



City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Finance and Council Reform and Cabinet Member for Climate Action, Regeneration and Renters
Date:	13 February 2023
Classification:	General Release
Title:	Westminster Community Homes (WCH) Revised Funding Arrangements
Wards Affected:	All Wards
Fairer Westminster:	Fairer Housing - These proposals increase the level of family sized social units being provided within the borough.
Key Decision:	Due to significant expenditure.
Financial Summary:	This report recommends that additional Council funding totalling £0.8m is provided to WCH to convert 25 one bed intermediate units at their Harrow Road development site to 15 family sized social units.
Report of:	Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

- 1.1 Westminster Community Housing (WCH) currently has plans to deliver 25 new build intermediate units at 581-587 Harrow Road. An opportunity has arisen to look to change the units being delivered to family sized social rent units. However under this arrangement there is insufficient net rental income to cover the annual financing costs for the scheme. This report looks at the options considered to make the revised plans affordable through changes to the financing support that Westminster are already providing to WCH. A decision is required so that WCH can progress with a new planning application for the scheme.

2. Recommendations

- 2.1 That the Cabinet Member for Finance and Council Reform and the Cabinet Member for Climate Action, Regeneration and Renters approves the following:
 1. That the development loan financing being provided to WCH is directed solely to the 581-587 Harrow Road development
 2. That the Council facilitates the change in tenure on that site from 25 intermediate units to 15 family sized social units through the provision of £0.8m from the General Fund Capital Financing Reserve and the change in loan term from 25 to 35 years

3. Reasons for Decision

- 3.1 The Council is actively looking for opportunities to increase the level of family sized social units across the borough. The proposals within this report change the tenure on WCH's existing development programme at 581-587 Harrow Road from intermediate to family sized social units.

4. Background, including Policy Context

- 4.1 Westminster Community Homes (WCH) are about to undertake a residential development of 25 one bed (one person) Intermediate rent units at 581-587 Harrow Road. The site was acquired by WCH in 2020 and planning permission was received in March this year.
- 4.2 In July last year the Cabinet Member for Finance and Smart City approved funding across two development schemes being undertaken by WCH, Victoria Wharf Phase 2 and 581-587 Harrow Road known as 'the MOT Yard'. The agreed funding included an allocation of £3.250m from the Affordable Housing Fund (AHF) and a development loan of £2.7m. The AHF was provided to top up a previous allocation made for these sites resulting in each new unit being delivered receiving £250k of AHF support.

- 4.3 Since that time, WCH have progressed with the Victoria Wharf Phase 2 development without the need to draw upon any development loan financing from the Council, instead it was agreed that the agreed loan sum of £2.7m could be applied solely against their 581-587 Harrow Road development site.
- 4.4 As part of the Council's drive to deliver more truly affordable housing across the borough, WCH and the Council have been exploring options to remodel the scheme at Harrow Road to deliver low cost social rent family sized homes. WCH have had the scheme remodelled to show how many family sized units could be created within the same building height and massing agreed in the planning permission. This shows that a scheme of 15 family sized units could be delivered. These 15 units would comprise of 10 x 2 bed, 4 x 3 bed and 1 x 4 bed.
- 4.5 This change would require WCH to submit a new planning application for the scheme. WCH are ready to submit the next application following a pre application with Planning Officers to obtain advice and guidance on the revised proposals. This revised scheme would generate a lower level of net annual rental income for WCH which would be insufficient to cover the annual financing costs of the loan from Westminster needed to deliver this scheme.
- 4.6 Under the original proposals to deliver 25 intermediate units on site, WCH were expecting to achieve a net surplus of £49k per annum after allowing for management and maintenance costs, bad debt provision and loan repayments and interest. Under the new plans for a 15 unit family sized social rent scheme, the annual rental income would reduce by £117k to £88k per annum creating an annual deficit for the scheme after costs and financing of £69k as shown in the table below. This position is unsustainable for WCH.

Table 1: Comparison of Net Revenue Position for the Existing & Proposed Revised Scheme

	25 x Intermediate Units	15 x Family Sized Social Units
	£'000	£'000
Gross Annual Rental Income	(294)	(126)
Annual Provision for Management, Maintenance, bad debt provision	88	38
Net Annual Rental Income	(206)	(88)
Annual Financing Costs	157	157
Net (Surplus) / Deficit	(49)	69

Options Considered

- 4.7 A range of options have been considered to facilitate the change to social units at this site. The social rents are fixed for the scheme so available options are limited to changes to the financing arrangements for the scheme. Options explored have been to look at changes to the interest rate of the loan being provided by the Council, changes to the loan period and/or loan amount being provided. Under each option the intention is to find a solution whereby the annual financing cost is fully met by the expected net annual social rental income.

Change to Interest Rate

- 4.8 The loan from the Council to WCH will be provided at an interest rate of 3.1% and is due to be repaid over a 25 year period. This interest rate has been discussed at length with the Council's treasury advisors to ensure that it both reflects the Council's cost of funds but also meets state aid requirements. The Council's future cost of financing is currently estimated at 2.6% so there would be little room to reduce the interest rate whilst still ensuring that council's own financing costs are covered. The interest rate that would need to be applied to make the financing costs affordable for WCH is -1.49% which demonstrates that an interest rate reduction is not an option that we can pursue.

Change to Loan Repayment Period

- 4.9 The loan is currently being repaid over a period of 25 years. Given that the loan is secured against new build residential units the Council would have the ability to extend that period to up to 50 years. This would however significantly increase the total level of interest paid by WCH over time for the loan. A more palatable period could be an extension to 35 years which has been considered and agreed by the WCH Board. If the loan could be extended to 35 years, the annual deficit would reduce to £39k.

Change to Loan Amount

- 4.10 The loan amount is currently agreed at £2.7m. If the loan sum is reduced then the annual financing costs will be lower but WCH will need alternative funding to continue to support the development. To fully eliminate the annual deficit from the social rent scheme, the loan sum would need to be reduced to £1.5m. This would require the identification of additional funding of £1.2m to support the scheme.

Combination of Options

- 4.11 Given the limited scope to change the interest rate, a solution that combines both an extension of the loan repayment period and a reduction in the total loan amount is recommended.
- 4.12 Following the recent agreement by the WCH Board, it is proposed that the loan is extended from 25 to 35 years, reducing the size of the annual loan repayments that WCH must make back to the Council. To then ensure that the annual financing costs are fully met by the social housing rental income the loan sum would need to be reduced by £0.8m to £1.9m.
- 4.13 There are limited options to close the funding gap on this scheme. The existing scheme has attracted £700k of GLA funding. The move from Intermediate Rent to Social Rent is likely to result in a total of £1.5m in GLA funding, subject to GLA approval. However, this additional £800k will be required by WCH to cover the inflationary increases in construction costs to date and the likely further increases due to the delay to the start date while WCH obtain a new planning permission.

Additional Council Funding

- 4.14 The intermediate scheme at 581-587 Harrow Road has already been allocated a total of £6.250m AHF for the 25 units being delivered. This equates to £250k for each unit being delivered. As discussed above, if the loan financing is reduced by £0.8m the council would need to find an alternative funding source to close the gap and the use of the general fund capital financing reserve is recommended. If council funding is agreed this would increase the total non loan council resources for this scheme to £7.050m.
- 4.15 By switching to a 15 unit social unit scheme, the level of Council resources being provided per unit increases to £470k. This per unit amount appears higher than expected but is because the council allocation of £7.050m is now being spread across 15 units rather than the 25 originally planned.
- 4.16 Given the increase in the size of the units that would be delivered under the proposed social unit scheme it is better to look at the allocation of council resources per bedspace or sleeping space. A comparison is given in the table below of the allocation per bedspace across the current intermediate scheme and the new social unit scheme with the increased Council allocation to cover the funding gap.

	25 x Intermediate Units	15 x Social Units
	£'000	£'000
Total Council Allocation	6,250	7,050
Number of Bedspaces	25	58
Council Allocation per Bedspace	250	122

- 4.17 Another way to look at the scheme is to compare the cost of switching to social units on this site compared to the cost of switching units on other Westminster development schemes as part of the Council's new Truly Affordable Housing Strategy agreed by Cabinet on 17th October 2022. The level of additional council resources that is required here to deliver 15 social rent family sized homes is £53k per unit (£800k for 15 units). This compares to an average cost of £100k per unit of switching intermediate to social rent units across Council sites as part of the Truly Affordable Housing policy changes (e.g. WEG, Luton St, Ashbridge, Luxborough, Carlton Dene and Torrindon). Although it should be noted that under those proposals the Council's holds those units on its balance sheet.
- 4.18 Given the assessment above, it is recommended that the Council decreases its loan financing into WCH by £0.8m from £2.7m to £1.9m and extends the repayment period on that loan from 25 to 35 years. It is also recommended that the Council allocates £0.8m of General Fund Capital Financing Reserve to cover the shortfall after the reduction in loan financing to WCH.

5. Financial Implications

- 5.1 The financial implications are addressed within the main body of the report.

6. Legal Implications

- 6.1 The report recommends that the Council decreases its loan financing into WCH by £0.8m from £2.7m to £1.9m and extends the repayment period on that loan from 25 to 35 years. It is also recommended that the Council provides an additional general reserves allocation of £0.8m into WCH to cover the shortfall after the reduction in loan financing.
- 6.2 Under the Local Government Act 2003 s12 a local authority may invest for any purpose relevant to its functions under any enactment. The Council has powers to provide housing accommodation. Westminster Community Homes (WCH) is a Registered Provider wholly controlled by the Council.

6.3 The Localism Act 2011 s1 provides councils with a general power of competence. It gives local authorities the legal capacity to do anything that an individual can do that is not specifically prohibited. This power is exercisable by local authorities for purposes for the benefit of the local authority and its residents. Instead of being able to act only where the law permits it, local authorities are free to do anything provided they do not contravene other limitations. Section 2 provides that the general power does not apply to things which the authority is unable to do by virtue of a pre-commencement limitation, or a post-commencement limitation which is expressed to apply to the general power, to all the authority's powers, or to all the authority's powers with exceptions excluding the general power. In exercising this power, a local authority is still subject to its general duties (such as the fiduciary duty it owes to its local taxpayers and the public law requirement to exercise the general power of competence for a proper purpose). The recommendations of this report are within the section 1 power and not prohibited by section 2.

6.4 Under the Subsidy Control regime there are provisions on subsidies for Services of Public Economic Interest (SPEI). These include social housing. Without these subsidies these services would not be supplied in an appropriate way or may not be supplied at all by the market. Where a public authority wishes to provide a subsidy in relation to SPEI, it will need to comply with the following: (1) it must be satisfied that the subsidy is limited to what is necessary to deliver the service; (2) must ensure that the SPEI subsidy is assessed against the subsidy control principles; (3) must ensure that the subsidy is provided in a transparent manner; (4) must ensure that the subsidy is regularly reviewed; and (5) must comply with the duty to include information in the subsidy control database.

6.5 The subsidy control principles are:

Principle A – Public authorities will need to consider, explain and assess the policy objective behind the subsidy to ensure there is a benefit to wider society in providing the subsidy. Provision of social housing is a benefit to wider society.

Principle B – Subsidies should be both proportionate and limited to what is necessary to achieve the policy objective. The subsidy is proportionate and limited to the achievement of the objective.

Principle C – Subsidies must incentivise and lead to a change in the behaviour of the beneficiary. They must help to address the public policy objective being pursued. The recommendations incentivise WCH to provide more social housing.

Principle D – Subsidies should be targeted to bring about an effect that is additional to any that would occur in the absence of the subsidy. They should not normally cover everyday business expenses. The effect to be achieved is additional to what could be secured otherwise.

Principle E – Alternative policy levers, that are likely to cause less distortion to competition and investment in the UK, or trade and investment internationally, should be considered before turning to subsidies. No distortion will be caused as the market does not provide such housing.

Principle F – Public authorities should design the subsidy in a way that minimises the impact on competition and investment within the UK. This will require them to assess the effects which are likely to arise from providing the subsidy. This is a domestic test to ensure that a subsidy does not unduly favour one firm to the detriment of a competitor or new entrants to the UK market, or unduly reduce competition within the UK market. No impact on competition and investment will arise.

Principle G – Public authorities should assess the material effects on competition and investment in the UK, and international trade and investment, and decide whether the benefits of the subsidy are greater than the harmful impacts of providing the subsidy. No impact on competition and investment will arise”

7. Consultation

- 7.1. No ward member consultation has been undertaken as this is a decision affecting all wards.

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

Lyndsey Gamble, Strategic Finance Manager, Strategic Projects and Commercial Lead

APPENDICES

None

BACKGROUND PAPERS

None

NB: For individual Cabinet Member reports only

For completion by the **Cabinet Member Climate Action, Regeneration and Renters**

Declaration of Interest

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

Signed: 

Date: 13/02/2023

NAME: **Councillor Matt Noble**

State nature of interest if any:

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

For the reasons set out above, I agree the recommendation(s) in the report entitled

Westminster Community Homes (WCH) Revised Funding Arrangements and reject any alternative options which are referred to but not recommended.

Signed: 

Cabinet Member for Climate Action, Regeneration & Renters

13/02/2023

Date:

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

Additional comment:

If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2)

your reasons for the decision can be properly identified and recorded, as required by law.

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

NB: For individual Cabinet Member reports only

For completion by the **Cabinet Member Finance & Council Reform**

Declaration of Interest

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



Signed:

Date: 09/02/2023

NAME: **Councillor David Boothroyd**

State nature of interest if any:

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

For the reasons set out above, I agree the recommendation(s) in the report entitled

Westminster Community Homes (WCH) Revised Funding Arrangements and reject any alternative options which are referred to but not recommended.

Signed:



Cabinet Member for Finance & Council Reform

09/02/2023

Date:

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

Additional comment:

If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

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