City of Westminster

Meeting or Decision Maker:	Cabinet
Date:	25th February 2019
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 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 £743.3m over the next five years and £1.784bn 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. There is no longer a formal borrowing cap in place, therefore the expenditure needs to be considered against the long term sustainability of the HRA. The funding of the programme over the next five years is highly dependent upon the timing and value of asset disposals (£301.2m) that underpin the regeneration programme, along with substantial contributions from the Affordable Housing Fund (£185.2). Additional borrowing (£92.5m) is required over the first five years of the programme.
Report of:	Barbara Brownlee, Executive Director of Growth, Planning and Housing and Steve Muldoon, Interim 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. This plan has been developed at a time of increasing construction costs and a challenging residential market and while the council cannot resolve these problems, this plan is designed to minimise their impact on both our affordable housing target of 1,850 homes by 2022/23 and the impact on our own development and regeneration programme.

1.2 To ensure this plan is robust, a review of all our development schemes has taken place. Market intelligence suggests prices will stabilise and confidence will return from 2021 onwards and this has been built into assumptions.

1.3 In addition, we are planning to take advantage of the recent relaxation in the HRA borrowing cap to increase borrowing whilst protecting the sustainability of the overall Business Plan.

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

1.5 In contrast to the well documented faults of historic council home building, the new homes will be energy efficient and promote healthy living by building on the principals of passive design and capitalising upon technological innovations in the application of building materials and construction methods. The homes will give thorough consideration to the practicality of use, safety and lifespan whilst ensuring well-sized proportions to accommodate the needs of modern single, coupled and family living.

1.6 We are critically examining our scheme assumptions and estimates. We have commissioned industry experts to provide forecasts of current prices and expected increases over the coming months and years and the Council's policy is to include a 10% contingency until a fixed price contract is obtained, when it reduces to 5%. A further contingency is held centrally for non-acquisition costs across all schemes within the HRA.

1.7 At the opposite end of the development equation, where schemes do retain sale housing, we are being very conservative regarding the values we include in our sales projections.

1.8 This 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.

1.9 Since last year the 30-year plan for capital investment in the Council’s existing stock and regeneration schemes has increased from £1.717bn over thirty years to £1.784bn. This increase of c. £67m is mainly driven by increases to Ebury Bridge (£47m) due to the move of phase 1 to self-delivery and £11m on buy-back of social units on general fund (GF) or housing subsidiary schemes.

1.10 For our major regeneration schemes and Ebury Bridge in particular, we are looking to take this recession in the sale housing market and convert it into an opportunity to expand our housing provision for working families to live in Westminster. The switch from sale to more rental tenures gives us a real chance to develop our aim to have a range of price points for rental housing all the way from our social and intermediate affordable housing (details of which are set out in the draft City Plan) up to full market rent levels. Clearly there is work to be done to progress this but, as a result of discussions we have had in recent months, we are optimistic that there is a real appetite from funders to offer very competitive terms for funding for rental housing. They clearly see this as a “safe” home for their money and one in relation to which they are prepared to be patient in relation to expected returns.

1.11 This capital programme reflects the increased financing capacity of the HRA over the life of the plan. With the removal in October 2018 of the borrowing cap, the HRA is now limited by its ability to service the finance costs of any borrowing on capital expenditure. Re-profiling the capital expenditure and receipts in the early years of the plan have necessitated an increase in borrowing. This in turn impacts on future years’ spending capacity due to the need to finance this new borrowing. Due to the level of income generated by social rents within the HRA, ensuring these borrowing costs are sustainable is effectively the new limit on the programme.

1.12 The key elements of the HRA investment programme are:

- Continued investment in existing housing stock (£892.8m);
- Investment in the housing estate regeneration programme and other new supply schemes (£600.7m)
- Affordable Housing Fund (AHF) expenditure on new HRA supply over the 5 year period 2019/20 to 2023/24 of £185.2m and £292.4m over 30 years.

1.13 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. Current projections are that 2,263 new affordable homes will be delivered by 2023/24. Further analysis of this can be found in sections 4.5, 4.6 and Table 1 in this report.

1.14 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 companies, which were set up this year, will also enable some of these impacts to be mitigated.

1.15 In October 2018 the government formally removed the borrowing cap. Whilst this has provided greater flexibility for the HRA, the business plan still needs to be assessed against the ability of the HRA to finance any increased borrowing. The lifting of the borrowing cap is discussed in Section 13 of this report. 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 impede the timely delivery of its programmes.

1.16 During 2018/19 the Council announced the decision to bring its Arms' Length Management Organisation (ALMO) City West Homes (CWH) back into the Council. This will have a significant impact on the HRA however the longer term operating model of housing delivery within Council is yet to be determined. Adjustments have been made to 2019/20 revenue budgets to manage the transition over this period. Details are provided in section 8.

2 Recommendations

That the Cabinet recommend that full Council:

2.1 Approves HRA capital programme budgets for 2019/20 to 2023/24 (Appendix B).

2.2 Approve the HRA revenue budget for 2019/20 (Sections 8,11 and Appendix C).

2.3 Approve the adjustment of HRA capital budgets in 2018/19 to match the assumptions within this Business Plan (Appendix B).

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.

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.

<u>New affordable housing supply schemes</u>

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 2,263 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 1,936 new affordable homes will be delivered. 353 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 2,263, the HRA is anticipated to deliver 903 affordable units.

- 83 of the HRA affordable homes will be delivered on 'infill' sites.
- 210 homes on 'section 106' sites.

- 261 of the HRA units are to be delivered on Housing Regeneration sites
- a further 349 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 482 affordable homes will be delivered on General Fund sites. The remaining 878 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	176	54	91	3	28	24	24	128
2019-20	534	174	335	0	25	167	211	156
2020-21	283	63	56	139	25	85	0	198
2021-22	389	178	141	45	25	280	14	95
2022-23	345	200	78	42	25	240	54	51
2023-24	385	141	155	64	25	80	150	155
	2,263	843	923	293	204	903	482	878
		Total by Tenure:			2,263	Total by funding route:		2,263
19-20 to 23-24 only	1936	756	765	290	125	852	429	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 in the previously submitted plan. Details are yet to be released around any specific limitations that may be imposed on HRA borrowing, such as prudential limits. Further detail on the removal of the borrowing cap and its implications are included in section 13.

Universal Credit roll out

5.3 Universal Credit (UC) has now been introduced in Westminster for all new customers with the exception of certain vulnerable groups. DWP, through the Social Security Advisory Committee (SSAC), consulted on proposed regulations relating to the migration to UC in the summer. The SSAC made 12 recommendations to government, 11 of which were accepted by DWP in principle or in full. Government has now published the draft regulations to enable managed migration and these are due to be voted on by Parliament.

5.4 Recent announcements however suggest the current timetable, indicating that full roll out would occur nationally between July 2019 - March 2023, may be changed and that firstly a trial migration of 10,000 recipients will take place in the summer. Further announcements on this are pending.

5.5 In the October 2018 budget the government made further changes to UC (following changes made in 2017), these include extending the fortnight's overlap between HB and UC to income-related elements of Job Seekers Allowance, Employment and Support Allowance and Income support from July 2020. Also announced was that from October 2019, the maximum rate of deduction that can be applied to UC to recover debts, such as rent arrears, will be reduced.

5.6 Overall UC can make it easier for people to move into work. However some of the key features of UC have the potential to negatively impact the HRA, given that it is a major change for tenants and c70% receive housing benefit (although not all will receive UC). This is because:

- 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 (although advance payments can now be made). This is a major cultural change for council tenants that have always had housing benefit paid directly to the council. Alternative Payment Arrangements "APA's" can be made in some circumstances and CityWest Homes now has 'trusted partner' status so it can make APA requests for vulnerable customers. This status is expected to transfer to the Council as part of the integration.

5.7 Southwark was one of the first places to see full roll out of UC. With the Smith Institute, they have carried out two pieces of research into the impact on council rents. The first report found that although a move to UC results in rent arrears initially, at around week 20 of UC arrears start to be repaid. The more recent research has however found that as time progresses a pattern of underpayment of rent re-emerges. It also found that people making multiple

claims for UC (i.e. where their circumstances often change) has the greatest impact on arrears. The report suggests that UC may be an ongoing enduring cost for social landlords. This has been factored into the assumptions within this business plan.

5.8 Work is underway by the council to support people in receipt of UC and to prepare for the rollout and is monitored through the council's Welfare Reform Group.

Arrangements for Funding Supported Housing announcement August 2018

5.9 In August 2018 the government published its 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.

5.10 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

5.11 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

5.12 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)

6. Housing Regeneration

6.1 The HRA development programme will see £545.1m 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 £185.2m 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	30.4	30.4	27.8
Lisson Arches	24.2	24.2	24.1
Luton Street	13.7	13.7	12.1
Parsons North	24.7	24.7	22.1
Ashbridge	11.7	11.7	9.1
Church Street Phase Two	91.1	299.0	307.4
Tollgate Gardens	10.2	10.2	9.7
Ebury	136.6	186.7	139.4
Total Regeneration	342.8	600.7	551.7
Other Schemes			
District Heating Network Scheme	-	-	-
Edgware Rd	6.9	6.9	6.9
Infill and Other Schemes	127.4	147.1	131.2
Self Financing	50.0	110.0	110.0
Kemp House/Berwick Street	0.7	0.7	0.0
Ashmill Street	0.9	0.9	0.7
Central Contingency	16.3	24.8	14.8
Total Other Schemes	202.3	290.5	263.5
Total	**545.1**	**891.2**	**815.2**

6.2 The most significant change between the budgets submitted in October and these revised figures is within the Ebury regeneration scheme. This reflects a shift in delivery following market testing carried out in December 2018. Phase 1 of the scheme is now budgeted to be a self-delivery scheme within the HRA. This has increased the cost over the first five years by £47m. The change in delivery method has also resulted in a reduction to projected capital receipts of £54m meaning the HRA is having to take on around £100m of additional

borrowing to finance. This has been possible as a result of the borrowing cap being removed, however it does generate additional borrowing costs which have also had to be factored into the business plan.

6.3 The following schemes are illustrative of other schemes that will progress over the next 5 years.

6.4 **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. PAB approval has been granted for appointing the main contractor on a two-stage design and build contract. Start on site is expected to commence in 4th Quarter 2019.

6.5 **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. The preferred contractor, United Living, has issued an updated tender price, which is undergoing a value for money review. 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.

6.6 **Parsons North**

The development comprises 60 new residential units comprised of 19 affordable units and 41 units for open market sale. 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 the main contractor, Osbourne, procured and appointed. Start on site is expected to commence in April 2019.

6.7 Ashbridge Street

Ashbridge Street is the site of a former BT sub-station that was acquired using AHF funding in 2014/15. The 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. The scheme will be self-delivered with contractor procurement underway. Start on site is expected to commence in 4th Quarter 2019.

6.8 Church Street Phase 2

Commercial Strategy consultants (Hatch Regeneris /PRD /Urban Space Management) have now been appointed by the Regeneration team to work alongside the multi-disciplinary design team to provide expert input on the emerging design proposals and providing the brief for the commercial, retail and market offer. A paper (outline business case, or OBC) seeking Cabinet approval for the preferred way forward, associated viability and developer procurement route is currently programmed for submission in summer 2019.

A period of engagement with residents is underway that will assess the development options resulting from the RIBA Stage 1 report.

6.9 Tollgate Gardens

Tollgate Gardens is a developer led 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. In addition to refurbishment works to the existing Tollgate House tower block the scheme will also provide a new community centre and public realm improvements. 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 August 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 10 new homes by 2018/19 with a further 20 new homes completing in 2019/20. A pipeline of 65 new homes is at the planning stage and, subject to consent, will commence incrementally over future years.

7. HRA investment programme – expenditure on existing homes

7.1 The 2019/20 HRA Business Plan includes capital investment of £892.8m 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	31.8	280.8	294.3
External Repairs & Decorations	86.2	347.9	359.9
Internal Works	43.4	77.9	71.8
Kitchen & Bathroom	4.0	27.0	27.1
Lifts	9.0	48.0	45.0
Major Voids, aids and adaptions	23.8	111.3	105.0
Total Capital Works	**198.2**	**892.8**	**903.0**
Revenue expenditure			
Repairs & Maintenance	85.4	512.6	512.6
Total Investment	**283.6**	**1,405.4**	**1,415.6**

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.£198.2m (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 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. This programme is expected to continue after CWH transition back into the Council.

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 £62.8m since 2013/14, with a further £2.2m anticipated from already agreed disposals. Proceeds have so far been utilised to acquire 94 replacement family-sized homes at a cost of £50.0m.

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. This is particularly relevant now given the greater flexibility in relation to borrowing. Appendix F shows the detailed HRA revenue budget for 2019/20.

8.2 The Council, through CWH were committed to delivering ongoing revenue savings of £2.05m between 2019/20 and 20/21. These have been built into the HRA revenue budget, with £0.95m in 19/20. The integration of City West Homes back into the Council creates a risk to these savings which will need to be monitored closely to address any issues as they arise.

8.3 As the Council's regeneration programme progresses there is a requirement to increase the revenue provision set aside for these programmes. This has been reflected with £0.4m within 2019/20. The majority of capital schemes will have associated revenue costs so it is important to ensure there is sufficient budget 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£736k from 2018/19. 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 £9.793m (inc investment income, Appendix F) before transfers to reserves or revenue contribution to funding the capital programme.

8.6 The announcement that CityWest Homes is to be brought in house will have revenue impacts for the HRA in the short and medium term. Contingency budgets of £2m have been included within 2019/20 to cover the cost of transition.

8.7 For some CWH areas, such as support services, budgets will be allocated to various directorates within the Council and then recharged to the HRA to correctly align the budgets by directorate and between General Fund and HRA.

9. Capital Programme Funding

Affordable Housing Fund

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 Within the HRA business plan, £292m of AHF balances are assumed to be used over the thirty year period. The AHF can be used to fund both HRA and General Fund (GF) schemes so the requirement on the fund must be balanced between the two. The pipeline of receipts must also be closely monitored to ensure funds are available for future plans.

Capital Receipts

9.4 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.

9.5 Capital receipts, including Right to Buy sales, used to fund the capital programme over 30 years have decreased from £467m in last year's plan to, £447m in the latest plan.

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

9.6 This HRA Business Plan shows that there is an inherent limit to its delivery due to the rent that can be charged for HRA properties. 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.

9.7 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.

9.8 A number of exemplar schemes have been modelled this year for delivery in partnership with the housing companies in order for the HRA to best utilise its resources.

9.9 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 forecast changes, 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. This latest plan contains significant additional borrowing which whilst affordable, does limit the capacity of the HRA in future years. Any increases in expenditure or reductions in income will need to be managed by the service area and either contained within the project or funded from elsewhere within the relevant service. The previously assumed borrowing limit of £333.5m which has up to now been imposed on the Council has been removed and would be exceeded during the course of the plan whilst reserves of circa £11m are maintained throughout. Section 12 below sets out the options available to the Council to mitigate and manage risk.

10.3 Overall this latest plan contains a peak debt which is £93m higher than the programme submitted in October. This translates to additional financing costs of £118m over the thirty year life of the business plan. This additional cost is also shown in the year thirty debt balance of £193m and revenue balance of £68m (a combined decrease of £293m).

10.4 The gross HRA capital expenditure required to deliver the plans within the investment strategy amounts to £743m over the next five years. This will rely upon funding of £41m of HRA revenue resources, £301m from RTB & Other capital receipts, £185m from the Affordable Housing Fund, £92m of new borrowing, £117m from the major repairs reserve and £7m of grants. The programme remains above £100m per annum to 2027/28 at which point the borrowing plateaus. The HRA is then able to begin paying down debt from year 15 of the plan.

10.5 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.

10.6 As funds are committed on the regeneration schemes, the 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 2025/26 at £426m and remains above £400m until year 15 of the plan. This will limit the ability of the HRA to contribute major funds to any further housing development. 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 to prevent the level of revenue reserves falling below the minimum level of £11m.

10.7 From year 9, 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.

10.8 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.

10.9 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.

10.10 The internal governance processes within Housing, 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.

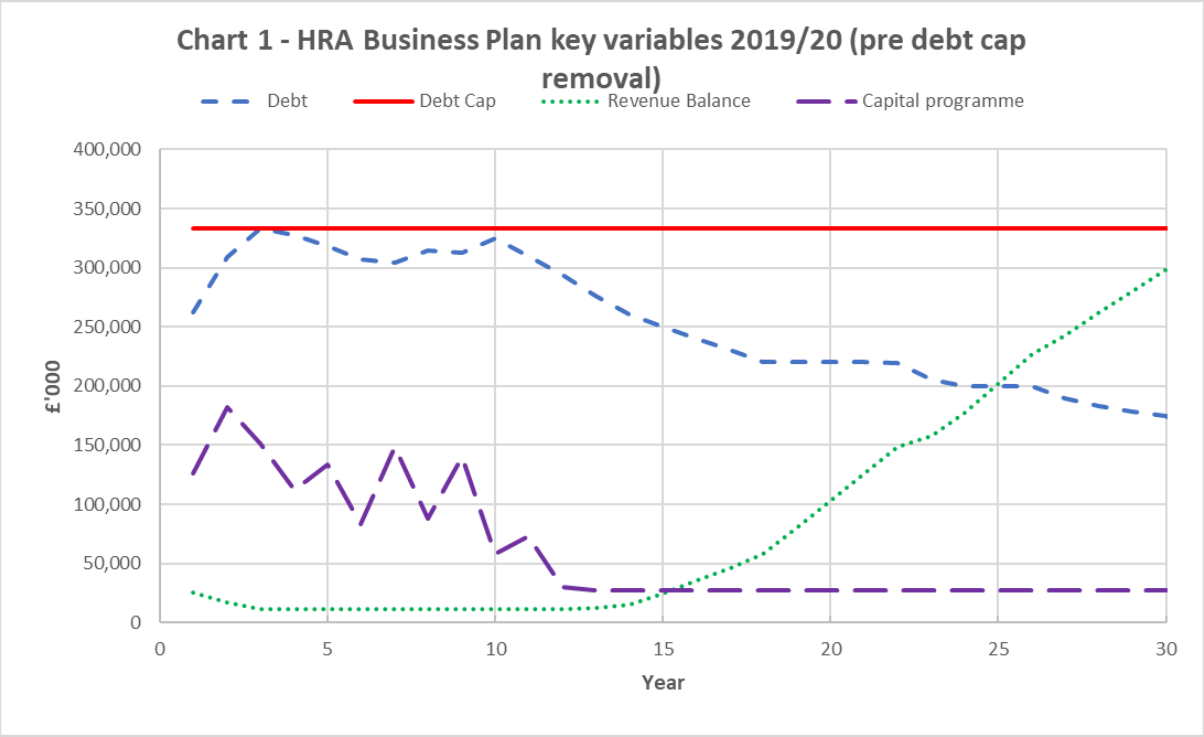
10.11 The business plan will be reviewed on an on-going basis, feeding in changes from the annually agreed baseline to understand the impact of changes in the assumptions and capital expenditure on the affordability of the plan. This will enable management to identify any necessary mitigation required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

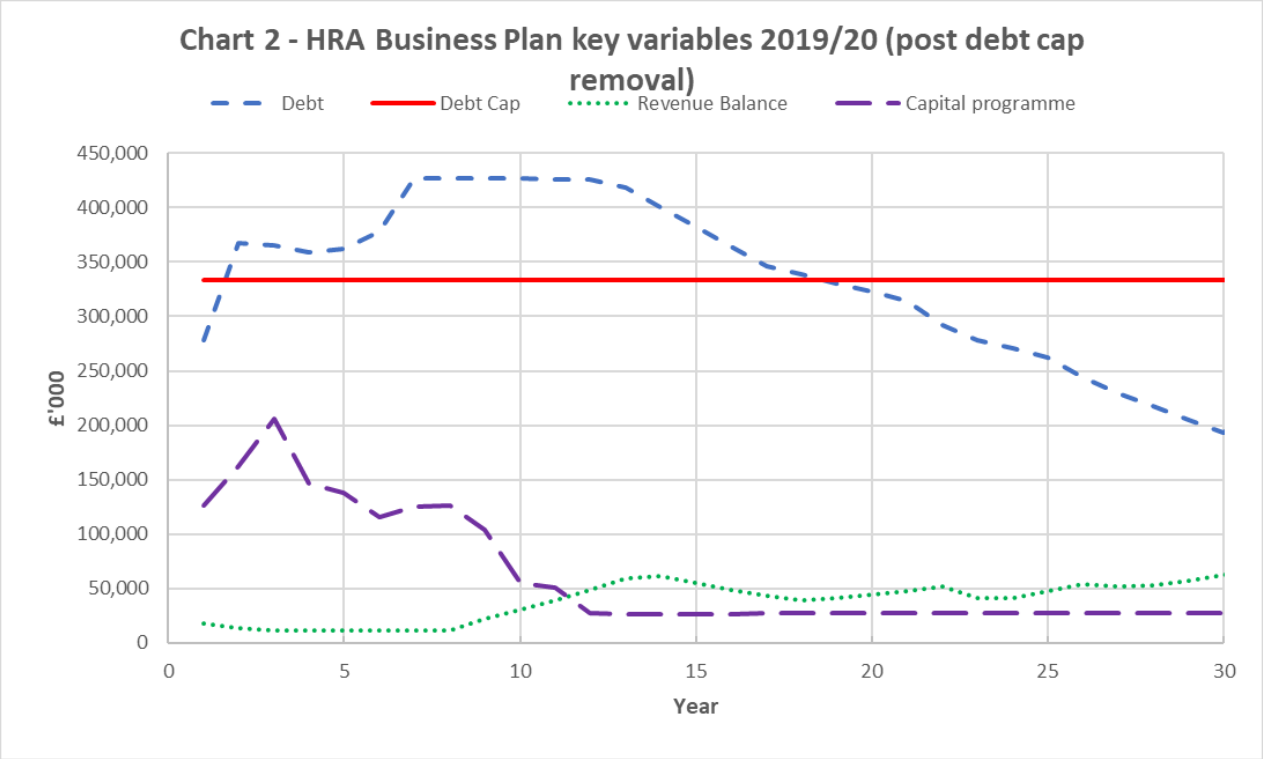
11. The HRA business plan base financial position

11.1 The base financial position will deliver the following:

- Investment in existing stock of £1.405bn, including major works capital expenditure of £0.892bn and revenue repairs and maintenance of £0.513bn.
- Investment in new affordable housing of £0.891bn generating new HRA units, along with improved public realm and community facilities.
- An HRA debt balance of £193m in year 30.
- HRA Revenue balances in year 30 of £68m.

11.2 The charts below show the key variables of October's (Chart 1) and the current (Chart 2) Business Plans: the previous 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 previously had a debt cap, imposed by government as part of the 2012 self-financing settlement. This limited the amount of borrowing that the HRA could undertake. Westminster's cap was originally set at £325m in 2012, but was increased in 2014/15 to £334m. The borrowing cap was removed in October 2018 but provides a useful point of reference when comparing with previous plans.

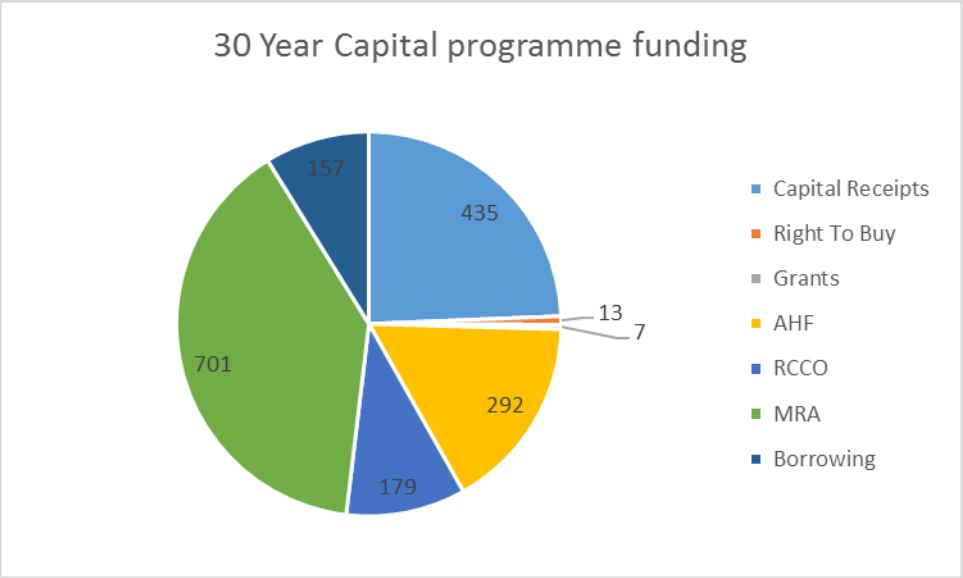
11.4 **Debt (blue line)** - Borrowing rises from the current £278m (as forecast at 31 March 2019) and peaks in 2025/26, then remaining above £400m before reducing after year 17. The plan assumes that maturing debt will be re-financed as long term loans expire. When resources allow, the principal sums are repaid which for example causes the sharp reduction in later years when two loans mature. Due to the increase in borrowing of this plan, the ability to repay debt balances is limited when compared to the previous version. 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 expenditure, 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 £68m at the tail end of the plan, however the capital programme is concentrated over the first 9 years of the programme. The higher borrowing level in those first 9 years however means that there are fewer revenue resources to repay debt over the life of the plan.

11.6 **Capital programme (purple line)** - Total planned capital investment in the HRA totals £1.78bn (£1.72bn in October) over 30 years. This includes major works on existing stock of £0.892bn (£0.902bn in October), regeneration £601m (£552m in October) and Other Schemes £291m (£264m in October).

11.7 The capital programme is forecast to be funded mainly from: Reserves & Contributions of £179m; capital receipts of £435m generated from land and market sale of new homes; capital grants of £7m; drawdowns from the Affordable Housing Fund of £292m; Right To Buy sales receipts of £13m; MRA/Major Repairs Reserve[1] of £701m; and borrowing of £157m where appropriate. This is shown in the chart below.



Key Business Plan assumptions

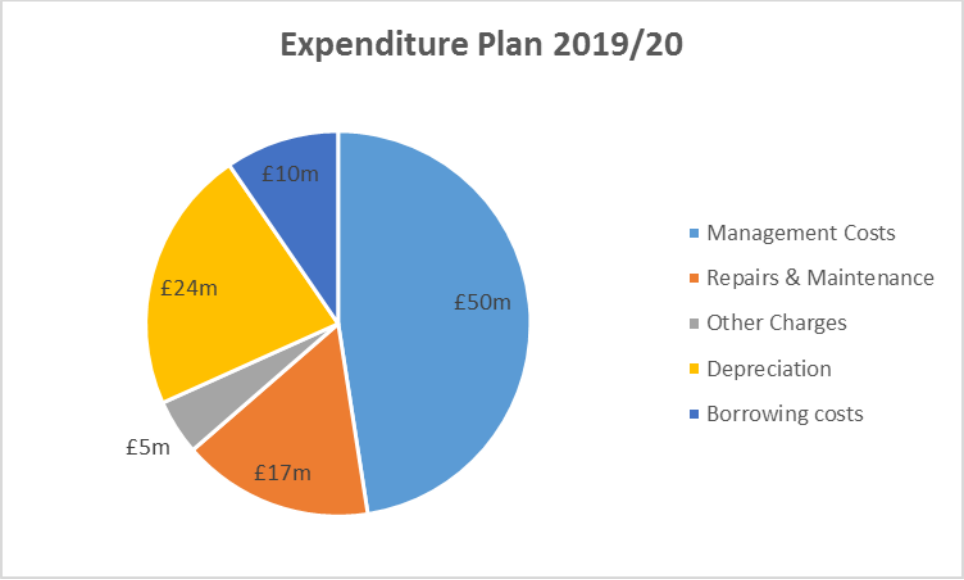
11.8 The key assumptions that underpin the business plan are set out below.

11.9 **Housing stock** – the Plan is based on a forecast of increasing tenanted stock numbers from 11,914 at the beginning of year 1, to 12,455 in year 30. The regeneration schemes will lead to a net increase in intermediate and leasehold stock offset by forecast RTB sales.

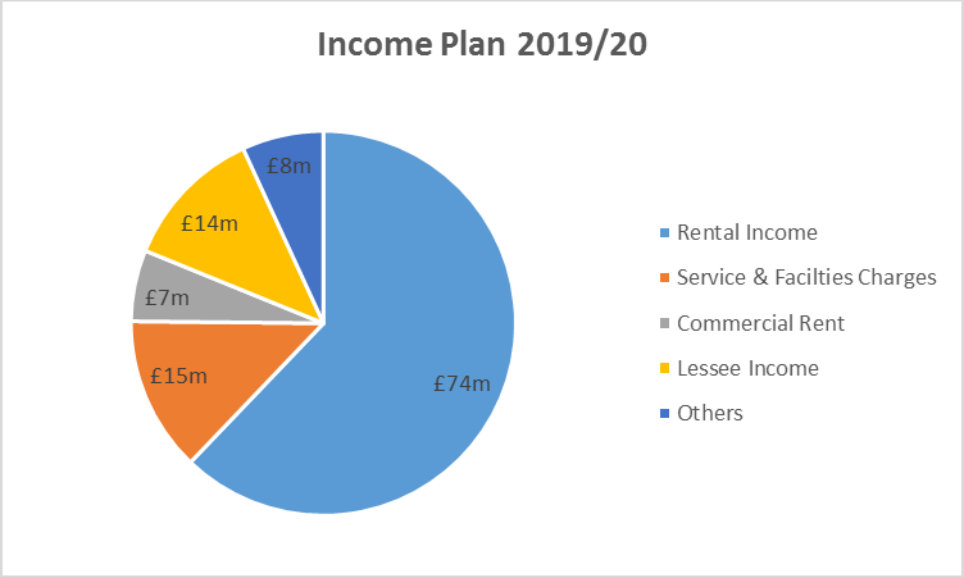
[1] The major repairs reserve captures annual depreciation charges and becomes available to finance capital expenditure and to repay debt.

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 £107m, the bulk of which is the housing management and service costs of £50m.



11.12 The chart below shows the operating account income of £117m for 2019/20 in the Business Plan. Rental income from dwellings, including for sheds and garages, accounts for the majority at £73m. Service and facilities charges, mostly from lessees but some from tenants, is also significant at £15m. Rent from commercial properties brings in circa £7m net income after costs for management. Income from lessees in respect of major works is circa £14m 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 £9.793m.

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 (2025/26) to £426m. Up to year 14, the borrowing remains above £400m before reducing over the remainder of the plan as capital expenditure decreases. This sustained increased debt level, reduces 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.

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 further increase the borrowing requirement. The HRA is currently by law not allowed to budget for an in year I&E deficit so there is a point where the revenue budget cannot support sustained high levels of borrowing. Therefore,

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. 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. These are undertaken in line with the annual budget cycle so after the end of the financial year, October and January. 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 capacity 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 £16m 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 to reduce the requirement to borrow.

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 monitoring and 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 year's 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 to better match the timing of funding resources.

    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, £892m 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 affordable 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 currently only guidance and the only control at present is the limit on Housing Benefit. However a consultation has been carried out to regulate rent setting policy.

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. To date no specific guidance has been released to reflect the removal of the borrowing cap. Further clarification is expected as part of the prudential code.

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

13. Removal of the HRA Borrowing Cap

13.1 In October 2018, the Government removed the HRA borrowing cap that had been in place since the start of HRA self-financing. This was yet to be confirmed at the time the budgets were brought to Council for noting, therefore this revised budget is the first to be prepared with no borrowing cap in place.

13.2 Whilst there is no formal borrowing cap in place, there are still limits on the HRA's capacity. Some of these are summarised below;

- Capital regeneration schemes must cover their financing costs which can be challenging as these are capped by social rents.
- Major Works schemes do not generate any income, therefore any level of capital expenditure above the Major Repairs and projected annual leaseholder contributions must be funded by borrowing which creates a revenue cost to the HRA.
- The HRA has limited revenue reserves to cover financing costs. There is still a requirement for the HRA to set a balanced, or in surplus, revenue budget

13.3 It is expected that CIPFA will bring out an update to the Prudential Borrowing Code to reflect the removal of the HRA borrowing Cap. There has been no announcement to date on when this is to be released but it may include requirements on the level of HRA borrowing against available resources. Currently the debt balance of £278m is 14% of the NBV of HRA assets. The peak borrowing level within this plan of £426m would represent an increase to a debt level of 22% compared to NBV of HRA assets.

13.4 The intention of removing the HRA borrowing cap was to unlock the potential of HRA's in producing more social housing. The following changes in the business plan reflect the Council's efforts to utilise this additional capacity in light of the restrictions referenced above:

- The Ebury regeneration scheme has been revised to reflect the current preferred method of delivery. This includes the HRA now self-delivering phase 1 of the scheme. Due to market conditions the previous developer model was deemed unsustainable so a hybrid model of delivery has been included. This requires the HRA to take on additional cost of around £100m through a combination of increased expenditure and reduced capital receipts.

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 - DECEMBER 2018													
	2018-19	2019-20		2020-21		2021-22		2022-23		2023-24		Total	Total
Schemes	**Forecast £'000**	**Plan**	**£'000**	**Plan**	**£'000**	**Plan**	**£'000**	**Plan**	**£'000**	**Plan**	**£'000**	**5yr Plan £'000**	**30yr Plan £'000**
Major Works													
Electrical Works & Laterals	10,067		4,496		6,012		6,699		7,483		7,123	**31,813**	**280,778**
External Repairs & Decorations	16,686		21,024		15,995		15,863		16,305		16,600	**85,788**	**342,201**
Internal Works	4,857		16,469		8,952		5,500		4,843		7,615	**43,379**	**77,879**
General	2,999		0		70		0		250		100	**420**	**5,670**
Kitchen & Bathroom	397		804		800		800		800		800	**4,004**	**27,004**
Lifts	5,364		1,800		1,800		1,800		1,800		1,800	**9,000**	**48,000**
Major Voids , aids and adaptions	5,200		4,760		4,760		4,760		4,760		4,760	**23,800**	**111,300**
Total Major Works	**45,572**		**49,353**		**38,389**		**35,422**		**36,242**		**38,798**	**198,204**	**892,832**
Regeneration													
Cosway Street	1,145		5,481		22,397		2,216		304		0	**30,398**	**30,398**
Lisson Arches	3,743		2,319		21,500		56		344		0	**24,219**	**24,219**
Luton Street	546		2,464		224		11,060		0		0	**13,748**	**13,748**
Parsons North	2,866		10,724		13,440		559		0		0	**24,723**	**24,723**
Ashbridge	424		2,526		9,002		202		0		0	**11,729**	**11,729**
Church Street Phase Two	6,064		1,922		1,578		3,045		54,309		30,287	**91,141**	**298,984**
Tollgate Gardens	491		10,238		0		0		0		0	**10,238**	**10,238**
Ebury	15,459		23,948		32,850		33,073		16,217		30,544	**136,633**	**186,690**
Total Regeneration	**30,737**		**59,622**		**100,991**		**50,211**		**71,173**		**60,832**	**342,829**	**600,729**
Other Schemes													
District Heating Network Scheme	246		0		0		0		0		0	**0**	**0**
Edgware Rd	32		6,564		300		0		0		0	**6,864**	**6,864**
Infill and Other Schemes	19,801		20,340		35,398		34,856		19,290		9,279	**119,163**	**136,642**
Self Financing	16,939		10,000		10,000		10,000		10,000		10,000	**50,000**	**110,000**
Westminster Academy and other buy backs	0		0		0		0		3,905		5,318	**9,223**	**11,423**
Kemp House/Berwick Street	3		745		0		0		0		0	**745**	**745**
Central Contingency	5,429		3,229		4,397		3,370		3,754		1,551	**16,301**	**24,844**
Total Other Schemes	**42,450**		**40,878**		**50,095**		**48,227**		**36,948**		**26,149**	**202,296**	**290,519**
Total Capital Expenditure	**118,758**		**149,853**		**189,475**		**133,860**		**144,363**		**125,779**	**743,329**	**1,784,079**
Financed By:													
Capital Receipts	35,706		61,315		44,293		64,059		58,197		65,770	**293,633**	**434,543**
Right To Buy	3,915		3,963		748		0		0		2,867	**7,578**	**12,631**
Grants	100		6,700		0		0		0		0	**6,700**	**6,700**
AHF	9,014		40,536		25,440		40,367		55,684		23,125	**185,151**	**292,442**
RCCO	30,026		13,967		6,569		6,063		7,111		7,227	**40,938**	**179,421**
MRA	23,371		23,371		23,371		23,371		23,371		23,371	**116,854**	**701,125**
Borrowing	16,626		0		89,055		0		0		3,419	**92,474**	**157,217**
Total Financing	**118,758**		**149,853**		**189,475**		**133,860**		**144,363**		**125,779**	**743,329**	**1,784,079**

Appendix C – Operating Account

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

		Income				Expenditure																
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**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2019.20	87,792	6,027	21,982	115,801	(50,464)	(23,513)	(17,086)	(4,088)	0	(839)	(95,989)	(10,171)	**9,642**	0	0	(4,800)	(9,771)	**(4,929)**	**17,993**	**152**	**13,216**
2	2020.21	91,095	6,208	15,020	112,324	(51,977)	(24,434)	(17,686)	(863)	0	(840)	(95,801)	(12,192)	**4,332**	0	0	0	(6,503)	**(2,171)**	**13,216**	**112**	**11,157**
3	2021.22	92,533	6,395	14,935	113,862	(53,537)	(25,207)	(18,344)	372	0	(866)	(97,582)	(14,117)	**2,164**	(1,958)	0	0	0	**206**	**11,157**	**216**	**11,579**
4	2022.23	96,811	6,586	16,528	119,926	(55,143)	(26,291)	(19,154)	2,090	0	(892)	(99,390)	(13,945)	**6,591**	(7,052)	0	0	0	**(461)**	**11,579**	**309**	**11,427**
5	2023.24	102,510	6,751	17,071	126,333	(56,521)	(27,337)	(19,715)	1,837	0	(914)	(102,651)	(14,097)	**9,584**	0	0	0	(10,010)	**(425)**	**11,427**	**202**	**11,204**
6	2024.25	106,104	6,920	18,786	131,810	(57,934)	(27,885)	(20,279)	1,983	0	(937)	(105,052)	(13,582)	**13,176**	0	0	0	(13,372)	**(196)**	**11,204**	**107**	**11,115**
7	2025.26	109,521	7,093	18,714	135,328	(59,383)	(28,972)	(21,000)	2,292	0	(960)	(108,023)	(15,685)	**11,620**	0	0	0	(11,709)	**(90)**	**11,115**	**107**	**11,131**
8	2026.27	112,663	7,270	18,572	138,505	(60,867)	(29,852)	(21,705)	2,412	0	(984)	(110,997)	(16,905)	**10,604**	0	0	0	0	**10,604**	**11,131**	**194**	**21,929**
9	2027.28	115,715	7,452	16,363	139,530	(62,389)	(30,841)	(22,387)	2,473	0	(1,009)	(114,154)	(16,920)	**8,457**	0	0	0	0	**8,457**	**21,929**	**262**	**30,648**
10	2028.29	118,268	7,638	16,772	142,678	(63,949)	(31,675)	(22,960)	2,534	0	(1,034)	(117,083)	(16,931)	**8,664**	0	0	0	0	**8,664**	**30,648**	**253**	**39,565**
11	2029.30	121,293	7,829	17,192	146,314	(65,548)	(32,431)	(23,630)	2,598	0	(1,060)	(120,070)	(16,986)	**9,258**	0	0	0	0	**9,258**	**39,565**	**337**	**49,160**
12	2030.31	124,393	8,025	17,621	150,039	(67,186)	(33,494)	(24,320)	2,663	0	(1,086)	(123,424)	(17,077)	**9,538**	0	0	0	0	**9,538**	**49,160**	**429**	**59,127**
13	2031.32	126,971	8,225	18,062	153,258	(68,866)	(34,293)	(24,893)	2,729	0	(1,114)	(126,436)	(16,990)	**9,832**	(7,561)	0	0	0	**2,271**	**59,127**	**448**	**61,846**
14	2032.33	129,600	8,431	18,513	156,545	(70,588)	(35,111)	(25,479)	2,798	0	(1,141)	(129,522)	(16,428)	**10,595**	(17,941)	0	0	0	**(7,346)**	**61,846**	**425**	**54,925**
15	2033.34	132,283	8,642	18,976	159,901	(72,352)	(35,949)	(26,079)	2,868	0	(1,170)	(132,683)	(15,673)	**11,545**	(17,938)	0	0	0	**(6,393)**	**54,925**	**381**	**48,913**
16	2034.35	135,021	8,858	19,451	163,329	(74,161)	(36,807)	(26,693)	2,939	0	(1,199)	(135,921)	(14,919)	**12,489**	(17,934)	0	0	0	**(5,445)**	**48,913**	**340**	**43,808**
17	2035.36	137,813	9,079	19,937	166,830	(76,015)	(37,685)	(27,322)	3,013	0	(1,229)	(139,238)	(14,140)	**13,452**	(17,930)	0	0	(402)	**(4,880)**	**43,808**	**302**	**39,230**
18	2036.37	140,663	9,306	20,435	170,405	(77,915)	(38,583)	(27,965)	3,088	0	(1,260)	(142,636)	(13,525)	**14,243**	(7,926)	0	0	(4,139)	**2,178**	**39,230**	**294**	**41,702**
19	2037.38	143,570	9,539	20,946	174,055	(79,863)	(39,504)	(28,624)	3,165	0	(1,291)	(146,117)	(13,143)	**14,796**	(7,922)	0	0	(4,239)	**2,635**	**41,702**	**314**	**44,650**
20	2038.39	146,536	9,777	21,470	177,783	(81,860)	(40,446)	(29,298)	3,244	0	(1,324)	(149,683)	(12,735)	**15,366**	(7,918)	0	0	(4,341)	**3,107**	**44,650**	**336**	**48,094**
21	2039.40	149,563	10,022	22,007	181,591	(83,906)	(41,410)	(29,987)	3,325	0	(1,357)	(153,335)	(12,327)	**15,929**	(7,914)	0	0	(4,444)	**3,571**	**48,094**	**362**	**52,027**
22	2040.41	152,652	10,272	22,557	185,481	(86,004)	(42,398)	(30,693)	3,409	0	(1,391)	(157,077)	(11,850)	**16,554**	(22,910)	0	0	(4,551)	**(10,906)**	**52,027**	**353**	**41,473**
23	2041.42	155,803	10,529	23,121	189,453	(88,154)	(43,409)	(31,416)	3,494	0	(1,425)	(160,910)	(10,679)	**17,864**	(13,305)	0	0	(4,659)	**(100)**	**41,473**	**335**	**41,708**
24	2042.43	159,020	10,793	23,699	193,512	(90,358)	(44,444)	(32,155)	3,581	0	(1,461)	(164,837)	(10,246)	**18,429**	(7,901)	0	0	(4,770)	**5,758**	**41,708**	**359**	**47,826**
25	2043.44	162,304	11,062	24,291	197,657	(92,617)	(45,504)	(32,912)	3,671	0	(1,498)	(168,859)	(9,838)	**18,960**	(7,896)	0	0	(4,883)	**6,181**	**47,826**	**399**	**54,407**
26	2044.45	165,650	11,339	24,899	201,888	(94,932)	(46,589)	(33,686)	3,762	0	(1,535)	(172,980)	(9,056)	**19,852**	(17,891)	0	0	(4,998)	**(3,037)**	**54,407**	**418**	**51,788**
27	2045.46	169,066	11,622	25,521	206,210	(97,306)	(47,699)	(34,479)	3,856	0	(1,573)	(177,201)	(8,466)	**20,543**	(14,886)	0	0	(5,116)	**541**	**51,788**	**424**	**52,752**
28	2046.47	172,552	11,913	26,159	210,624	(99,738)	(48,836)	(35,290)	3,953	0	(1,613)	(181,524)	(7,891)	**21,208**	(11,881)	0	0	(5,237)	**4,091**	**52,752**	**448**	**57,291**
29	2047.48	176,061	12,211	26,813	215,085	(102,232)	(50,001)	(36,120)	4,052	0	(1,653)	(185,954)	(7,315)	**21,816**	(11,881)	0	0	(5,354)	**4,581**	**57,291**	**482**	**62,355**
30	2048.49	179,644	12,516	27,483	219,643	(104,788)	(51,192)	(36,970)	4,153	0	(1,694)	(190,491)	(6,739)	**22,413**	(11,881)	0	0	(5,474)	**5,058**	**62,355**	**520**	**67,932**

Appendix D – Key assumptions

Risk area	Oct Base Assumption	Revised Jan Assumption	Reason for change	Comment
Inflation	RPI at 2.5% CPI at 2%	RPI at 3% until year 4, then 2.5% from year 5 onwards CPI at 2.5% until year 4, then 2% from year 5 onwards	Revised to reflect current rates in the short term Revised to reflect current rates in the short term	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	Yr 1: 1% reduction Yrs 2–5: CPI +1% Yr 6 on: CPI only	In line with current policy	A conservative approach to rent increases as local authorities have flexibility under the self-financing regime.
Void rates	2.00%	2.00%	No change	Assumed long term void rate for planning
Bad debt provision (BDP)	£500k p.a.	1.5% standard with increase to 4% in yrs 3/4	To reflect the anticipated impact of moving to UC based on current available data. Assumption is any spike will be met with corrective action hence the return to previous level	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;	0.5% on balances held; 4.1% on new and rescheduled debt;	Same as previous	Reflects current rates available and potential for future increases as refinancing falls due.
RTB Receipts	17 property sales per annum throughout the plan.	18 property sales per annum based on current levels	To reflect current rates	Best estimate based on historical sales trends and expressions of interest.
Minimum operating reserves	£11m	£11m	c10% of turnover	Approximately 10% of turnover. Prudent in light of current economic and market risks.
Borrowing Cap	£333.5m	Removed	Government announcement in October 2018.	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 £447m 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 on long term affordability. 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 value for money. Management options

Risk	Impact	Mitigation
		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. Initial data on rent arrears from Universal Credit tenants does indicate a rise in rent arrears. However this is based on a relatively small sample size so needs to be monitored.	More active/proactive debt management action may be required. Robust monitoring of service activity to act as an early warning.
Brexit/Economic uncertainty: 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.

Appendix F – 2019/20 HRA Revenue Budget

	2018/19 Budget	2019/20 Inflation	2019/20 One off adj	2019/20 Net nil Changes	2019/20 Savings	2019/20 Growth	2019/20 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent income - dwellings	(74,464)		736				(73,728)
Rent income - sheds & garages	(1,249)						(1,249)
Service Charges-Tenants	(3,046)						(3,046)
Service Charges-Lessee	(11,625)		(500)				(12,125)
Heating & Hot Water	(1,740)						(1,740)
Pimlico District Heating (Income)	(3,490)						(3,490)
Corporate Property Income(Net)	(7,900)						(7,900)
Major works lessees income	(8,196)		(3,078)	(2,000)			(13,274)
Miscellaneous Income	(2,599)						(2,599)
Interest on balances	(325)		172				(153)
	(114,634)	**0**	**(2,670)**	**(2,000)**	**0**	**0**	**(119,304)**
							0
Housing Management Fees	25,087	246	(817)		(450)	2,000	26,066
Business Transformation	500		(500)				0
TMO fees & allowances	1,473						1,473
Legal costs	1,139						1,139
Other management costs	1,913			1,090			3,003
IT Services	1,693						1,693
Heating & Hot Water(Expenditure)	1,740						1,740
Pimlico District Heating (Expenditure)	2,761						2,761
Other Special Services	4,822						4,822
Planned maintenance	4,318						4,318
Responsive repairs	12,982		667	910	(1,500)		13,059
Void Repairs	1,000						1,000
Corporate Property Repairs	2,833						2,833
Central Support Service Overheads	6,617						6,617
Housing Services Recharge	1,237						1,237
Warden Services Recharge	1,053						1,053
Central Contingency	1,302		(173)				1,129
Regeneration Revenue costs	0		400				400
Cash Incentive	0						0
Capital financing costs	11,337						11,337
Depreciation, Deferred Charges & Impairment	23,330						23,330
Provision for bad debts	500						500
	107,637	**246**	**(423)**	**2,000**	**(1,950)**	**2,000**	**109,510**
	(6,996)	**246**	**(3,093)**	**0**	**(1,950)**	**2,000**	**(9,793)**