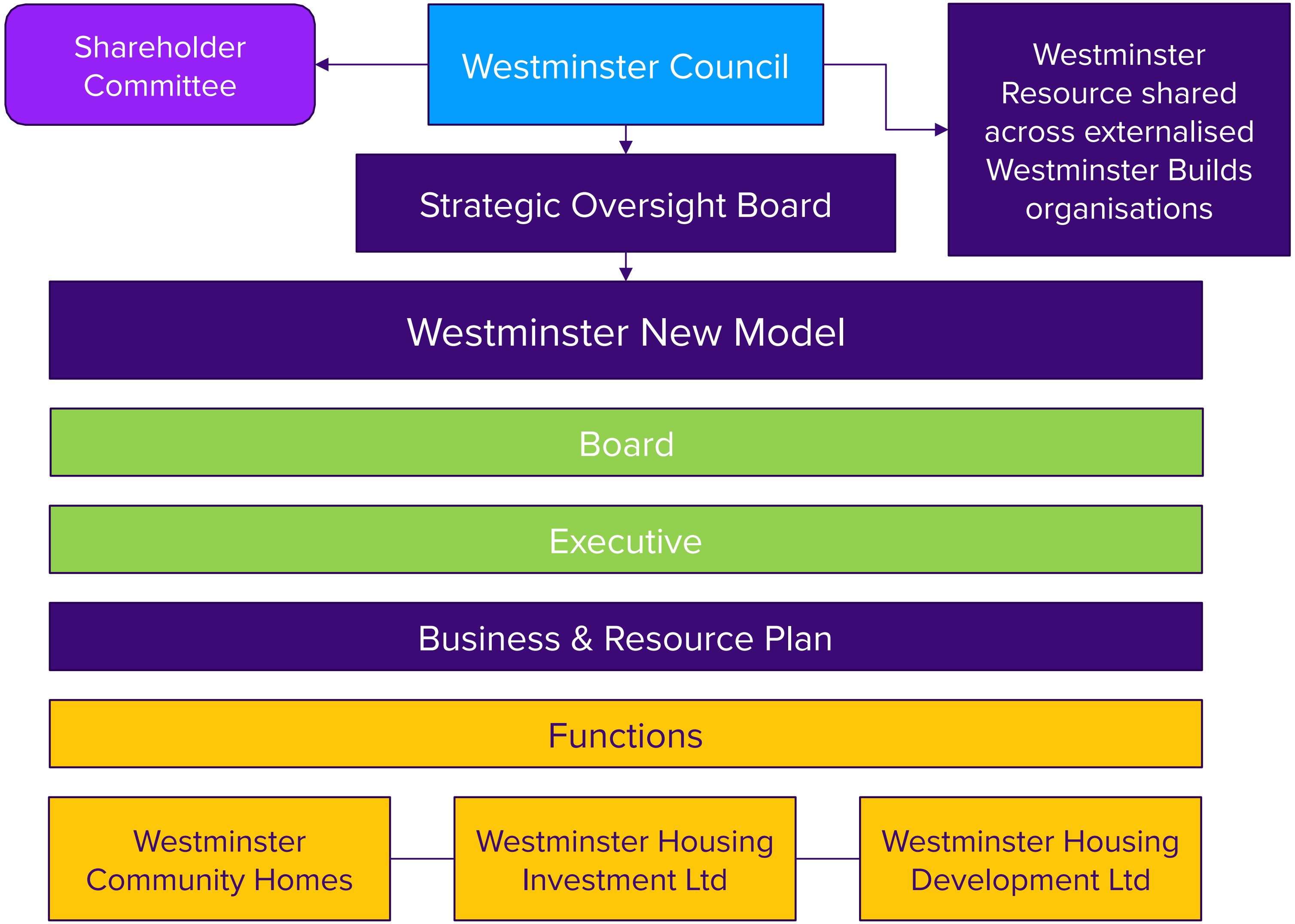


A new strategic and BAU board would:

- Enable a consolidated group structure
- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Develops the existing culture, vision and values.
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance

Option 4

Governance – Future Options – New organisation arms length



A new organisational model would:

- Require some significant change in ways of working – establishing a new organisation
- Would require a total review of all processes, procedures and governance
- Would require the development of a structure, consultation and have implications across HR, Legal, Accommodation and Pension considerations for example
- Would require political support and clear direction of travel.
- Would potentially disrupt current progress and add in additional time as well as financial activity
- Could be seen as "going backwards" as the corporate memory of externalised organisations is not overall positive.
- Would potentially not be following the trend of other authorities bringing their models closer or in house – e.g. Lambeth
- Challenges to council culture directly

Governance – Resources, skills and culture required within Operating model

The opportunity for Westminster City Council to develop their model is to potentially move to Option 2 (a Housing Working Group) and then onto 3 (arm's length org.) over time and to develop resources, along with culture and a review of terms and conditions to attract talent.

In Summary Option 2 (a Housing Working Group) - would:

- Enable existing structures to remain to allow restructure in Development to progress.
- Enables the case for change to develop
- Allows the council to focus on immediate challenges e.g. recession, Mold and potential referral to Social Housing Regulator
- Allows strategies, Boards to develop, Business plans to emerge
- Establish one housing working gorup that would bring together organisational settings into one as an executive – providing strategic, development and financial/planning oversight as well as accountability
- Would enable a joined-up approach and clarity across all areas of the organisations –Would enable continued and change activity with better clarity of purpose.
- Would enable existing plans to be changed, updated and developed in a consistent and transparent manner across the group
- Would not be a formal organisational change.
- Potential to add experts to the Board who provide an external voice and challenge - consider one MD, NEDs, new Roles required.
- Would identify skill gaps and potential for these to be closed over time.
- Develop a balance between internal and external expertise – potential better line of sight in terms of skill sets and people development
- External specialist skills still be required unless recruited to which challenges pay, terms and conditions
- However, doesn't grow the culture of the organisations/Council

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In Summary Option 3 (arm's length org.) – would

- Enable a consolidated group structure
- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two.
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance

Resourcing – Types of skills and Roles required

In order to develop a range of opportunities and skills which will enable Westminster to grow and develop its Housing approach and offer, there are a range of skills which are identified as being key to enabling, and then sustaining the way forward. The roles identified enable Westminster to develop its Truly Affordable Housing offer, whilst at the same time developing some key skills in house, potentially reducing the reliance upon external support.

Additionally, there are examples of the types of role and Board additions which might be considered to help embed the chosen operating model approach as well as some key enablers in terms of culture, learning and development and development of clear strategic aims and business plans across the housing environment.

Develop a range of Specialist/Technical skills:

- Contract Managers
- Various Policy and Planning experts
- Design Specialists
- Specialist Programme Directors/Managers
- Specialist Housing/Regeneration/Build Project Managers
- Commissioning Managers – Contractors/Site Design/Regeneration/OPE
- Commercial managers – Sales (Private)/Land Management
- Procurement Specialists
- Development Appraisal Specialists (Finance/Investment)
- Customer and Resident Managers
- Strategic Managers
- Legal expertise (to avoid continued use of external advice)

Types of Roles which enable the delivery of model 2 & 3:

Group Managing Director
Non-Executive Directors from across Housing and Beyond
Local Business Leader(s) for Commercial thinking development
Director of Commercial Operations
Commissioning and Procurement Leads
Programme Directors
Finance Directors focused upon Investment and ROI
Resident representation
Head of Legal for Property Services

Enabled by a ”shopping bag of”:

- A review of pay and conditions to attract and retain the best talent
- Potential to pay market rates or incentives to join/stay with the organisation where this doesn’t fit council existing approach
- To enable internal skills to be built over time
- Creating a learning culture
- Reviewing vision, values and behaviours required to enable delivery
- Ensure progress is based upon skill and potential
- Ensuring that the community is at the heart of all thinking
- Having the right “can do” mindset – so ensuring that there is freedom (within legal constraints) to act commercially
- Having strategic plans, business plans, financial plans and development/delivery plans in place
- Appropriate controls and application in place to enable an integrated approach to delivery
- Cradle to grave delivery approach for residents & property

Resourcing: Findings

The following statements summarise the key conclusions from the resourcing review:

Key Observations

Research and conversations with key stakeholders and market experts identified that there are a range of options for Westminster City Council to consider moving forward from a resources perspective.

There does also seem to be some areas or approaches which would not be fully supported, for example the creation of an arms length organisation. This is not unexpected given past experience at the Council, but also when considering the direction of travel across London. For example, at the time of writing this report, LB Lambeth and LB Haringey have decided to bring their arms length provision back in house.

There is currently a reliance upon external resource provision closing the skills gap by using external expertise under contract or through consultancy – where the skills are not available in house. Whether this is sustainable or not has not been considered. However, in order to provide stability, career pathways, the “right” culture, a learning environment and sustainability, it does seem prudent and practical to consider how to recruit and then grow the skills internally. This presents some challenges potentially in pay and grading, in culture and in being able to provide the career pathway that would retain talent across the Development and Regeneration environment.

Opportunities

There does seem to be an opportunity to bring external talent into the Housing provision that would be beneficial, and consideration should be given to attracting Non-Executive Directors onto the Boards to help create the stimulus for growth and sustainability as opposed to the current reliance on external resource in key development areas.

The existing structures allowed gaps to be identified of the type of role and people required. If these are considered as recruitment opportunities by WCC and at appropriate pay scales, this would reduce the reliance upon external resource provision e.g. Commercial/ Procurement expertise

Additionally, one clear strategy and one clear Business Plan would help create a pathway which can be understood by all key stakeholders, bringing all key actions, roles, investment etc into one place and in one area of “thinking”.

Residents and Business owners should be a part of the future governance thinking. There could be real potential in having a residents representative on the Board(s), along with a local Business person who will help potentially from a commercial perspective. If a resident representative is not on the Board(s), then there should be a clear and explicit group linked to development of strategy and business plans going forward in the delivery of a Truly Affordable Housing approach.

Recommendation for Governance and Resource arrangements:

22) Recommendation

In terms of governance and resource arrangements going forward, it is recommended that:

- Initially option 2 (Housing Working Group) be adopted, bringing together a Housing Working Group and looking to develop common approaches to strategy and business planning, as well as looking at combined roles representing each organisational setting.
- In terms of development Option 3 (arm's length org.) should be adopted within 6-9 months enabling one board, one MD and bringing in external skills onto the board.
- One Strategy and Business Plan should be developed and a skills audit undertaken to help bring in additional skill sets into the Council.
- A piece of work around culture, values and behaviours should be undertaken, helping to underpin the delivery models and linked to a review of the approach to pay and reward, accepting that the latter maybe challenging initially.
- If required, each organisation could and should retain a Senior Leadership Team board to ensure alignment and delivery in continued in line with strategy and business planning.

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City of Westminster

Cabinet Report

Meeting or Decision Maker:	Cabinet
Date:	30 October 2023
Classification:	General Release
Title:	Capital Investment in Community Assets
Wards Affected:	All
Policy Context:	VCS Sector Investment Strategy
Key Decision:	Yes
Financial Summary:	Capital grant funding to be provided from an existing programme budget approved in the annual capital strategy report
Report of:	Pedro Wrobel, Executive Director, Innovation and Change

1. Executive Summary

1.1. Westminster's voluntary and community sector organisations (VCSOs) play an essential part in helping people live happy and healthy lives, as well as preventing acute problems from developing in communities. Our Fairer Westminster strategy is committed to creating an equitable city in which community and voluntary sector organisations are empowered to succeed.

1.2. The Council has developed a) a capital funding policy and b) supplementary guidance to the Property Investment Strategy which aim to support VCSOs to deliver services in premises that are of high quality and fit for purpose, and which support the future resilience of the organisation.

1.3. The appendices referred to in this document include:

1.3.1. **Discretionary Capital Funding Policy** (Appendix 1). This policy outlines a process for enabling VCSOs to access capital funding from the council. It establishes the strategic and social objectives of the funding as well as the eligibility criteria. It enables applicants to demonstrate value for money through the application process and outlines the legal safeguards to be put into place to secure the Council's funding.

1.3.2. **Property Investment Strategy Supplementary Guidance** (Appendix 2) The guidance also seeks to clarify some of the existing principles and objectives outlined in the Property Investment Strategy within the Council's annual Capital Strategy that guides the purchase of property for regeneration purposes. The guidance explains the meaning of 'regeneration' in the context of the Property Investment Strategy, within the Capital Strategy, and in the context of the aims of the Fairer Westminster Strategy. It also summarises the existing process (as articulated in the Council's annual Capital Strategy) to be followed when making a case for a property acquisition. It provides additional guidance on preparing an Economic case, including a social cost benefit analysis which enables the Council to consider the full economic value of an acquisition alongside its Financial case.

1.4. The policy and guidance is based on the following investment and acquisition principles.

1.4.1. **Strategic fit with the Fairer Westminster Strategy and the Voluntary and Community Sector Investment Strategy -** Capital investments must facilitate the resilience and growth of the VCSO sector, thereby achieving the aims of the Fairer Westminster Strategy to empower communities.

1.4.2. **Additionality** - capital Investments should lead to positive and lasting change in the communities benefitting from the investment. This means securing outputs and outcomes that are additional to business as usual. VCSOs benefitting from the investment must be able to sustain these outcomes over time.

1.4.3. **Value for Money** - capital investments must represent public value for money, including cost effectiveness and the achievement of best value.

1.4.4. **Affordability** – all capital investment including funding and acquisitions must be supported by an approved budget line or existing allocation. A key principle in relation to property acquisitions is that all investments confirm to Minimum Revenue Provision (MRP) regulations.

2. Recommendations

It is recommended that the Cabinet:

- Approve the adoption of the Discretionary Capital Funding Policy (Appendix 1);
- Approve the adoption of the Property Investment Strategy Supplementary Guidance (Appendix 2); and
- Delegate authority to make minor future administrative and drafting amendments to both policies to the Executive Director of Innovation and Change in consultation with the Executive Director of Finance and Resources.

3 Reasons for Decision

3.1 The policy and supplementary guidance will allow the Council to support the growth and future resilience of the VCS Sector by either providing funding to improve and / or expand existing VCS occupied premises or by acquiring underutilised and vacant premises for social, economic and environmental regeneration. The policy, through capital investment in existing VCSO spaces and Supplementary Guidance, through acquisitions will enable the delivery of additional and improved outcomes as well as catalysing local regeneration, leading to wider amenity benefits.

4 Background, including Policy Context

4.1 The Council is taking a new approach to supporting VCSOs to become more resilient and empowered under the Fairer Communities Pillar. This is a key strategic objective of the Fairer Westminster Strategy.

4.2 Anecdotally, VCSOs experience lack the financial and organisational capacity to improve and develop the premises they occupy. This results in premises that are not a) fit for purpose and b) growth enabling. Occupants are also at risk of escalating rents and commercial interests often compounded by the lack of affordable premises in Central London.

4.3 The decline and potential displacement or loss of community facilities is likely to exacerbate existing inequalities due to the pressures of demand, leading to fewer residents accessing services. This is also likely to have a detrimental impact on the social capital generated at a neighbourhood level leading to reduced participation in local events and volunteering.

4.4 In response to this, the Council developed a Voluntary and Community Sector Investment Strategy which sets out a plan for supporting organisational and financial resilience through core funding and capital investment in VCS spaces.

4.5 The Council does not currently have a programme of capital investment in VCSOs. Although Neighbourhood CIL (NCIL) funding is available for community organisations, the eligibility criteria is specific in that the investment must support new and existing public infrastructure needed to support growth and development, such as the provision of affordable housing or sustainable and active travel. NCIL funding is also limited to the neighbourhoods impacted by the development. The Discretionary capital funding policy addresses this gap by providing VCSOs across Westminster with an opportunity to access discretionary funding for growth enabling works, irrespective of their NCIL eligibility status.

4.6 Additionally, vacant and underutilised properties offer untapped potential and opportunity to achieve regeneration outcomes (additional social, economic and environmental outcomes) in deprived neighbourhoods, where they are returned to use. There is a need to consider this as part of the package of interventions being developed to support VCSOs become more resilient.

4.7 The Council's Property Investment Strategy within the annual Capital Strategy makes provision for the acquisition of assets for regeneration purposes. However, there is a need for clarity around the term 'regeneration' and the conditions under which an asset acquisition can be considered for regeneration. The Supplementary Guidance addresses this in greater depth.

4.8 Where the Council makes a capital investment, the above policy and supplementary guidance has been developed to a) deliver additional community benefit in line with the Council's Fairer Westminster Strategy b) provide a consistent framework to ensure decisions provide value for money and c) the investment is safeguarded d) investments are affordable.

5 Financial Implications

5.1 Applications from VCS sector in respect of capital grants will be assessed to ensure that they meet the Council's strategic objectives, and that the applicant has the appropriate plans in place to deliver on their investment proposal.

5.2 Any capital grant given will be provided from an existing programme budget approved in the annual capital strategy report. This will ensure that affordability across the whole programme is maintained within the General Fund.

5.3 Allocation of capital grants will follow the Council's financial regulations in accordance with any other capital expenditure,

6 Legal Implications

Discretionary Capital Funding Policy

6.1 The report seeks authority to implement a Discretionary Capital Funding Policy which is explained at paragraph 1.3.1 of the report. The Council can enter into grant funding arrangements using its general power of competence under the Localism Act 2011. The Council should ensure that the distribution of grants is fair and proportionate and also complies with the public sector equality duty pursuant to the Equality Act 2010.

6.2 Further the Council must have regard to the Subsidy Control Act 2022 (SCA) whereby the Council has a duty to consider whether any funding could fall within the definition of “subsidy” under the SCA. If this is the case the Council must then consider whether the funding would comply with the subsidy control principles. Each grant should be assessed on a case-by case basis and Legal Services will be available to provide relevant support.

Property Investment Strategy Supplementary Guidance

6.3 The Property Investment Strategy Supplementary Guidance is explained at 1.3.2 of the report and is a guide to be followed when considering the acquisition of property for regeneration purposes.

6. 4. Under section 1 and section 12 of the Local Government Act 2003 Local Authorities have broad powers to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs.

6.5. Section 1 of the Localism Act 2011 also gives the Council a general power of competence to do anything that individuals generally may do, save where the Council is prohibited from or limited in doing it

6.6. The Council is a Best Value Authority under the Local Government Act 1999 and is obliged to “make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness” (Section 3 LGA 1999). Guidance requires the Council to consider the overall value, including economic, environmental and social value. The best value duty underpins all Local Authorities’ activities and functions and the Council must have regard to it and maximise the use of assets for the benefit of its area and Council taxpayers.

6.7. Individual reports will need to be produced on a case by case basis for each acquisition, which will provide detail on the due diligence and legal implications.

6.8 In addition to the above, the Council has the powers below available to it for the acquisition of investment properties.

6.9 Under section 120 Local Government Act 1972, the Council have a general power to acquire land and property by agreement situated inside or outside their area for the purposes of any of their functions, or for the benefit, improvement or development of their area. Local Authorities are empowered to acquire land notwithstanding that the land was not immediately required for that purpose.

6.10 Local Authorities can also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to ,the discharge of any of their functions, which includes investment functions under section 111 Local Government Act 1972.

6.11 There are also more specific powers that support acquisitions for capital programmes or specific projects. As an authority possessing compulsory purchase powers, the Council may make compulsory purchase orders which, if approved, allow the Council to acquire by compulsion.

6.12 Legal due diligence will be required on any acquisition, to include review of title and ownership, searches and enquiries, in order to ascertain relevant liabilities and encumbrances, and any associated risks, and guidance should be sought from Legal Services prior to any decision to acquire.

7 Carbon Impact

7.1 The Capital Funding Policy and application requires the applicant to articulate, as far as practicable, the carbon impacts of the works, the building and the ongoing maintenance of the building.

7.2 Applicants are asked to outline their approach to environmental responsibility in terms of how the service and buildings are run (by lowering carbon emissions, increasing levels of recycling, cutting the use of plastic, and reducing water consumption). As building projects and the building itself can contribute significantly to carbon emissions, applicants are requested to consider energy efficiency as a priority. We expect them to consider:

- sourcing environmentally responsible goods and materials.
- whole-life cycle costs in the selection of materials, plant and equipment.
- sustainable construction practices.
- the long-term environmental impacts of buildings.

7.3 With regards to acquisitions, the carbon impact of the property and its end uses are considered in the Business Case, under the Economic and Financial Cases. During refurbishment /development and maintenance, it is the responsibility of the Council to ensure that negative carbon impacts are minimised.

7.4 **Environmental Management Plan (EMP).** It is standard practice for contractors to submit Environmental policies as part of the tender process, indicating how they intend to measure and achieve compliance with the environmental protection and mitigation requirements of the project. The monitoring of the EMP is the responsibility of the organisation issuing the tender / procuring the works.

8 Equalities Implications

8.1 An Equalities Impact Assessment (EIA), initial screening, has been completed.

8.2 The initial screening highlights that although the policy and supplementary guidance is likely to have a positive impact on community organisations, it is not known how capital investment will impact residents with protected characteristics as there is a lack of baseline data. The EqIA sets out the expectation for grant funding applicants to explain how they meet the Councils equalities considerations. This will establish the baseline from which the equalities impact of the capital investment will be assessed through the project’s performance framework.

8.3 Individual EQiAs will be required where there is a case for new acquisitions. This will establish the baseline for equalities impact assessment which can be monitored after the acquisition has taken place.

8.4 Additionally, there are equalities implications arising from making targeted decisions about funding specific organisations. This may disadvantage smaller organisations who have been excluded from the grant funding process. There are likely to be equity considerations arising from this approach. The EqIA addresses this and puts into place actions to embed equalities into the future development of the Capital Funding Policy.

9 Consultation

9.1 A number of directorates across the council have been consulted and engaged about the new approach to funding VCS organisations, including the capital investment policy and supplementary guidance:

- Corporate Property
- Finance
- Legal
- Procurement Team
- North Paddington Programme (Growth Planning and Housing)
- Communities Team (Innovation and Housing)
- Place and Investment (Innovation and Change)
- Strategy and Intelligence (Innovation and Change)

9.2 A communications plan will be developed to guide our engagement with Community organisations seeking funding in the future. Additionally, One Westminster has been consulted during the design of the capital funding application form to ensure accessibility.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Rahima Begum, Principal Policy Officer

APPENDICES

Appendix 1: Discretionary Capital Funding Policy

Appendix 2: Property Investment Strategy Supplementary Guidance

BACKGROUND PAPERS

FAIRER
WESTMINSTER

DISCRETIONARY CAPITAL FUNDING FOR VCS PREMISES

Guidance

City of Westminster

1. Background and Rationale

1.1 Westminster City Council commits to providing excellent public health and social care services, and physical activity opportunities that ensure all adults can stay healthy and thrive as they age. It commits to ensuring the city is a great place for children to grow up, with its cultural and learning opportunities, active communities, and excellent schools. It seeks to achieve this by empowering voluntary and community sector (VCS) organisations to prosper in Westminster. This is a key strategic objective of the Fairer Westminster Strategy

1.2 Modern and fit for purpose facilities are important enablers of leisure, cultural, health and social care, and any activity that contributes to quality of life for our residents. VCS organisations delivering essential services in Westminster often lack the financial resources needed to invest in the premises they occupy. This leads to them operating from poor quality premises that are not fit for purpose, impacting on their ability to respond to additional community need, expand and grow.

1.3 Where the property is under third party ownership, it may be at risk of commercial interests that don't align with the VCS organisation's priorities. Higher land values in a place like Westminster are commensurate with the need to optimise the commercial return on investments. This creates a risk for VCS organisations operating from properties owned by third parties as they struggle to raise the funding to meet these costs alongside the cost of delivering their services to communities.

1.4 The Council is therefore keen to empower VCS organisations that lack the financial capacity to enhance service delivery, address additional community need and become more resilient.

1.5 It may do this by providing capital funding to expand or improve the condition of the facility that will enable the VCS organisation to deliver enhanced services and improved or additional social outcomes.

1.6 Council investment in community assets through grant provision does not come without implications. The investment can confer a financial benefit to the third-party owner, in the form of a future land value uplift, which can be substantial in a place like Westminster. The benefit also extends to capital receipts when the property is sold.

1.7 There is a need, where possible, to protect this investment through instruments such as legal charges and claw back arrangements. This will ensure that the VCS organisation continues to deliver outcomes in Westminster.

2. Purpose

This policy applies to capital funding granted for the benefit of VCS organisations.

It explains:

- The scope of the policy
- Who can apply for the grant
- The meaning of capital funding
- The Council's investment priorities
- The Council's approach to safeguarding the grant
- Financial considerations
- The application process

This document should be read in conjunction with the following policies:

- Voluntary and Community Sector Investment Strategy 2023-2028
- WCC Capital Strategy
- Delegated Authority to Officers Policy
- WCC Financial Regulations
- Voluntary and Community Sector Rents Policy

These are the key documents in the overall decision making relating to capital funding of VCS premises.

3. Scope

This policy applies to capital grants made to VCS organisations for the purposes of securing long lasting benefits in areas of need. It applies under the following circumstances:

3.1. Capital funding granted to VCS organisations (leaseholders or freeholders) that own or occupy their premises. (The definition of capital is set out under 6. below).

3.2. Capital funding granted to VCS organisations that lack the resources and financial capacity to fund the work themselves (the eligibility criteria is set out under 7. below).

3.3. Capital funding granted to VCS organisations to meet a recognised community need. For example, the construction and repair of community facilities.

4. Who is Eligible for a Capital grant?

To be considered for funding, applicants must be a VCS organisation operating in Westminster.

4.1. Funding is aimed at supporting local VCS organisations that lack the resources and financial capacity to fund or part fund the capital works themselves.

4.2. Applicants must demonstrate that they have the financial capacity to deliver the project and maintain the running costs of the property. They are required to demonstrate unrestricted cash reserves equivalent to a minimum of 3-6 months operating costs.

4.3. If reserves are showing more than 3-6 months operating costs, VCS organisations are required to explain why the surplus cannot be used to part fund the project under the application for funding.

5. What is Capital Funding?

5.1. This policy covers any expenditure that improves fixed assets, and which can be capitalised on the applicant's balance sheet. This includes:

- Building projects to refurbish, improve or extend existing buildings to make them more flexible, accessible and safer, and/or with greater commercial potential.
- Installation or upgrade of digital infrastructure, purchase of security cameras or screens.
- Infrastructure to install/improve Wi-Fi connectivity.
- Improving existing facilities to enhance access to and enjoyment of the building, including the provision of inclusive access for everyone i.e. changing rooms or toilets.
- Works to increase the environmental sustainability of the building such as:
  - upgrading lighting to LEDs.
  - installing or retrofitting sustainable technologies.

    - Upgrading the existing building fabric to enhance its thermal performance and, protection measures to reduce the risk of flooding such as flood proofing or flood resilient works.

- Decant costs, temporary accommodation and storage costs, including insurance, if the third party needs to move into a different building.

- Professional fees directly related to the activity provided, the appointments have been made in accordance with the applicant organisation's procurement policy.

5.2. Out of scope

- Expenditure that cannot be capitalised on the applicant's balance sheet. This includes any associated revenue costs.

- Goods or services that have already been bought, ordered or contracted before the Council makes a decision about the application. This is because works cannot be funded retrospectively.

- Day-to-day maintenance and minor repairs which should form part of a maintenance and management plan for the building(s).

- Costs that are already paid for by other income including the applicant's own funds or any other funding.

- General running costs or overheads such as, but not limited to, additional staffing and insurance.

- Goods, works or services that have not been procured in accordance with established procurement best practice.

- Marketing/advertising costs.

- VAT that the applicant is unable to recover from HM Revenue and Customs.

6. Investment Priorities

6.1. Strategic fit

To be eligible for capital funding, the applicant must indicate how its priorities align with the objectives of the Fairer Westminster Strategy. It must be engaged in at least one of the following aspects of the key five core priorities.

- **Fairer Communities**
  Activities that:
  - support Westminster's residents to reduce poverty, inequality or discrimination.
  - help residents to remain active and reduce health inequalities.
  - provide cultural and learning opportunities for residents.
  - provide services to young people, older people, people with disabilities or any other cohort of vulnerable people.

- **Fairer Housing**
  - reduces homelessness or provides support for the homeless.
  - provides additional housing support to residents over and above the support available through the Council.

- **Fairer Economy**
  - create local job opportunities for residents.
  - support residents to upskill and acquire new qualifications.
  - support residents to become more entrepreneurial or help them to secure good quality jobs.

- **Fairer Environment**
  - support Westminster to be safer, cleaner and greener.
  - Provide access to high quality green spaces and services
  - encourage active travel.

- **Fairer Council**
  - Information, advice and guidance services for residents or any activity that provides a service to the residents of Westminster.

6.2. Net Zero

6.2.1. Westminster has some of the highest carbon emissions and worst air pollution in the UK. In response to this, the Council has set an emissions target for the City to reach net zero by 2040.

6.2.2. As both buildings and building projects can contribute significantly to carbon emissions, applicants must demonstrate the lead in their approach to environmental responsibility and consider energy efficiency as a priority both in terms of the works and how the service and buildings are run (by lowering carbon emissions, increasing levels of recycling, cutting the use of plastic, and reducing water consumption).

6.2.3. Where feasible, the Council will seek to work with organisations to maximise positive environmental impacts through initiatives such as the Carbon Offset Fund and Energy Audits.

6.3. Delivering impact and added value

6.3.1. A benefit is a positive and measurable impact of change. It is important for applicants to be clear about how the additional funding will benefit residents and their localities. Ultimately the investment must show that it has made a tangible difference to the communities of Westminster.

6.3.2. Applicants will need to think widely about the kinds of outcomes and impacts the additional funding will contribute to, as this will improve the value for money the project represents.

6.3.3. The funding must add value to the existing service or provision. It can achieve this by:

- Delivering new outcomes where there were previously none, and / or

- Delivering more in relation to existing provision. For example, more participants taking up an intervention resulting in greater social impacts, and /or

- Delivering better quality provision. Such as enhanced delivery made possible by improved facilities, leading to improved outcomes for participants, and / or

- Delivering change / benefits more quickly as a result of the capital funding.

6.3.4. Applicants should avoid claiming for indirect benefits that cannot be linked to the investment in a tangible way.

6.3.5. For projects that seek to increase revenues through commercial activity, they must also articulate cash benefits resulting from the investment. For example, new space for a new café leading to an increase in turnover, number of new jobs created as a result of the additional investment.

6.4. Value for Money

6.4.1. Westminster City Council is committed to ensuring that public resources are invested to deliver the greatest benefit to our communities. It is essential that capital investments deliver value for money. This can mean:

6.4.2. **The careful management of available resources** – preparing a comprehensive budget which considers the whole life cost of the investment. Delivering within the allocated budget for the project and not exceeding the maximum budget available.

6.4.3. **Obtaining best value** by securing competitive quotes which provide a cost comparison of the goods and services procured.

6.4.4. **Optimising outcomes** by securing more / additional / enhanced benefits over and above business as usual.

6.4.5. **Match funding / co-financing -** The ability to match fund an investment proposition demonstrates commitment and buy- in from partners and landlords and is a strong indicator of value for money. Applicants are encouraged to maximise the value of their capital investment through early engagement with landlords and co-investors to secure match funding. This is an essential prerequisite particularly for high value schemes that represent scale and ambition.

6.4.6. Match funding can include:

- Funding from the grant recipient's own resources
- Grants from trusts and foundations.
- Grants from the National Lottery or Arts Council.
- Donations from individuals or companies.
- Public appeals and fundraising events.
- In-kind support i.e., a non-cash contribution of a good or service such as volunteering time.

6.4.7. Where applicants have declared match funding in the application but have not been able to evidence this, they must clearly state how the remaining funds will be raised and must provide evidence to support financing plans.

6.4.8. Unrestricted reserves which are held for cashflow purposes should not be used as match funding.

6.5. Promote VCS organisation's Financial and Organisational Resilience

6.5.1. The underlying aim of the capital investment is to ensure VCS organisations are supported to become more resilient, leading to future growth. The investment should be considered as seed funding, encouraging organisations to progress their long-term plans.

6.5.2. Applicants must demonstrate their plans for the ongoing management and maintenance of their premises over its expected lifespan. They are also expected to demonstrate how the outcomes will be supported after the funding period. This information is required in the application form and should be supported by the organisation's business plan.

7. Safeguarding council investments in third party assets

7.1. This policy explains the measures that can be taken to safeguard public investments to third party owned assets not under Council ownership. There is a risk that premises benefitting from capital funding from the Council may be sold on, thereby conferring a commercial and financial benefit to the owner. The following legal safeguards are incorporated in the Grant Agreement to ensure capital funding under such circumstances is recovered:

7.1.1 Contractual claw back arrangements – there is provision in the Council's standard grant agreement to clawback some or all of the funding in certain situations. Once the funding is returned, the council will then reinvest it back into delivering schemes and initiatives that optimise social value in local communities.

7.1.2 Property security requirements – If the third party has a sufficient property asset (a freehold or a lease) registered with the Land Registry, the Council can seek a title restriction at the Land Registry against disposals of the property and/or take a legal charge of interest in the property to the value of the funding. This provides sufficient protection of the Council's investment to third parties.

8. Financial Considerations

8.1. Due regard must be given to the effective and prudent management of Council finances documented in the Council's Financial Regulations, the Council's Annual Capital Strategy and the Treasury Management Strategy Statement. Commitments for capital funding should be affordable, with risks mitigated and supported by a robust case for investment.

8.2. This means that investments being made must come from an approved budget line associated with the place-making/regeneration in question. Decisions on individual grant will be in line with the Council's scheme of delegation and fall to the relevant officer/Cabinet Member.

8.3. Service Managers considering or identifying the need to provide a grant, must first consult their Finance Business Partner at the earliest opportunity and prior to any commitment being made on behalf of the Council.

8.4. Capital funding must not exceed the maximum budget available for that project. The capital grant must be contained within a Council-approved capital budget line and will form part of the project budget expenditure.

8.5. Any grant funding to third parties should not increase the Council's borrowing exposure beyond that already approved by the Council.

8.6. Any third-party payments must follow the Council's financial regulations in respect of officer and/or member approval.

9. The Application Process

9.1. Organisations are required to complete an application form. It provides the Council with additional assurance that the investment is justified and provides optimal public value for money as well as assurance that the funding proposition is deliverable, affordable, and commercially sound.

9.2. Due Diligence requirements
The application requires organisations to provide due diligence data and is proportionate to the value of the project. This will need to be provided before a decision can be made to fund the project.

9.3. Investment decisions
Applications will undergo a 2-stage assessment process: a due diligence check followed by a panel assessment of the application.

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WESTMINSTER CITY COUNCIL PROPERTY INVESTMENT STRATEGY SUPPLEMENTARY GUIDANCE

1 Purpose of the Guidance

1.1 Councils have a long history of acquiring property to meet the needs of their residents. This guidance is to be followed when considering the acquisition of property where the aim is regeneration, meaning the delivery of cross cutting outcomes beyond the immediate financial considerations of the acquisition.

1.2 The guidance also seeks to clarify some of the existing principles and objectives outlined in the **Property Investment Strategy** within the Council's **annual Capital Strategy,** that guides the purchase of property for regeneration purposes.

1.3 The Council's Property Investment Framework (PIF) detailed in the Council's annual Capital Strategy and within this the Property Investment Strategy, makes provision for the acquisition of property for regeneration aims.

1.4 This document explains the meaning of 'regeneration' in the context of the Property Investment Strategy within the Capital Strategy and in the context of the aims of the Fairer Westminster Strategy.

1.5 Current policies on capital expenditure and effective treasury management provide a coherent framework for property acquisitions, including a requirement for investments to be strategic, value for money and affordable. The approach adopted in the Capital Strategy complements the HM Treasury's Green Book Business Case framework which is used by public bodies to guide decision making for investment.

1.6 This document provides additional information on the components of the **Strategic Case**, the **Economic Case** and **Financial Case** which is mentioned in the Capital Strategy.

1.7 In summary, the document:

- Outlines the existing provision for acquiring property under the Council's Property Investment Framework (PIF) as set out In the Council's annual Capital Strategy and within this the Property Investment Strategy
- Explains the meaning of an acquisition in the context of capital acquisitions.
- Explains the meaning of 'regeneration' in the Property Investment Strategy within the Capital Strategy.
- Provides further information on the Strategic Case, the Economic Case and Financial Case for investments as outlined in the Capital Strategy.
- Summarises the governance process for making the case for an acquisition (as set out in the Capital Strategy) in a process flow diagram.

1.8 This guidance should be read in conjunction with the following source document:

- WCC annual Capital Strategy and set out within this, Property Investment Strategy

Further context is set out in the following documents:

- Treasury Management Strategy Statement (TMSS)
- WCC Financial Regulations.
- Budget and Policy Framework Procedure Rules
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021)

2 The Council's Property Investment Framework (PIF)

This is comprised of the Council's annual Capital Strategy and within this, the Property Investment Strategy.

2.1 Westminster annual Capital Strategy

2.1.1 This sets out the council's capital programme; its commitments for capital expenditure; the capital budget and the process for making the case for capital investments.

2.1.2 Schemes in the capital programme are aligned to the objectives of the Fairer Westminster Strategy and include investment in:

- Social infrastructure i.e. public toilets, community leisure centres, playgrounds, outdoor gyms and schools **(Fairer Communities**).

- Sustainable transport including cycling provision, electric vehicle charging points, recycling programmes and the procurement of electric vehicles for waste collection (**Fairer Environment**).

- Housing schemes, making provision for affordable housing and temporary accommodation (**Fairer Housing**).

- High Street regeneration in district centres as well as public realm improvements in Oxford Street, Aldwych and key areas of the City.(**Fairer Economy).**

- Digital Access to services as well as an improved building for the Coroners Service (**Fairer Council**).

2.1.3 Investments generally fall under two categories: i) **Operational** and ii) **Development and Strategic Investment**. The aim of operational schemes is to consolidate corporate property, reduce carbon footprint, improve efficiency (reduce running costs), ensure the property is fit for purpose and to meet statutory requirements.

2.1.4 **Development and Strategic Investment** captures schemes that are broadly focussed on housing led regeneration; enabling infrastructure; the regeneration of key strategic sites; investments that lead to increased income / capital values; and investments that diversify the Council's property portfolio. Acquisitions with regeneration aims fall under Development and Strategic Investment

2.2 Property Investment Strategy

2.2.1 The Property Investment Strategy within the Capital Strategy sets out the objectives and guiding principles that facilitate the acquisition of property for development and strategic investment. The aim of this is to enable the acquisition and development of key strategic sites including future regeneration where an investment opportunity exists.

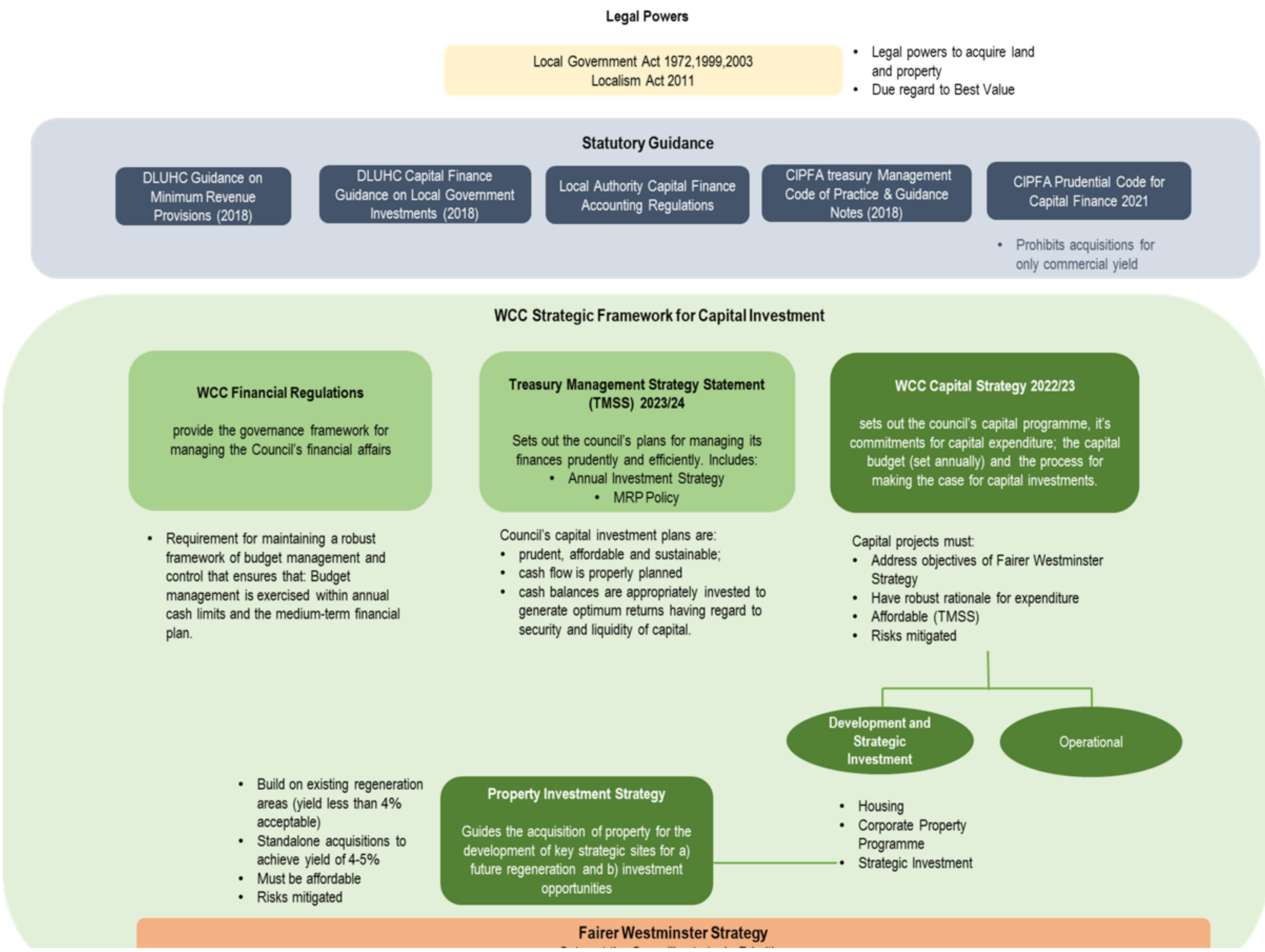
2.2.2 The objectives and guiding principles set out in the Property Investment Strategy must address CIPFA's Prudential Code for Capital Finance (2022) which <u>prohibits the use of borrowing to finance acquisitions purely for commercial yield</u>. Any acquisition, if it is to be eligible for borrowing under the Public Works Loan Board, must demonstrate it is:

- linked to the <u>primary purpose of regeneration.</u>
- the associated financial return is related to the financial viability of the service in question.
- and is incidental to its primary purpose.

2.2.3 As well as supporting the Council's broader strategic aims under the Fairer Westminster Strategy, new acquisitions must contribute to a balanced and diversified portfolio, demonstrating long term capital and revenue appreciation for the greater benefit of the Council and its residents. The Property Investment Strategy allows the Council to purchase any property providing the Prudential Code is addressed.

The legal and strategic framework for Capital acquisitions is summarised in Figure 1 below.

Fig. 1 Summary of the legal and strategic framework for property acquisitions



2.4 Making the case for a property acquisition.

2.4.1 The Council's annual Capital Strategy outlines the governance, assessment and due diligence processes required to make the case for an acquisition. This is detailed in the Capital Strategy

2.4.2 Acquisitions above £10m require an Outline and Full Business Case; for values below, a Business Justification Case, although this is dependent on the strategic value of the acquisition such as the aims of the project, level of resident engagement required, sensitivities and historical context.

2.4.3 As part of the budget setting process, new bids in the capital programme are required to submit a Capital Programme Submission Request Form (CPSR) which is assessed by a CPSR panel before review by the Council's Capital

Review Group (CRG). Each project in the capital programme also requires a carbon assessment to ensure the Council's capital programme complements its obligations to be a net zero authority by 2030.

2.4.4 The key considerations by the CRG panel are focussed on **strategic fit**, in terms of alignment with the Fairer Westminster Strategy; the **financial case**, in terms of affordability, ongoing revenue implications and **value for money**; **external factors** that support the justification for investment, such as legislative and compliance requirements as well as an **assessment of risk**.

2.4.5 The **Property Investment Panel (PIP)** reviews from an independent perspective, advising Cabinet Members on the validity of the acquisition from a market perspective. This is based on a high-level assessment of the acquisition conducted by Corporate Property and includes information on pricing, suitability, occupational investment and market analysis. All acquisitions need to go through PIP prior to Member decision.

3 Scope

3.1 What is an acquisition?

3.1.1 For the purposes of this guidance, the acquisition means a freehold or leasehold interest in built premises, from which service, community and commercial activities can be delivered.

3.1.2 The methods of acquisition covered by this guidance includes the following:

- Private Treaty Acquisition – privately negotiated transaction between the vendor and the council, either in an on or off market scenario.
- Acquisition via Auction
- Acquisition via CPO – (CPO is highly unlikely to be suitable for this type of acquisition as the legal threshold for the necessity of invoking CPO powers is unlikely to be met)
- All acquisitions shall have the necessary budgetary and governance approvals before embarking on the acquisition.

3.2 Regeneration Aims

3.2.1 The Property Investment Strategy within the Capital Strategy enables the acquisition and development of key strategic sites including future regeneration where an investment opportunity exists. The objective requires new acquisitions to be in ‘alignment to the Council’s wider Fairer Westminster objectives; developing key strategic sites that can benefit residents through future regeneration’.

3.2.2 In the context of the Property Investment Strategy within the Capital Strategy, ‘future regeneration’ can be interpreted as the acquisition of properties where the intention is to achieve regeneration aims. This may include investments that seek to:

3.2.3 **Reactivate vacant or under-utilised assets for social and commercial use**, and may include:

- vacant units or properties in a poor condition / state of disrepair and which is negatively impacting an area or neighbourhood.

- And /or the property to be acquired presents a local growth opportunity, in terms of job creation, supporting local businesses through vacant commercial unit activation, the creation of affordable workspace, and the preservation or creation of social or cultural services and facilities.

3.2.4 **Acquisitions that enable new development to happen** through land assembly and purchase of site/s. These tend to be acquisitions for major development schemes and sites.

3.3 The Property Investment Strategy within the Capital Strategy refers to the strategic clusters linked to the Council’s long-term regeneration and economic objectives. This allows the Council to consider any acquisition that seeks to achieve wider regeneration aims.

3.4 Regeneration projects are generally understood to adhere to the following aims:

- Unlock additional and exceptional social, economic and environmental benefits that support our communities to thrive, and lead to sustainable and inclusive growth.

- Address market failure. For example, where there are market distortions leading to unmet demand for goods and services i.e., the lack of affordable workspace in Westminster or lack of affordable childcare services.

- Redistribute opportunity to residents. For example, local job creation or the provision of affordable workspace for local businesses.

The above is widely interpreted as any scheme that demonstrates some or all of the following:

- **Transformative impact** – the acquisition has the ability to improve or transform the neighbourhood or locality to unlock additional and exceptional social, economic and environmental value, whilst preserving the social fabric of the local community.

- **The ability to stimulate long term investment in the area, leading to sustainable growth –** attracting the start-up of new businesses and investment in infrastructure.

- **Scalability -** where possible and feasible, the investment is targeted on clusters of properties, in proximity or located in district centres or local high streets to create scale and impact.

- **Collaboration** – to ensure the proposition has buy in from local communities and that residents have been consulted, are involved in the design and development of the scheme and its end use, and where possible, have a stewardship role. Where feasible, development partners and co-investors are sought to minimise risk, for example, in joint venture arrangements.

3.5 As with all capital investments, the Council must ensure that there is a robust business case to underpin the acquisition. The evidence of demand for the intended end use must be rigorous. This includes commissioned market research to evidence need, commitment from potential occupiers, and a financial model which demonstrates financial viability, by considering the upfront costs as well as the current and future costs of occupation and maintenance.

3.6 The case for acquisitions must be supported by an approved budget line or existing allocation. Service Managers making the case for an acquisition, must first consult their Finance business partner at the earliest opportunity and engage with Corporate Property, prior to any commitment being made on behalf of the Council.

4 Out of Scope

4.1 Acquisitions of empty residential properties as this is subject to statutory housing powers and the Empty Residential Homes workstream.

5 The Case for Investment

The Capital Strategy sets out the process for making a case for new acquisitions as well as referencing the criteria used to assess the case for investment. This includes a consideration of the Strategic Case under a Business Case for investment.

5.1 The Strategic Case

5.1.1 As part of a HMT Green Book Business Case, the Strategic Case includes an analysis of alignment or strategic fit with key organisational vision and objectives.

5.1.2 All capital projects referenced in the Capital Strategy are aligned to the Fairer Westminster objectives. The Capital Strategy and within this the Property Investment Strategy therefore requires new acquisitions to be aligned to the objectives of the Fairer Westminster Strategy and is one of the assessment criteria that is considered by CRG.

5.1.3 Although there is a degree of flexibility in how projects are strategically aligned under the Fairer Westminster objectives, alignment could be better addressed by ensuring the purpose or end use of the acquisition addresses the following aspects of the key five core priorities:

- **Fairer Communities**

  Activities or services that:

  - support Westminster's residents to reduce poverty, inequality or discrimination.
  - help residents to remain active and reduce health inequalities.
  - provide cultural and learning opportunities for residents.
  - provide services to young people, older people, people with disabilities or any other cohort of vulnerable people.

- **Fairer Housing**
  - reduces homelessness or provides support for the homeless.
  - provides additional housing support to residents over and above the support available through the Council.

- **Fairer Economy**
    - create local job opportunities for residents.
    - support residents to upskill and acquire new qualifications.
    - support residents to become more entrepreneurial or help them to secure good quality jobs.
    - support the resilience and vitality of local high streets.

- **Fairer Environment**
    - support Westminster to be safer, cleaner and greener.
    - Provide access to high quality green spaces and services.
    - encourage active travel.

- **Fairer Council**
    - Information, advice and guidance services for residents or any activity that provides a service to the residents of Westminster.

5.2 Benefit, impact and added value

5.2.1 The Property Investment Strategy within the Capital Strategy makes clear the purpose of regeneration, which is to benefit residents. The articulation of benefits and beneficiaries are an important element of the Strategic Case.

5.2.2 A benefit is a measurable impact of change for target communities. When making the case for acquisitions, it is important to be clear about how the investment will benefit residents and their localities.

5.2.3 Ultimately the investment must show that it has made a tangible difference to the community or neighbourhood where the site / facility is located. The outputs and outcomes flowing from the end use of the property must be additional. This can mean:

- Delivering new outcomes where there were previously none, and / or

- Delivering more in relation to existing provision. For example, more participants taking up an intervention resulting in greater social impacts, and / or

- Delivering better quality provision. Such as enhanced delivery made possible by improved facilities, leading to improved outcomes for participants, and / or

- Delivering change / benefits more quickly as a result of the capital funding,

5.2.4 The case for investment should avoid including benefits that cannot tangibly be linked to the investment or that are difficult to evidence.

5.3 The Economic Case: Value for Money and Best Value

5.3.1 The CRG considers value for money as part of its review. In the context of the Capital Strategy and HMT Green Book Guidance, value for money is ascertained by the Economic Case.

5.3.2 The Economic Case considers public value from the perspective of society including social, economic, environmental costs and all effects on public welfare. In assessing the costs and benefits of an investment proposition, it articulates social return on investment and value for money.

5.3.3 Financial appraisals focus on the affordability and commercial viability of the acquisition and is assessed by PIP and Finance. The Economic Case alongside the Financial Case helps assessors to understand the full implication of the investment.

5.3.4 The consistent application of an Economic Case in acquisitions that are expected to generate high social and economic value will allow assessors to review its value for money. This will enable social benefits to be quantified, leading to the preparation of a Cost Benefit Analysis (CBA) and an assessment of the acquisition's value for money.

5.3.5 The following information is typically captured by a Cost Benefit Analysis

5.3.6 **Costs articulated in a budget**, including:

- **The whole life cost of the acquisition and its end use** – Costs must be at market prices and include the cost of the property; construction and refurbishment costs; professional fees; equipment (furniture, fittings, lighting and wiring); technology and maintenance costs.

- Assets may require replacement, refurbishment or upgrading over the lifetime of the appraisal period. These 'life-cycle' costs should also be included as part of the whole life costs. The assumed maintenance policy on which costs are based must be explicitly and transparently set out and applied appropriately. Service managers must indicate whether costs are fixed, variable, semi variable or step costs.

- **Best Value -** with the property purchased at an evidenced market value. This is ultimately done through a RICS Red Book valuation. However, as this requires a detailed survey of the property there are stages before this, including commissioned independent valuation or internal assessment of value to provide a ballpark. Market value can include marriage value (with other neighbouring assets). The Council cannot purchase property at above market value.

- **Revenue costs**. These are the operational, running, management and overhead costs. It should not be assumed these will remain unchanged over time.

- **Costs of risk mitigation** – these are the costs needed to mitigate against potential risks.

5.3.7 **Valuation of benefits**

- The purpose of valuing benefits is to ascertain whether the acquisition's benefits are worth its costs, and to allow alternative options to be compared in terms of their net social value.

- The approach to benefits measurement should be prudent, proportionate, and appropriate. Prudent, in terms of avoiding claiming for benefits that cannot be measured or assessed in any realistic way, because there is no real evidence base; proportionate, in terms of the resources required to justify the project; and appropriate, in terms of the anticipated scope and spend of the project.

- Service Managers should consider the different stakeholders that will benefit from the acquisition and whether they will benefit directly or indirectly as set out below:

  - **Direct public sector benefits** (to the council)
  - **Indirect public sector benefits** (to other organisations, including central government)
  - **Wider benefits** (to households, individuals, and businesses)

5.4 The Financial Case: Affordability and Risk

5.4.1 The Capital Strategy references the need for acquisitions to be affordable. A key principle of the Property Investment Strategy within the Capital Strategy is that all investments confirm to Minimum Revenue Provision (MRP) regulations.

5.4.2 The Capital Strategy refers to the Financial Case which tests the acquisition's affordability and fundability. The Financial Case requires a complete understanding of the capital and revenue implications of the acquisition and its impact on the Council's balance sheet, income and capital programme. The purpose of the Financial Case is to identify and resolve potential funding gaps during the lifespan of the scheme and evaluate financial risks purporting to the acquisition.

5.4.3 The Council's strategy for affordability is set out in the **Treasury Management Strategy Statement**. This outlines the function of treasury management which is to ensure that the Council's capital programme and corporate investment plans are adequately funded, and that cashflow is adequately planned, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services.

5.4.4 Surplus monies are invested to obtain an optimal return, while ensuring security of capital and liquidity. Affordability and risk is monitored via the prudential indicators which provide an assessment of the Council's net debt against its capital expenditure.

5.4.5 In practice, all acquisitions must be supported by an approved budget line or existing allocation. Where investments are funded by borrowing, the cost of borrowing must be taken into consideration i.e., the Minimum Revenue Provision which is the charge to revenue made in respect of paying off the principal sum of the borrowing.

5.4.6 Acquisitions must also demonstrate long term capital and revenue appreciation from the standpoint of effective treasury management. There is also a need to ensure risks on such investments are proportionate to the Council's financial capacity.

5.4.7 The financial performance of acquisitions both on a net and gross basis is monitored by the Property Investment Panel (PIP) whose role is to provide challenge to areas of lower performance. This ensures that the asset can meet its MRP obligations, as well as generating the expected yield.

6 The Governance Process

The governance process for new property acquisitions is summarised in Figure 2 below. It supplements the Capital Strategy. The process is also stipulated in the Council's **Financial Regulations**.

Should the acquisition fall outside of the budget or policy set by the Council, the **Budget and Policy Framework Procedure Rules** apply, and the decision becomes one for the Council.

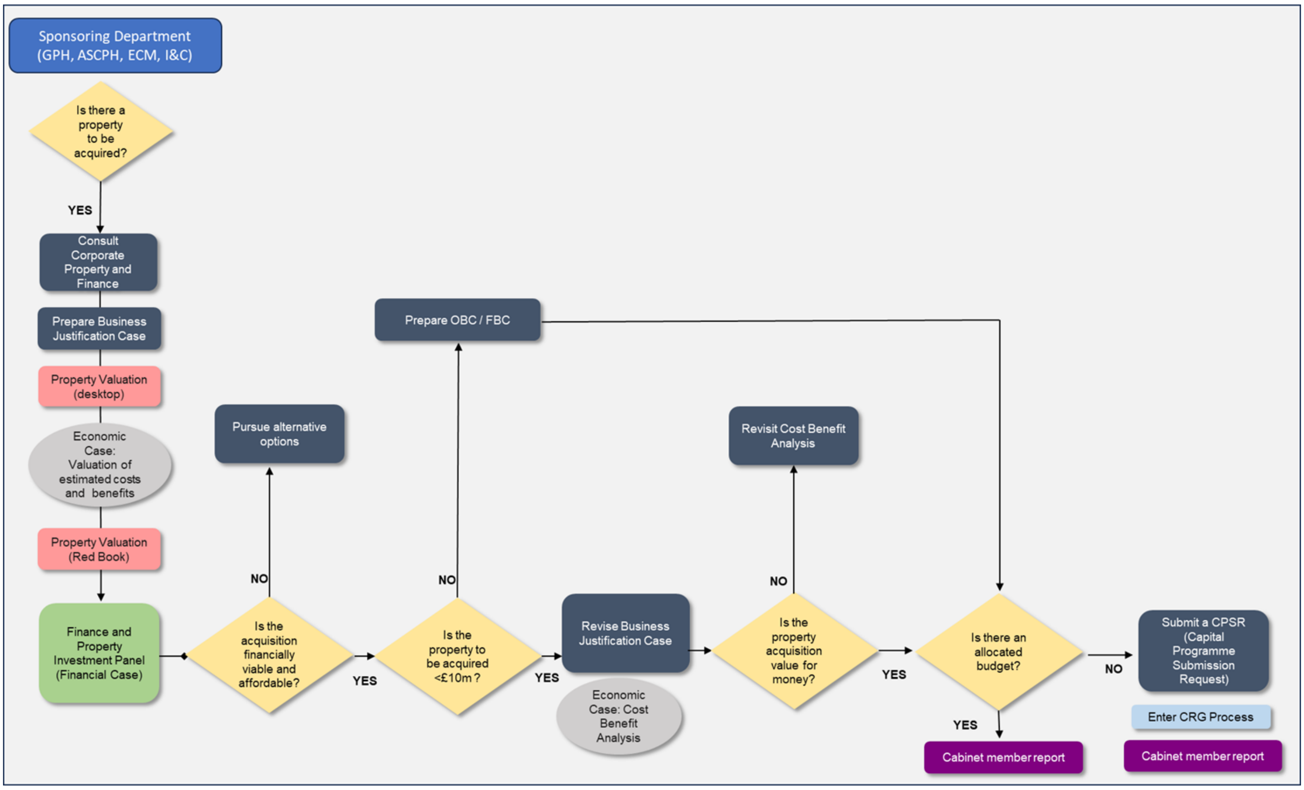


Figure 2: Governance process for acquiring new properties.

City of Westminster Cabinet Report

Meeting or Decision Maker:	Cabinet
Date:	30 October 2023
Classification:	General Release
Title:	Westminster VCS Core Grant Funding
Wards Affected:	All
Policy Context:	Delivering fairer communities by supporting the VCS
Cabinet Member:	Cllr Nafsika Butler-Thalassis
Key Decision:	Yes
Financial Summary:	£3 million total over 3 years to be committed to VCS core funding. £150k total for 3 years of community fundraising capacity costs. £150k total for 3 years of additional staff costs to run administer and monitor the core grants programme. (£3.3million final total).
Report of:	Pedro Wrobel, Executive Director of Innovation and Change

1. Executive Summary

1.1. The purpose of this report is to seek approval from Cabinet for creation of a Westminster Voluntary and Community Sector (VCS) Core Funding Programme 2023-26. The programme would be funded using £3 million (£1 million per year for three years) from council reserves as allocated by the

S151 Officer under existing delegated authority. This money will be used in the form of core funding grants for small to medium sized voluntary and community sector organisations delivering services in Westminster to Westminster residents. The fund forms part of a wider strategy to support the sector to strengthen and grow, to best serve local communities in Westminster. See section 3 and 4 for context. An additional amount of £50k per annum for 3 years is needed to ensure staff capacity over the 3 years of running this core funding programme. Furthermore, it is important to support the capacity building of the sector through a targeted approach to raising external funds outside of the core funding programme. This is in line with the commitments of the VCS Investment Strategy 2023-2028 and entails a cost of £50k per annum for 3 years to dedicate to community fundraising capacity which will be allocated initially to our existing core VCS infrastructure support contract.

1.2. An additional purpose of this report is to offer context and proposals to a wider approach to supporting key strategic VCS partners in the borough, especially those considered community anchor organisations. It is recognised that the core funding programme outlined in section 4.1 has clear aims to support small to medium sized organisations to build resilience and strengthen their ability to run sustainably and serve communities.

1.3. The sustainability and recognition of larger place-based voluntary organisations in Westminster is also essential. In section 4.3 of this report, we outline initial plans to create parity in the north and south through strategic core grant arrangements with two community anchor organisations. Furthermore, the report takes the opportunity to flag plans to support organisations struggling with maintaining premises. This can be found in section 4.4 of the paper.

2. Recommendations

2.1. That Cabinet is recommended to:

2.1.1. approve the creation of the Westminster VCS Core Funding Programme 2023- 2026

2.1.2. note the allocation of £3.3 million from Council reserves for the Westminster VCS Core Funding Programme 2023- 2026 as summarised at paragraph 1.

2.1.3. delegate authority to the Executive Director of Innovation and Change [following consultation with the Cabinet Member for Adult Social Care, Public Health and Voluntary Sector] to award grants following the application process as set out at section 4.1.

3. Reasons for Decision

3.1. The allocation of such monies is necessary to deliver on a key element of the Fairer Westminster strategy and delivery plan: supporting to the voluntary and community sector to prosper in Westminster, in turn supporting the council to achieve Fairer Communities. Small to medium sized organisations, which are disproportionately also led by and for Global Majority groups, face difficulties with access to longer-term core funding. Core funding that focuses on the strategic development of such organisations, enables them to become stronger and more stable, and have the opportunity to grow. In turn, organisations are better able to reach and serve local residents in a consistent and high-quality way.

4. Background, including Policy Context – VCS Investment

4.1. **<u>VCS Core Funding Programme:</u>**

4.1.1. This proposal outlines the council's first VCS Core Funding Programme. Within the Fairer Westminster strategy and delivery plan, the council has made a clear commitment to empowering the voluntary and community sector (VCS) to prosper in Westminster. The VCS remains critical to reaching communities and delivering essential services for Westminster residents. The council remains committed to working in partnership with the sector to deliver our ambitions of a fairer borough.

4.1.2. In May 2023, as a result of a series of conversations with VCS colleagues and stakeholders, the council launched its VCS Investment Strategy 2023-2028 that sets out our intentions and committed actions to better invest in and partner with the local voluntary sector. The strategy highlights the responsibility of the council to promote the stability and vitality of the VCS beyond its traditional short-term project funding and formally commissioned services. It commits to the council playing a role in building capacity in the VSC, and recognises core funding as an important enabler to this.

4.1.3. In developing a core funding programme, we want to change the landscape of support that the council provides to the VCS. We are keen to see the sector grow so that we can ensure that all communities in Westminster have an organisation to turn to. This means making core funding accessible to small and medium sized organisations who are often expert in providing services led by and targeted at diverse communities.

4.1.4. With the challenges that we, our communities and community organisations are facing in current times, a 3-year core funding programme gives the opportunity to look forward and strengthen the vital work that the voluntary sector does in Westminster.

4.1.5. **Minimum criteria for applicants:**

- The charitable objectives of the organisation must align with the Fairer Westminster Strategy. The strategy sets out the council's priorities to build fairer communities, fairer housing, fairer environment, fairer economy, and a fairer council.
- Organisations applying must have an average annual income of no more than £450,000. This is to be based on the most recent published accounts.
- Applicants must be registered charities or community interest companies (CICs). (However, any organisation with more than £200k annual income must be a registered charity)
- Organisations should be registered and physically based in Westminster providing services to Westminster residents. Organisations that are not registered in the borough but have an established community offer that does operate from within Westminster, for Westminster residents, can also apply but may not be prioritised.
- Organisations applying must have been fully operational (and delivering services to Westminster residents) for at least 12 months prior to application being submitted.
- Organisations must have experience with receiving funding (from any other funder).
- Organisations must include staff costs that reflect the London Living Wage as a minimum.

4.1.6. **Provisional timelines:**

Stage 1: Launch

- The programme will launch with communications to community organisations during the week of 6th November [pending sign-off and close of call-in].
- Applications are planned to be opened on Monday 20th November [pending processes as above].
- Programme information events ('meet the funder' and application guidance sessions) will take place in November 2023.

Stage 2: Application period

- Online applications are planned to be open from [Monday 20th November to Friday 22nd December] - 5 weeks
- Support with applications will be available from One Westminster throughout the application window, including individual support and group support where needed.

Stage 3: Decision-making

- The programme working group made up of cross-departmental council officers and trained community reps will consider applications over January to February. (Community reps will likely include a resident and a community organisation lead without conflict of interest.) This provisional offer will then be subject to a due diligence process.

Stage 4: Grant award

- Grant offers with confirmation letters due to be made over March – April 2024.

4.2. **<u>Building fundraising capacity in the VCS:</u>**

4.2.1. There is a recognition that organisations face barriers to successfully bidding for external grant funding due to time and skill shortages. It is also important that the council protects the investment that it will make to organisations under the funding programme proposed above. In order to do this, the capacity to raise funds beyond the existence of a 3-year funding programme should be developed in the VCS and offered in a targeted way. This will boost potential for future sustainability of the organisations funded, and supplement the funding programme.

4.2.2. The existing VCS infrastructure support service commissioned by the council does provide advice and sense-checking support on fundraising as part of their existing offer but does not provide technical bid writing support.

4.2.3. The proposal is to ringfence £50k per annum for 3 years to trial a new approach through our existing provider who would be responsible for procuring the time of a pool of external fundraisers whose direct skills and expertise will be offered to VCS organisations for free. The provider's charity development officers (recently recruited as part of their existing contract) will take a lead in identifying which VCS organisations on the ground need this support and which community fundraising support would be best placed to offer the support (from the pool of resource to be established).

4.2.4. Aims of this approach:

- Westminster-based VCS organisations (including CICs) with capacity issues are proactively supported to access a community fundraiser and/or technical fundraising training through One Westminster.
- Westminster-based organisations are directly supported to access funding opportunities and produce bids for them.

- Organisations to be prioritised by size, focusing on those under £400k annual income.
- Organisations that work with Global Majority (BAME communities) and other marginalised groups such as (but not limited to) those with disabilities, and that are also led by them, to be prioritised.

This new approach would include a review of progress, reach and impact on a quarterly basis.

4.3. **Strategic core funding and support for larger place-based community organisations**

4.3.1. Separate to the above and as part of the wider context of the Council's action to support the VCS, it should be noted that the council has five existing strategic 'core-funding' arrangements with targeted VCS organisations in the borough. These are generally historic arrangements. Four are specifically for supporting children and young people in Westminster, and one (the Abbey Centre) is a wider strategic arrangement that offers support and hosts services to residents and vulnerable people in the South of the borough.

Hub/Community Centre	Annual grant award
Avenues	£ 78,333
Four Feathers	£ 78,333
Futuremen (2 Hubs - Churchill Gardens and Amberley)	£ 102,500
St Andrews Youth Club	£ 40,833
The Abbey Centre	£ 170,000

4.3.2. Community anchor organisations should be defined as organisations that do most of the following:

- Provide a community activity centre
- Represent other organisations and create forums for discussion
- Offer strategic support/organisational development
- Foster community groups
- Generate income for the VCS
- Broker new opportunities
- Provide space for smaller organisations free/low cost

4.3.3. Therefore, separate to the proposals above relating to a VCS core funding programme, there is work in development to provide parallel core funding arrangements to two of the boroughs important community anchor organisations. These will be subject to a separate

Cabinet Member decision report but this section is included to provide wider context to this decision.

4.3.4. There are two community centres in the borough that act as important hubs to community groups, VCS organisations and residents, and are considered by the council and communities to be community anchor organisations. These are the Stowe Centre (run by the Paddington Development Trust – PDT) and the Abbey Centre (run by the Abbey Community Association).

4.3.5. Both are based in council-owned buildings. As of October 2023, the Abbey Centre pays £112k of annual rent to the council and receives £170k as an annual grant. PDT pays £0 in rent to the council and does not receive a grant.

4.3.6. The current work in progress involves identifying these two hubs as Westminster's key community anchor organisations, and moving towards a consistent approach to both centres by doing the following:

- Issue the same style lease arrangements to both centres so that they will both pay rent respectively, in line with the VCS rental policy.
- Issue a core grant to the Stowe Centre that parallels the principles of the grant agreement in place for the Abbey Centre.
- Make both of these agreements (lease and core grant) a 10 year commitment.

4.3.7. This will make consistent the council's approach to these core community centres in the borough and allow the council to formally enter a collaborative partnership with the Stowe Centre like it has with the Abbey Centre.

4.3.8. Medium to large sized VCS organisations offer a wide range of services to Westminster communities. The core funding programme outlined in 4.1 will provide opportunities for some of these organisations but not all. The following work is being developed to explore support for said organisations:

- Launch a Westminster Funders forum in partnership with London Funders (autumn 2023) – this will allow the council the opportunity to share intelligence and common goals with other funders active in the borough, as well as explore opportunities for pooled-funding and joint targeted funding responses.
- Conduct a review of the needs of medium to large VCS organisations and identify gaps in resource and capacity in said organisations (winter 2023).

5. Financial Implications

5.1. The report notes the allocation of £3.3m, as authorised under delegated authority by the Council S151 officer, to support Westminster's VCS core funding programme during the period 2023/24 to 2025/26. £1m per annum **over** each of the three years will be used to provide core funding grants for small to medium sized voluntary and community organisations to deliver services in Westminster. A further £50k per annum will be used to support community fundraising capacity allocated through the VCS infrastructure support contract and £50k per annum used to fund WCC staff costs to administer the programme.

5.2. It should be noted that this additional £3.3m revenue cost is funded through Council earmarked General Fund reserves up to 2025/26 financial year after which reserve funding will cease. Given that reserves funding is one off in nature a further decision will be required in the future to determine whether continued VCS core funding support will be an ongoing offer with consideration of how this ongoing cost is funded. If ongoing base revenue budget funding is required then this would increase the overall Medium Term Financial Plan (MTFP) savings requirement (budget gap) for the Council.

6. Legal Implications

6.1. The Council can enter into grant funding arrangements using its general power of competence under the Localism Act 2011.

6.2. The Council has a duty to consider whether the proposed funding could fall within the definition of "subsidy" under the Subsidy Control Act 2022. If this is the case the Council must then consider whether the funding would comply with the subsidy control principles. Each grant should be assessed on a case-by case basis and Legal Services will be available to provide relevant support.

6.3. The Council should ensure that the distribution of grants is fair and proportionate and complies with its duties under the Equalities Act 2010.

7. Carbon Impact

7.1. This decision will have no carbon impact to note. VCS organisational alignment with Fairer Westminster outcomes, including Fairer Environment, will be embedded into application and assessment processes. More work will be done to explore the best ways to value climate justice within the funding programme.

8. Equalities Implications

8.1. The decision to allocate the funds does not have equalities implications to note. The promotion of the VCS Core Funding Programme, its accessibility to applicants, and the specific decisions made to award grants, will embed equalities considerations to ensure that the access to funding is equitable and that the distribution of funds reaches organisations run by underrepresented groups.

9. Consultation

9.1. The first group consultations around general VCS investment were held in May 2022, one with a group of local VCS partners, and one with a group of council officers whose work related to VCS investment and partnerships. These group conversations highlighted some key strengths and challenges experienced the VCS. One-to-one information interviews were then held with 22 VCS partners and stakeholders, including local charities, foundations and anchor institutions. This allowed for in depth conversations into some of the topics raised in the group consultation, including funding issues. The first draft of strategy was formed, followed by two more brief group feedback/presentations sessions (with the Westminster Community Network and the BME Health Forum). Capacity building and core funding were raised as a priority to focus in on during the feedback sessions of the first draft. A core funding approach was then drafted in response. A draft programme outline for such funding was shared for feedback at a further BME Health Forum meeting and at the Westminster Community Network meeting (June 2023). Plans were well received and feedback was taken.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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