City of Westminster

Meeting or Decision Maker:	Cabinet
Date:	15th October 2018
Classification:	General Release
Title:	Housing Investment Strategy and Housing Revenue Account Business Plan 2019/20
Wards Affected:	All
City for All:	This report addresses the investment in the Council's current housing stock and the investment in new housing, non-residential buildings and public realm in regeneration areas and as such has a major impact upon all three aspects of Choice, Heritage and Aspiration in the City for All policy.
Financial Summary:	This report presents a 30 year Business Plan for the HRA and investment related activity. The capital investment budget and its funding are presented in detail for the five years 2019/20 to 2023/24 and in summary for the 30 year period. The plan sets out gross capital expenditure of £662.1m over the next five years and nearly £1,717.2bn over 30 years. The Business Plan demonstrates that the investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains sustainable and viable over the 30 year period. The investment has been maximised within the current borrowing headroom, reaching the limit in 2020/21. It should be noted that the recent government announcements on removing the borrowing cap were not received in time for this iteration of the business plan. The ambition shown within this plan is therefore predicated on the Council's current borrowing cap remaining in place.

	The funding of the programme over the next five years is highly dependent upon the timing and value of asset disposals (£308.0m) that underpin the regeneration programme, along with substantial contributions from the Affordable Housing Fund (£127.7m).
Report of:	Barbara Brownlee, Executive Director of Growth, Planning and Housing and Steven Mair, City Treasurer

1. Executive Summary

1.1 This report presents the Housing Investment Strategy and thirty-year Housing Revenue Account (HRA) Business Plan. The City Council's investment plans are ambitious and will deliver a range of lasting benefits for the City, its residents and the City Council. They will allow the City Council to realise much of its 'City for All' ambitions of aspiration and choice; delivering new homes and leveraging the value of our land assets to bring forward investment in some of Westminster's poorer neighbourhoods.

1.2 Since last year the 30 year plan for capital investment in the Council's existing stock and regeneration schemes has decreased from approximately £1.88bn over thirty years to approximately £1.72bn. This decrease of c. £160m is significantly driven by decreases in budgets of potential projects in the pipeline of £133m (whilst it should be noted that expenditure in excess of this is now planned to be undertaken via the Council's housing subsidiary company). In addition, across the 30 year plan, Self-financing[1] schemes have decreased by £15m, the Major Works budget adjusts by £17m (as 2018/19, which reflects a spike in expenditure, drops out of the plan period) and District Heating Network has decreased by £17m. Regeneration expenditure has increased by £34m over 30 years, which reflects an increase of £66m on Ebury Bridge, offset by reductions in the other schemes totalling £32m.

1.3 This capital programme reflects the available financing capacity of the HRA over the first 10 years of the plan. Re-profiling of capital receipts and reductions in external grant funding in the early years of the plan have necessitated an increase in borrowing up to the assumed cap at an earlier point in the plan, which in turn would restrict future years' spending capacity, subject to the enactment of the abolition of the borrowing cap.

1.4 Key elements of the HRA investment programmes included are:

- Continued investment in existing housing stock (£902.0m);

[1] Self-financing schemes relate to the acquisition of homes for the HRA funded through the disposal proceeds of homes which have been sold.

- Investment in the housing estate regeneration programme and other new supply schemes (£551.7m)
- Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2019/20 to 2023/24 (£127.7m) and £263.5m over 30 years.

1.5 Despite the uncertainties and pressure on resources the Council remains committed to improving or renewing as appropriate our older stock and increasing housing supply. The Leader has made a commitment to deliver at least 1,850 affordable homes in Westminster by 2023 and we are on track to exceed this target. Across the 5 year period from 2019/20 to 2023/24, it is anticipated that 2,335 new affordable homes will be delivered. Further analysis of this can be found in sections 4.5, 4.6 and Table 1 in this report.

1.6 The Council's HRA supply plans are dependent on significant levels of both capital receipts and receipts into the AHF continuing into the future. The impact of changes to either of these, as seen this year, will mean the Council needing to look at other mitigations such as scaling back activity or using an alternative to the HRA. The housing subsidiary company, which was set up this year will also enable some of these impacts to be mitigated.

1.7 To mitigate the risks to the HRA (discussed in Section 12), the Council is alive to opportunities that can increase its resilience. Discussions were taking place with a view to securing an increase in the borrowing cap that would enable the housing programme to be extended further than allowed for in the current plan. This is discussed in Section 13 of this report. Clearly, in light of the announcement made on 3rd October that the government would be scrapping the cap this will need to be reassessed. However, details of how and when this is implemented have yet to be released and will need to be carefully assessed. Other opportunities to secure affordable loans or grant aid are explored as and when they arise. No funding is accepted that imposes conditions on the Council that impedes the timely delivery of its programmes.

2. Recommendations

2.1 To note the indicative HRA capital programme budgets for 2019/20 to 2023/24 (Appendix B).

2.2 To note the indicative HRA revenue budget for 2019/20 (Section 11 and Appendix C).

3. Reasons for decision

3.1 The plans outlined in this report will enable the Council to invest in maintaining and improving the existing stock of homes and neighbourhoods within its management, while also delivering wider benefits to the City's residents and businesses. The financial plan will ensure the housing stock continues to meet the housing needs with which the city is faced; and ensure the HRA remains sustainable and viable over the long term. This plan has been developed within existing borrowing limits.

3.2 The budgets are due for noting at this point before formal Council approval in March 2019. Further review will be undertaken during the intervening period to model the impact of any changes to capital or revenue programmes. This will ensure the approved HRA programme will be as robust as possible at that point in time. The following will be reviewed in advance of budgets being formally presented for approval:

- Details of the Government announcement on the removal of the borrowing cap and any other associated measures that may be brought in.
- Ebury Bridge delivery assumptions will be refined which may change the impact on the HRA. A paper is anticipated to go to Cabinet in the autumn and any resulting changes to the delivery model fed into the business plan.
- Whilst the plan is affordable within existing limits, there is little or no headroom over the first 10 years of the plan. Therefore further work would be undertaken to try to increase the headroom to build in additional mitigation against risk. Subject to the detail of the recent government announcement however, this may no longer be necessary.
- Subject to the detail on the announcement, it may be possible to revisit scheme phasings as well as how much can be undertaken within the business plan.

4. Background

4.1 The Council's *Housing Investment Strategy*, approved by Cabinet in 2012, centres on delivering three key programmes:

- Investment to maintain and improve existing council-owned homes;
- Delivery of new affordable homes; and
- Implementation of the initial phases of the housing regeneration programme.

4.2 Each year, the Council reviews, updates and approves its 30 year business plan in line with best practice. This report summarises the latest 30-year HRA Business Plan, and sets out for Cabinet the updated and re-profiled capital expenditure proposals. The update also outlines how the Council plans to utilise resources from the Affordable Housing Fund (AHF) to deliver new affordable housing supply initiatives.

New affordable housing supply schemes

4.3 Historically, the majority of new affordable homes delivered in the City has been by private developers as part of their s106 planning obligations, or through direct delivery by Registered Providers. The Council has also supplemented the delivery of affordable homes through open market purchases of individual homes.

4.4 However, the HRA will continue to play an important role in delivering new affordable housing. The target of 1,850 new affordable homes by 2023 is on track, with 2,163 forecast to be delivered, as set out in Table 1. For the five year projection between 2019/20 and 2023/24 it is anticipated that 2,335 new affordable homes will be delivered. **467** of these homes are currently under construction, with the remaining homes due to start and complete by March 2024.

4.5 Of this pipeline of 2,335, the HRA is anticipated to deliver 1,364 affordable units.

- 233 of the HRA affordable homes will be delivered on 'infill' sites.
- 177 homes on 'section 106' sites.
- 582 of the HRA units are to be delivered on Housing Regeneration sites
- a further 372 homes on other pipeline sites in the HRA.

4.6 These HRA programmes will be delivered from a combination of HRA funding and the Affordable Housing Fund (AHF). In addition, a further 316 affordable homes will be delivered on General Fund sites, of which 272 homes are partially funded by the AHF. The remaining 655 affordable homes are anticipated to be delivered by RP partners mainly from 'section 106' opportunities in the City and through spot purchases of existing housing then converted to affordable housing use. This RP supply will be delivered using a combination of direct investment from RPs and the AHF. Table 1 below provides further details of this supply, including affordable supply delivered in 2017/18 and the anticipated position at the end of 2018/19.

Table 1 – New Affordable homes

	Number of units to complete/completed	Tenure				Funding route		
Forecast Year	**Total**	**Social**	**Intermediate**	**Specialist**	**Spots (Social and TA)**	**HRA**	**General Fund**	**Section 106 or funded directly by RP**
2017-18 Delivered	151	33	67	0	51	27	29	95
2018-19	180	56	93	3	28	28	24	128
2019-20	536	178	333	0	25	169	211	156

2020-21	379	86	84	184	25	167	14	198
2021-22	349	154	128	42	25	254	0	95
2022-23	568	469	74	0	25	470	47	51
2023-24	503	122	280	76	25	304	44	155
	2,666	**1,098**	**1,059**	**305**	**204**	**1,419**	**369**	**878**
		Total by Tenure:			**2,666**	**Total by funding route:**		**2,666**
19-20 to 23-24 only	**2,335**	**1,009**	**899**	**302**	**125**	**1,364**	**316**	**655**

Note- 'Spots' means spot acquisitions. 'TA' means temporary accommodation

5. Government policy announcements and recent legislative changes

5.1 This section provides a summary of the legislative changes and government policy announcements in recent years and the implications for the Council's housing investment plans.

Abolition of the borrowing cap

5.2 The above announcement was made public on 3rd October 2018, too late to be able to reflect the implications of this fully in this business plan. Details are yet to be released and reviewed to understand the full impact of this announcement as there may be new conditions brought in relating to additional borrowing that also need to be considered. On the face of it however it means that the short-term funding pressure faced over the next 5-10 years is removed and the Council will be able to bring more schemes forward. This will be considered in the next iteration of the business plan alongside the potential revenue implications of any additional borrowing which will come back to Council for approval in March 2019.

Universal Credit roll out

5.3 Universal Credit (UC) has now been introduced in Westminster for some new customers and the full roll out will occur between **July 2019 - March 2023**.

5.4 Some of the key features of UC have the potential to negatively impact the HRA, at least in the short term. It is a major change for the Council and the c70% of tenants that receive housing benefit (although not all will receive UC). These features include:

- Applications are made on-line – which might impact on vulnerable households not digitally skilled
- Payments are made direct to the customer and are made monthly in arrears, to imitate a salary – this is a major cultural change for council tenants that have always had housing benefit paid directly to the council (although there are Alternative Payment Arrangements "APA's" in some circumstances)

UC does however make it easier for people to move into work.

5.5 In November 2017 government announced a package of reforms to UC which will help to mitigate these impacts – these include:

- Those that need it can access up to a month of UC in 5 days, via an interest free advance
- The 7 days waiting time has now been removed
- Social landlords who are given "trusted partner status" have access to the "Landlord Portal" to enable them to provide evidence of rent and make applications for APAs. CityWest now has this "trusted partner status" so can make APA requests for vulnerable customers
- Those moving from housing benefit to UC will continue to receive housing benefit for the first 2 weeks for their UC claim. In effect, this means state support for rent is provided twice for this 2-week period.

5.6 Work is underway by the council and CityWest Homes to prepare for the rollout which will happen by job centre and the impacts will be closely monitored.

Arrangements for Funding Supported Housing announcement August 2018

5.7 In August 2018 government published their response to consultations on supported housing funding. A new Sheltered Rent had been proposed for new supply, which would continue to be eligible for housing benefit or the housing element of Universal Credit, but would be capped.

5.8 Government is not now going ahead with this model so should new community supportive housing be developed within the HRA there is certainty that residents will be eligible for full housing benefit/the housing element of Universal Credit.

City for All 2018/19

5.9 In July 2018, the council launched its new CityforAll programme for 2018/19. There is continued emphasis on developing more affordable housing. Development within the HRA is a key contributor to the target to develop 1,850 new council and affordable homes by 2023. CityforAll also highlighted that there are potential sites for a further 2,000 homes although the funding to deliver these has not yet been identified.

National Planning Policy Framework (NPPF) July 2018

5.10 The new NPPF was published in July 2018. Key elements are:

- The definition of affordable housing has been changed. It still includes social and affordable rent and rents at least 20% below local market rents, and it now also includes:
  - Starter homes
  - Discounted market sales housing (homes sold at a discount of at least 20% below local market value) and
  - Other affordable routes to home ownership (including shared ownership, relevant equity loans, other low cost homes for sale, rent to buy)

5.11 A new standard method for assessing housing need has been introduced and local authorities will be required to strongly justify a departure from it.

5.12 For major housing developments, 10% of the affordable housing requirement should be for affordable home ownership unless this would significantly prejudice the ability to meet the identified affordable housing needs of specific groups. This also does not apply to the following types of development: build to rent, exclusively affordable developments, self-build projects or specialist accommodation e.g. older people.

6. Housing Regeneration

6.1 The HRA development programme will see £473.2m of capital expenditure committed over the next five years (2019/20 – 2023/24) on the development of new build housing, regeneration of existing estates and acquisition of affordable homes across Westminster. Within this total funding envelope, the Affordable Housing Fund (AHF) will invest £127.7m to support the delivery of the HRA development programme in addition to other funding sources, including external grant, capital receipts (derived from development agreements, open market sales, and disposals), and capital loans. Table 2 below sets out the detail of each scheme.

Table 2 - Regeneration schemes

Description	5yr Plan	30yr Plan	Previous 30 yr plan
	£m	£m	£m
Cosway Street	27.8	27.8	32.3
Lisson Arches	24.1	24.1	29.4
Luton Street	12.1	12.1	14.5
Parsons North	22.1	22.1	27.8
Ashbridge	9.1	9.1	13.8
Church Street Phase Two	119.4	307.4	309.9
Tollgate Gardens	9.7	9.7	17.3
Ebury	57.0	139.4	159.2
Total Regeneration	281.2	551.7	604.2
Other Schemes			
District Heating Network Scheme	-	-	17.7
Edgware Rd	6.9	6.9	8.9
Pipeline Schemes	127.5	131.2	177.8
Self Financing	50.0	110.0	124.8
Kemp House/Berwick Street	-	-	0.8
Ashmill Street	0.7	0.7	1.0
Central Contingency	6.9	14.8	24.4
Total Other Schemes	192.0	263.5	355.4
Total	**473.2**	**815.2**	**959.6**

6.2 The following schemes are illustrative of those that will progress over the next 5 years.

6.3 **Cosway Street**

The development comprises the provision of 49 new residential units offered to the market as private sale. The surplus generated from the open market sales will be wholly used to subsidise other projects in the wider HRA Church Street regeneration portfolio including Ashbridge Street and Ashmill Street.

Planning consent has been granted for Cosway Street and is linked to Ashbridge Street and Ashmill Street via a dual-planning submission in order to meet planning policy compliance. An OBC was approved at CRG to progress a self-delivery solution with contractor procurement underway. Start on site is expected to commence in January 2019.

6.4 **Lisson Arches**

Lisson Arches is sited adjacent to disused railway arches within the Church Street ward. This development will provide 44 sheltered accommodation flats, 1 scheme manager's flat, and 14 private sale flats for adults aged 55 and over. The scheme is based on a two-stage tender process, with continuing negotiations taking place with the preferred main contractor (United Living). The on-going enabling works are being undertaken by FM Conway. The latter consists of several major service diversions that pose numerous logistical and technical difficulties that are having an impact upon the delivery programme.

The 45 social housing units provide replacement stock for the 45 units earmarked for demolition in Penn House, a nearby sheltered accommodation block.

6.5 **Luton Street**

The development comprises 171 new residential units comprising of 62 affordable units and 109 private sector units. The development will also provide a three-court sports hall and public realm benefits.

The developer, LinkCity, was selected by tender process via the Councils Development Framework Panel in April 2014 as the preferred delivery partner.

The commercial negotiations were concluded in July 2017 with planning consent granted in February 2018. Both parties are currently working towards agreeing an unconditional development agreement and a start on site date of January 2019.

Under the structure of the Development Agreement, the Council will receive a receipt for the land from the developer in addition to other benefits, including a public realm improvement fund, a contribution to off-site works improvements to surrounding blocks and a WCC management fee.

6.6 **Parsons North**

The development comprises 60 new residential units comprised of 19 affordable units and 41 private sector units. It is intended that the surplus generated from the development will be used to fund enhanced landscaping and biodiversity upgrade works in the immediate vicinity.

Parsons North is being delivered under a self-delivery strategy, with a contractor (Osbourne) procured and appointed. Start on site is expected to commence November 2018.

6.7 **Ashbridge Street**

Ashbridge Street is the site of a former BT station that was acquired using AHF funding in 2014/15. An existing BT service core within the site is required to be retained and made accessible within the development.

The current proposal is for the development of 26 affordable homes to provide decant facility for the wider Church Street regeneration. In addition, wider public realm improvements to the immediate surrounding area will benefit the Council-owned properties located within Alpha House and Earl House.

Planning consent has been granted for Ashbridge Street and is linked to Cosway Street and Ashmill Street via a dual-planning submission in order to meet planning policy compliance. An OBC was approved at CRG to progress a self-delivery solution with contractor procurement underway. Start on site is expected to commence in January 2019.

6.8 **Church Street Phase 2**

Arcadis have recently been appointed to lead a multi-disciplinary team to develop a business case for the future development that will be presented to Cabinet in the summer of 2019.

An intensive period of engagement with residents is about to begin that will assess a number of development options, leading to the decision of a 'preferred option' in early 2019. This will inform the design that will be taken forward to a detailed business case as well as reviewing suitable delivery options that can be taken to the market.

6.9 **Tollgate Gardens**

Tollgate Gardens is a developer led (Clarion Group) regeneration in the Maida Vale ward. The regeneration includes the demolition of 5 blocks previously comprising of 59 tenanted units and 30 private units. The scheme is being delivered by Clarion Group and will deliver 195 new residential units comprising of 86 affordable units, which the Council will purchase from the developer, and 109 private units. The existing Tollgate House tower block will be retained and improved. The project has commenced on site. This project is due to deliver a surplus to the HRA through the consideration paid for the long-lease on the land. The new units will be completed in May 2019.

6.10 **Infill programme**

The Infill programme identifies development opportunities within the existing estate that can be brought forward for new housing. These include conversion of disused space such as basements, drying rooms and storage sheds and new build opportunities on underutilised garage sites, car parks and vacant land adjacent to estates.

The programme will deliver 11 new homes by 2018/19 with a further 15 new homes starting on site in the year. A further 70 new homes are at planning stage and, subject to consent, will start on site in 19/20.

7. HRA investment programme – expenditure on existing homes

7.1 The 2019/20 HRA Business Plan includes capital investment of £902.0m over 30 years, with revenue expenditure of £512.6m. The detail of this is shown in Table 3 below;

Table 3: Expenditure on existing housing stock over 30 years to 2048/49

Description	5yr Plan	30yr Plan	Previous 30 yr plan
Capital expenditure	**£m**	**£m**	**£m**
Electrical Works & Laterals	33.6	294.3	286.4
External Repairs & Decorations	90.4	359.9	387.7
Fire Precautions	36.3	70.8	61.4
Kitchen & Bathroom	3.6	27.1	26.8
Lifts	7.5	45.0	49.1
Major Voids, aids and adaptions	17.5	105.0	107.2
Total Capital Works	**188.9**	**902.0**	**918.6**
Revenue expenditure			
Repairs & Maintenance	85.4	512.6	531.1
Total Investment	**274.4**	**1,414.6**	**1,449.7**

7.3 Total expenditure on major works programmes (including fire-related spend e.g. sprinklers, fire-stopping etc.) in the first five years of the programme amounts to c.£188.9m (capital). The total revenue expenditure assumed for reactive repairs is £85.4m over the next 5 years. As can be seen from the Table in Appendix B, the level of spend incurred in 2017/18 on major works is set to increase substantially in the current and following 5 years of the plan. This will include fire related works necessitated in light of the Grenfell fire as well as an uplift in spend on external repairs and decorations.

Asset management

7.4 To supplement allocated funding for new supply, CityWest Homes has instituted an active asset management approach, whereby non-performing assets (for example those where the net present value of the income is less than the net present value of costs) are subjected to an options appraisal. Stock deemed not to meet on-going needs is disposed of and the proceeds ring-fenced for investment in new homes that better meet the needs of residents.

7.5 To date, as part of this programme, the Council has disposed of 98 non-performing HRA void properties (mostly studios and 1-bedroom units) on the open market, with a further 8 agreed for disposal. Disposals have so far raised £45.6m since 2013/14, with a further £3.4m anticipated from already agreed disposals. Proceeds have so far been utilised to acquire 59 replacement family-sized homes at a cost of £30.4m.

8. HRA Revenue Budget

8.1 The HRA Business Plan is also impacted by changes to the revenue budget over the 30 year period. Increases in revenue expenditure can reduce the capital funding capacity of the HRA and conversely efficiency savings help towards delivering greater levels of investment in social housing.

8.2 The Council, through CWH, are committed to delivering ongoing revenue savings of £2.05m of revenue savings between 2019/20 and 20/21. These have been built into the HRA revenue budget, with £0.95m in 19/20. No impact has been assumed from the current service review into CWH.

8.3 As the Council's regeneration programme progresses there has been a requirement to increase the revenue provision set aside for these programmes by £0.5m per annum. Even large scale capital schemes will have associated revenue costs so it is important to ensure there are sufficient budgets in place to account for them.

8.4 2019/20 is year four of the Government mandated 1% annual rent reduction. This will see the HRA dwelling rental income reduce by c£740k from last year. The income budget has been adjusted to reflect this reduction.

8.5 With the above items included, the forecast retained surplus on the HRA revenue account in 2019/20 is £6.420m before transfers to reserves or revenue contribution to funding the capital programme.

9. Capital Programme Funding

<u>Affordable Housing Fund</u>

9.1 Payments received from developers on planning schemes in lieu of affordable housing obligations are held in the Council's AHF. These funds are then used by the Council to invest in the delivery of affordable housing elsewhere in the City, either through Council-led developments, such as estate regeneration, or alternately in schemes delivered by housing associations.

9.2 The balance held in the AHF as at 1st April 2018 totalled £288m. All of this balance is formally committed or informally planned to be used by schemes in the pipeline to deliver more affordable housing. Future payments into the AHF will be dependent upon new planning applications being submitted and approved and where payments in lieu of on-site affordable housing are agreed instead of on site affordable housing. The Leader's commitment towards the more vigorous enforcement of planning policy compliant applications, including the requirement for on-site affordable housing, may impact upon the level of AHF receipts.

9.3 Of the current AHF balances of £288m, £75.6m of these funds are presently formally approved for use against on-going affordable housing projects. These AHF commitments are made up of £12.5m against HRA schemes, £57.6m against schemes in the General Fund and £5.5m against registered providers schemes. A further £341m of calls on the AHF have been identified for future schemes, meaning that despite an apparently healthy balance there is a need to replenish the fund on an ongoing basis in order to meet the future demand from these schemes.

9.4 Going forward to 2029/30, total funding of £417m (being the £76m approved and £341m further identified above) will be required from the AHF by schemes in the HRA, General Fund and from the HA sector. This includes new schemes where funding from the AHF has yet to be approved by the Cabinet Member for Housing and also schemes with existing funding approvals requiring further top-up funding from the AHF.

9.5 Allowing for existing balances held in the Council's Affordable Housing Fund, further minimum payments of circa £129m will be required from developers linked to new planning schemes up to 2025/26, in order to meet the total current AHF funding requirement of £417m. Uncertainty in the development market could impact these receipts so will need to be monitored closely.

Capital Receipts

9.7 The HRA can receive capital receipts for transfers of land or property which are then used to finance the capital programme. These receipts represent a significant proportion of the projected capital financing. As such any variance in their value or timing will impact on the HRA's ability to finance capital spend and remain within its borrowing limit.

9.8 Capital receipts, including Right to Buy sales, used to fund the capital programme over 30 years have decreased from £509m in last year's plan to, £467m in the latest plan.

Grant funding

9.9 In the previous plan there was £23.5m forecast to be received in grant funding as part of the Church Street Phase 2 scheme. During the year, uncertainty over this funding led to it being removed from the business plan pending clarification, creating a pressure on the HRA. This shortfall has been funded through other changes within the programme such as delivering schemes through the recently created housing subsidiary companies and re-profiling expenditure on other schemes.

Housing subsidiary companies (previously known as the 'WOC')

9.10 This HRA Business Plan shows new HRA pipeline schemes face limited potential for delivery as the HRA's borrowing capacity reaches its assumed cap. The Council has therefore looked at the use of other delivery vehicles, particularly for tenures other than social rent. On 4th December 2017, Cabinet approved the establishment of two housing subsidiary companies (one for letting properties and one for development activity) to help deliver the regeneration, and new build and acquisition opportunities being identified by the Council's drive to provide more homes of all types and tenures as part of the Better City, Better Lives ambitions.

9.11 Following Cabinet approval, work commenced on formation and two companies were incorporated in June 2018. Westminster Housing Investments Limited (WHIL) is the parent company which will hold housing for rent and Westminster Housing Development Limited (WHDL) is WHIL's subsidiary development company. WHIL has now produced its Business Plan for approval by the Council as sole shareholder. Subject to approval as part of the capital budget cycle, this will allow the company, utilising funding from the General Fund initially, to act as a flexible partner to the HRA in delivering future developments. The housing companies will focus particularly on the development of intermediate, market and sub-market housing. They are looking to develop new intermediate and sub-market tenures, with the Council, which can extend the opportunities for those living and/or working in Westminster to have an affordable home.

9.12 A number of exemplar schemes have been modelled this year for delivery in partnership with the housing companies in order for the HRA to remain within the assumed borrowing cap.

9.13 The next two years of acquisitions within the Church Street programme are anticipated to be funded through the housing companies, with the HRA then buying these back when required. This helps to reduce the upfront cost and associated pressure on the HRA's assumed financing limits.

9.14 On a number of schemes within the regeneration programme there are intermediate units that will be delivered as part of the final scheme. Holding these within the HRA is not appropriate for these tenancies, so these have been modelled as sold to an external partner which could be the housing companies or a registered provider. This helps to generate additional receipts for the HRA which can be used to fund the Capital programme.

10. Financial Implications

10.1 The HRA Business Plan is assessed across a 30-year period so as to understand the long term financial implications of changes in the capital programme, legislative change and other strategic decisions. It has been updated to reflect the latest balance sheet position as reported and audited at the year-end just gone (31 March 2018), so as to begin with an accurate opening position for the plan, and the current year (2018/19) budget as approved. It is then constructed so as to include the impact of known Government policies, capital plans, funding arrangements and risk factors.

10.2 Chart 2 in section 11.2 shows that, the capital programme as set out in **Appendix B** is affordable and sustainable across the 30 years of the plan. This does depend on the schemes being delivered on time and within budget. Any increases in expenditure or reductions in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service. The assumed borrowing limit of £333.5m which has up to now been imposed on the Council is not exceeded during the course of the plan and reserves of circa £11m are maintained throughout. However, the assumed borrowing limit is reached in 2020/21 and borrowing only drops to below £300m in 2029/30, which presents a risk should the assumptions not materialise as projected. Section 12 below sets out the options available to the Council to mitigate and manage this risk.

10.3 The gross HRA capital expenditure required to deliver the plans within the investment strategy amounts to £662m over the next five years. This will rely upon funding of £27m of HRA revenue resources, £313m from RTB & Other capital receipts, £128m from the Affordable Housing Fund, £71m of new borrowing, £117m from the major repairs reserve and £7m of grants. The programme then sees a decrease in capital spend over years 5 to 10 as the HRA reaches its assumed borrowing capacity in 2020/21.

10.4 The funding of this programme is largely dependent upon the timing and value of asset disposals (i.e. capital receipts) that underpin the regeneration programme. These schemes are designed to increase the number of homes available for Westminster residents, in a mix of affordable and private sale units, with the private sale units generating a significant proportion of the overall capital receipts in the plan.

10.5 As funds are committed on the regeneration schemes, the assumed borrowing headroom and hence financial capacity within the HRA reduces. In order to maintain a buffer, the plan aims to retain circa £11m in operating reserves, which represents c10% of annual turnover cover. This also helps by enabling the repayment of debt and reducing interest charges on the debt. Borrowing is set to peak in 2020/21 at £333m and remains above £300m for the first 10 years of the plan. This will limit the ability of the HRA to contribute major funds to any further housing development until year 11 and beyond. If scheme estimates on expenditure or income change adversely there is little to no headroom within the HRA so corrective action as outlined in section 12 would be required.

10.6 From year 10, the capital programme starts to reduce in size as the bulk of the estates regeneration plan completes. As it reduces, there is capacity for the HRA to start repaying the debt and it reduces from that point until the end of the plan.

10.7 The variables used in the assumptions can only be best estimates and any variation from these could have a significant impact over the full 30 year plan period. These assumptions and the associated impact/risk of change will require close monitoring and potentially the adoption of one or more of the range of management mitigations set out in section 12 if they have a material adverse impact upon the plan.

10.8 In undertaking the HRA business planning process, all regeneration programmes have been subjected to continued robust scrutiny and challenge and an appropriate level of contingency on capex schemes has been provided for within the scheme budgets as well as a central contingency in the overall capital programme. **Appendix B** sets out the summary view of spend over both the coming 5 years and the totality of the 30 year period.

10.9 The internal governance processes within Housing, involving CityWest Homes development and major projects teams have been rigorously reviewed and focus now upon key project management skills and tolerance reporting. The creation of a Programme Management Office (PMO) during 2018/19 also adds to the monitoring of these significant development programmes.

10.10 The business plan will be reviewed on an on-going basis, feeding in changes from the annually agreed baseline to understand the impact of changes in the assumptions and capital expenditure on the affordability of the plan. This will enable management to identify any necessary mitigation required at an early stage.

11. The HRA business plan base financial position

11.1 The base financial position will deliver the following:

- Investment in existing stock of £1.415bn, including major works capital expenditure of £0.902bn and revenue repairs and maintenance of £0.513bn.

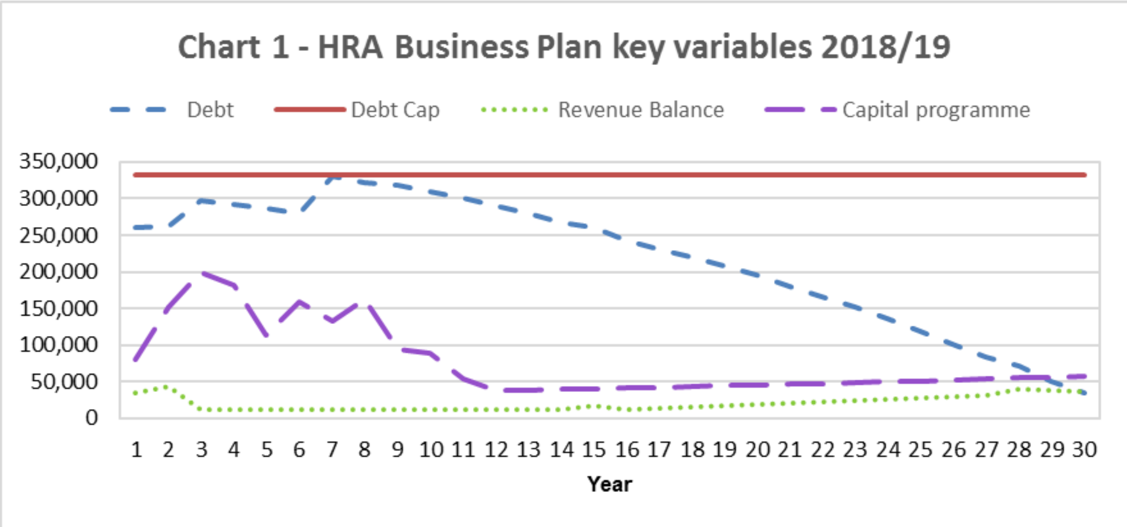
- Investment in new affordable housing of £0.815bn generating new HRA units, along with improved public realm and community facilities.

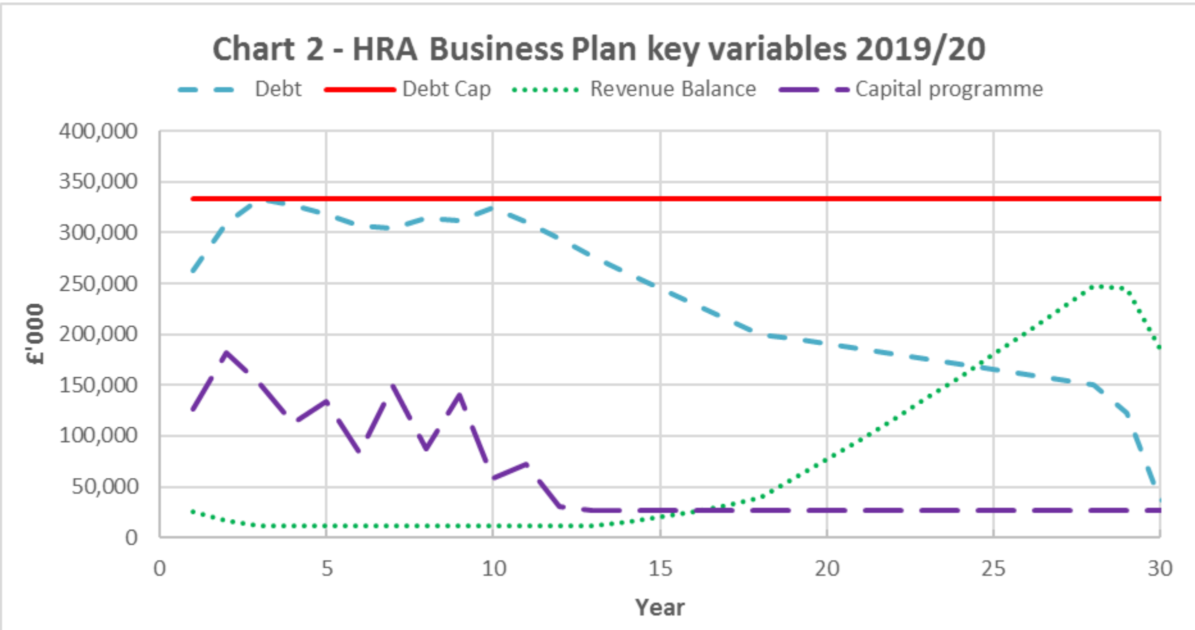
- Reduction in HRA debt in year 30 to £37m.

- HRA Revenue balances in year 30 of £214m.

- Efficiency savings of £5.2m delivered across 2016/17 to 2020/21 which are reinvested in service delivery.

11.2 The charts below show the key variables of last year's and the current year's Business Plans: the assumed debt cap (set by government under the self-financing settlement); the debt (total borrowing requirement); capital programme expenditure; and the operating reserve balance. Each of these is explained further below. The chart for the current year plan (Chart 2) shows that the HRA can fund the regeneration schemes and other capital investment requirements, with support from the affordable housing fund, capital grant and increased capital receipts.





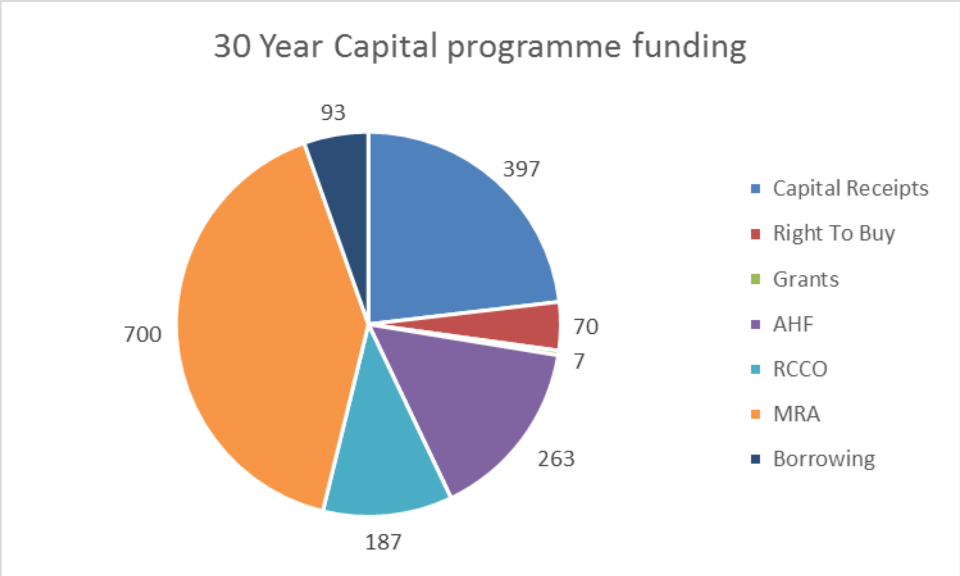
11.3 **Debt cap (red line)** - each local authority HRA has until now had a debt cap, imposed by government as part of the 2012 self-financing settlement. This limits the amount of borrowing that the HRA can undertake. Westminster's cap was originally set at £325m in 2012, but was increased in 2014/15 to £334m. As the chart shows, the assumed borrowing limit remains the same over the 30 year period so the maximum amount the HRA can borrow stays in line with government rules. The recent Government announcement removing the borrowing cap has come too late at this stage to revisit assumptions in the business plan and details of this have yet to be released, thus at this point we can only plan on the basis of this cap remaining in place.

11.4 **Debt (blue line)** - As the chart shows, the Council is able to fund the investment programmes outlined in this report within the assumed level of borrowing. Borrowing rises from the current £260m (as at 31 March 2018) and peaks in 2020/21 effectively reaching the maximum currently allowed, then remaining above £300m before reducing after year 11. The plan assumes that maturing debt will be re-financed as long term loans expire. When resources allow, the principal sums are repaid which for example causes the sharp reduction in later years when two loans mature. It can be seen from the graphs that the debt level begins at a higher level and remains there for longer than in the previous plan. This is driven by a need to borrow earlier as a result of re-profiled capital receipts and reduced external income in the next few years.

11.5 **Revenue balance (green line)** - A minimum reserves balance of £11m has been assumed as a key requirement in the plan as a contingency against unexpected expenditure, or shortfalls in income and to mitigate potential risk. The risks and other options for mitigation are set out in section 12 to this report. This minimum reserves level is circa 10% of annual turnover and is felt to be prudent in light of the future uncertainty around Brexit, Government housing policy, rent policy, inflation, interest rates and other cash flow dependencies. The chart shows the revenue balance is projected to rise to £214m at the tail end of the plan, however the capital programme is concentrated over the first 10 years of the programme so the annual additional financing requirement reduces significantly from that point onwards. It is assumed that any reserve levels achieved significantly in excess of this level are used to repay debt, enabling the plan to maximise investment during the early years of the plan on the regeneration schemes, then to repay and reduce the debt levels over the latter years.

11.6 **Capital programme (purple line)** - Total planned capital investment in the HRA totals £1.72bn (£1.88bn last year) over 30 years. This includes major works on existing stock of £0.902bn (£0.919bn last year), regeneration £552m (£604m last year) and Other Schemes £264m (£355m).

11.7 The capital programme is forecast to be funded mainly from: Reserves & Contributions of £187m; capital receipts of £397m generated from land and market sale of new homes; capital grants of £7m; drawdowns from the Affordable Housing Fund of £263m; Right To Buy sales receipts of £70m; MRA/Major Repairs Reserve[2] of £700m; and borrowing of £93m where appropriate. This is shown in the chart below.



Key Business Plan assumptions

11.8 The key assumptions that underpin the business plan are set out below.

11.9 **Housing stock** – the Plan is based on a forecast of increasing tenanted stock numbers from 11,965 at the beginning of year 1, to 12,475 in year 30. This includes a net total of 859 additional units (bought or built), offset by 510 RTB. The regeneration scheme will also lead to a further net increase in intermediate and leasehold stock, as set out in Table 6 below.

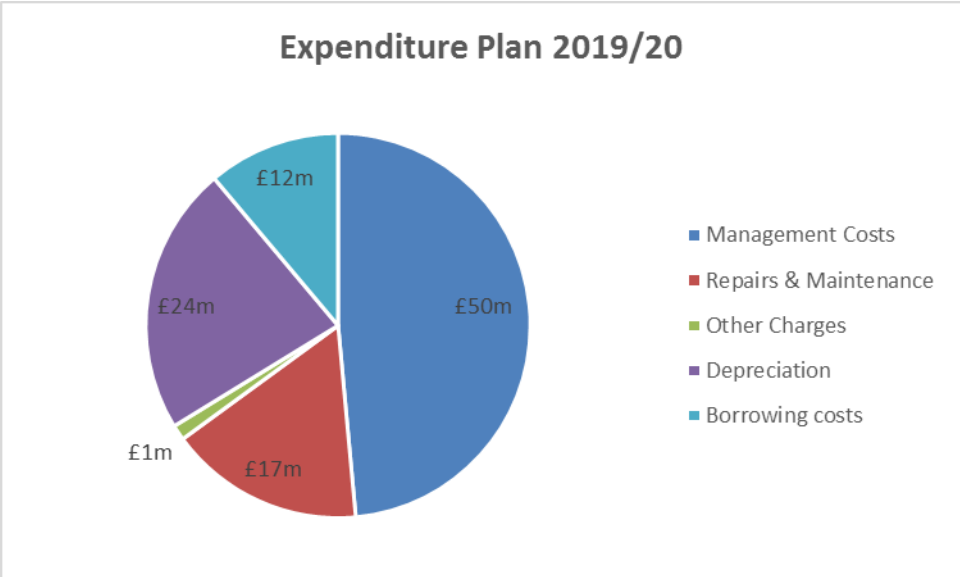
Table 6 – HRA stock movement

Tenure	Tenanted	Affordable / Intermediate	Leasehold	Total
Stock numbers at 01/04/2019	11,916	-	8,944	20,860
Net Additions	1,020	296	(178)	1,138
Disposals – RTB	(510)	-	510	-
Stock numbers at 31/3/2049	**12,426**	**296**	**9,276**	**21,998**

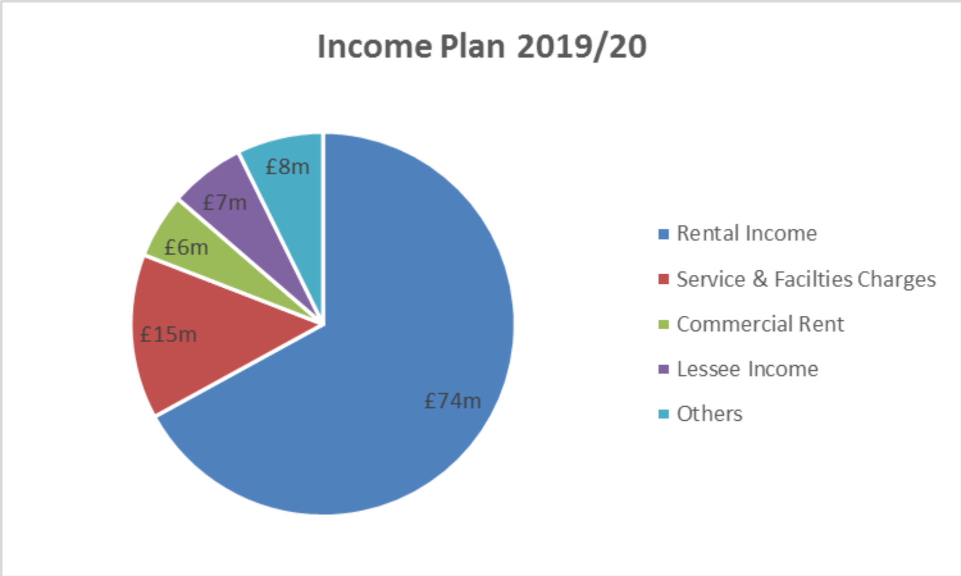
[2] The major repairs reserve captures annual depreciation charges and becomes available to finance capital expenditure and to repay debt.

11.10 **Dwelling rents** - average weekly rent per property is estimated to increase from £120.90 to £229.19 in year 30 of the plan. This reflects the 1% rent reduction in the first year in line with government regulation, followed by an estimated 3% average rent increase for the next five years (being CPI +1%). For subsequent years a prudent inflationary increase (CPI, at 2%) is assumed as Government rent policy is yet to be determined.

11.11 **Management Costs** – the chart below shows the operating account expenditure for 2019/20. The total annual expenditure is £104m, the bulk of which is the housing management and service costs of £50m.



11.12 The chart below shows the operating account income of £110m for 2019/20 in the Business Plan. Rental income from dwellings, including for sheds and garages, accounts for the majority at £74m. Service and facilities charges, mostly from lessees but some from tenants, is also significant at £15m. Rent from commercial properties brings in circa £6m net income after costs for management. Income from lessees in respect of major works is circa £7m but can fluctuate depending on the nature of works undertaken. The remainder of the spend includes recoveries for heating and hot water charges and other miscellaneous charges.



Appendix C of this report sets out the 30 year profile for income and expenditure, including the one year budget for revenue in 2019/20 showing a net operating contribution before repayment of loans, capital funding or transfers to/from reserves of £6.420m.

11.13 Being a 30 year plan, the HRA Business Plan is based on a number of assumptions about the future. These are set out in **Appendix D.** Section 12 sets out an assessment of the risks which are inherent in the plans and options for managing and mitigating against such risks.

11.14 Based on the above assumptions, the business plan remains viable over the 30-year period; and the investment programmes are deliverable.

12. Risk Management

12.1 As has been portrayed in the graphs and information earlier in this report, the latest plan seeks to maximise the investment in regeneration programmes in order to deliver new homes for the city. The consequence of this is that the capital expenditure profile drives up the level of borrowing required in order to achieve this objective, taking the peak borrowing year in the plan (2020/21) to within circa £300k of the assumed borrowing limit. In the next 10 years, the borrowing remains above £300m before reducing over the remainder of the plan as capital expenditure decreases. This sustained reduced headroom in borrowing would limit the ability of the HRA to absorb and manage the financial impact of unforeseen and unplanned risks that may materialise during the course of the plan. However, the recent Government announcement that the borrowing cap is to be removed will mitigate this risk.

12.2 This means that if any overspends to budget occur which place an increased burden on the HRA, or if capital receipts are delayed or reduced, this would push the borrowing requirement above the level of the assumed cap. The

HRA is currently by law not allowed to budget for a deficit or to exceed the borrowing cap, consequently until the announcement has formally been enacted, the Council would need to identify and implement a number of actions which mitigate and reduce the pressure on borrowing.

12.3 It is important to note that the spend profile in this plan is **not** wholly and contractually committed such that the council is left with no controls or levers with which to control the level of capital spend set out in the programme. It sets out the aspiration of what could be achieved within the constraints of the assumed borrowing cap and reserves if everything went to plan, while also demonstrating that over the longer term the plan can be maintained as a viable proposition.

12.4 The range of management options available within the HRA to mitigate any additional risks are as follows (in no particular order):-

a. Project spend monitoring and management information. It is key that there are early warning indicators for management to be able to identify whether any projects are going to overspend in order to be able assess the impact on the HRA plan. Officers produce a management report on the HRA on a monthly basis which is shared with senior management and the Cabinet Member for Housing as part of this.

b. Regular updates to the HRA business plan. Quarterly reviews and updates to the business plan are undertaken, at which point any changes identified in operating or capital project performance can be remodelled to identify the impact and any further mitigation required. The fact that the business plan is then fully updated on an annual basis means that steps can be taken to re-profile or reprioritise elements of the plan well in advance of any peak year. In reality, we would seek to avoid getting too close to the cap in the coming year.

c. Utilisation of contingency. The main regeneration schemes each have a certain level of contingency built into the cost of the projects as a buffer against overspend within the project budget. This will be the first port of call for any overspend within a project. Monitoring the use and need for contingency on a project will be important as an indicator of whether a project is going to go over budget. Secondly, the capital programme has a separate contingency budget which has not been specifically allocated any given scheme. This amounts to 5% of non-property acquisition expenditure in a given year and equates to £7m over the next 5 years.

d. Reduce or delay the reinvestment of self-financing capital expenditure. Currently it is assumed that the cash generated through disposal of HRA assets for re investment is fully reinvested back into acquiring new stock. There is £50m assumed for reinvestment over the next 5 years. The rate of reinvestment could be slowed or paused so as to avoid the plan going into deficit or exceeding the assumed borrowing limit of £333.5m. The consequence of this strategy would be that a reducing housing stock within the HRA would have a direct impact on the cost of Temporary Accommodation in the General Fund, creating pressures on the rest of the Council to stay within budget.

e. Dispose of HRA assets. Similar to the above, but without reinvesting the cash generated. Achieved through identifying surplus assets or selling additional HRA properties.

f. Increase or accelerate funding drawn from the Affordable Housing Fund (AHF). The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding. However, the AHF currently held by the Council is assumed to be fully used over the coming years, and the plan as a whole assumes that further AHF money will be received and used in order to make the whole plan affordable. This would need careful modelling to understand the impact on other schemes assumed to draw from the fund in later years.

g. Transfer schemes from HRA into an alternative vehicle, such as the wholly owned company. This can help the profile of the business plan by moving expenditure from peak years when the borrowing cap is under pressure to another delivery vehicle so that the scheme can still proceed without drawing upon HRA borrowing. This method of mitigation has been used within this years business plan in order to remain within assumed financial limits. The downside would be that this could be removing schemes which would generate longer term benefits in terms of rental income on the affordable housing which was otherwise planned to be retained within the HRA.

h. Re-profile, extend or delay regeneration capital expenditure

    i. Reprofile the regeneration spend so that schemes run sequentially rather in parallel, or delay some projects until the peak borrowing period has passed and capacity allows.

    ii. Reprofile and extend regeneration scheme programmes to be delivered over a longer period, slowing down the rate of spend. This however is less palatable as it would be an inefficient way of working and not favourable with development partners, as well as the impact this would have on residents from the site and the surrounding area.

    iii. Some elements of the plan or certain schemes could be decided to begin or progress only when certain other conditions have been met which assure the financial safeguarding of the plan, such as the level of capital receipts received needing to be met.

These would need to be modelled so as to demonstrate the impact of not only the deferred expenditure but also the deferred capital receipts arising at the end of the schemes when the income from private sale units comes through.

i. Reduce major works expenditure. This amounts to £189m over the next 5 years, £902m over 30 years. However, this would have subsequent risks as the Council recently signed up to term contracts which gave an indication of a certain minimum level of spend with the suppliers. If these minimum levels were not achieved, the Council could be subject to penalties or compensation which negate or reduce the potential mitigation and impact on the Council's reputation.

j. Average rents for new units have been modelled at £152 a week but could be increased to increase the annual return and total dwellings rent received.

k. Increase HRA rents following the period of 1% reductions to the maximum allowable under law. Currently the business plan assumes increases of CPI+1% for the 5 years following before reverting to annual CPI increases. When the 1% reductions legislation came in, this had a significant impact on the HRA plan, as the reductions have a compounding and lasting effect on future years. Reversing this position would have a similar but favourable effect on the plan. Rent policy is only guidance and the only control at present is the limit on Housing Benefit.

l. The model maintains a minimum reserves balance of £11m, but this in itself is a buffer against overspends and hence acts as a source of mitigation.

12.5 As noted in **Appendix D**, the base business plan uses prudent assumptions so as to reduce the chance of certain risks arising. Set out below is a summary of other potential risks to the stability of the business plan. Quarterly reviews of the HRA business plan will be held between senior officers and the lead member, at which programme performance will be reviewed and risks monitored.

12.6 In addition, the Business Plan conforms to the Chartered Institute of Housing (CIH) and CIPFA voluntary code on self-financing HRAs. This includes compliance with CIPFA's Code of Practice on Local Authority Accounting in the UK including depreciation of assets on a componential basis.

12.7 The Council complies with the both the principles of co-regulation as set out in "The Regulatory Framework for Social Housing in England from 2012" and the requirements of the CIPFA/CIH "Voluntary code of practice on self-financing HRAs".

12.8 Under the Regulatory Framework code, governance arrangements should be fit for purpose, and reflect the complexity and risk profile of the organisation. Boards and Councillors need to set clear objectives and develop a forward looking strategy that enables their organisation to make the most of future opportunities and mitigate risks. There should be a continuous focus on effective financial management and improving value for money.

12.9 The self-financing code of practice is a voluntary framework of best practice for local authority governance of the HRA aimed at promoting effective governance, finance and business planning and aimed at providing transparency to stakeholders on how the housing business is being managed. Its key principles are:

- **Financial viability.** The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability.

- **Communications and governance**. The housing authority keeps under review the communications and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability and accountability of the housing business.

- **Risk management**. The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.

- **Asset management**. The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.

- **Financial and treasury management**. The housing authority complies with formal accounting practices including CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom and CIPFA's Treasury Management in the Public Services Code of Practice.

12.10 **Appendix E** shows the key risks, impacts and mitigations on the HRA over the 30 year period.

13. Additional Borrowing Bid

13.1 The Council was preparing a submission for an increase in the HRA Borrowing Cap to accelerate delivery of new homes. Clearly the latest announcement on the borrowing cap will change matters significantly. The programme set out in this report has been based on the pre-existing requirement to keep within the current borrowing cap of £334m. To do so we have assumed the need to:

- Commence the purchase of leasehold properties on Church Street immediately, using the housing subsidiary company where possible to ease the financial pressure on the HRA. Due to the length of the redevelopment programme the homes will be used for temporary accommodation rather than be left empty for up to three years.
- Assume that any intermediate tenure homes produced are purchased by a third party
- Bring forward use of the AHF to support the programme

13.2 In parallel, the Council is actively seeking other potential sources of funding to cover specific parts of the programme. An example of this is a discussion with Sport England to fund community health, leisure and sport elements of the housing renewal programme taking this cost from the HRA. With the support of Treasury, Sport England have had discussions with institutional funders to provide low cost, long term finance to local authorities for projects that support their Active Lifestyles and Active Environment programmes. They are looking to support health, well-being and active leisure projects from a £1bn funding stream.

14. Legal Implications

14.1 The expenditure referred to in this report will be spent pursuant to the Council’s powers and duties. Individual reports on each project will be approved by the Cabinet or by the relevant Cabinet Member.

14.2 Statutory requirements as to the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989. The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.

14.3 The Localism Act 2011 contains provisions relating to housing finance in Sections 167 to 175. These provisions introduced a new system of council housing finance which ended the current Housing Revenue Account subsidy system in England and replaced it with self-financing arrangements. Section 171 of the Localism Act 2011 empowered the Secretary of State to make provision relating to the level of indebtedness in relation to local housing authorities in England which keep a Housing Revenue Account.

14.4 Under Regulation 12 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) local authorities are required to use RTB capital receipts to pay the "poolable amount" to the Secretary of State, on a quarterly basis.

14.5 This report deals with other legislative provisions which are expected to influence the Housing Investment Strategy such as the social rent reduction introduced by Section 23 of the Welfare Reform and Work Act 2016 and changes to the social benefits system under Sections 8 – 17 of the Welfare Reform and Work Act 2016.

14.6 The Housing and Planning Act 2016 is also likely to affect the findings of subsequent reports and also the Council's regeneration initiatives. The relevant provisions include the imposition of a liability for local housing authorities which maintain a Housing Revenue Account to make payments to the Secretary of State based on the market value of any vacant higher value void properties which the local authority owns. Additionally, under Chapter 6 and Schedule 7 the Housing and Planning Act 2016 seeks to phase out secure tenancies as life interests and replace them with fixed term secure tenancies thus potentially allowing for more flexibility in terms of stock management. Full details of any of these provisions are not available at the moment.

14.7 The Housing and Planning Act 2016 also contains provisions which have been implemented and may attract procedural changes in the way the Council progresses its regeneration projects. Such provisions include the amendments made to the planning regime under Part 6 and amendments to the compulsory purchase and appropriation procedures under Part 7.

14.8 The Equality Act 2010 introduced a single public sector equality duty. This duty requires the Council to have due regard in its decision-making processes to the need to:

a. Eliminate discrimination, harassment, victimisation or other prohibited conduct;

b. Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it, and;

c. Foster good relations between those who share a relevant characteristic and those that do not share it.

14.9 The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

14.10 The Council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making new decisions in the current context and in relation to the new Strategy. An

Equalities Impact Assessment and or consultation maybe necessary if significant changes are envisaged to Housing Management Schemes.

15. Consultation

15.1 Development of the Business Plan and Housing Investment Strategy has involved officers from within the Housing and Regeneration Department, City Treasurers and CityWest Homes. We have had regard to national and local housing policies and objectives which have informed the priorities for investment.

15.2 A key component of the housing regeneration programme is community engagement: officers and consultants have worked with local communities to develop plans for their neighbourhoods. Community engagement teams work on the ground with residents, visiting residents in their homes, staffing drop-in sessions and holding open days. Resident expectations are high, and the City Council is committed to an on-going programme of resident involvement as these schemes develop further.

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

Daniel Peattie (dpeattie@westminster.gov.uk; 0207 641 6260) or Fergus Coleman (fcoleman@westminster.gov.uk 0207 641 2129)

Appendix A - Other Implications

1. Resources Implications

The resourcing implications to deliver the proposed capital programme are contained within the attached indicative HRA capital programme.

2. Business Plan Implications

Approval of the HRA Business Plan is critical to delivery of key components of the Housing Business Plan, such as the estate regeneration programme and reducing homelessness pressures.

3. Risk Management Implications

See section 12 of the report.

4. Health and Wellbeing Impact Assessment including Health and Safety Implications

Programmes delivered within this strategy are aimed at addressing health and wellbeing issues, through improvements to housing and the public realm, and through related programmes addressing employment and skills and provision of community facilities.
A key part of the early years' investment in the existing stock will be to address health and safety issues brought to light as a result of the Grenfell Tower fire.

5. Crime and Disorder Implications

Safety and security measures form a component of the programme of works to existing stock, and the estate renewal schemes, both of which are factored into the HRA Business Plan.

6. Impact on the Environment

New homes are built to Code 4 as a minimum and environmental and energy efficiency works are key considerations in the works to existing housing stock and the housing regeneration schemes. The Church Street regeneration scheme incorporates a new Combined Heat and Power district heating scheme.

7. Equalities Implications

Each of the estate regeneration schemes has been subject to an Equalities Impact Assessment to ensure any arising issues are addressed. DDA works and disabled adaptations are included as essential works within the capital programme

8. Human Rights Implications

The investment programmes outlined in this report will involve the enforced displacement of residents and their human rights under Article 1of the First Protocol and Article 8 of the European Convention on Human Rights will be taken into account at the appropriate time.

9. Communications Implications

See section 15 on consultation.

Appendix B – Capital Expenditure

HRA FIVE YEAR CAPITAL PROGRAMME									
Schemes	2017-18 Outturn £'000	2018-19 Forecast £'000	2019-20 Plan £'000	2020-21 Plan £'000	2021-22 Plan £'000	2022-23 Plan £'000	2023-24 Plan £'000	Total 5yr Plan £'000	Total 30yr Plan £'000
Major Works									
Electrical Works & Laterals	7,568	10,465	5,729	6,012	6,499	5,383	10,023	**33,646**	**294,261**
External Repairs & Decorations	11,807	22,750	18,351	15,995	15,363	21,805	18,900	**90,415**	**359,900**
Fire Precautions	4,499	7,502	9,485	8,952	5,500	4,731	7,615	**36,283**	**70,783**
Kitchen & Bathroom	822	357	750	700	700	700	750	**3,600**	**27,100**
Lifts	2,521	3,394	1,500	1,500	1,500	1,500	1,500	**7,500**	**45,000**
Major Voids , aids and adaptions	4,674	5,200	3,500	3,500	3,500	3,500	3,500	**17,500**	**105,000**
Total Major Works	**31,891**	**49,668**	**39,315**	**36,659**	**33,062**	**37,619**	**42,288**	**188,944**	**902,044**
Regeneration									
Cosway Street	608	4,827	13,040	14,048	664	0	0	**27,752**	**27,752**
Lisson Arches	2,122	3,664	8,980	12,107	2,650	344	0	**24,080**	**24,080**
Luton Street	258	2,140	6,374	5,752	0	0	0	**12,126**	**12,126**
Parsons North	358	4,887	11,358	10,193	559	0	0	**22,110**	**22,110**
Ashbridge	365	2,917	6,940	1,912	222	0	0	**9,074**	**9,074**
Church Street Phase Two	982	6,084	2,963	1,281	27,455	57,809	29,889	**119,398**	**307,417**
Tollgate Gardens	7,142	742	9,680	0	0	0	0	**9,680**	**9,680**
Ebury	11,193	15,795	23,528	24,699	8,184	300	306	**57,017**	**139,414**
Total Regeneration	**23,028**	**41,056**	**82,863**	**69,992**	**39,734**	**58,453**	**30,195**	**281,237**	**551,654**
Other Schemes									
District Heating Network Scheme	496	392	0	0	0	0	0	**0**	**0**
Edgware Rd	1,952	37	6,564	300	0	0	0	**6,864**	**6,864**
Future Pipeline	2,728	10,438	40,027	32,394	28,857	25,896	328	**127,501**	**131,167**
Self Financing	22,064	18,339	10,000	10,000	10,000	10,000	10,000	**50,000**	**110,000**
Kemp House/Berwick Street	8	749	0	0	0	0	0	**0**	**0**
Ashmill	0	243	668	10	0	0	0	**678**	**678**
Central Contingency	0	5,429	2,374	2,265	393	1,652	236	**6,919**	**14,821**
Total Other Schemes	**27,248**	**35,628**	**59,633**	**44,968**	**39,249**	**37,548**	**10,564**	**191,962**	**263,530**
Total Capital Expenditure	**82,167**	**126,351**	**181,810**	**151,619**	**112,046**	**133,620**	**83,048**	**662,143**	**1,717,228**
Financed By:									
Capital Receipts	20,000	35,650	52,200	59,787	70,771	68,113	57,092	**307,963**	**397,282**
Right To Buy	11,535	9,606	2,385	766	0	1,760	0	**4,910**	**69,654**
Grants	2,000	5,905	6,700	0	0	0	0	**6,700**	**6,700**
AHF	9,480	18,431	38,226	28,445	17,944	40,416	2,625	**127,656**	**263,467**
RCCO	15,781	33,428	11,995	15,010	0	0	0	**27,005**	**186,757**
MRA	23,371	23,331	23,331	23,331	23,331	23,331	23,331	**116,655**	**699,930**
Borrowing		0	46,974	24,281	0	0	0	**71,254**	**93,439**
Total Financing	**82,167**	**126,351**	**181,810**	**151,619**	**112,046**	**133,620**	**83,048**	**662,143**	**1,717,228**

Appendix C – Operating Account

Westminster City Council
HRA Business Plan
Operating Account
(expressed in money terms)

Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	HRA Cost of Rent Rebates	Misc expenses	Total expenses	Capital Charges	**Net Operating (Expenditure)**	Repayment of loans	Transfer to MRR	Transfer from / (to) Revenue Reserve	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		Income				**Expenditure**																
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2019.20	88,888	6,500	15,012	110,400	(50,464)	(23,513)	(17,086)	(500)	0	(839)	(92,401)	(11,579)	**6,420**	0	0	(4,800)	(10,400)	**(8,780)**	**25,366**	**129**	**16,715**
2	2020.21	92,399	6,662	15,066	114,127	(51,725)	(24,255)	(17,613)	(513)	0	(836)	(94,942)	(13,190)	**5,995**	0	0	0	(11,698)	**(5,703)**	**16,715**	**98**	**11,110**
3	2021.22	95,281	6,829	14,912	117,022	(53,018)	(25,046)	(18,053)	(525)	0	(857)	(97,500)	(13,540)	**5,982**	(5,644)	0	0	0	**338**	**11,110**	**261**	**11,709**
4	2022.23	98,360	7,000	16,413	121,773	(54,344)	(25,515)	(18,488)	(538)	0	(879)	(99,763)	(13,232)	**8,778**	(9,318)	0	0	0	**(539)**	**11,709**	**386**	**11,556**
5	2023.24	102,356	7,175	16,952	126,482	(55,702)	(26,410)	(19,065)	(552)	0	(901)	(102,630)	(12,998)	**10,854**	(11,071)	0	0	0	**(217)**	**11,556**	**305**	**11,645**
6	2024.25	106,719	7,354	18,645	132,717	(57,095)	(27,306)	(19,731)	(566)	0	(923)	(105,621)	(11,726)	**15,370**	(2,361)	0	0	(13,565)	**(556)**	**11,645**	**182**	**11,271**
7	2025.26	110,248	7,538	18,577	136,363	(58,522)	(28,361)	(20,443)	(580)	0	(946)	(108,852)	(12,135)	**15,376**	0	0	0	(15,642)	**(266)**	**11,271**	**80**	**11,084**
8	2026.27	113,705	7,726	18,440	139,871	(59,985)	(29,260)	(21,167)	(594)	0	(970)	(111,977)	(12,312)	**15,582**	(2,042)	0	0	(13,495)	**45**	**11,084**	**81**	**11,211**
9	2027.28	117,584	7,919	16,267	141,771	(61,485)	(30,308)	(21,976)	(609)	0	(994)	(115,373)	(12,585)	**13,813**	0	0	0	(14,017)	**(204)**	**11,211**	**81**	**11,088**
10	2028.29	121,293	8,117	16,674	146,084	(63,022)	(31,402)	(22,750)	(624)	0	(1,019)	(118,818)	(12,539)	**14,727**	(14,359)	0	0	0	**368**	**11,088**	**146**	**11,602**
11	2029.30	124,319	8,320	17,091	149,730	(64,598)	(32,380)	(23,375)	(640)	0	(1,045)	(122,037)	(11,817)	**15,875**	(16,019)	0	0	0	**(144)**	**11,602**	**309**	**11,767**
12	2030.31	126,913	8,528	17,518	152,959	(66,213)	(33,155)	(23,927)	0	0	(1,071)	(124,366)	(11,045)	**17,549**	(17,809)	0	0	0	**(260)**	**11,767**	**401**	**11,908**
13	2031.32	129,561	8,742	17,956	156,258	(67,868)	(33,948)	(24,493)	0	0	(1,097)	(127,406)	(10,294)	**18,557**	(15,983)	0	0	0	**2,574**	**11,908**	**396**	**14,878**
14	2032.33	132,261	8,960	18,405	159,626	(69,565)	(34,761)	(25,072)	0	0	(1,125)	(130,522)	(9,435)	**19,669**	(21,397)	0	0	0	**(1,728)**	**14,878**	**388**	**13,538**
15	2033.34	135,017	9,184	18,865	163,066	(71,304)	(35,592)	(25,664)	0	0	(1,153)	(133,713)	(8,607)	**20,746**	(17,357)	0	0	0	**3,388**	**13,538**	**382**	**17,308**
16	2034.35	137,829	9,414	19,336	166,579	(73,086)	(36,444)	(26,270)	0	0	(1,182)	(136,982)	(7,893)	**21,704**	(16,934)	0	0	0	**4,770**	**17,308**	**391**	**22,469**
17	2035.36	140,699	9,649	19,820	170,168	(74,913)	(37,316)	(26,891)	0	0	(1,211)	(140,331)	(7,292)	**22,544**	(11,930)	0	0	0	**10,614**	**22,469**	**418**	**33,501**
18	2036.37	143,628	9,890	20,315	173,833	(76,786)	(38,208)	(27,526)	0	0	(1,242)	(143,762)	(7,009)	**23,062**	(926)	0	0	0	**22,135**	**33,501**	**489**	**56,126**
19	2037.38	146,615	10,138	20,823	177,576	(78,706)	(39,122)	(28,176)	0	0	(1,273)	(147,277)	(6,958)	**23,341**	(1,922)	0	0	0	**21,419**	**56,126**	**588**	**78,132**
20	2038.39	149,665	10,391	21,344	181,400	(80,674)	(40,058)	(28,842)	0	0	(1,304)	(150,878)	(6,779)	**23,742**	(4,918)	0	0	0	**18,824**	**78,132**	**678**	**97,634**
21	2039.40	152,777	10,651	21,877	185,305	(82,690)	(41,016)	(29,523)	0	0	(1,337)	(154,567)	(6,269)	**24,469**	(14,914)	0	0	0	**9,555**	**97,634**	**739**	**107,928**
22	2040.41	155,954	10,917	22,424	189,295	(84,758)	(41,997)	(30,220)	0	0	(1,371)	(158,346)	(5,530)	**25,420**	(13,910)	0	0	0	**11,510**	**107,928**	**782**	**120,220**
23	2041.42	159,196	11,190	22,985	193,371	(86,877)	(43,002)	(30,934)	0	0	(1,405)	(162,217)	(4,790)	**26,363**	(14,905)	0	0	0	**11,458**	**120,220**	**830**	**132,509**
24	2042.43	162,505	11,470	23,559	197,535	(89,048)	(44,030)	(31,664)	0	0	(1,440)	(166,183)	(4,000)	**27,352**	(15,901)	0	0	0	**11,452**	**132,509**	**878**	**144,838**
25	2043.44	165,884	11,757	24,148	201,789	(91,275)	(45,083)	(32,412)	0	0	(1,476)	(170,245)	(3,158)	**28,385**	(16,896)	0	0	0	**11,489**	**144,838**	**926**	**157,253**
26	2044.45	169,328	12,050	24,752	206,131	(93,557)	(46,161)	(33,177)	0	0	(1,513)	(174,407)	(2,291)	**29,432**	(16,891)	0	0	0	**12,541**	**157,253**	**977**	**170,771**
27	2045.46	172,845	12,352	25,371	210,567	(95,895)	(47,265)	(33,960)	0	0	(1,551)	(178,671)	(1,399)	**30,497**	(17,886)	0	0	(286)	**12,326**	**170,771**	**1,030**	**184,127**
28	2046.47	176,434	12,660	26,005	215,099	(98,293)	(48,395)	(34,762)	0	0	(1,589)	(183,039)	(1,893)	**30,167**	(38,881)	0	0	0	**(8,713)**	**184,127**	**1,098**	**176,512**
29	2047.48	180,048	12,977	26,655	219,680	(100,750)	(49,552)	(35,582)	0	0	(1,629)	(187,513)	(1,958)	**30,209**	(106,879)	0	0	0	**(76,669)**	**176,512**	**1,160**	**101,003**
30	2048.49	183,739	13,301	27,322	224,362	(103,269)	(50,736)	(36,422)	0	0	(1,670)	(192,097)	128	**32,393**	(15,881)	0	0	0	**16,512**	**101,003**	**1,216**	**118,730**

Appendix D – Key assumptions

Risk area	Assumption	Comment
Inflation	RPI at 2.5% CPI at 2%	Assumed long term inflation for planning purposes applied to expenditure items.
Rent policy	Yr 1: 1% reduction Yrs 2–5: CPI +1% Yr 6 on: CPI only	A conservative approach to rent increases as local authorities have flexibility under the self-financing regime.
Void rates	2.0%	Assumed long term void rate for planning
Bad debt provision (BDP)	£500k p.a.	Assumed long term bad debt provision required each year for planning
Interest on debt/balances	0.5% on balances held; 4.1% on new and rescheduled debt;	Reflects current rates available and potential for future increases as refinancing falls due.
RTB Receipts	17 property sales per annum throughout the plan.	Best estimate based on historical sales trends and expressions of interest.
Minimum operating reserves	£11m	Approximately 10% of turnover. Prudent in light of current economic and market risks.
Borrowing Cap	£333.5m	Until the details on the recent announcements on abolishing the borrowing cap are announced and enacted, this is the maximum level of borrowing which the HRA can undertake, thus limiting the ambition shown within the plan.

NB – Year 1 refers to 2019/20, year 2 refers to 2020/21 etc

APPENDIX E – TABLE OF RISKS, IMPACTS AND MITIGATIONS

Risk	Impact	Mitigation
Capital Receipts: The plan assumes estimated capital receipts of £467m will be generated and used to fund the development of new homes.	Any significant slippage in the timing or value of these receipts will pose a cash flow risk for staying within the borrowing limit.	Robust monitoring of the timing and expected value of the receipts will help inform management action to mitigate this risk. Management options identified above would need to be applied.
Rent Policy	If rents were only to increase annually by CPI after the 1% reduction period, not by CPI+1% as modelled, the impact would be significant and the plan would be unviable.	Lobbying is key to the success of avoiding this risk from happening in the first place. Regeneration spend would need to be significantly curtailed.
Interest rates	The rates assumed are between 4% and 5% on new borrowing throughout the plan. If interest rates were to rise this would have a significant adverse impact as the peak debt is only £3m less than the cap. Ignoring profiles of current fixed term loans, a 1% rise in interest would add £2-3m per annum to costs and increase debt levels further. This would compound annually.	The HRA has some fixed loans in place which would not be affected until they matured and needed to be replaced. Further fixed rate loans could be taken out to prevent uncontrolled increases. However, the scale and pace of regeneration may need to be reviewed.
Inflation	If inflation were to increase above that assumed by 1%, the Plan would no longer be viable over 30 years.	The increase in costs would be partially offset by increased income as this is also based on CPI inflation. The situation would not be uncontrolled as there would need to be a decision as to whether certain expenditure is still deemed affordable or

Risk	Impact	Mitigation
		value for money. Management options identified above would also need to be applied.
Capital Costs	If the cost of construction and professional fees on the regeneration programme were to increase by 20% this would cost c£50m.	This is provided for within contingency on the regeneration scheme budgets. The central contingency could be drawn upon. Other general estates expenditure could be reprofiled.
Welfare Reform: Implementation of Universal Credit, benefit cap and other welfare reform changes.	May increase rent arrears which impacts HRA income.	More active/proactive debt management action may be required. Robust monitoring of service activity to act as an early warning.
Brexit: Adverse impacts on costs and values as a consequence of Brexit	There is increased uncertainty about the cost of projects due to changes in the cost of materials and labour arising from changes in the value of the pound relative to other currencies. Equally there are changes in the attractiveness of London as a residential investment, positively due to falls in the value of the pound and negatively from lack of access to Europe. These are highly uncertain and may lead to increased caution on the part of contractors and developers when bidding for work or assessing the risks/rewards of current projects.	A selection of current projects are being reviewed to identify and seek to quantify the impacts based on the best evidence available to highlight areas where further measures need to be taken.