



# City of Westminster Cabinet Member Report

<b>Decision Makers:</b>	Cabinet Member for Finance, Property and Regeneration
<b>Date:</b>	2 November 2018
<b>Classification:</b>	General Release
<b>Title:</b>	West End Gate – Affordable Units Acquisition
<b>Wards Affected:</b>	Little Venice and Church Street
<b>Summary:</b>	<p>The purpose of this report is to brief the Cabinet Member on the proposed acquisition of 130 affordable units from Berkeley Homes on the West End Gate development, and to recommend that approval be given for Westminster City Council (WCC) to proceed to contract at the agreed offer price.</p>
<b>Key Decision:</b>	Yes
<b>Financial Summary:</b>	<p>WCC wish to acquire 130 affordable units (79 Social and 51 Intermediate) at a total price of £32.0m. There is a budget of £24.9m approved within the current Housing Revenue Account (HRA) Business Plan. Therefore, a further budget of £7.1m is required to fund the acquisitions. Approval is sought to bring forward £13.0m of budget into 2018/19 in order to make the initial 35% upfront payment and other in year costs. This will require additional external borrowing in order to be financed of up to the full £13.0m alongside utilising HRA capital receipts.</p> <p>The additional £7.1m will be funded through an increased forecast receipt for the Cosway Street scheme (£2.1m) and a £1m per annum reduction in self-financing expenditure over the next 5 years in order to remain within current HRA limits.</p>
<b>Report of:</b>	Executive Director of Growth, Planning and Housing

## **1. Executive Summary**

- 1.1. The West End Gate scheme on Edgware Road, being developed by Berkeley, will provide 130 affordable units through its Section 106 Agreement, all of which will be completed by 2022. Therefore, this could provide an ideal decant option for the Church Street regeneration programme and overcrowded families within Parsons House North, Little Venice.
- 1.2. The proposed regeneration of Church Street has created a significant decant need to enable the development to be undertaken. Although the development work is not expected to start until 2023, residents, particularly in the first phase, will need to be re-housed in suitable and local accommodation to enable demolition of the existing blocks in advance of the building of the new housing.
- 1.3. Westminster City Council (WCC) negotiated a 50 day 'exclusivity period' within the S106 Agreement for the West End Gate scheme being developed by Berkeley. This allows WCC to negotiate and agree a price for 130 affordable units without external competition from other Registered Providers. The 50-day period started on 23rd August and concluded on 12th October 2018.
- 1.4. WCC commissioned Savills to undertake a valuation of the units which were subsequently valued at £27.8m. A meeting was held with Berkeley who indicated that through soft market testing they had undertaken that a valuation of circa £32.0m could be achieved if opened up to the market.
- 1.5. Following the meeting with Berkeley some further advice was sought from Savills regarding the rationale for an increased offer. A key message from the advice was the scarcity of affordable homes in Westminster and as a result West End Gate represents a significant scheme of affordable units in the context of current availability, and therefore could justify a 'premium' payment above that of the market valuation.
- 1.6. When considering the advice from Savills alongside the needs to enable the regeneration at Church Street, an offer was put forward to Berkeley of £32.0m subject to contract. This was accepted by Berkeley.
- 1.7. Berkeley have confirmed that the acceptance of the offer is subject to WCC formally approving the offer by 31<sup>st</sup> October 2018 and that contracts are exchanged by 8<sup>th</sup> November 2018.

## **2. Recommendations**

- 2.1. That the Cabinet Member approves the acquisition of 130 affordable units at West End Gate for £32.0m.

- 2.2. To bring forward £13.0m of budget into 2018/19 in order to make the initial golden brick payment. Based on current levels of forecast expenditure and capital receipts, this will require additional borrowing of £13m in 2018/19.
- 2.3. The additional £7.1m of overall funding required by financed through the increased Capital receipt on Cosway Street (£2.1m) and a £1m per annum reduction for five years on the Self-financing scheme.

### **3. Reasons for Decision**

- 3.1. WCC specifically require additional social rent homes and intermediate homes to facilitate the regeneration of Church Street and rehouse overcrowded families in Parsons House North, Little Venice. The availability of homes for re-housing tenants and leaseholders is a key factor in WCC's ability to deliver the planned regeneration scheme in Church Street. The affordable units at West End Gate will provide an excellent 'local' offer for residents in Church street and therefore should greatly assist decant negotiations and provide greater certainty around deliverability, costs and timescales. Without these units, WCC may find other re-housing options difficult to locate and acquire and may end up costing considerably more, as well as other potential cost implications of delays to the project if vacant possession cannot be secured at Church Street.

### **4. Policy Context**

- 4.1 The additional housing that will be provided through the regeneration of the Church Street area is at the heart of Westminster's City for All programme.
- 4.2 The number of additional affordable homes planned within the Church Street Masterplan will contribute significantly to the Council's new housing targets beyond 2023.

### **5. Risks**

- 5.1 The key risk is that without the ability to decant residents into suitable new homes the planned regeneration will not progress. The acquisition of the units at West End Gate will significantly mitigate this risk.
- 5.2 New affordable units at West End Gate will provide a good local offer for residents at Church Street and will mitigate the risk of challenge and delay on the project and associated additional costs.
- 5.3 There will be reputational risks for the Council if suitable alternative housing cannot be provided to residents affected by the regeneration of Church Street.

## Financial Implications

- 6.1 The table below shows the current budget within the HRA for the acquisition of units at West End Gate alongside the forecast costs of the £32.0m offer.

Table 1: Projected cost and existing budget for West End Gate

	Cost	Budget	Variance
	£'m	£'m	£'m
<b>2018/19</b>	13.0	0.0	13.0
<b>2019/20</b>	6.9	12.4	(5.6)
<b>2020/21</b>	6.9	0.0	6.9
<b>2021/22</b>	4.9	0.0	4.9
<b>2022/23</b>	0.4	12.4	(12.0)
<b>Total</b>	<b>32.0</b>	<b>24.9</b>	<b>7.1</b>

- 6.2 The total cost of £32.0m therefore produces a shortfall of £7.1m against the current budget. The latest HRA business plan submitted for noting in October identified that the first ten years of the plan were at or close to capacity. Therefore, in order to balance the plan a reduction of £7.1m from other capital budgets would need to be identified.
- 6.3 Since the October business plan, the anticipated receipt for Cosway Street has been forecast to increase by £2.1m to £58.4m in total. This leaves £5m additional budget to be found within the overall capital programme. The balance will be met by reducing the self-financing capital budget by £1m per year for the first 5 years. This leaves a £9m expenditure budget in each of those years for these purchases.
- 6.4 However, the Business plan will be reviewed in January 2019 to take account of updated projections in spend and receipts. The recent Government announcement that the HRA borrowing cap will be removed at the end of October 2018 should provide increased capacity in the HRA business plan so these budgets can be reviewed in light of this. It should be noted however, any additional borrowing required would incur revenue.
- 6.5 The total cost of £32.0m for 130 units equates to an average cost per affordable unit of £246k. This is comparable to the £250k per unit agreed in the business plan for the future affordable units within the Church Street scheme (Affordable Housing Fund contribution).
- 6.6 Berkeley require a 35% payment on exchange of contracts (they have reached Golden Brick stage on all the blocks). The spend profile is reflected in Table 1 above. This represents £11.2m of the projected spend in 2018/19. The balance of £1.8m relates to stage payments, which will fall due within the financial year.

- 6.7 Table 1, shows that there is currently no budget within 2018/19 for this scheme. As per paragraph 2.2 £13.0m of budget is therefore required to be brought forward from future years of the scheme in order to fund this payment.
- 6.8 The 2018/19 period 6 HRA capital monitoring report forecast an expenditure underspend of £35.5m at year-end. However, funding resources such as capital receipts and grants are also forecast to be below budgeted levels estimates.
- 6.9 In order to finance this additional £13.0m of expenditure, based on current projections of overall programme expenditure, the HRA would need to use a combination of capital receipts and external borrowing. Fully utilising the capital receipts within the HRA could limit the ability to fund future years' capital expenditure and additional borrowing of the full £13.0m would incur borrowing costs of c£400k per annum.
- 6.10 The borrowing requirement will continue to be reviewed during 2018/19 alongside any changes in expenditure or income forecasts.
- 6.11 In line with other similar schemes (Edgware Rd/Almacantar) there is an expectation this purchase will be exempt from Stamp Duty Land Tax (SDLT). Legal advice received is that full disclosure of the analysis of liability should be disclosed to HMRC. If HMRC were to disagree with this analysis, the Council would be required to pay c£1.6m SDLT, which is not included within the amounts outlined above.

## **6. Legal Implications**

- 6.1. External legal support will need to be procured to lead on the exchange of contract with Berkeley and to ensure the interests of WCC are protected.

**If you have any queries about this Report please contact:**

[James.green@westminster.gov.uk](mailto:James.green@westminster.gov.uk)

For completion by the **Cabinet Member** for Finance, Property and Regeneration.

**Declaration of Interest**

I have <no interest to declare / to declare an interest> in respect of this report

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

NAME: **Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration**

State nature of interest if any .....

*(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)*

For the reasons set out above, I agree the recommendations in the report entitled **West End Gate – Affordable Units Acquisition** and reject any alternative options which are referred to but not recommended.

Signed .....

Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration

Date .....

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment: .....

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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the City Treasurer, and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant

considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.