



City of Westminster

# Cabinet Report

<b>Meeting:</b>	Cabinet
<b>Date:</b>	17 February 2025
<b>Classification:</b>	General Release
<b>Title:</b>	Housing Revenue Account Business Plan
<b>Wards Affected:</b>	All
<b>Fairer Westminster:</b>	<p>This report addresses all income and expenditure associated with the Council's existing social housing stock, as well as investment in new housing and estate regeneration. This underpins multiple elements that support the delivery of the Council's Fairer Westminster Strategy.</p>
<b>Financial Summary:</b>	<p>The report presents the 30-year Business Plan for the Housing Revenue Account (HRA) covering the spending plans for both capital and revenue over that period. The 5-year outlook for the HRA revenue budget projects gross income of £778.057m and gross expenditure of £746.556m (with a further £21.347m contribution to fund capital). The business plan includes total capital investment of £916.204m over the next 5 years and a total of £2.537bn over the full 30 years.</p> <p>The HRA Business Plan is viable, subject to some over-arching assumptions, and demonstrates that the capital investment ambition over the 30 years can be funded sustainably. Resilience measures are incorporated to mitigate identified risks.</p>
<b>Report of:</b>	Sarah Warman, Strategic Director of Housing & Commercial Partnerships.

## 1. Executive Summary

- 1.1. This report presents the updated 30-year Housing Revenue Account (HRA) Business Plan which the Council is required to prepare on an annual basis. It provides an overview of the financial planning that supports the management of the 20,719 homes operated by the Council's HRA. This covers both revenue and capital expenditure and therefore incorporates the extensive Housing Investment Plan.
- 1.2. Despite an economic backdrop that continues to present the HRA with significant financial challenges, the Council has delivered a sustainable HRA Business Plan from 2025/26 onwards. In doing so, it has managed to safeguard all planned housing investment maintaining the Council's Fairer Westminster vision and the aim to deliver more social housing within Westminster.
- 1.3. Housing is a significant pillar within this vision and the HRA Business Plan is therefore a critical enabler for Council in delivering key strategic outcomes. As well as maximising the delivery of social housing, the plan supports investment in several other important objectives, including improving the condition and safety of existing stock, investing in retrofit schemes and replacing the Pimlico District Heating Undertaking (PDHU) network.
- 1.4. The report seeks approval for the HRA revenue budget for 2025/26. This includes approval for the proposed uplifts to both HRA rents and non-dwelling charges to take effect from 1<sup>st</sup> April 2025. The Council is proposing to adopt a 2.7% rent increase for 2025/26 (in line with the maximum limit set by the national rent policy), along with 1.7% increases to non-dwelling charges (in line with CPI as per its wider fee & charges policy). It is aware of the pressure on household incomes and proposes to extend the Rent Support Fund by 12 months to provide targeted support to tenants earmarking a further £1.000m for this purpose. Based on these proposals, the HRA will generate £145.104m across a range of income streams in 2025/26 (of which £98.663m, 68%, comes from tenant rents). The 2025/26 expenditure budget is £140.468m, which leaves an operating surplus of £4.636m, which is earmarked to fund capital.
- 1.5. The report also seeks approval for the 5-year HRA capital programme which includes planned capital expenditure of £916.204m. The 30-year programme totals £2.537bn. Approximately 34% of the programme is funded from external sources (£0.867bn) with the remainder supported by the HRA itself. This includes a requirement to borrow an additional £707m over the next 15 years (an increase of £110m on the previous iteration). The business plan ensures this is prudent by setting minimum reserve levels, applying a minimum interest cover ratio, and creating appropriate contingencies to manage risk.

## **2. Recommendations**

That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 5 March 2025:

- 2.1. Approve the HRA revenue budget for 2025/26 (Table 1 and Appendix 3)
- 2.2. Note the HRA 5-year revenue budgets for 2025/26 to 2029/30 (Appendix 3) and HRA 30-year revenue budgets for 2025/26 to 2054/55 (Appendix 4)
- 2.3. Approve the HRA 5-year Capital Programme totalling £916.204m (Table 4)
- 2.4. Note the 30-year Capital Programme for 2024/25 to 2053/54 totalling £2.537bn (Appendix 5)
- 2.5. Approve the inclusion of all Fairer Westminster investments, including the extension of the HRA Rent Support Fund by £1.000m for 2025/26 to support tenants experiencing financial difficulty during the cost-of-living crisis.
- 2.6. Approve a rent increase of 2.7% from 1 April 2025 in line with the maximum increase for social rent set by the national rent policy, whilst noting that the Council continues to exercise its discretion under the rent restructuring policy to set rents for re-lets (both new tenants and transfers) up to formula target rent.
- 2.7. Approve an increase of 1.7% to the fees charged for garages, sheds and parking (in line with CPI at September 2024) from 1 April 2025.
- 2.8. Approve that tenant service charges be varied in line with estimated actual costs for 2025/26, from 1 April 2025.
- 2.9. Note the HRA reserves and balances for the 5-year Business Plan (Table 5)

## **3. Reasons for Decision**

- 3.1. Section 76 of the Local Government and Housing Act 1989 requires Local Authorities with a Housing Revenue Account (HRA) to set a budget for the account that avoids a deficit, whilst using robust and valid assumptions.
- 3.2. Furthermore, there is a statutory requirement for the Council to prepare a 30-Year Business Plan for the HRA on an annual basis. The purpose of this exercise is to keep the long-term financial viability of the HRA under regular review.

- 3.3. The report also provides the approval needed to set HRA tenant rents and other charges for the financial year 2025/26. The City Council is required by law to give tenants at least 28 days' notice of any variation to the rent charged.

#### **4. Key Implications**

- 4.1. The report seeks approval for the 2025/26 HRA revenue budget. The proposed budget represents a balanced position and ensures that reserves remain at an adequate level. The budget is dependent on a rent uplift of 2.7% being applied in 2025/26 in line with the limits set by The Rents for Social Housing policy.
- 4.2. It also seeks approval for the 5-Year HRA Capital Programme which includes total expenditure of £916.204m. This includes £445.181m of investment in existing stock (supporting key priorities around fire safety and improving the condition of our homes) and £471.023m of development investment which supports the delivery of 808 new homes for social rent over this period. This is supported by a range of funding sources but ultimately requires the HRA to borrow £351.359m, which will result in an estimated on-going debt cost of £20.909m to be covered by the HRA revenue budget from 2029/30 onwards.
- 4.3. The report outlines the financial plan for the HRA based on assumed rent changes, service budget requirements and other variables as set out in the report. It also highlights the decisions made in relation to HRA reserve levels and other contingencies designed to safeguard the resilience of the HRA. Acceptance of the proposed financial strategy and approach to risk management that is adopted by the business plan will help the Council to deliver its strategic housing objectives in a manner that is sustainable and keeps the HRA on a secure financial footing.

#### **5. Fairer Westminster**

- 5.1. The funding plans earmarked in the HRA Business Plan will make a significant contribution to the delivery of the Council's Fairer Westminster vision. A summary of the proposed outputs under each strategic theme is shown below:
- 5.2. Fairer Housing
- Deliver 1,097 new council homes for social rent from 2025/26 onwards to expand access to truly affordable housing across the City.
  - Undertake an extended programme of stock condition surveys and Major Works to ensure all Council tenants live in homes that are of a decent standard.
- 5.3. Fairer Environment
- Provide funding for a £197m programme to retrofit existing homes and help the Council to achieve its ambition of net zero emissions.

- Improve the energy efficiency of HRA stock to protect tenants and leaseholders against the impact of increases in energy bills and reduce the debilitating impact of fuel poverty.
- Earmark £115m of funding for internal network upgrades to improve energy efficiency as part of the wider PDHU replacement project.
- Deliver metering for all heat networks by the end of 2026/27 (in line with legislation) to ensure that network users only pay for the energy they use and can manage their energy usage accordingly.

#### 5.4. Fairer Communities

- Regeneration of the Church Street and Ebury Bridge estates to deliver high quality open spaces and community amenities.
- Working with partners to tackle anti-social behaviour and its causes.

#### 5.5. Fairer Council

- Increase the number of frontline housing officers and double the number of estate offices to ensure tenants can easily access the support that they need.
- Deliver an ambitious Housing Improvement Programme to transform housing services and improve outcomes for tenants and leaseholders.
- Digital investment to enhance the experience of tenants when they engage with the Housing service (including an upgrade to the Orchard system).

#### 5.6. Fairer Economy

- Cultivating vibrant communities by improving social infrastructure and delivering new local retail, leisure and enterprise space.
- Maximising procurement opportunities to use the local supply chain and deliver social value commitments as part of delivering the investment programme.

## 6. **Background**

- 6.1. The HRA covers all income and expenditure relating to the portfolio of housing stock owned by the Council. It is required by the Local Government and Housing Act 1989 to be ring-fenced from the Council's General Fund. The legislation specifies that only expenditure relating to the Council's landlord role can be charged to the HRA and, by extension, funded by the rents charged to tenants. The Council has a legal duty to ensure that the account remains solvent and to prepare a long-term business plan annually that keeps this under regular review.
- 6.2. Preparing the 30-year HRA Business Plan involves a long-term assessment of the funding needed to deliver landlord duties alongside wider strategic housing objectives. This involves detailed modelling of operating resource requirements,

capital investment plans and external funding streams against wider environmental factors such as macro-economic assumptions and potential legislative changes.

- 6.3. The over-arching assumptions that support the business plan are included at Appendix 1. Any adverse movement on these assumptions has the potential to put financial pressure on the HRA and reduce its ability to support capital investment.
- 6.4. A key aspect of the business planning process is making strategic decisions about appropriate levels of cover to ensure that the HRA remains resilient in the face of an ever-changing economy. This approach includes sensitivity analysis to test what level of financial shock the HRA could be expected to absorb without compromising deliverables.

## **7. The operating context for the HRA**

- 7.1. Preparing the HRA Business Plan requires careful consideration of a range of external factors that have the potential to materially alter the level of resources that the HRA has at its disposal. The key considerations for this iteration of the business plan are briefly outlined below.

### Inflation

- 7.2. The UK has experienced high levels of inflation over the last 2 years, however, the economic landscape is very much improved and in September 2024, CPI was back below the Government target of 2%, at 1.7%. It is recognised that since then CPI has increased once more and in December had returned to 2.5%. The impact of inflation on the HRA is exacerbated by its exposure to sectors such as construction and utilities which have experienced much more severe inflationary pressure.
- 7.3. The previous iteration of the business plan took steps to address this by ensuring that there were adequate inflation provisions within both the capital and revenue budgets. Despite this, the repairs budget has continued to experience ongoing pressure in 2024/25 and inflation remains a risk in this area.
- 7.4. The Bank of England now projects that CPI will reduce and stabilise at the 2% target by the end of 2025. The business plan has been prepared on the prudent assumption that CPI will move towards the target over the year. This ensures that sufficient revenue allowances are made for the next financial year. General inflation has therefore been assumed to be 2.7% across the operational budgets for 2025/26. There is also an inflation contingency of £36.4m included across the 5-year capital programme.

### Social Rent Policy

- 7.5. The Autumn Statement on 30<sup>th</sup> October 2024 reinstated the existing rent policy for a further five years, which allows for a maximum annual rent uplift of CPI+1% (based on CPI in the September preceding the new financial year).
- 7.6. Based on the existing rent policy, the maximum uplift for 2025/26 is 2.7% (given that CPI was 1.7% in September 2024). The Council intends to adopt the maximum rent uplift to ensure that it has the resources it needs to absorb the impact of inflation and deliver on other key statutory obligations.
- 7.7. The impact of the proposed 2.7% rent increase on existing average weekly rents by property size, is shown below:

<b>Beds</b>	<b>2024/25 Existing Rents</b>	<b>2025/26 Proposed Rents</b>	<b>Increase per week</b>
<b>1</b>	£143.04	£146.91	£3.86
<b>2</b>	£159.87	£164.19	£4.32
<b>3</b>	£176.32	£181.09	£4.76
<b>4</b>	£192.80	£198.01	£5.21
<b>5</b>	£210.01	£215.68	£5.67
<b>6</b>	£217.40	£223.27	£5.87
<b>TOTAL</b>	<b>£153.67</b>	<b>£157.82</b>	<b>£4.15</b>

- 7.8. The Council recognises that a 2.7% rent increase has the potential to put pressure on household income levels for its tenants, especially in the context of a cost-of-living crisis. A large proportion of tenants are in receipt of housing benefit and are therefore expected to see a corresponding increase to manage the rent increase. However, to help remaining tenants that may require financial assistance, the Council has committed to extending its Rent Support Fund into 2025/26 and through this decision has made an additional £1.000m available to provide targeted financial support to households in need.
- 7.9. The government is currently consulting on a new long-term social housing rent settlement of CPI+1% for 5 to 10 years to offer certainty for social housing providers and give the sector the confidence it needs to build more new social homes in England. The Westminster business plan ensures that assumptions about future rent increases remain prudent and are in line with this approach.

#### Legislative Changes

- 7.10. The Building Safety Act 2022 has placed additional regulations and requirements on social landlords such as the need to submit Building Safety Cases and to ensure the ongoing management of building risks. Additional resource has been allocated

to ensure compliance with the requirements including an additional £2.000m to deliver an inspection regime.

- 7.11. In addition, the Social Housing (Regulation) Act 2023 sets out the regulatory requirements and requires the council to deliver specific outcomes and structures and improvement plans have been put in place to ensure that the council complies with its regulatory requirements and to ensure ongoing compliance.

### Interest Rates

- 7.12. The Bank of England's response to the inflation challenge was to take swift action to increase interest rates. This is a critical assumption within the HRA business plan given the impact that it has on the HRA's ability to borrow to fund the capital programme.
- 7.13. As part of the refresh of the business plan, the Council has opted to maintain the same assumption for interest rates as the previous plan, which assumes internal borrowing at 2.6% until 2026/27. The Council has benefitted from a forward borrowing facility that will safeguard this rate of interest for at least a couple of years. Whilst the business plan has been prepared on the basis that interest rates will be higher than the existing arrangement by the time the forward borrowing facility is fully utilised, if interest rates continue to remain at current levels for a longer period, then the HRA's borrowing capacity will be reduced as a result.

## **8. HRA Revenue**

- 8.1. The HRA Business Plan is underpinned by the objectives that form the basis for the Council's Fairer Westminster strategy. It therefore provides an important vehicle for allocating resources to the delivery of this vision. The following investments have been factored into the HRA revenue budget from 2025/26 onwards.

### Improve the quality of the Housing service

- 8.2. In spring 2024, the Council initiated a Housing Improvement Programme and subsequently made structural change to the Council, establishing a Housing and Commercial Partnerships Directorate. This was aimed at providing additional senior leadership focus and capacity across the housing service.
- 8.3. These changes demonstrates the Councils commitment to housing and that this is a key priority for the Council. The service remains focussed on supporting housing teams to deliver the best possible services for residents and communities, with the experience and feedback from residents being used to inform continual service improvement.



#### Improve the condition of existing stock

- 8.4. The service's proactive approach to delivering its repairs and maintenance programmes has resulted in a significant increase in investment in this area, with an additional £7.300m being built into the business plan on an ongoing basis. The service has ensured that every property has had a stock condition survey within the last three years and will maintain a rolling three year programme to ensure that major work programmes are based on recent and accurate data. In addition, the Major Works programme continues to be set to ensure sufficient capital resources are available to respond to the outcomes from the surveying activity as well as the requirements laid out in the Housing Asset Management Plan.

#### Improve safety of housing stock

- 8.5. An extra £2.000m has been allocated in the business plan to expand the in-house Health & Safety function in recognition of the recurring inspection obligations that the Council is required to meet each year and the potential need for remedial repairs. This includes fire risk assessments, cladding surveys, structural assessments and a number of other specific inspection duties (including legionella, asbestos and gas safety). It underlines the Council's commitment to ensuring that its tenants and leaseholders feel safe in their homes.

#### Supporting tenants during the cost-of-living crisis

- 8.6. Finally, the Council has committed to extending its Rent Support Fund by a further £1.000m for 2025/26 (which is funded by HRA reserves). This will provide flexibility for the Housing Service to be able to target support towards households experiencing difficulty with paying rent because of pressures created by the cost-of-living crisis. This is on top of the £1.050m that was allocated for 2024/25 which saw a strong level of take-up across the year.

#### The 5 year HRA Budget

- 8.7. The HRA Business Plan considers both the operation of the Housing service and the delivery of the capital programme. The delivery of the capital programme has direct revenue implications due to the impact of financing costs incurred to support the extra borrowing required. In addition, the Regeneration programme increases the level of housing stock and therefore drives growth in both income (increased rents) and expenditure (additional service costs) within the HRA revenue budget.
- 8.8. The five-year revenue outlook for the HRA includes an expectation that rents will increase by 2.7% in 2025/26 (as laid out in the current rent policy). The business plan assumes that the current policy of CPI+1% will remain. These assumptions are entirely subject to what the government announces in relation to future rent

guidance, however the current consultation seeks to extend this policy to provide certainty to encourage social housing providers to deliver new social housing, rather than reduce it. Based on the current rent roll, the proposed 2.7% rent increase will generate approximately £2.7m in additional rental income in 2025/26 on a like for like basis. There is also an expectation of a further £1.4m of income to be generated through the addition of new social homes from the development programme. The key assumptions used to set the 2025/26 budget and long-term business plan are set out at Appendix 1. The table below (Table 1) shows the 5-year revenue outlook for the HRA.

- 8.9. Rent assumptions are a critical element of the HRA Business Plan. There are no guarantees about the accuracy of future assumptions, but Westminster tries to ensure that its assumptions are sufficiently prudent. The decision to maintain the rent assumption at CPI+1% has been made due to the increased investment requirement being placed on the HRA (particularly in relation to stock condition and the replacement of the PDHU). If this does not materialise within the future rent policy, then the HRA has several options at its disposal to help it re-balance and remain sustainable.
- 8.10. The five-year HRA revenue outlook also includes an expectation that the HRA will see a net increase in stock numbers of 590 homes. This boosts income from rents but also generates increased management costs (the impact of which need to be monitored closely to ensure that new units meet the operational assumptions included in the business case for each development scheme). This assumption also creates a corresponding financial risk for the HRA if schemes experience delays and units are handed over later than profiled which would reduce projected income levels for the HRA in any given year.
- 8.11. To help mitigate revenue risks, a flexible revenue contribution to reserves is built into the revenue budget (as shown in Table 1). Its primary purpose is to reduce HRA debt levels over the life of the business plan, but there is also flexibility for it to be used as a revenue contingency if the revenue budget comes under pressure or additional borrowing is needed at any given point. It essentially creates a level of interest cover within the revenue budget (at a ratio of no less than 1.20 in any given year). This represents an important metric for ensuring that HRA borrowing plans are sustainable and the HRA is resilient to unforeseen risks.

Table 1 – 5 Year HRA Business Plan

	1	2	3	4	5
	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
Dwelling Rents	(98.663)	(102.915)	(106.604)	(109.919)	(115.567)
Non-Dwelling Rents	(0.904)	(0.923)	(0.941)	(0.960)	(0.979)

Commercial Rents	(8.433)	(8.517)	(8.687)	(8.861)	(9.038)
Service Charges	(26.931)	(27.506)	(28.094)	(28.689)	(29.296)
Heating & Hot Water Charges	(6.936)	(7.074)	(7.216)	(7.360)	(7.507)
HRA Investment & Other Income	(3.237)	(3.601)	(3.952)	(4.309)	(4.439)
<b>TOTAL INCOME</b>	<b>(145.104)</b>	<b>(150.536)</b>	<b>(155.494)</b>	<b>(160.097)</b>	<b>(166.827)</b>
Staff	25.401	25.717	25.840	26.467	27.109
Repairs & Maintenance	35.318	36.010	36.715	37.403	38.103
Supervision & Management	9.842	9.553	9.456	9.667	9.870
Estate Services	13.234	12.999	12.759	13.014	13.274
Heating & Hot Water Expenditure	6.936	7.074	7.216	7.360	7.507
Rents, Rates and Commercial Charges	0.697	0.711	0.725	0.740	0.755
Regeneration	2.645	2.698	2.752	2.807	2.863
TMO Allowances	1.728	1.763	1.798	1.834	1.871
Support Costs	12.947	13.206	13.470	13.740	14.015
Depreciation	22.951	23.617	24.342	24.800	25.366
Capital Financing Costs	8.769	9.737	12.111	16.348	20.909
<b>TOTAL INCOME</b>	<b>140.468</b>	<b>143.085</b>	<b>147.184</b>	<b>154.178</b>	<b>161.640</b>
<b>HRA OPERATING (Surplus)/Deficit</b>	<b>(4.636)</b>	<b>(7.451)</b>	<b>(8.309)</b>	<b>(5.919)</b>	<b>(5.187)</b>
Revenue Contribution to Fund Capital (RCCO)	6.473	4.213	4.274	2.639	3.747
Transfer to/(from) Reserve	(1.838)	3.237	4.035	3.280	1.440
<b>HRA TOTAL</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Interest Cover Ratio</b>	<b>1.54</b>	<b>1.78</b>	<b>1.70</b>	<b>1.38</b>	<b>1.26</b>

8.12. The table demonstrates that the HRA revenue budget will be balanced over the medium-term, despite the impact of high inflation over the past two years, the need for budget growth to respond to growing statutory requirements (i.e. health & safety inspections) and the investment into our proactive approach to repairs and maintenance. The proposed rent uplift helps to offset the impact these items, along with approximately £2.0m of budget savings (1.5%) that are anticipated to be delivered through efficiencies in back-office activities in 2025/26. A full review of HRA budgets will be undertaken during the year to ensure that resources are allocated as effectively as possible towards the delivery of tangible service outputs.

## 9. HRA Capital and Stock Investment Plan

9.1. The HRA capital programme will see £916.204m of capital expenditure committed over the next five years (2025/26 – 2029/30) on the development of new build affordable housing, the regeneration of estates, and on maintaining the condition of existing housing stock. The HRA will finance this programme using a variety of funding sources and will always ensure that the most appropriate financing option is used to support scheme viability and generate value for money for the revenue budget (which means reducing borrowing wherever possible). The following sections set out the major categories of spend within the capital programme and details some of the projects and schemes within these categories. A full schedule of the whole capital programme can be found at Appendix 5.

## Planned Maintenance Programme (£1.668bn)

- 9.2. The 2025/26 HRA Capital Programme includes investment in existing stock totalling £78.045m. The business plan projects a total of £1.668bn to be invested in maintaining and improving existing HRA stock over the next 30 years.
- 9.3. This programme, and the associated budgetary requirement, is built using substantial supporting data taken from a rolling 3-year stock condition survey. This is further informed by overlaying analysis of the number and location of repairs being generated, insurance claims, legislative changes (e.g., building and fire safety), and complaints. This information is fed into the asset management database to assess priorities and determine the annual capital requirement.
- 9.4. It should be noted that elements of the planned maintenance programmes include works to leaseholder properties, and the costs reflected below represent the gross costs. Leaseholders will be consulted and billed in accordance with their lease for contributions they are required to make towards qualifying works.

Table 2 – HRA Planned Maintenance Programme

Scheme Name	1	2	3	4	5	6-30	TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 to 2054/55	
	£000	£000	£000	£000	£000	£000	
Voids and Aids & Adaptations	6,441	6,441	6,441	6,441	6,441	155,625	<b>187,830</b>
Electrical and Mechanical	5,611	2,019	2,019	2,019	2,019	50,475	<b>64,162</b>
Major Works	38,000	45,000	35,000	30,000	30,000	387,690	<b>565,690</b>
Health & Safety (incl. Fire Safety)	6,657	1,745	1,385	1,059	988	22,388	<b>34,221</b>
Asset Mngt & Minor Works	1,894	1,768	1,573	1,573	1,573	26,498	<b>34,877</b>
Domestic Heating & Hot Water	1,030	900	900	900	900	18,100	<b>22,730</b>
Lifts	2,148	2,613	1,835	1,835	1,835	40,445	<b>50,711</b>
Climate Works (Retrofit)	10,000	10,000	10,000	15,000	15,000	137,304	<b>197,304</b>
PDHU	1,305	23,897	23,405	23,000	23,000	23,000	<b>117,606</b>
Heat Network Metering	3,367	3,367	3,367	0	0	0	<b>7,239</b>
Inflation Allowances	1,593	3,655	4,637	6,485	7,965	361,776	<b>386,111</b>
<b>Planned Maintenance TOTAL</b>	<b>78,045</b>	<b>101,404</b>	<b>87,700</b>	<b>88,312</b>	<b>89,720</b>	<b>1,223,299</b>	<b>1,668,480</b>

- 9.5. A short summary of each element of the planned maintenance capital programme is provided below.

- **Voids and Aids & Adaptations (£187.830m)** – this is a demand led budget, with £4.6m earmarked annually for the refurbishment of voids and £1.8m provided for adapting properties to meet the accessibility needs of residents

(including grab rails, converting bathrooms into wet rooms, baths into showers, installing stair lifts, etc).

- **Electrical & Mechanical Services (£64.162m)** – this budget covers the renewal of estate lighting, door entry systems, communal boilers, lateral mains, and lightning conductors.
- **Major Works (£565.690m)** – the major works programme is derived from the asset management database which records the useful economic life of each building component across the HRA stock portfolio, and therefore schedules the replacement requirements for each (including roofs, windows, communal decorations, etc).
- **Health & Safety (£34.221m)** – Fire Risk Assessments (FRA) are periodically completed for all flats (with frequency dependant on the height associated with each building). The actions emanating from these assessments are carried out ad-hoc as required or are placed into a programme of works, which includes works such as the renewal of fire door and the installation of sprinkler systems. Ultimately, this budget helps to ensure that the Council is compliant with the requirements of the Building Safety Act (although there is crossover with the works delivered under the wider Major Works programme).
- **Asset Management & Minor Works (£34.877m)** – Damp and condensation are critical issues for aging housing stock and are a specific focus of improvement works at Westminster. The installation of internal wall insulation, secondary or double glazing and cavity wall insulation assists in tackling these issues and contributes towards the Council's drive to reduce carbon emissions.
- **Domestic Heating & Hot Water (£22.730m)** – This budget delivers the domestic boiler replacement programme. Westminster has 6,566 domestic boilers, which are replaced with low energy boilers Grade A+ on a rolling 15-year cycle.
- **Lifts (£50.711m)** – This budget covers the management of Westminster's 363 lifts in high rise blocks, with a planned programme of renewal and refurbishment.
- **Climate Works (£197.304m)** – The Council has set itself a challenging target to become a carbon neutral council by 2030. Achieving this requires major investment to retrofit its housing assets and upgrade its communal heating systems. This includes an ambitious assumption that 50% of this can be funded from external grants (although the government continues to release grants on a piecemeal basis).

- PDHU (£117.606m)** – The Council is committed to finding an alternative solution to the provision of heat to homes currently served by the Pimlico District Heating Undertaking (PDHU), which is the Council’s largest district heat network. A Strategic Outline Case (SOC) was approved in January 2023. This identified that the PDHU had more than reached the end of its useful life and an alternative solution needs to be identified (i.e. Do Nothing was not a viable option) and agreed to take forward the development of a range of options for the future of the PDHU, including but not limited to options that deliver through a renewed network. The development of these options will consider a range of factors, including value for money for residents, carbon reduction, and levels of disruption to residents and the wider area. This is expected to require significant capital investment, with the funding needed for network options for the replacement of the internal secondary and tertiary networks expected to fall on the HRA as landlord to the properties. Until a preferred option for future provision has been identified (which will be identified in the Outline Business Case due in 2025) the figures included in the HRA Business Plan are estimates. They have been included to ensure that financial planning within the HRA takes account of such a critical project.
- Heat Network Metering (£7.239m)** – As a heat supplier, the Council is required under legislation (the Heat Network (Metering and Billing) Regulations 2014, which were amended in 2020) to install meters and bill residents according to actual consumption and to formally report status to Government on a quarterly annual basis.
- Inflation Allowances (£386.111m)** – The Planned Maintenance programme includes an inflation provision to ensure that budgets remain fit for purpose to deliver the investment in existing homes required over the life of the 30-year business plan. These allowances also provide uplifts to support additional maintenance costs generated by new units as the size of the HRA portfolio grows.

Development & Regeneration Programme (£688.239m)

**Table 3 – Development & Regeneration Programme**

BP Year >>	1	2	3	4	5	6-30	TOTAL
Scheme Name	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	
	£000	£000	£000	£000	£000	to 2054/55 £000	
Cosway	799	0	0	0	0	0	799
Carlton Dene	23,230	4,480	228	0	0	0	27,938
Queens Park Court	5,094	0	0	0	0	0	5,094

Lisson Arches	0	174	0	0	0	0	<b>174</b>
Ebury - Phase 1	4,387	200	200	200	200	400	<b>5,587</b>
Ebury - Phase 2	32,045	23,538	21,071	72,561	0	0	<b>149,215</b>
Ebury - Phase 3	236	473	473	12,077	8,180	19,278	<b>40,717</b>
Pimlico (Churchill Gdns)	13,247	2,313	1,377	67	0	0	<b>17,004</b>
Infills	7,219	150	150	0	0	0	<b>7,519</b>
Church St Acquisitions	1,530	0	0	0	58,515	24,924	<b>84,969</b>
Church St - Site A	11,320	17,319	32,449	27,546	17,544	0	<b>106,177</b>
Church St - Site B	2,129	2,129	2,129	11,832	11,832	194,288	<b>224,339</b>
Church St - Site C	0	0	0	0	949	136,158	<b>137,107</b>
HRA Non-Dwellings Expenditure	1,000	1,000	500	500	500	2,500	<b>6,000</b>
Lisson Grove	0	0	0	0	0	8,569	<b>8,569</b>
Westmead	0	4,841	0	0	0	0	<b>4,841</b>
Cundy St Quarter	0	0	0	0	8,000	0	<b>8,000</b>
WEG Block H	3,696	0	0	0	0	0	<b>3,696</b>
291 Harrow Road	0	0	0	5,677	0	0	<b>5,677</b>
Contingency	3,178	1,699	1,757	3,914	3,172	11,584	<b>25,303</b>
<b>Development &amp; Regen TOTAL</b>	<b>109,108</b>	<b>58,316</b>	<b>60,334</b>	<b>134,374</b>	<b>108,890</b>	<b>397,700</b>	<b>868,723</b>

- 9.6. The HRA Business Plan has been developed at a time of growing construction costs and expectations of an increasingly challenging residential market in central London. While the Council cannot control or influence these challenges, the plan is structured to minimise their impact on the Council's programme and safeguard the planned delivery of affordable homes. A programme-wide contingency is included to help mitigate potential cost pressures or shortfalls in expected funding.
- 9.7. The programme remains under constant review, and each scheme is subject to a detailed viability assessment to ensure the Council is always delivering value for money. Each scheme has its own individual business case which is subject to a separate Cabinet Member decision. The business cases for each scheme contain stress tests to indicate the financial and delivery risks
- 9.8. The Development & Regeneration programme is spread across the General Fund and the HRA, but it is the HRA element that is most critical to the Council's commitment to delivering affordable housing (as it funds the delivery of all social housing within the programme).
- 9.9. The total number of homes for social rent being delivered by the programme from 2025/26 onwards is currently estimated to be 1,097.
- 9.10. Further details of some of the prominent schemes within the Development & Regeneration programme are provided below:

- **Church Street** – In December 2017, the Cabinet approved the Church Street Masterplan as the Council's framework for informing the future regeneration of the Church Street area. The proposed developments of sites A, B & C form part of this wider Masterplan. The regeneration proposals have since been the subject of a successful ballot (held in December 2022). This provides resident support for the proposed scheme and allows it to attract c.£28m of GLA grant funding. This will enable the delivery of greater numbers of affordable housing in line with the Council's Fairer Westminster commitment that aims to ensure that 70% of the affordable housing delivered on its own developments comes in the form of social rent. A joint venture partner has been appointed for Site A, demolition has commenced, and main works are due on to start on site in 25/26.
- **Ebury Bridge Regeneration** – The Ebury Bridge Estate is one of the priority areas identified within the Council's Housing Renewal Strategy as needing significant improvement and investment. The regeneration plans for the site are split into three phases. In March 2019 a decision was taken by the Council to progress the delivery of Phase 1 through the HRA and this element of the scheme delivering 226 new homes completed in December 2024. Secure tenants have started to move back into their new homes. The first tranche of Phase 1 private sale homes launched in September 2023, with completions commencing in January 2025 and first residents moving in. Significant additional GLA grant was awarded in 22/23 as a result of the positive outcome of the ballot held for the wider regeneration in February 2023. This supported tenure changes across the scheme and the delivery of additional homes for social rent. The enabling works have commenced for Phase 2 which will deliver 334 new homes and is expected to be completed in 27/28.
- **Carlton Dene** – The development project at Carlton Dene comprises the redevelopment of an existing residential care home and one block of nine apartments to provide new housing for older people and affordable housing. The project will deliver 87 new affordable homes, 65 of which will be extra care housing. The main construction contract was awarded in the summer 2024, with the main works starting in Q3 of 24/25, due to complete in Spring 2026.
- **Pimlico (Churchill Gdns)** - The demolition and redevelopment of the Balmoral Public House, Darwin House and associated garages which will provide 44 new affordable homes in two phases including 34 community supportive housing units that will enable the decant of Darwin House residents and 10 general needs units, of which 8 are 4 bed family sized units. The first phase of works completed in February 2025, with the second phase commencing once these are complete.
- **West End Gate – Block H** - The Council will acquire 45 affordable homes from the second phase of the West End Gate development being delivered by Berkeley Homes in 2026/27.



## 10. Capital Programme Funding

- 10.1. The HRA business plan utilises multiple sources of finance to deliver the capital programme and aims to adopt the optimal funding approach in any given year. This ensures that both individual schemes are viable and value for money is achieved for the HRA overall.
- 10.2. The HRA business plan encompasses a robust strategic approach to capital financing that considers a range of prudential factors. The key consideration, ultimately, is the ability of the HRA revenue budget to cover the cost of servicing additional borrowing (i.e. interest costs). Capital financing costs constitute 6-13% of the total income generated from rents (over the first 5 years of the business plan) and therefore represent a significant element of the revenue budget. Whilst there is no requirement for the HRA to set a Minimum Revenue Provision (MRP), as is the case for the General Fund, it is important that the HRA provides an appropriate level of interest cover along with sufficient allowances for repaying debt to ensure that the level of borrowing it commits to is sustainable. The plan aims to ensure that the interest cover ratio never drops below 1.20, which effectively means that the revenue budget is always able to absorb the impact of a 20% swing in total borrowing costs. It also means that this allowance is available to either finance capital or pay down debt in the event that a swing in interest costs does not materialise.
- 10.3. Whilst the HRA seeks to maximise the flexibility it has available to it in terms of making decisions on how best to apply available capital funding in any given year, the HRA business plan adopts a set of general principles on the most efficient approach to funding the capital programme. This involves utilising funding that has time and usage conditions first, with a set of prioritisation criteria then applied to other types of funding. Ultimately, borrowing is always the last option to finance investment given the financial implications this has (as noted above).
- 10.4. The various HRA financing options are explained in further detail below:
  - **Conditional Grants** – Some grants that are awarded to the Council have conditions attached to them that stipulate how (and sometimes when) they must be used to ensure that the required outputs are delivered. For the HRA, this generally applies to grants awarded by the GLA (which is the most common source of grant funding for development schemes).
  - **Affordable Housing Fund (AHF)** – Payments received from developers on planning schemes in lieu of affordable housing obligations are held in the Council's Affordable Housing Fund. These funds are available to be used by the Council to invest in the delivery of affordable housing across the City, either

through Council-led developments (including estate regeneration) or in partnership with housing associations.

From February 2023, Westminster stipulated that AHF funding would be exclusively applied to schemes on the HRA capital programme to maximise the delivery of social housing. The current forecast balance at 31<sup>st</sup> March 2025 is £63.2m and whilst this is not sufficient to cover commitments that have been made within the existing development programme (which totals £97.9m from 2025/26 onwards), a prudent future projection of £35m over the next 5 years has been built into the revised business plan over the next 5 years, which covers the anticipated draw from this fund, however if these receipts are not received then alternative sources of funding will need to be identified.

- **Community Infrastructure Levy (CIL)** – Developers are required to make CIL contributions as part of the planning requirements for most schemes. The Council is only able to apply CIL to fund clearly defined activities within its overall capital programme. An exercise has been undertaken to maximise the amount of CIL that can be applied within the HRA capital programme. The most obvious qualifying expenditure is the public realm elements of the major regeneration schemes but works on the PDHU and community assets elsewhere have also been identified.
- **Capital Receipts** – The HRA generates capital receipts for transfers of land or disposal of property which can be recycled to finance the capital programme. Many development schemes also use receipts from the sale of private units to subsidise the delivery of affordable housing. These receipts represent a significant proportion of projected capital financing for the HRA. However, there are risks attached to any assumptions about capital receipts. Any variance in their value or timing may impact on the HRA's ability to finance capital spend and could ultimately lead to a need for increased levels of borrowing. Scheme viabilities are always prepared from the outset using conservative estimates on property values, which is critical in the current housing market. Valuations are subsequently undertaken throughout the development process to monitor any fluctuations in value and allow mitigating action to be sought if required.
- **Right to Buy Receipts** – Secure tenants within the HRA have the “Right to Buy” their home. The purchase price is discounted but generates a capital receipt for the HRA. This receipt must be partially used to fund the delivery of a replacement affordable home under the terms of the “one-for-one” agreement held with DLUHC. The rules previously required receipts to be applied within three years (with unspent receipts returned to the Treasury) but this timeframe was extended by a further two years.

As part of the Autumn Budget Statement on 30<sup>th</sup> October 2024, it was announced that discounts on Right to Buy applications would return to pre-2012 levels, reducing the maximum discount available in London from £136,400 to just £16,000. This is anticipated to significantly reduce the number of homes lost under the Right to Buy but also reduce the amount of receipts available to fund the HRA Capital Programme.

- **Major Repairs Allowance** – The HRA is required to set aside a statutory minimum level of revenue funding for capital, known as the Major Repairs Allowance (MRA). This must be committed to the upkeep of the existing housing stock and is therefore allocated to fund the Planned Maintenance programme. The level of the MRA contribution must be equivalent to the depreciation calculation for HRA stock. This ensures that a minimum level of investment is made in the existing stock to keep assets fit-for-purpose.
- **Leaseholder Contributions** – Major Works are delivered across the Housing portfolio meaning that many of the residents that benefit from this investment will be leaseholders. They are required to contribute towards the funding of capital works. Contributions from leaseholders therefore help to finance the Planned Maintenance programme. These funds are held separately and ringfenced towards the specific works to which they relate. The Council continues to work hard to offer flexible payment plans for leaseholders to help them manage the impact of recharges. It is also reviewing its approach to life-cycle asset management in order to reduce the volume of high bills driven by large major works schemes (that encompass multiple elements).
- **Borrowing** – Any capital expenditure not covered through any of the funding routes noted above will require borrowing. In broad terms, all additional borrowing is undertaken with a consideration of the financial return for the HRA. This might be in terms of extending the life of existing HRA stock to safeguard future rents, or to help finance new build schemes which will effectively increase stock numbers and grow the HRA bottom line through the generation of additional rental income.

As noted above, the level of borrowing that the HRA can commit to is one of the main considerations when assessing the viability of the HRA business plan. The HRA is projected to borrow £707.695m over the course of the revised 30-year plan. This equates to approximately 28% of the entire HRA capital programme and represents a £110m increase in the level of borrowing included in the previous iteration of the business plan. Nonetheless, this level of borrowing can be supported by the revenue budget with an appropriate level of resilience (see below).

#### Capital Programme – Financial Overview

10.5. The table below summarises the overall expenditure and financing position for the HRA Capital Programme.

**Table 4 – Capital Programme Financing Plan**

HRA BP Year >>	1	2	3	4	5	6-30	TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 to 2054/55	£000
	£000	£000	£000	£000	£000	£000	£000
Planned Maintenance	78,045	101,404	87,700	88,312	89,720	1,223,299	1,668,480
Development and Regeneration	109,108	58,316	60,334	134,374	108,890	397,700	868,723
<b>TOTAL HRA Capital Programme</b>	<b>187,154</b>	<b>159,720</b>	<b>148,034</b>	<b>222,686</b>	<b>198,610</b>	<b>1,620,999</b>	<b>2,537,203</b>
<b>Funded by:</b>							
Government Grant	11,894	5,623	0	11,832	14,719	25,266	69,334
Affordable Housing Fund (AHF)	35,938	23,247	12,621	5,000	21,103	0	97,909
Capital Receipts	42,381	16,482	0	0	0	0	58,863
Community Infrastructure Levy (CIL)	1,305	897	405	18,541	0	24,199	45,346
Right-to-Buy Receipts	9,365	2,078	2,178	2,280	5,384	100,239	121,525
Climate Grants	5,000	5,000	5,000	7,500	7,500	68,652	98,652
L/H Contributions	29,223	29,347	25,551	24,045	24,533	307,666	440,365
Major Repairs Allowance (MRA)	39,403	23,617	24,342	24,800	25,366	683,426	820,953
Revenue Contribution to Capital	6,473	4,213	4,274	2,639	3,747	55,215	76,562
New Borrowing	6,173	49,215	73,663	126,049	96,258	356,336	707,695
<b>HRA FUNDING TOTAL</b>	<b>187,154</b>	<b>159,720</b>	<b>148,034</b>	<b>222,686</b>	<b>198,610</b>	<b>1,620,999</b>	<b>2,537,203</b>

10.6. The opening debt balance for the HRA as of 1<sup>st</sup> April 2024 was £345.427m. Based on the future borrowing requirements built into the proposed HRA capital programme, HRA debt is projected to peak at £1.050bn by 2038/39. This debt is ultimately supported by the £1.5bn of assets held in the HRA and underpinned by their income generating potential.

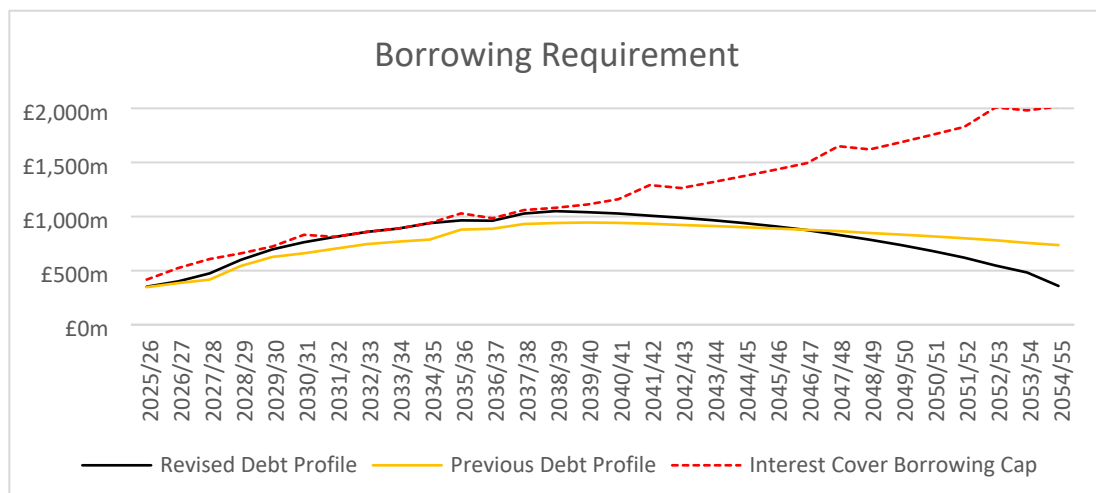
10.7. No new borrowing is projected in 2025/26 due to excess external funding (mainly capital receipts). This reduces the growth required within the HRA revenue budget and leaves it needing to cover a total capital financing cost of £8.77m. Any new borrowing in the medium term is assumed to come with a 2.6% cost of finance based on the use of forward borrowing deals that has secured £400m of financing for Westminster at preferential rates (and which is projected to last for at least two years within the Council's treasury projections). Whilst it was forecast that the high interest rates will drop as inflation falls, this has not been the case and as a result it is prudent to assume that the average cost of all debt within the HRA should increase from 3.79% to 4.0% over the longer term, although this will be reviewed annually.

10.8. Even though the HRA no longer has a formal debt cap, borrowing is still constrained by the ability of the HRA revenue budget to cover the cost of borrowing (i.e. interest costs). As part of the business planning work, an assessment is made of the maximum borrowing capacity that the HRA has over the 30 year business plan. Chart 1 shows that the £707m that is now required from 2025/26 onwards is right at the limit of what the HRA can support. The borrowing requirement hits the borrowing capacity from 2030/31 onwards which acts as a constraint on any further borrowing over the course of the preceding period.

10.9. The lines on the chart represent the following:

- **Revised Debt Profile (dark line)** - Borrowing rises from the current level of £345.427m (as at 1<sup>st</sup> April 2024) and peaks in 2038/39 at £1.050bn based on the borrowing need within the revised HRA business plan.
- **Previous Debt Profile (light line)** - The lighter line shows the equivalent profile from the previous iteration of the business plan and demonstrates a greater level of borrowing in this iteration of the plan.
- **Interest Cover Borrowing Cap (dashed line)** – This represents the level of borrowing that is affordable, assuming an interest cover ratio of 1.20 is maintained.

**Chart 1 – HRA Borrowing Requirement vs. HRA Borrowing Capacity**



10.10. The HRA is projected to generate surpluses over the second half of the business plan, largely because the Development capital programme does not extend beyond the first 15 years. It is assumed that these surpluses will be available to pay down debt and therefore help to manage the capital financing burden placed on the HRA revenue budget (which grows to £37.4m per annum once the HRA hits its peak debt level in 2038/39). There is no requirement for the HRA to pay down debt, however as presented above, the business plan assumes that debt starts to be repaid from

2039/40 on an affordable basis, across and beyond the 30 year term. It should be noted that if debt cannot be re-paid surpluses would be retained in the HRA reserve, and the revenue budget would have to continue to cover interest costs at the peak level.

## 11. HRA Reserves Position

- 11.1. The opening balance on the HRA general reserve at the start of the 2024/25 financial year was £22.788m. HRA reserve balances are primarily designed to cover in-year risks but may also be used to support one-off projects and investment opportunities that might drive efficiencies and/or delivery of a better service to residents of the Council. Funding was allocated to the reserves in this period to support the housing improvement programme.
- 11.2. As a means of managing financial risk, it should be noted that the HRA reserve is finite and is therefore only suitable for covering one-off shocks or helping to mitigate more permanent financial issues over a short period of time (while alternative solutions are sought). Reserve levels are therefore considered in conjunction with an assessment of the level of interest cover required within the revenue budget, which provides a more structural level of contingency which is better suited to managing the impact of significant shifts in business plan assumptions over a longer period.
- 11.3. The table below presents the projected approach to managing the HRA reserve over the next 5 years. This demonstrates the strategic requirement to maintain the reserves at a level that exceed £17m over this period (which is consistent with what was set in the previous iteration of the business plan) to provide cover against economic volatility being experienced both nationally and more specifically within the housing sector. The reserve position will be reviewed on an annual basis in line with the overall HRA business plan.

**Table 5 – Medium-Term Reserve Projection**

	1	2	3	4	5
	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
Opening Balance	22.020	20.182	23.419	27.454	30.734
Planned Contribution/(Drawdown)	(1.838)	3.237	4.035	3.280	1.440
<b>Proposed Reserve Balance</b>	<b>20.182</b>	<b>23.419</b>	<b>27.454</b>	<b>30.734</b>	<b>32.174</b>
% of HRA Turnover	14%	16%	18%	19%	19%

- 11.4. The balance on the HRA reserve will remain above the recommended minimum levels for the duration of the first 5 years of the plan. This is consistent with the minimum level set in the previous iteration of the business plan and represents 14-19% of total HRA turnover over this period. This represents an increase in the

financial resilience of the HRA from the previous iteration. The long-term objective for the HRA reserve is for it to be maintained at a minimum of 10% of turnover from Year 6 onwards. This means it should never drop below £16m over the life of the business plan. Given the higher level of risk in the HRA with significant development schemes over this period the Council's S151 officer recommends a level of reserves above the minimum 10% of turnover.

## 12. Risk Management

- 12.1. This report underlines the strategic intention within the HRA to maximise investment in both existing stock (including energy efficiency improvements) and the delivery of new homes across the city. This objective requires the HRA to commit to an increased level of borrowing over the next 30 years. This means that the HRA Business Plan is effectively at the limit of its borrowing capacity overall (see Chart 1 above) in terms of being able to cover the cost of interest within its revenue budget. Clearly the consequence of this is a reduction in the ability of the HRA to absorb or manage the financial impact of unforeseen risks that may materialise over the course of the plan (some of which have been identified in Appendix 5).
- 12.2. The HRA Business Plan is built on a series of assumptions about the expected future impact of several variables (including inflation, rent increases, interest rates, etc). The first aspect of risk management within the HRA is to ensure that the assumptions built into the plan are as prudent as possible. This helps to ensure that the plan is viable in the face of a relatively conservative outlook. An overview of key assumptions is included at Appendix 1. The primary area in which prudence has been exercised is on future rent assumptions, which have been held at CPI from 2028/29 onwards. A more favourable settlement within any future rent policy would therefore create headroom within the HRA business plan and increase flexibility in terms of its ability to absorb risk.
- 12.3. The second aspect of the risk management approach is to actively build financial cover into the business plan that would allow the HRA to absorb the impact of any adverse movements on key assumptions or the emergence of any more general unforeseen risks. These measures allow the HRA to manage the impact of emerging risks without necessarily having to compromise on either service delivery or the level of capital ambition. The refreshed business plan does this in 4 key areas:
  - **HRA Reserve** – this has been maintained at a level exceeding £17m throughout the plan in order to manage medium-term financial volatility driven by inflation. The reserve represents the ultimate backstop in managing financial risk, with its finite nature meaning that it can only help to manage one-off shocks or cover on-going pressures for a limited period.

- **Revenue Interest Cover** – the refreshed business plan ensures that the minimum ratio of interest cover in the revenue budget remains above 1.20 over the 30 year business plan term. This measure ensures that all future borrowing costs are affordable and ensures that there is sufficient resource in the business plan to respond to fluctuating interest rates.
- **Capital Contingency** – a programme-wide capital contingency of 3.0% is included in the business plan for the Development and Regeneration programme (which is additional to any contingencies that are included within the viabilities for individual schemes). This is factored into the projected borrowing requirement and ensures that the plan can absorb the impact of unforeseen costs or specification changes, price inflation on schemes not yet in contract, or reduced capital receipts from unit sales. This means that the HRA can cover some of the inherent risks of a development programme without any impact on its overall viability over 30 years. Whilst the revenue interest cover noted above can also help to mitigate capital risk, if required, it is primarily seen as a means of managing revenue risk and the capital contingency would therefore be the first port of call for any cost increase on the capital programme.
- **Planned Maintenance Inflation** – the Planned Maintenance programme represents a rolling programme of works to improve the condition of existing stock. It is set based on information in the asset management database which uses today's prices. The business plan therefore models a level of inflation on the capital budgets to reflect the fact that a boiler replacement will be more expensive in 15 years' time, for example. Again, this is built into the projected borrowing requirement and ensures that planned maintenance requirements have a level of insulation against the impact of inflation within the plan.

12.4. The measures covered above demonstrate that the HRA Business Plan has been prepared with careful consideration of how best to provide resilience against financial risk without compromising the ability of the HRA to deliver its strategic objectives. If the financial shocks to the HRA were very extreme, there are some final risk management measures available to ensure that the HRA remains viable in a worst-case scenario. These can be summarised as follows:

- **Re-Profiling** – not all expenditure on the Development programme is fully committed. This provides an opportunity to re-profile by extending or delaying the delivery of certain schemes to meet revised affordability parameters. This does expose the Council to contract price inflation but remains an option.
- **Reduce Planned Maintenance Schedule** – whilst the HRA is required to make a minimum investment in existing stock and many contracts have a minimum annual spend requirement, the current investment plan is higher than both and



could be revised to manage affordability concerns. This is likely to have an adverse impact on stock condition and increase the volume/cost of revenue repairs.

- **Dispose of HRA Assets** – a more aggressive assessment of which assets are surplus to requirements could generate increased capital receipts to help fund the capital programme in the event of a significant HRA funding shortfall.
- **Rent Policy** – the average rent is currently lower than the maximum formula rent allowable. Although annual rent increases are capped, there are options available to the Council to allow it to converge towards the maximum formula rent.

12.5. The three stages of risk management covered above demonstrate how the HRA might manage and mitigate financial risk. A key aspect of the approach to risk management is also how risks are identified and captured in the first place. Clearly, the Council's annual budget monitoring and reporting processes are a key component of this. This helps to capture in-year risks within the outturn forecast, but the HRA Business Plan is also regularly reviewed in tandem with this process as new information emerges (and is not a one-off exercise undertaken annually). This allows the impact of emerging risks to be fully understood in the context of the whole business plan, and sensitivity analysis to be undertaken to assess how the HRA might manage these risks over the medium- to long-term. Furthermore, the service holds a risk register that is regularly reviewed and updated by the Housing management team.

### **13. Sensitivity Analysis**

13.1. A summary of the sensitivity analysis is outlined below. This is designed to stress test the HRA Business Plan and identify the limits to which the plan could be pushed before it would become unsustainable and therefore require more drastic risk mitigation measures to be implemented, as outlined in paragraph 12.4 above.

13.2. It is important to note that the sensitivity analysis undertaken takes each risk scenario in isolation and pushes that particular risk to the limit of sustainability within the business plan. However, risks are not mutually exclusive and one or more of them could easily occur simultaneously. Clearly the combination of multiple risks will have a bigger impact on the HRA and reduce the indicative limits outlined in Table 6. However, what the sensitivity analysis demonstrates is that short-term risks and shocks can be managed, but this does reduce HRA resources over the longer term and this may impact its ability to deliver services or investment plans.

**Table 6 – HRA Sensitivity Analysis**

Test	HRA BP Failure Point	Comments
<b>Rent limits</b>	<b>Lower than CPI +1</b> rent uplift ceiling from 2030/31	<ul style="list-style-type: none"> <li>▪ The HRA BP recognises Governments wish to extend the existing rent policy by 5 years or more (assuming the rent uplift ceiling of CPI+1%).</li> <li>▪ The plan can tolerate a CPI only increase from 2030/31 onwards (under a new rent policy). However, this adds £25m of additional borrowing and a higher residual debt level at the end of the 30 years.</li> <li>▪ The plan cannot tolerate a below inflation rent uplift.</li> </ul>
<b>Increased interest rates</b>	<b>&gt;5.5%</b> average interest rate (over first 5 years)	<ul style="list-style-type: none"> <li>▪ 50% of all new borrowing is over the first 5 years of the plan.</li> <li>▪ The HRA BP could tolerate an average interest rate of 5.5% on new debt over that 5-year period and remain viable.</li> <li>▪ This would result in a much larger requirement to use revenue contributions to fund capital.</li> </ul>
<b>Capital programme inflation</b>	Planned Maintenance - <b>&gt;4%</b> (over first 3 years)  Development – <b>&gt;4%</b> inflation (on existing cost estimates)	<ul style="list-style-type: none"> <li>▪ The HRA BP could tolerate inflation of 4% on the Planned Maintenance programme over the next 3 years and remain viable (albeit with substantial amounts of additional borrowing required).</li> <li>▪ With the scheme completions delivered in 2024/25, almost 75% of the remaining HRA development programme is not yet in contract. This means it is exposed to the impact of cost inflation. The programme contingency can support 4% of cost inflation on the current scheme estimates.</li> <li>▪ The HRA BP could tolerate both scenarios above simultaneously (and, by definition, a worse outcome on one where the other is more favourable).</li> </ul>

## 14. Financial Implications

14.1. The financial implications are set out in the main body of this report.

## 15. Legal Implications

- 15.1. The expenditure referred to in this report will be spent pursuant to the Council's powers and duties as set out below. The Council has a duty to disclose information as set out in The Housing Revenue Account (Accounting Practices) Directions 2016.
- 15.2. The provision of housing accommodation is set out in Part II of the Housing Act 1985. Statutory requirements regarding keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 ("Act"). 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. The Act places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.
- 15.3. On 10 November 2020 MHCLG published [guidance on the operation of the Housing Revenue Account ring-fence](#). This guidance updates and replaces Circular 8/95 published by the former Department of the Environment (DoE). It gives advice to local housing authorities in England on certain aspects of the HRA. This guidance restates ministers' established policy for the HRA and introduces no new issues of principle. However, it does highlight the need to be fair to both tenants and council taxpayers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund.
- 15.4. 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.
- 15.5. Under Regulation 12 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) local authorities are required to use Right To Buy capital receipts to pay the "poolable amount" to the Secretary of State, on a quarterly basis.
- 15.6. The basis for setting rent stems from Section 24 of the Housing Act 1985 which provides that a local authority must make such reasonable charges as they determine for the tenancy occupation of their houses. 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.
- 15.7. 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, Chapter 6 and Schedule 7 the Housing and Planning Act 2016 seek 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.

- 15.8. 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.
- 15.9. It should be noted that as part of the HRA regeneration programme, if the Council wishes to dispose of land or property or provide financial assistance in connection with housing (which includes disposal to any Council owned company), consent of the Secretary of State may be required, unless such disposals fall within the General Disposal Consents of Section 32 of the Housing Act 1985.

## 16. Carbon Implications

- 16.1. The council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the Council by 2030, across Westminster and our communities.
- 16.2. Significant initiatives supported by the HRA include:
- **Retrofit of Council homes** - Reviewing the environmental credentials of our portfolio of HRA homes and delivering the retrofit scheme for which the business plan supports total investment of £197m from 2025/26.
  - **Building efficient new homes** – Ensuring that the Development and Regeneration programme delivers high-specification new build housing schemes will be designed to reduce the Council’s carbon impact.
  - **PDHU Replacement** – The HRA business plan includes earmarked funds to support the investment required to deliver the future PDHU strategy (once a preferred option has been identified). Whilst there are a number of different considerations that will drive the options appraisal, reducing carbon emissions will be one of those outcomes of that assessment.

## 17. Staffing Implications

- 17.1. There are no specific staffing implications attached to this report. The HRA business plan ensures there is sufficient revenue budget to cover the cost of the current structure of the Housing service.

## 18. Consultation

- 18.1. Development of the Business Plan and Housing Investment Plan has involved officers from within the Housing, Regeneration and Finance departments as well as input from the relevant Cabinet Members. The proposals for 2025/26 have also been subject to review by the Budget Scrutiny Task Group. Consideration has been made throughout to relevant national and local housing policies and objectives which have informed the priorities for investment.
- 18.2. 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. Consequently, consultations are undertaken at the appropriate stage on a given scheme basis rather than as a part of the Business Plan process.
- 18.3. The internal governance processes within the Housing, Development and Major Projects teams have been reviewed and focus upon key project management skills and tolerance reporting. The creation of a Programme Management Office (PMO) during 2018/19 has also added to the monitoring of the significant programmes that are being funded by the HRA.

## **19. Equalities Implications**

- 19.1. 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:
  - Eliminate discrimination, harassment, victimisation or other prohibited conduct.
  - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it, and.
  - Foster good relations between those who share a relevant characteristic and those that do not share it.
- 19.2. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation.
- 19.3. 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.
- 19.4. It should be noted in respect of the Council's public sector equalities duties where the setting of the capital, revenue and HRA budget result in new policies or policy change, the relevant service department will carry out an equality impact

assessment to secure delivery of that duty, including such consultation as may be required.

- 19.5. In addition, each of the estate regeneration schemes is 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. Further Equalities Impact Assessment and/or consultation may be necessary if significant changes are envisaged to Housing Management Schemes.

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

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