City of Westminster

Cabinet Report

Meeting or Decision Maker:	Cabinet
Date:	12th December 2016
Classification:	General Release
Title:	Housing Investment Strategy and Housing Revenue Account Business Plan 2017/18
Wards Affected:	All
City for All:	This report addresses the investment in the Council's current housing stock and the investment in new housing and non-residential buildings and public realm in regeneration areas and as such has a major impact upon all three aspects of Choice, Heritage and Aspiration in the City for All policy.
Key Decision:	This is a Key Decision and has been included for 28 days on the list of forthcoming decisions
Financial Summary:	This report presents the latest 30-year Housing Revenue Account (HRA) Business Plan and investment plans for housing related activity. Indicative detailed HRA capital investment budgets and proposed funding are presented for approval for the five years 2017/18 to 2021/22. The Business Plan demonstrates that the investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains a sustainable and viable entity over the thirty year period. Gross HRA capital expenditure of £700m over the next five years is required to deliver the plans within this investment strategy, including: £211m on works to existing stock; £394m on housing estate regeneration; and £96m on new investment opportunities. This is to be funded from £210m of HRA revenue resources, £381m from RTB & Other capital receipts, £58m from the Affordable Housing Fund and £52m of new borrowing. Once these funds are committed they will utilise all of the foreseeable headroom and financial capacity within the HRA.

Within the first 10 years of the business plan period HRA resources are fully committed to the delivery of new housing supply described in this report and major works to the existing stock and there is no headroom for further schemes. The Strategic Housing Options study, currently underway, is therefore investigating other ways to increase supply.

As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, that the options available to contain these pressures will necessitate either reducing, reprofiling or stopping spend on the capital programme, realising funds through the disposal of HRA assets, or applying more funding from the Affordable Housing Fund. The delivery strategy for three of the renewal and investment opportunities has been changed from a developer framework approach to one where a contractor is appointed to design and build the project and a sales agent to dispose of private units on the open market. This change alters the cashflow, resulting in a requirement to fund the construction costs and receive capital receipts at the end of the construction period. This option has emerged through the business case appraisal as the preferred way forward but transfers both additional cash flow development costs and risk to the HRA.

The funding of the increase in the expected capital programme over the next five years is largely dependent upon the timing and value of asset disposals that underpin the regeneration programme.

The reduction in the capacity of the HRA and the potential impact of risk factors requires a strong risk mitigation strategy that can be quickly adopted if any of adverse risks materialise. The management options available to mitigate risk are outlined in detail in Section 11.

Report of:	Ed Watson, Executive Director of Growth, Planning and Housing

Executive Summary

1.1 This report presents the Housing Investment Strategy and thirty-year Housing Revenue Account (HRA) Business Plan. This is the fifth such plan since the introduction of self-financing in 2012. The City Council's investment plans are ambitious and will deliver a range of lasting benefits for the City, its residents and the City Council. They will allow the City Council to realise much of its 'City for All' ambitions of aspiration and choice; delivering new homes and leveraging the value of our land assets to bring forward investment in some of Westminster's poorer neighbourhoods.

1.2 Since last year the recommended budget for investment in the Council's existing stock has been increased from £1.4bn over thirty years to £1.5bn. In the light of the uncertainties created by welfare reform changes and the Housing and Planning Act 2016 (HPA), a prudent approach to budget setting was adopted last year and it was signalled that officers would revisit the plans at this time. A budget of £1.5bn is viable but minimum reserves are reduced to £10m, instead of £11m in two of the 30 years. This increase of c.£100m primarily relates to:-

- Revised 2% contingency allowance over the 30 year business plan period on major works to the existing stock; (c.£30m)
- Allowances to deal with contractor default and latent defects; (£4m)
- An anticipated increase in the number of units requiring void refurbishment works; (c.£8m)
- A re-profiling of capital expenditure as a result of new major works contracts; (c.£24m)
- New health and safety requirements are met; (c.£1.4m)
- One year's construction inflation from 2016/17 to 2017/18 (over 30 years). (£c.35m)

1.3 Key elements of the HRA investment programmes included are:

- Continued investment in existing housing stock (£1,034m);
- Investment in the housing estate regeneration programme (£509m);
- Other new supply schemes (£99m)
- Affordable Housing Fund expenditure on new supply over the 5 year period 2017/18 to 2021/22 (£114.37m including £58m on HRA schemes)

1.4 It was anticipated that the Council would at this time have full knowledge of the impact of the key provisions of the HPA, namely 'Pay to Stay' and the 'higher value' void levy on the HRA. However, the secondary legislation has not yet been made or indeed released in draft form. Any increased income from the 'Pay to Stay' policy will be payable to the Treasury after an allowance for the Council's increased administrative costs and the net effect therefore to the HRA should be nil. Of more potential significance to the HRA is the higher value void levy and officers have modelled in outline four possible scenarios in Appendix E and considered possible responses and mitigations.

2. Recommendations

2.1 To approve the indicative HRA capital programme budgets for 2017/18 to 2021/22 (Appendix B).

2.2 To note the proposed allocations from the Council's Affordable Housing Fund to new supply programmes.

3. Reasons for decision

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

4 Housing Regeneration

4.1 The programme of investment in existing stock will see £394m of HRA resources expended over the next five years on the redevelopment of our estate with an additional £58m investment provided from the Affordable Housing Fund and £2m of Mayor of London funding. The following HRA and General Fund (GF) schemes will progress over the next 5 years.

Church Street

The masterplanning team for Church Street was procured over the Summer of 2016 and is working towards public consultation in Spring 2017 with a draft final masterplan in late Spring/early Summer 2017. This will build on the work of the Futures Plan and will propose delivery solutions for a range of housing led regeneration projects as well as overall strategies for the area.

A number of blocks along Church Street itself were identified in the Futures Plan as having development potential. These are being considered as part of the masterplanning process and it is likely that one or more of those blocks will be included in the next phase of sites to be designed and delivered. These sites all have significant vacant possession and decant requirements and a £23.5m contribution to the Housing Zone from the GLA is intended to help meet the cost of leaseholder buybacks.

Cosway Street

In February 2013 the Council decided to pursue by agreement the acquisition of the City of Westminster College's long leasehold and freehold interests in the site at Cosway Street. The purpose of the acquisition was to combine the Council's other landholdings within the Cosway Street plot and thereby maximise the Council's future opportunities/options and enhance overall land value. The scheme will commence in 2016/17 with planning approval scheduled for 2017 on a wholly private residential option with an expectation of 49 units being delivered and completion expected in 2020.

Ashbridge Street

This scheme involves a former BT station and there exists an outline proposal (subject to further review and planning consent) to construct 20 residential units with start on site date estimated in early 2017 and completion in the Autumn of 2020.

Lisson Arches

This scheme involves the replacement of the 45 units in nearby Penn House – a sheltered housing block earmarked for demolition – together with 14 additional private sheltered flats for market sale. The relocation of utilities that run under the site has caused delays to the main construction contract. Works are planned to complete in Spring 2019. The 14 private units will be disposed of on the open market.

Parsons North

This scheme involves the redevelopment of a car park to provide 59 flats including 20 affordable units. A planning application will be made in May 2017 and the expected start on site date is Spring 2018. The current proposal is to dispose of the private units via open market sales and this strategy and justification will be reviewed through the usual governance process.

Luton Street

The Council is in negotiation with the developer with a view to agreeing an Agreement for Lease in late Autumn 2016. Subject to planning consent in early Spring 2017 works will begin in the summer of 2017 and complete in the summer of 2019. The development will provide 162 new homes (57 affordable), a £3m Community Sports Centre, £3m public realm contribution and £2.4m improvements to the surrounding blocks.

Tollgate Gardens

The Tollgate Gardens regeneration programme involves the demolition of 5 blocks involving 59 formerly tenanted units and 30 private units and the redevelopment of the estate which will provide 248 new homes (86 affordable, 162 private). The scheme allows for the refurbishment and recladding of Tollgate House. Demolition began in September 2016 with refurbishment commencing in December 2016. The scheme is due to be completed in 2019. The private units will be sold via the developer partner and not via a sales agent.

Ebury Bridge Estate

The currently consented scheme provides for the demolition of 8 blocks and construction of four new buildings to provide 271 new flats consisting of 129 social rent flats, 26 equity share flats and 116 private/market flats. The programme allows for the refurbishment of the 5 remaining blocks. The Council have identified the need to enhance the current design in order to ensure that the scheme is viable and is currently working through potential options. Delivery strategies including decisions on the working relationship with developers are being assessed with the recommended route to be detailed in forthcoming Cabinet Member reports.

Infill Programme

The Infill Programme will deliver 26 new 2, 3 and 4 bed affordable homes by Autumn 2018 for the HRA (subject to planning permission) in its first phase. Phase two will progress a further 20 units. The programme will generate capital receipts, from the disposal of sites assessed as unsuitable for retention within the HRA, which will be reinvested. A long list of potential infill opportunities is maintained to ensure that a rolling programme can be delivered in subsequent phases over the next 5 years.

Image below of one the schemes, new build on a garage site delivering 8 x 4 bed houses

Melrose House & Keith House

Beachcroft House (GF)

This site is a former pupil referral unit and will be redeveloped to provide an 84 unit sheltered scheme with a mixture of affordable and market sale units. Works will commence in the summer of 2017 and complete in the summer of 2019. The private units will be disposed on the open market via a sales agent.

Dudley House (GF)

This site has been assembled utilising a former social housing block and a number of private street properties and will provide 197 intermediate rented residential units, a school, church and a retail unit. Demolition began in October 2016 and works will complete in the Summer of 2019.

Ashmill and Lisson Street (GF)

The Ashmill Street Car Park is part of our wider infill programme to create a small number of family homes whilst retaining a smaller number of parking spaces. The proposals for development on Lisson Street are currently under review.

4.2 During the 5 year period 2017/18 to 2021/22 there is a pipeline of over 1,835 new affordable homes anticipated to be delivered. 130 of these homes are currently under construction, with the remaining homes due to start and complete by March 2022. Of this pipeline of 1,835 units, the HRA is anticipated to deliver 397 affordable units on Housing Renewal sites with a further 77 affordable homes being delivered by the HRA on 'infill' sites and on 'section 106' schemes. These HRA programmes will be delivered from a combination of HRA funding and the Council's Affordable Housing Fund (AHF). In addition a further 295 affordable homes will be delivered on General Fund sites including 281 homes partially funded by the AHF. The remaining affordable homes are anticipated to be delivered by Registered Provider (RP) partners mainly from 'section 106' opportunities in the City and through spot purchases of existing housing then converted to affordable housing use. This RP supply will be delivered using a combination of direct investment from RPs and the AHF.

4.3 The Council's **Affordable Housing Fund** supports delivery of new affordable housing in the city, with c.£105m contractually committed with relevant Cabinet Member approval and a further £98m set aside but yet to be formally approved. These committed and set aside funds will support both the delivery of new supply and housing regeneration programmes including the programmes outlined above.

4.4 The investment programmes outlined in this report will help to transform many of our neighbourhoods and the council will continue to look for ways to maximise what can be delivered on both existing and future estate regenerations schemes, as well as encouraging the private sector to deliver more affordable and intermediate housing in the context of the current housing shortage. The benefits of planned investment are wide, impacting: housing; health and care; jobs, business and enterprise; place-making and the built environment; assets for the community; and bringing about greater community involvement.

5. Background

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

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

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

5.3 The charts in paragraph 10.2 show the key business plan metrics for both last year's and this year's plans. The significant differences between the two years are:

- Revised 2% contingency allowance on major works over the 30 year business plan period; (c.£30m)
- Allowances to deal with contractor default and latent defects; (£4m)
- An anticipated increase in the number of units requiring void refurbishment works; (c.£8m)
- A re-profiling of capital expenditure as a result of new major works contracts; (c.£24m)
- New health and safety requirements are met; (c.£1.4m)
- One year's construction inflation from 2016/17 to 2017/18 (over 30 years). (£c.35m)

5.4 The key achievements made in maintaining, improving and renewing the stock in the last 12 months are listed in Appendix F.

6. Government policy announcements and recent legislative changes

6.1 This section provides a summary of the legislative changes and announcements over the last two years and the implications for the Council's housing investment plans.

Welfare Reform and Work Act 2016

<u>Social rent reduction</u>

6.2 Section 23 of the Act provides for a 1% social rent reduction for 4 years from 1 April 2016. Previously, rent could rise by a maximum of the Consumer Price Index (CPI) plus 1% each year. Modelling of the rent reduction impact has been undertaken using the anticipated CPI figures for these four years and estimates the loss of rent income at £32 million in cash terms. The effect on a 30-year NPV basis is over £237 million. This impact was modelled in last year's report and its effect is therefore contained in the data in Chart 1. Beyond the first four years, however, there is uncertainty about what rent regime will be in place. The HRA business plan assumes that the government will revert to its stated policy of CPI+1% for the following 5 years before reducing to inflation only annual increases. However the previous rent policy was not statutory and leaves some flexibility to increase rents more than CPI+1% if needed.

Welfare Benefits cap, Local Housing Allowance caps and TA subsidy

6.3 Last year's report signalled the changes to welfare benefit caps; Local Housing Allowance changes; and changes to temporary accommodation (TA) subsidy limits - the cumulative effect of which results in increasing net costs to the General Fund. The net cost to the council of the provision of temporary accommodation for homeless households is £4.3m p.a. but this is predicted to rise by £0.5m in 2017/18 and a further £0.5m in 2018/19 and when Universal Credit is introduced in 2019 – 2011 this may add a further £5m to the net TA budget. In addition, there is the as yet unknown knock-on effect on the General Fund from the loss of units as a result of the higher value void levy and this is modelled elsewhere in this report.

6.4 In response to these changes the Council is taking the opportunity afforded by the ending of the current Housing Options contract in October 2017 to re-shape the contract to best meet these challenges. The new contract will be flexible and responsive to changing financial and legislative pressures. Services for single people will be separated from those of families. 'People' services will also be separated from 'property' services. The service with be let in 'lots' to allow specialist providers with expertise in niche areas to be able to bid for a part of the overall service. The new service will concentrate on early intervention, homelessness prevention and reducing the need for TA.

Housing & Planning Act 2016

6.5 The provisions of the Act that are considered to have significant impacts on the Council's housing investment plans are summarised and considered below.

Disposal of high value voids

6.6 This policy requires local authorities that maintain a HRA to make an annual financial contribution to government equivalent to the estimated revenue from disposal of properties that become void in that year, and which are considered to be 'higher value'. It is being introduced in order to fund an extension of the right to buy policy to tenants in the housing association sector. The secondary legislation that will provide for the details of this contribution is not yet made and no details have been forthcoming from the Government. The amount of this levy is of critical importance to the Council and therefore some modelling of possible scenarios as to what this might be and the ability of the City to meet and respond to it is included as Appendix E.

The HRA base model takes account of scenario 1, and assumes disposals of 250 social dwellings and a net capital receipt of £115m which is paid as a levy to central government over the first 3 years of the policy.

Affordable housing and s.106 agreements

6.7 The Act requires local planning authorities to effectively require starter homes (new dwellings available to purchase by first time buyers under 40 and sold at 80% of market value, with a suggested price cap of £450k in London) as a form of affordable housing with a requirement that 20% of net new dwellings on relevant sites are starter homes. The detailed provisions are not yet released, but it is presumed that this provision will be funded through a reduction in the requirement to provide traditional affordable housing on which the Council relies to accommodate households in housing need. This could lead to decreased funding for affordable rented and potentially an increase in demand and need.

Pay to stay

6.8 The Act provides the enabling legislation to require stock retaining housing authorities to charge a market rent to households with incomes of £40k or above in London (£30k elsewhere), and that the extra income generated will be paid to government (less an amount to cover administrative costs). The Government has confirmed that a taper will be applied above the minimum income thresholds and that households in receipt of Housing Benefit will be exempt from paying higher rents. The taper will operate so that affected households will pay an additional 15p in rent per week for every £1 they receive in taxable income above the thresholds. A date for implementation has not yet been communicated by central government.

6.9 This policy will not have a significant impact on the HRA business plan, as it is unlikely to significantly alter stock numbers (there might be a small increase in the number of the Right-to-Buy completions) or net rent received. Much work will however be required in developing procedures and communications tools for administering the policy.

Housing Strategic Options Study

6.10 In response to the changes mentioned above the Council has procured Deloitte Real Estate to advise on how best to respond to the range of policy changes affecting the HRA. The current HRA Business plan utilises all of the foreseeable headroom and financial capacity within the HRA. This will limit the ability for the HRA to potentially contribute material funds unless changes are made, this may necessitate changes in priorities and compromises to be considered.

The study will involve a review of current government policy and consideration of the implications of this for the Council, including the impact on the Council's HRA Business Plan and General Fund, before going on to overlay the effect of the options as part of the evaluation and appraisal process. In particular it will consider how the Council can best provide more social, affordable and intermediate housing both in and out of Borough to:

1. provide temporary and permanent accommodation to fulfill the Council's duties under the homelessness legislation;

2. provide affordable housing for those working in Westminster;

3. contribute to a built environment which promotes health and wellbeing, and;

4. increase the capacity for regeneration within the Borough.

Community Supported (Sheltered) Housing

6.11 The Council will in the forthcoming year assess if the Council is making the best use of its own CSH asset (excluding registered provider stock) and to consider recommendations for change. The study will address three main questions:

1. How well is CSH meeting current demand and how well will it meet future demand?

2. How well does it contribute to meeting the Council's key priorities and objectives?

3. What changes are needed and how can they be made?

City for All and Draft Westminster Housing Strategy

6.12 In December 2015 the Council published its 'Westminster Housing Strategy – Direction of travel statement' in response to the *City for All* vision. Investment in existing and new homes, and in our communities, is central to achieving this vision of Westminster being a City of Aspiration, Choice and Heritage. Specific *City for All* commitments supported by the housing investment outlined in this report includes:

- Maximising the delivery of new affordable homes in Westminster;
- Working with others to support new supply within London;
- Delivering the housing renewal programme at Tollgate Gardens; Ebury Bridge Estate and Church Street and moving towards regeneration becoming 'business as usual';
- Developing new types of intermediate housing and increasing the supply of intermediate housing;
- Lobbying government and working with partners to ensure that any disposals required by the Act are replaced on at least a one for one basis;
- Implementing the change programme at CityWest Homes to improve customer service and ensure value for money and improve resident engagement in the scrutiny of services;
- Improving energy efficiency in our stock and investing £12m to tackle cold and damp housing conditions and target action at the 450 tenants most at risk of ill-health from their home; and
- Reviewing the role of our community supported housing;

6.13 Despite the uncertainties and pressure on resources the Council remains committed to improving or renewing as appropriate our older stock and increasing housing supply. The housing renewal plans are now gaining momentum and the volume of improvement work planned for the stock over the next five years is ambitious.

6.14 Plans for each of the Council's housing investment programmes are set out in the following sections.

7. HRA investment programme – expenditure on existing homes

7.1 The 2016/17 HRA Business Plan accepted that, because of the reduced income assumed as a result of Government rent changes, not all of the Council's housing stock would be able to be brought up to – or maintained at – the 'CityWest Standard'. Rather, a 30-year investment programme was set at £1.4 billion (£941m capital and £473m revenue), which would still enable the Council to meet the Government's Decent Homes standard.

7.2 Officers have continued to take a prudent approach to budget setting because of the on-going uncertainties arising from the HPA. However, following further review of necessary investment, an increase in the 30 year budget has been proposed as part of this year's Business Plan. Specifically, it is assumed that an additional c. £100m would need to be spent over the Plan period as explained in 5.3, leading to a total projected spend of c. £1.5 billion (£1034m capital and £485m revenue).

7.3 Total expenditure on major works programmes in the first five years of the programme therefore amounts to c.£291m investment (capital and revenue), broken down as shown below – Appendix B shows in more detail.

Description	5yr Plan	30yr Plan
	£m	**£m**
Mechanical & Electrical	63	342
External	88	377
Major Voids	18	94
Kitchen & Bathrooms	8	68
Lifts	10	50
General	5	29
Fire precautions	14	38
Adaptations	6	36
Total Capital Improvements	**211**	**1,034**
Repairs & Maintenance	80	485
Total Investment	**291**	**1,519**

7.4 One of the main ways that the 16/17 Plan budget was reduced to respond to the pressures from the 1% rent reduction policy was through extending the life-cycle and changing the specification in the refurbishment / replacement of key building elements. This meant that the Council's ambitious CityWest Standard would not be universally achieved and there is a risk of decreased resident satisfaction. However it should be noted that reducing and reprofiling spend in this area remains one of the key management mitigations of risk.

7.5 One of the key ways that CityWest Homes is seeking to ensure better investment and budget control is through its current procurement exercise. This involves long term service agreements with a limited number of contractors. CityWest Homes already has a 10 year term contract to provide responsive repairs works, but this is coming to an end in April 2017. The proposal is to grant a series of new contracts covering not just responsive repairs, but also major works. This will provide better value for money and drive a reduction in costs. As well as improved management a 2% (industry norm) contingency has been applied.

7.6 The contracts should mean that procurement is much more stream-lined with a shortening of the time period from project approval to 'start on site'. In the short-term, however, the procurement of the Term Contracts has meant that a number of projects have been delayed, to be captured under the new regime, which is the prime reason for the higher capital investment profile in the first three years of the Plan (especially in 2018/19).

8. New affordable housing supply schemes

8.1 The majority of new affordable supply currently being delivered in the City is linked to market housing led developments where a proportion of new housing is required to be provided on site as affordable housing linked to (s106) planning obligations. These s106 affordable homes are generally transferred by private developers to the Council's Register Provider (RP) partners once built and the Council then nominates households in housing need from its waiting lists to these new affordable homes.

8.2 Registered Providers have therefore been the Council's main historical source of new affordable housing supply in the City. However, RPs are unable to compete with the private sector in Westminster for development site opportunities due to the high cost of land in the City. Also, RPs operating in the City have very limited development capacity within their own estates to deliver new affordable housing supply.

8.3 As new affordable housing supply is generally limited to s106 sites, the Council and its partners have sought to supplement this limited affordable housing supply by bringing forward spot purchase programmes of market homes that are then used for affordable housing.

8.4 The Council will be carrying out 'estate planning' appraisals over the next few years to identify estates that are unpopular or which have low levels of resident satisfaction; those which do not perform well financially (e.g. where the cost of management and maintenance exceeds income) or where there are significant future major works costs or matters of innate obsolescence (e.g. structural or design issues that are difficult to overcome.) Any estates identified in this initial work will be subject to a prioritisation system for a more fulsome appraisal of the best long-term strategy for the estate in consultation with residents and other stakeholders.

8.5 The Council's Housing Renewal strategy will significantly increase the level of new-build housing supply in the future with circa 2,000 new homes planned of which over 1,100 will be affordable.

Affordable Housing Fund

8.6 The Affordable Housing Fund is the Council's traditional source of funding for new housing supply. Since 1997 developers have contributed £319m to the fund. This has funded £111m expenditure on 1,500 new affordable homes. The fund has current balances of £217m (including interest received on balances) of which £105m has been contractually committed. This means that currently the fund has £112m of uncommitted headroom.

8.7 Further affordable housing projects in the pipeline require in the region of £98m from the AHF, leaving £14m of uncommitted AHF resources to allocate to new projects in the future. Currently there are c. £70m in outstanding developer payments due to be paid into the AHF, including a single payment of £39m due from Chelsea Barracks. See table overleaf:-

Affordable Housing Fund (AHF)	Balance £m
Brought forward balance as at 31 October 2016	217
Formally contractually committed	-105
Uncommitted headroom	**112.0**
Outstanding Developer payments expected	70.0
Notional allocation to pipeline schemes	-98.0
Projected unallocated balance	**84.0**

8.8 In addition, due to the delivery time frames of many of these new affordable housing projects, there are not anticipated to be any cash flow issues with funding these projects from the AHF.

8.9 Decisions regarding the allocation of the Affordable Housing Fund are delegated to the Cabinet Member for Housing, Regeneration, Business and Economic Development. Cabinet are asked to note, however, that in circumstances where future investment may be either from the HRA or the AHF, that as a matter of general policy it is suggested the AHF should be chosen or where a mixture of funding is required the AHF contribution should be maximised. This policy responds to the fact that the AHF cannot be spent on real estate outside of the City's geographical boundary whereas the HRA can be spent outside the City.

8.10 With the advent of HRA self-financing the HRA is now a vehicle for delivering new affordable housing, supplementing AHF supply. Over the next five years, through a combination of the HRA, and the existing and anticipated AHF commitments the Council expects to deliver circa 969 new affordable housing units (including those in the regeneration areas). This is summarised in the table overleaf

Potential schemes being supported through the Affordable Housing Fund 2017-2022

Scheme	Gross Potential Units	AHF funding*
Registered Provider schemes	164	£15.9m
Council schemes (HRA, non-regeneration)	77	£9.67m
Council schemes (GF, supported housing and intermediate rent)	281	£18.3m
Council schemes (GF, Temporary Accommodation)	50	£12.5m
Housing regeneration	397	£58m
Total	969	£114.37m**

* New affordable homes that are expected to be delivered during 2017-22 and where AHF funding is either contractually committed or is awaiting formal approval against these projects and where full or partial AHF required for these projects is anticipated to be drawn during 2017-22.

** Figures relate to those AHF resources anticipated to be spent during 2017-22. Because of the time lag between investment and completion of new-build units some of this funding will deliver new supply after 2022

Registered Provider Schemes

8.11 Registered Providers including Westminster Community Homes and Dolphin Living Foundation are anticipated to deliver 164 new affordable homes over the next five years with the assistance of the AHF. These homes will be delivered as a mixture of spot purchases and new build developments. It is anticipated that £15.9m will be required from the AHF to support the delivery of these 164 new affordable homes, supplementing the funding provided by the RPs themselves. Additional affordable housing supply of over 1,000 units will also be delivered through RPs during this period mainly from private developer led ‘s.106’ sites and where the delivery of this supply will not be dependent upon investment from the AHF.

HRA housing supply

8.12 A sum of £10m was budgeted in last year’s Plan to support development of new homes on small “infill” sites within the HRA estate. To date, a number of sites have been brought forward through the planning system, to deliver new homes through the conversion of void basements, sheds and garages. The current programme assumes a total investment of c.£18m, with the remaining £8m coming from the Affordable Housing Fund and recycled disposal receipts. There is an on-going review of other sites to be brought forward under the ‘infill’ programme.

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

8.14 To date, as part of this programme, the Council has disposed of 60 non-performing HRA void properties (mostly studios and 1-bedroom units) on the open market, with a further 19 agreed for disposal. Disposals have so far raised £32.64m, with a further £9.2m anticipated from already agreed disposals. Proceeds have so far been utilised to acquire 22 replacement family-sized homes at a cost of £11.23m.

8.15 The Council continues to explore, with other boroughs, opportunities to deliver new affordable housing, where joint working will help bring about regeneration activity creating new affordable supply and where access to these new affordable housing supply opportunities will be shared by Westminster and the host borough.

8.16 Westminster will look to use capital receipts from the sale of non-performing HRA housing assets to part fund new affordable supply outside the borough which may include regeneration opportunity sites or new build opportunities currently in private ownership.

General Fund housing supply

8.17 The Council plans to provide 345 new affordable homes over the next five years. These will be a mix of new build and spot-purchase homes and will include the major scheme of 197 homes at Dudley House, Paddington and Beachcroft House in Shirland Road.

9. Housing estate regeneration – improving neighbourhoods and adding to housing supply

9.1 Westminster’s housing regeneration programme represents a gross investment by the City Council of £509m (including £52m of costs already incurred) in the Housing Renewal areas, and the first significant redevelopment of Westminster’s council housing in over 30 years.

Regeneration schemes

Description	Costs to 31 March 2016	5yr Plan	30yr Plan
	£m	£m	£m
Church Street	0	141	212
Ebury Bridge	20	75	102
Lisson Arches	4	24	28
Tollgate Gardens	13	17	18
Luton Street	4	12	14
Parsons North	0	24	24
Cosway Street	11	28	30
Ashbridge	0	13	13
Edgware Road	0	9	10
Infill Schemes	0	16	19
CHP Scheme	0	9	10
Walden	0	7	7
Contingency	0	19	23
Total	**52**	**394**	**509**

9.2 Investment in the regeneration programme has again been protected in this year's business plan and has increased from the £338m gross investment reported last year.

9.3 Capital receipts of £351m approximately are expected over the 30 year business planning period. A further £133m of capital grants are expected: these being a combination of a grant from the GLA in respect the Edgware Road Housing Zone together with AHF contributions. Total income is £485m providing a net funding requirement met from within the HRA of £24m.

9.4 The regeneration programme will deliver 1,121 new units of affordable housing within the HRA and GF, and significantly improved homes to replace the 456 that will be demolished resulting in a net gain of 665 affordable housing units. Capital budgets in the HRA for the next five years of the programme are set out at Appendix B, with a profile of 30-year income and expenditure shown at Appendix C.

9.5 The council's bid to the Mayor of London for housing zone status in respect of the Edgware Road regeneration area has been approved and both parties have entered into an Overarching Borough Agreement. The two funding tranches are proposed to be as follows:-

- £2m towards infrastructure works at Lisson Arches; and
- £23.5m for site assembly on the western aspects of Church Street (primarily the acquisition costs of the residential leasehold interests in these blocks.)

The Lisson Arches funding will be repayable towards the end of the 10 year life of the Housing Zone. Officers are in discussion with the GLA regarding the terms of the second funding agreement with a view to this being repayable only if the development scheme exceeds its expectations in financial terms.

9.6 The housing renewal programme aims to deliver wider benefits beyond new and improved homes. These are summarised in the table below.

Area wide employment offer	• 1,000 employment opportunities to residents in regeneration areas • Community assets – additional enterprise / employment space • Lasting legacy: addressing needs of long term unemployed • Contributing to improved physical and mental health outcomes through employment opportunities improving self-esteem, social interaction and greater physical activity
Church St	• Programme team based on site to improve community engagement and help deliver outcomes • Creation of an outcomes framework to monitor the changes in the neighbourhood • Employment coaches on site along with active process of connecting with businesses to create local opportunities • Health & Well Being hub – up to 6,000 sq. m – one stop for health, well-being, housing, training and advice with enhanced range of health services (within proposed WCC development on Lilestone Street) • Public Realm – landscaping improvements throughout the neighbourhood, green corridor, increased park and play space across the neighbourhood • Animation of public spaces to encourage community participation in physical activities including gardening, exercise and play • District heating system to supply hot water and heat to new homes (where possible) more sustainably and cheaply, this is subject to commercial viability

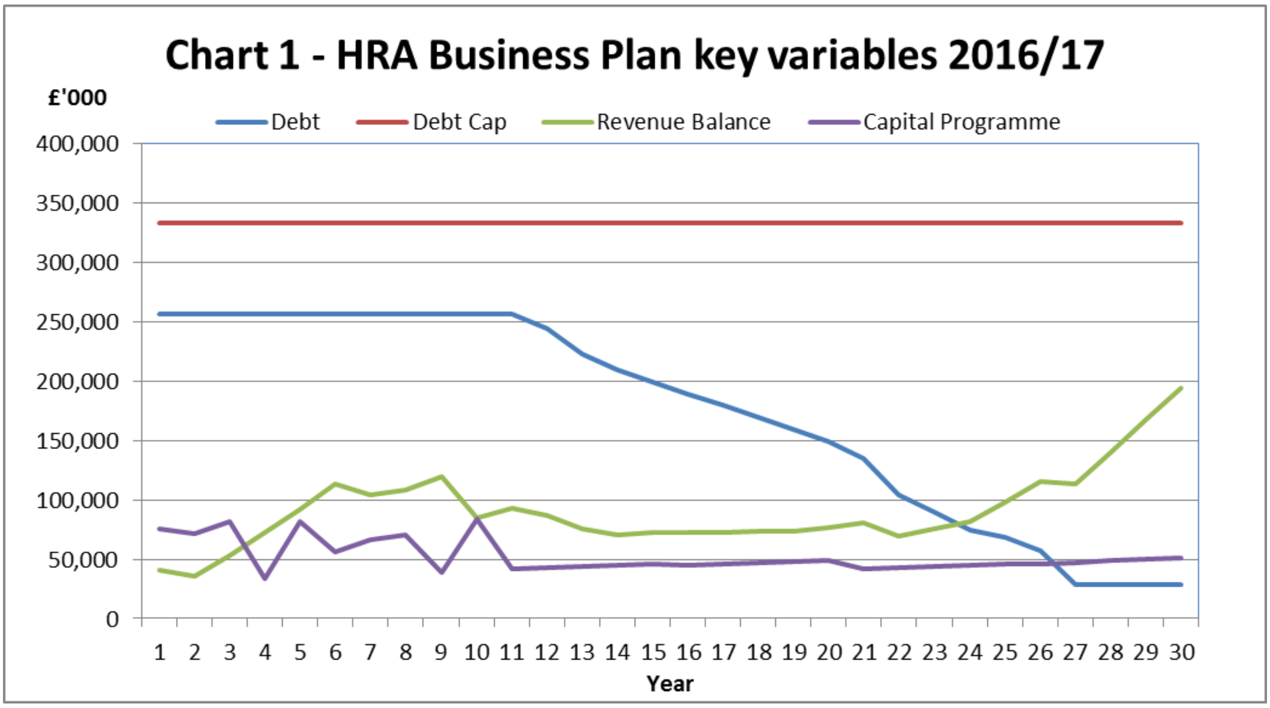
	• Improving the market – series of physical and management improvements to make the street a London destination • Older People's housing – 45 new replacement high quality one bedroom sheltered homes with some market housing for older people • Enterprise centres • Relocation of Luton St Children's services to improved facilities at Tresham and Orange Park (completed)
Tollgate	• New community centre, accessible to all • Public realm – improved landscaping, increased greening of the estate
Ebury	• New retail units facing onto Ebury Bridge Rd. • New playground • Provision of new community centre with improved natural lighting and modern facilities, accessible to wheelchair users. • Retaining community gardens, new enlarged green spaces new and improved landscaping

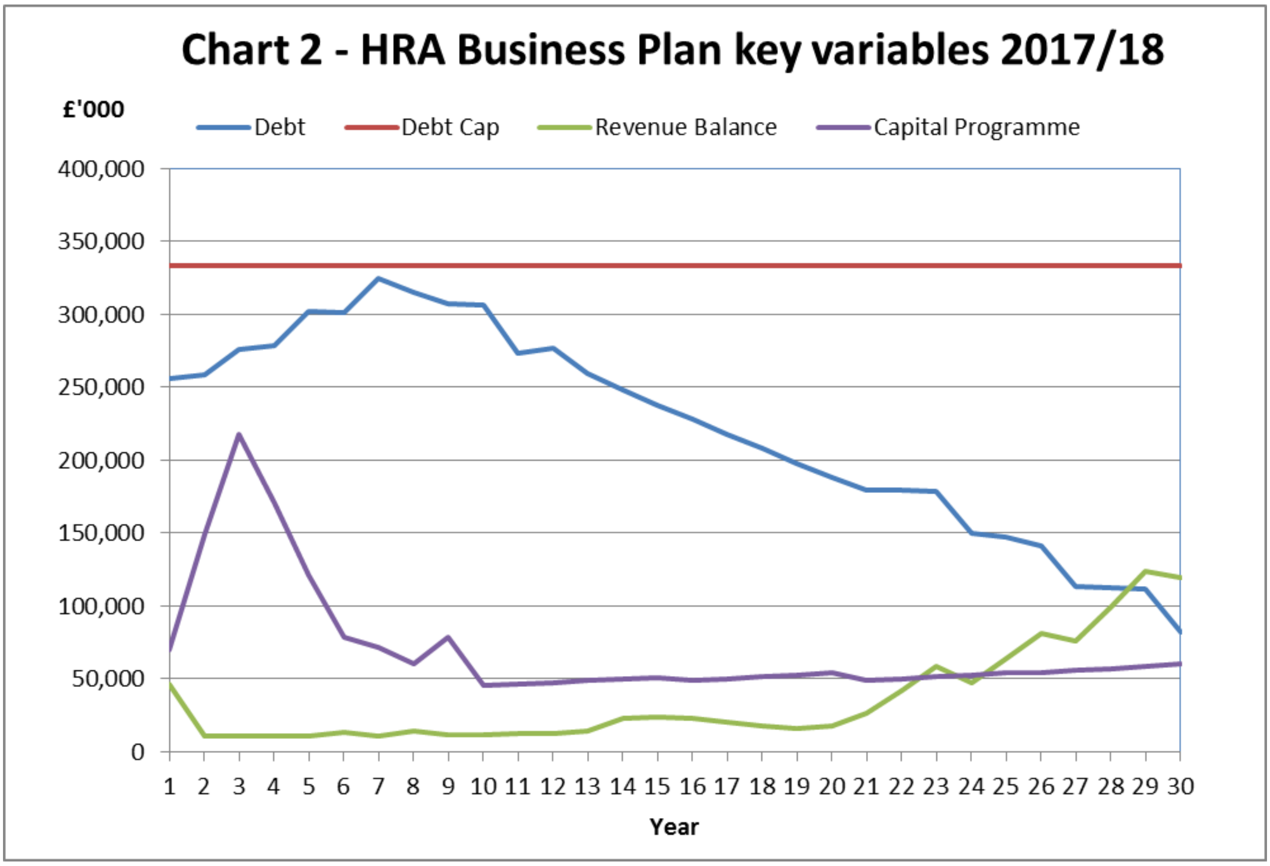
10. The HRA business plan base financial position

10.1 This report sets out the Council's Housing Revenue Account (HRA) Business Plan for the 30-year period 2016/17 to 2046/47. The base financial position will deliver the following:

- Investment in existing stock of £1.5bn, including major works capital expenditure of £1.034bn and revenue repairs and maintenance of £485m.
- Investment in new affordable housing of £509m generating 992 new HRA units, along with improved public realm and community facilities.
- Reduction in HRA debt in year 30 to £82m.
- HRA Revenue balances in year 30 of £120m.
- Efficiency savings of £5.2m in the first five years which are reinvested in service delivery.

10.2 The charts below show the key variables of last year and the current year's Business Plans: the debt cap (set by government under the self-financing settlement); the debt (total borrowing requirement); capital programme expenditure; and the cash reserves balance. Each of these is explained further below. This shows that the HRA can fund the regeneration and other identified investment opportunities, with support from additional capital grants and receipts.





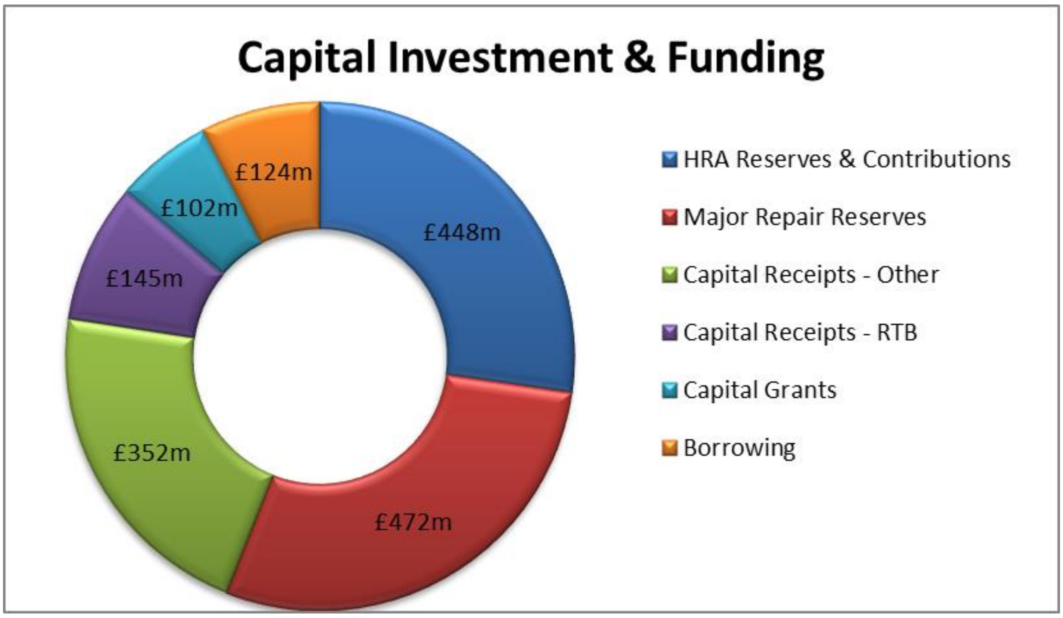
10.3 **Debt cap (red line)** - each local authority HRA has a debt cap, imposed by government as part of the 2012 self-financing settlement. This limits the amount of borrowing that the HRA can undertake. Westminster's cap was originally set at £325m, but was increased in 2014/15 to £334m. As the chart shows, the borrowing limit remains the same over the 30year period so the maximum amount the HRA can borrow is in line with government rules.

10.4 **Debt (blue line)** - As the chart shows, the Council is able to fund the investment programmes outlined in this report with additional borrowing. Borrowing peaks in Year 7 and reduces thereafter as most of the regeneration scheme are completed or near completion. The plan assumes that maturing debt will be re-financed as long term loans expire and where resources allow, the principal sums are progressively repaid. Debt levels are higher than that presented last year in the first 14 years because of the additional expenditure planned on maintaining the existing stock and increased expenditure on regeneration as shown by the rising blue line from year 1 to year 8 and its fall back to around £250m in year 14. This compares with the flat line at around £250m in last year's projection. Borrowing is estimated to fall from £256m to £82m (£29m last year) over the life of the plan resulting in a net debt repayment of £174m (£228m last year) over the 30 year period. The borrowing headroom is estimated to improve from £78m (£77m last year) to £252m (£305m last year) at the end of the plan providing future investment capacity in the later years of the programme. The reduction in headroom of £53m compared to last year's plan enables the HRA to access the additional borrowing required to fund the regeneration projects.

10.5 **Revenue balance (green line)** - A minimum reserves balance of £11m has been assumed in the plan as a contingency against unexpected expenditure and to mitigate potential risk. This largely arises from the dependency upon capital receipts which are dependent upon delivery of the regeneration programme and the continued buoyancy of the property development market. This continued level of reserves in this year's programme is felt to be prudent in light of the future uncertainty around Brexit, Government housing policy, rent policy, inflation, interest rates and cash flow. As the charts shows, the revenue balance is estimated to rise from £46m to £120m over the life of the plan. However, last year's plan saw balances rise from £40m to £194m. The balances are close to the minimum from year 2 to 10 then slowly increases thereafter as regeneration projects are completed or near completion. The reduction in balances of £74m from last year's plan have helped fund the higher capital programme.

10.6 **Capital programme (purple line)** - Total planned capital investment in the HRA totals £1.6bn (£1.2bn last year) over 30 years. This includes major works on existing stock of £1bn (£933m last year), regeneration £509m (£248m last year) and other new supply schemes £100m (£49m). The programme is estimated to rise sharply and peak in year 3 as a result of increased regeneration expenditure, then gradually reduce over the next 7 years and stabilise from year 10 onwards as the regeneration projects are completed or near completion. The amount of HRA expenditure on regeneration has increased compared with last year and it also happening earlier, hence, the large peak in expenditure in year 3 to 6.The higher regeneration programme will deliver 992 new affordable homes.

10.7 This will be funded mainly from: Reserves & Contributions of £448m; capital receipts of £352m generated from land and market sale of new homes; capital grants of £102m; RTB sales receipts of £145m, and borrowing where appropriate. This is shown in the chart overleaf.



Key Business Plan assumptions

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

10.9 **Housing stock** – the Plan is based on a forecast of reducing tenanted stock numbers from 12,054 at the beginning of year 1, to 11,103 in year 30. This includes a total 992 new units, 765 RTB sales, 688 demolitions and 250 high value void sales.

10.10 **Dwelling rents** - average weekly rent per property is estimated to increase from £124.26 to £227.20 in year 30 of the plan. This reflects the 1% rent reduction in the first four years to 2019/20 in line with government regulation and an estimated 3% average rent increase for the next five years up to the end of the original 10 year rent policy. For subsequent years a prudent inflationary increase is assumed as Government rent policy beyond the initial 10 years rent policy period is still uncertain.

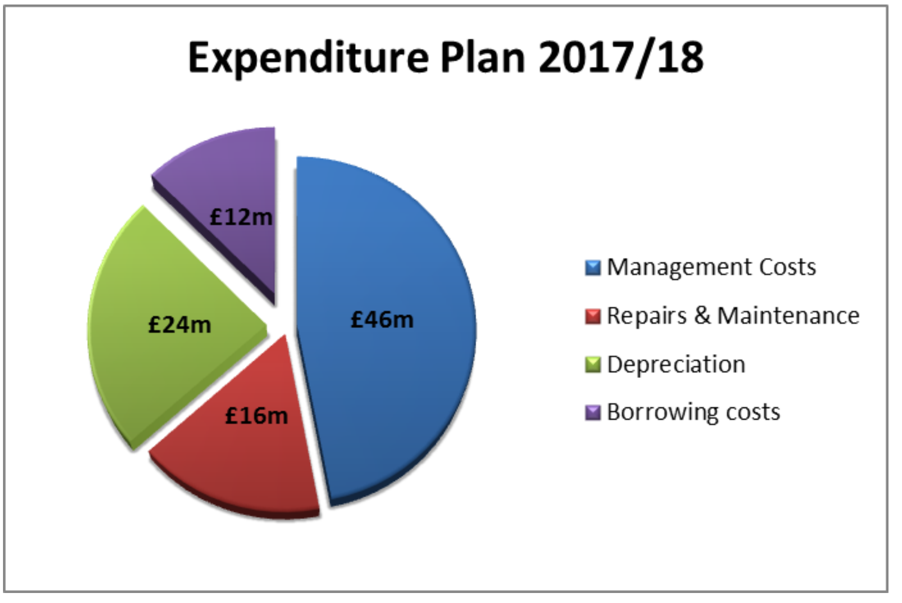
HRA stock movement

Tenure	Tenanted	Affordable / Intermediate	Leasehold	Total
Stock numbers at 01/04/2016	12,054	0	9,098	21,152
Additions	518	474	0	992
Demolitions	-454	0	-234	-688
Disposals - RTB	-765	0	765	0
Disposals - HVV	-250	0	0	-250
Stock numbers at 31/3/2046	**11,103**	**474**	**9,629**	**21,206**

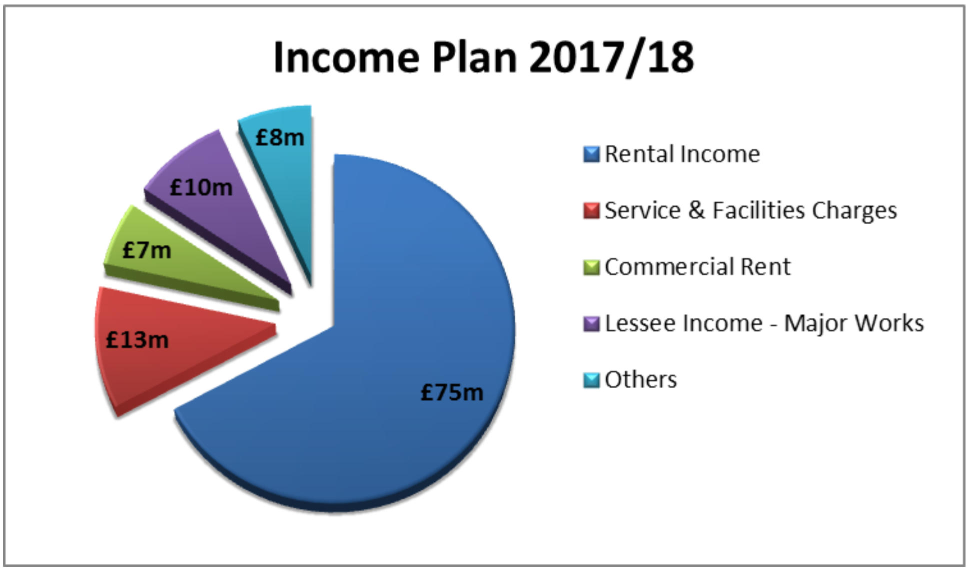
Assumed rent increases

Year	Year	Average Rent per week	Assumed Rent Increase	% (Decrease) /Increase	ent Increases
1	2016.17	£124.26	-£1.19	-1%	-1%
2	2017.18	£123.07	-£1.19	-1%	-1%
3	2018.19	£121.88	-£1.19	-1%	-1%
4	2019.20	£120.70	-£1.18	-1%	-1%
5-9	Annual increases in line with CPI +				1%
10-30	Thereafter annual increases in line with CPI +				0%

10.11 **Management Costs** – the chart below show the operating account expenditure for 2017/18. The total annual expenditure is £98m, the bulk of which is the housing management and service costs of £46m. £38m of the management costs represents direct estate management services for tenants and lessees delivered through City West Homes (CWH) and other providers, and support services delivered thorough other Council services. The balance of £8m consists of other costs such as communal heating & hot water provision and other estate services which are recoverable from tenants and lessees.



10.12 The chart below show the operating account income for 2017/18 in the Business Plan.



10.13 CityWest Homes have in consultation with the Council and in response to an independent review by the housing consultancy Altair produced a new strategy and savings plan. The key elements of this programme are listed below.

Digital transformation programme

- A new website and improved services available online, making it easier for customers to contact CWH and access information when they want.

- Mobile working to improve staff effectiveness when working on our estates and visiting residents in their homes.

- A new target operating model: channel shifting customers to on-line services wherever possible, improving the quality of the phone service, supporting on-line services and continuing to provide face to face services to tenants with greater support needs.

- Reviewing the role of their office portfolio.

- Reducing the volume of non-value added contacts.

Setting new standards for customer service delivery

- Revising the resident engagement processes to attract a broader range of residents.

- Consulting residents on their service requirements and developing tenure specific service standards that tenants and lessees can expect CWH to deliver upon.

- Regularly publishing performance against the standards for our customers to see.

Growth and improvement of the stock through effective asset strategy

- Working through a series of options with the Council to make better use of the housing stock as an asset. Churning the stock to create more homes through disposals, acquisitions and new build.

New arrangements for repairs and major works

- A fundamental review of procurement arrangements for repairs and major works delivery, and implementation of recommendations to replace existing contract arrangements from 2017.

These changes will require some initial investment and will achieve permanent savings of £5.2m partly through reduced management costs, by 2020/21 .

10.14 Being a 30-year plan, the HRA Business Plan is based on a number of assumptions about the future. We have been prudent in setting these assumptions so that risk is minimised. The key assumptions used in the plan are shown below. See section 11 for a discussion on how risks are managed.

Risk area	Assumption	Comment
Inflation	RPI at 2.5% CPI at 2%	Assumed long term inflation for planning purposes applied to expenditure items.
Rent policy	Y 1-3 1% reduction Y 4 – 9 CPI +1% Y10+ CPI only	A conservative approach to rent increases as local authorities have flexibility under the self-financing regime.

Risk area	Assumption	Comment
Void rates	1.5%	Assumed long term void rate for planning
Bad debt provision (BDP)	1.5% from Y2 onwards	Assumed long term BDP rate for planning
Interest on debt/balances	0.5% on balances; 4% on new and rescheduled debt	Reflects current rates available and historic evidence.
RTB Receipts	30 in the first three years, then 25 thereafter.	Best estimate based on historical sales trends and expressions of interest
Minimum cash balances	£11m	Approximately 10% of turnover. Prudent in light of current economic and market risks as a result of Brexit.
High Value Voids (HVV) - The HPA requires housing authorities to sell interest in any vacant higher value (HRA) housing and pay levy to government	250 sales over 3 years Indicative modelling of a number of the scenarios is included in Appendix A	It is assumed the levy payment will be funded from capital receipts from units sold.

10.15 Based on these assumptions, the business plan remains viable over the 30-year period; and the investment programmes are deliverable. Appendix C presents the 30-year Operating Account, while Appendix D shows capital expenditure and financing over the 30-year period.

11. RISK MANAGEMENT

11.1 As the HRA headroom and financial capacity is fully utilised by the increase in the proposed capital programme over the immediate planning period the ability of the HRA to absorb and manage risk is reduced as HRA reserves will be at minimum levels.

11.2 This means that if any overspends occur or capital receipts are delayed or reduced this would necessitate mitigation through a range of management actions as the HRA is legally unable to run deficits.

11.3 The range of management options available within the HRA to mitigate any additional risks are as follows:-

1. Reduce expenditure
   - i. Reduce major works capex (e.g. from £1.5bn to £1.4bn over 30 years).
   - ii. Reduce Major works capex over the first ten years (when capex peaks).

2. Re-profile, extend or delay expenditure
   - i. Programme the regeneration spend so that schemes run sequentially rather in parallel or delay either some projects within Church Street or Ebury.
   - ii. Reprofile major works capex over the first ten years (when capex peaks).

iii. Reprofile and extend regeneration scheme programmes.

3. Dispose of HRA assets
   i. Identify surplus assets or sell additional HRA properties (eg excluding HVV this equates to extra 200 HRA properties value £100m).

4. Increase HRA rents from year 4 to the maximum allowable
   i. Moving rents to average of £126 per week in 2021/22 an increase of an extra £1.89 a week and setting rents thereafter at CPI+1% would generate additional income of c.£223m over 25 years (rent policy is only guidance and the only control at present is the limit on Housing Benefit).

5. Increase affordable rents to 80% of market rents.
   i. Moving average rents from £150 a week to £187 per week would generate c.£27m over 30 years.

6. Increase funding from the Affordable Housing Fund (AHF)
   i. The risk of increases in cost for the acquisition of affordable housing can be met from the AHF fund through reprioritisation of funding c£40m.

7. Lobby for an increase in the debt cap

11.4 An analysis of the current regeneration capital programme shows that after excluding schemes that are either cash limited or contractually committed and excluding spend on new affordable acquisition where the affordable housing fund would pick up any potential increase in cost risk that an appropriate level of risk contingency of c.£50m has been provided for.

11.5 As noted in section 10 above, the base business plan uses prudent assumptions so that risk is minimised. Set out below is a summary of other potential risks to the stability of the business plan. Quarterly governance meetings are held between senior officers and elected officials, at which programme performance is reviewed and risks monitored.

Risk	Impact	Mitigation
Capital Receipts: The plan assumes estimated capital receipts of £352m will be recovered and used to fund the development of new homes.	Any significant slippage in the recovery of these receipts may pose a cash flow risk for the HRA.	Robust monitoring of the timing of the receipts will help inform management action to mitigate this risk. Management options identified above would need to be applied
Rent Policy	If rents were to increase annually by CPI after 4 years, not by CPI+1% as modelled, the impact would be a cost of c.£330m and the plan would be unviable.	Management options above would need to be applied
Interest rates	The rates assumed are 3.9% on new borrowing throughout the BP. If they were to rise to 6%	Management options identified above would need to be applied

	the impact would be a cost of c. £62m. But the plan would still be viable	
Inflation	If RPI inflation were to increase above that assumed by 1% the impact would be that the Plan will no longer be viable over the 30yr.But the increase in costs would be partially offset by increased income as this is also based on CPI inflation	Management options identified above would need to be applied
Capital Costs	If the cost of construction and professional fees on the regeneration programme were to increase by 20% this would cost £50m.	This is provided for within the scheme budgets
Welfare Reform: Implementation of Universal Credit, benefit cap and other welfare reform changes.	May increase rent arrears which impacts HRA income.	Robust monitoring of service activity and the HRA Business Plan.
Brexit - Adverse impacts on costs and values as a consequence of Brexit	There is increased uncertainty about the costs of projects due to changes in the cost of materials and labour arising from changes in the value of the pound relative to other currencies. Equally there are changes in the attractiveness of London as a residential investment, positively due to falls in the value of the pound and negatively from lack of access to Europe. These are highly uncertain and may lead to increased caution on the part of contractors and developers when bidding for work or assessing the risks/rewards of current projects.	A selection of current projects are being reviewed to identify and seek to quantify the impacts based on the best evidence available to highlight areas where further measures need to be taken.

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

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

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

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

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

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

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

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

- **Financial and treasury management**. The housing authority complies with proper accounting practices including CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom2 and CIPFA’s Treasury Management in the Public Services Code of Practice.

12. FINANCIAL IMPLICATIONS

12.1 This report relates to the Housing Revenue Account (HRA) Business Plan and overall Housing Investment Strategy. It is based on 30-year period. It has been updated to reflect the current position including the impact of known Government policies, funding arrangements and risk factors. All expenditure and income are to be included in Council budgets. It is considered that the report reflects an accurate position on which to adopt the Plan.

12.2 The capital programme proposed will see an increase in capital spend. The gross HRA capital expenditure required to deliver the plans within this investment strategy is £700m over the next five years. This will rely upon funding of £210m of HRA revenue resources, £381m from RTB & Other capital receipts, £58m from the Affordable Housing Fund and £52m of new borrowing or grant.

12.3 The funding of this programme is largely dependent upon the timing and value of asset disposals that underpin the regeneration programme.

12.4 Once these HRA funds are committed they will utilise all of the foreseeable headroom and financial capacity within the HRA. It will result in the HRA reserves being at around a minimum level of c.£11m for the 20 years and borrowing peaking at £334m in year 7. This will limit the ability of the HRA to contribute major funds to any further housing development until around year 10, therefore the Strategic Housing Options study currently underway, is seeking alternative methods to build more homes.

12.5 As the plan repays debt the headroom will increase from year 7 and by year 13 the revenue reserves will also start to increase, which will allow for further new investment to begin again at this stage.

12.6 As the HRA is legally not allowed to run a deficit this means that if there is an overspend on the capital programme or elsewhere, or if capital receipts are reduced or delayed, the options available to contain these pressures will necessitate either reducing, reprofiling or stopping expenditure on the capital programme or realising funds through the disposal of HRA assets, or applying more funding from the AHF. These options are identified within the risk management section above (see section 11).

12.7 The procurement route for a number of renewal and investment opportunities has been changed from a developer framework approach to one of design and build. This change will make schemes more viable but transfer both additional cash flow development costs and risk to the HRA.

12.8 There remain a number of uncertain risks identified including interest rate, inflation and the impact of Brexit that will require close monitoring and the adoption of a range of management mitigations if they adversely impact upon the HRA.

12.9 The reduction in the capacity of the HRA and the potential impact of risk factors requires a strong risk mitigation strategy that can be quickly adopted if any of adverse risks materialise. The range of management options available to mitigate risk are outlined in detail within section 11.

12.10 The latest 30-year HRA Business Plan demonstrates that the investment proposals are fundable, subject to the assumptions within the plan, and that the HRA remains a sustainable and viable entity over the thirty year period.

12.11 In undertaking the HRA business planning process all regeneration programmes have been subjected to continued robust scrutiny and challenge and an appropriate level of contingency on capex schemes has been provided for within the plan.

12.12 This report presents the latest 30-year Housing Revenue Account (HRA) Business Plan and investment plans for housing related activity. Indicative detailed HRA capital investment budgets and proposed funding are presented for approval for the five years 2017/18 to 2021/22.

12.13 Lastly, the internal governance processes within housing, involving CWH development and major projects teams have been rigorously reviewed and focuses now upon key project management skills and tolerance reporting. These changes will ensure that regeneration scheme budgets and outcomes are managed within agreed exception reporting tolerances.

13. Legal Implications

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

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

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

13.4 This report includes references to rental income in relation to the charges made by the Council in respect of its HRA residential accommodation. Under Section 24 of the Housing Act 1985, local housing authorities have the power to "make such reasonable charges as they may determine for the tenancy or occupation of their houses". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. The section confers a broad discretion as to rents and charges made to occupiers; however it should be noted that there is a limitation on discretion arising from the self-financing determinations. Section 24 was further amended by Section 88 of the Housing and Planning Act 2016 with regards to rent for high income social tenants in England, also known as the "pay to stay" provisions. As mentioned in this report we are still waiting for effective legislation to be made which will govern the "pay to stay" provisions.

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

13.6 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.

13.7 The expected coming into force of the Housing and Planning Act 2016 is also likely to affect the findings of subsequent reports and also the Council's regeneration initiatives. The most relevant provisions include Sections 1 – 8 which introduce a requirement to provide "starter homes". Starter homes are dwellings aimed at first-time buyers which must attract a disposal price lower than the price cap which is currently set at £450,000 and which must be sold at a 20% discount against the market price. The Secretary of State may make amendments to the price cap. Another relevant provision is the imposition of a liability for local housing authorities which maintain a Housing Revenue Account to make payments to the Secretary of State based on the market value of any vacant higher value void properties which the local authority owns. Additionally under Chapter 6 and Schedule 7 the Housing and Planning Act 2016 seeks to phase out secure tenancies as life interests and replace them with fixed term secure tenancies thus potentially allowing for more flexibility in terms of stock management. Full details of any of these provisions are not available at the moment.

13.8 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.

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

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

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

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

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

13.11 The Council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making new decisions in the current context and in relation to the new Strategy. An Equalities Impact Assessment and or consultation maybe necessary if significant changes are envisaged to Housing Management Schemes.

13.12 As set out above this report contains references to new legislation which is not yet in force or which requires further regulations to be made by the Secretary of State.

14. Consultation

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

14.2 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.

14.3 Many of the schemes included in the early years of the 5-year capital programme are also being worked up in consultation with residents. Once approved, it will be necessary to communicate the aspirations and proposals contained within the overall Business Plan and Investment Strategy to resident groups more widely.

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

Dick Johnson (djohnson@westminster.gov.uk; 0207 641 3029) or Jake Mathias (jmathias@westminster.gov.uk 0207 641 3359)

Appendix A

Other Implications

1. Resources Implications

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

2. Business Plan Implications

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

3. Risk Management Implications

See section 11 of the report.

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

Programmes delivered within this strategy are aimed at addressing health and wellbeing issues, through improvements to housing and the public realm, and through related programmes addressing employment and skills and provision of community facilities.

5. Crime and Disorder Implications

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

6. Impact on the Environment

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

7. Equalities Implications

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

8. Human Rights Implications

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

9. Communications Implications

See section 14 on consultation.

Appendix B

HRA FIVE YEAR CAPITAL PROGRAMME (£'000)								
Schemes	2016-17 Forecast	2017-18 Plan	2018-19 Plan	2019-20 Plan	2020-21 Plan	2021-22 Plan	Total 5yr Plan	Total 30yr Plan
Major Works								
Kitchen & Bathrooms	1,900	1,100	2,160	2,340	1,800	900	**8,300**	**67,700**
External	14,541	19,170	21,480	14,446	16,182	16,573	**87,851**	**377,392**
Fire precautions	757	2,253	2,678	3,071	2,500	3,000	**13,501**	**38,258**
General	200	1,000	1,000	1,000	1,000	1,000	**5,000**	**29,200**
O.T Adaptations	1,200	1,200	1,200	1,200	1,200	1,200	**6,000**	**36,000**
M&E	7,621	11,840	14,727	14,233	11,159	10,659	**62,618**	**342,240**
Lifts	2,000	2,000	2,000	2,000	2,000	2,000	**10,000**	**50,000**
Major Voids	4,000	3,500	3,000	3,000	4,000	4,000	**17,500**	**93,500**
Total Major Works	**32,219**	**42,063**	**48,245**	**41,290**	**39,841**	**39,332**	**210,770**	**1,034,289**
Regeneration								
Church Street	4,980	6,845	31,075	39,620	45,280	18,100	**140,920**	**211,670**
Ebury Bridge	16,585	16,996	9,772	17,335	17,432	13,000	**74,535**	**102,120**
Lisson Arches	3,262	6,881	16,244	1,330	0	0	**24,454**	**27,719**
Tollgate Gardens	665	7,202	9,763	0	0	0	**16,964**	**17,630**
Luton Street	1,345	7,477	4,897	0	0	0	**12,374**	**13,719**
Parsons North	750	6,704	11,717	4,820	500	0	**23,741**	**24,491**
Cosway Street	2,400	9,600	9,500	8,500	0	0	**27,600**	**30,000**
Ashridge	300	3,600	6,932	1,971	62	0	**12,565**	**12,865**
Edgware Rd Development	1,058	33	8,849	0	0	0	**8,882**	**9,940**
Infill Schemes	2,461	5,871	5,336	2,770	2,465	0	**16,442**	**18,903**
CHP Scheme	700	4,900	1,300	500	1,000	1,100	**8,800**	**9,500**
Walden	0	0	0	0	7,000	0	**7,000**	**7,000**
Contingency	0	4,086	5,950	3,939	3,825	1,670	**19,470**	**23,452**
Total Regeneration	**34,507**	**80,195**	**121,334**	**80,785**	**77,564**	**33,870**	**393,747**	**509,009**
Other								
Lisson Arches Bridge Improvement	1,800	0	0	0	0	0	**0**	**1,800**
Regeneration Clientside	1,000	0	0	0	0	0	**0**	**1,000**
Self Financing	1,051	15,000	20,000	20,000	20,000	20,000	**95,000**	**96,051**
Kemp House	145	760	0	0	0	0	**760**	**905**
Total Other	**3,996**	**15,760**	**20,000**	**20,000**	**20,000**	**20,000**	**95,760**	**99,756**
Total Capital Expenditure	**70,722**	**138,018**	**189,579**	**142,074**	**137,405**	**93,202**	**700,278**	**1,643,054**

Financed By:								
New Borrowing	29,700	6,086	16,338	3,939	23,712	1,670	**51,745**	124,431
Affordable Housing Fund	3,453	18,329	4,619	9,441	13,000	13,000	**58,389**	101,833
Capital Receipts - Other	2,395	14,103	101,984	68,720	43,630	28,675	**257,112**	351,716
Capital Receipts - RTB	3,908	32,370	24,590	21,359	24,667	20,462	**123,448**	144,778
MRR	23,598	23,598	23,598	23,598	23,598	23,598	**117,991**	471,963
HRA Reserves	7,668	43,531	18,450	15,017	8,797	5,797	**91,593**	448,333
Total Financing	**70,722**	**138,018**	**189,579**	**142,074**	**137,405**	**93,202**	**700,278**	**1,643,054**

Appendix C

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

		Income				**Expenditure**													
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	Total expenses	Capital Charges	**Net Operating (Expenditure)**	Repayment of loans	Transfer from / (to) MRR	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2016.17	88,018	7,374	16,992	112,385	(45,437)	(23,260)	(15,800)	(2,070)	(86,568)	(12,149)	**13,668**	0	13,456	(22,735)	**4,389**	**41,606**	**289**	**46,283**
2	2017.18	86,397	7,559	16,896	110,852	(46,057)	(23,598)	(16,085)	0	(85,740)	(12,284)	**12,828**	0	0	(48,109)	**(35,282)**	**46,283**	**175**	**11,177**
3	2018.19	85,963	7,748	19,355	113,066	(47,069)	(23,957)	(16,900)	0	(87,925)	(11,789)	**13,351**	0	0	(13,519)	**(168)**	**11,177**	**55**	**11,064**
4	2019.20	87,731	7,941	17,455	113,127	(48,356)	(24,663)	(17,323)	0	(90,341)	(11,613)	**11,174**	0	0	(11,236)	**(63)**	**11,064**	**57**	**11,058**
5	2020.21	88,835	8,140	18,400	115,375	(49,560)	(25,272)	(17,756)	0	(92,588)	(12,195)	**10,591**	0	0	(10,638)	**(46)**	**11,058**	**57**	**11,069**
6	2021.22	91,740	8,343	18,979	119,062	(50,887)	(25,908)	(18,200)	0	(94,995)	(12,612)	**11,455**	0	0	(8,807)	**2,648**	**11,069**	**67**	**13,784**
7	2022.23	95,287	8,552	18,764	122,603	(52,564)	(26,633)	(18,787)	0	(97,984)	(13,439)	**11,180**	0	0	(13,952)	**(2,772)**	**13,784**	**69**	**11,081**
8	2023.24	98,560	8,766	19,233	126,558	(54,047)	(27,596)	(19,257)	0	(100,899)	(13,807)	**11,852**	(8,828)	0	0	**3,023**	**11,081**	**83**	**14,188**
9	2024.25	103,150	8,985	19,713	131,849	(55,179)	(28,139)	(19,738)	0	(103,056)	(13,294)	**15,499**	(7,214)	0	(10,588)	**(2,303)**	**14,188**	**95**	**11,979**
10	2025.26	104,110	9,210	20,206	133,526	(56,840)	(28,789)	(20,232)	0	(105,860)	(13,036)	**14,630**	(565)	0	(14,329)	**(264)**	**11,979**	**86**	**11,801**
11	2026.27	107,159	9,440	20,711	137,311	(58,550)	(29,826)	(20,737)	0	(109,113)	(12,150)	**16,048**	(12,822)	0	0	**3,226**	**11,801**	**(2,154)**	**12,873**
12	2027.28	109,536	9,676	20,840	140,051	(59,889)	(30,515)	(21,256)	0	(111,660)	(11,417)	**16,975**	(14,988)	0	0	**1,987**	**12,873**	**(2,054)**	**12,807**
13	2028.29	111,964	9,918	21,361	143,242	(61,259)	(31,220)	(21,787)	0	(114,266)	(11,046)	**17,930**	(16,698)	0	0	**1,232**	**12,807**	**262**	**14,300**
14	2029.30	114,462	10,166	21,895	146,522	(62,660)	(31,941)	(22,332)	0	(116,932)	(10,437)	**19,153**	(11,118)	0	0	**8,035**	**14,300**	**220**	**22,555**
15	2030.31	119,283	10,420	22,442	152,145	(64,092)	(32,679)	(22,890)	0	(119,661)	(10,058)	**22,426**	(9,300)	0	(12,244)	**882**	**22,555**	**206**	**23,643**
16	2031.32	119,675	10,680	23,003	153,358	(65,557)	(33,433)	(23,462)	0	(122,453)	(9,722)	**21,183**	(9,300)	0	(13,036)	**(1,153)**	**23,643**	**207**	**22,697**
17	2032.33	122,392	10,947	21,129	154,468	(67,055)	(34,205)	(24,049)	0	(125,310)	(9,386)	**19,773**	(9,300)	0	(13,416)	**(2,943)**	**22,697**	**209**	**19,963**
18	2033.34	125,184	11,221	21,657	158,062	(68,588)	(34,995)	(24,650)	0	(128,233)	(9,042)	**20,787**	(9,300)	0	(13,806)	**(2,319)**	**19,963**	**208**	**17,852**
19	2034.35	128,052	11,501	22,198	161,752	(70,154)	(35,803)	(25,266)	0	(131,224)	(8,692)	**21,836**	(9,300)	0	(14,207)	**(1,671)**	**17,852**	**209**	**16,390**
20	2035.36	133,517	11,789	22,753	168,059	(71,757)	(36,629)	(25,898)	0	(134,284)	(8,321)	**25,454**	(9,300)	0	(14,619)	**1,535**	**16,390**	**221**	**18,146**
21	2036.37	134,022	12,084	23,322	169,428	(73,395)	(37,474)	(26,546)	0	(137,415)	(7,947)	**24,066**	(7,245)	0	(8,488)	**8,333**	**18,146**	**257**	**26,736**
22	2037.38	137,127	12,386	22,797	172,309	(75,071)	(38,339)	(27,209)	0	(140,619)	(7,789)	**23,902**	0	0	(8,760)	**15,142**	**26,736**	**327**	**42,205**
23	2038.39	140,314	12,695	23,367	176,376	(76,785)	(39,223)	(27,889)	0	(143,897)	(7,754)	**24,725**	0	0	(9,040)	**15,685**	**42,205**	**416**	**58,306**
24	2039.40	143,584	13,013	23,951	180,548	(78,537)	(40,128)	(28,587)	0	(147,251)	(7,756)	**25,540**	(27,900)	0	(9,328)	**(11,688)**	**58,306**	**439**	**47,057**
25	2040.41	146,940	13,338	24,549	184,827	(80,329)	(41,053)	(29,301)	0	(150,683)	(6,578)	**27,566**	(1,601)	0	(9,624)	**16,340**	**47,057**	**462**	**63,860**
26	2041.42	153,274	13,672	25,163	192,109	(82,162)	(41,999)	(30,034)	0	(154,195)	(6,482)	**31,432**	(5,500)	0	(9,188)	**16,744**	**63,860**	**557**	**81,161**
27	2042.43	153,914	14,013	26,419	194,346	(84,035)	(42,968)	(30,785)	0	(157,788)	(5,353)	**31,205**	(27,427)	0	(9,484)	**(5,706)**	**81,161**	**597**	**76,053**
28	2043.44	157,536	14,364	27,080	198,979	(85,952)	(43,958)	(31,554)	0	(161,464)	(5,064)	**32,452**	0	0	(9,807)	**22,645**	**76,053**	**652**	**99,350**
29	2044.45	161,251	14,723	27,757	203,730	(87,911)	(44,971)	(32,343)	0	(165,225)	(5,029)	**33,476**	0	0	(10,140)	**23,336**	**99,350**	**781**	**123,467**
30	2045.46	165,060	15,091	28,451	208,602	(89,915)	(46,007)	(33,152)	0	(169,074)	(5,025)	**34,503**	(28,600)	0	(10,483)	**(4,580)**	**123,467**	**842**	**119,728**

Appendix D

Westminster City Council
HRA Business Plan
Major Repairs and Improvements Financing
(expressed in money terms)

		Expenditure									**Financing**						
Year	Year	Kitchen & Bathrooms	External	precautions (not in M&E or External)	M&E	Lifts	New Build Development Costs	High Value Voids Levy	Other	Total Expenditure	Borrowing	RTB Receipts	Other	MRR	RCCO	Total Financing	**Shortfall**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**
1	2016.17	1,900	15,941	4,757	7,621	2,000	35,038	0	2,800	70,057	0	5,458	32,060	9,804	22,735	70,057	**0**
2	2017.18	1,128	21,904	5,897	12,136	2,050	82,572	23,168	0	148,855	3,279	17,792	56,077	23,598	48,109	148,855	**0**
3	2018.19	2,269	24,879	5,965	15,473	2,101	120,258	46,337	0	217,282	18,014	5,190	156,603	23,957	13,519	217,282	**0**
4	2019.20	2,520	17,926	6,537	15,328	2,154	79,608	46,337	0	170,409	3,137	3,212	128,161	24,663	11,236	170,409	**0**
5	2020.21	1,987	20,290	7,175	12,317	2,208	77,300	0	0	121,277	24,161	4,577	56,630	25,272	10,638	121,277	**0**
6	2021.22	1,018	21,240	7,920	12,060	2,263	33,755	0	0	78,256	0	1,867	41,675	25,908	8,807	78,256	**0**
7	2022.23	1,160	17,047	6,958	15,076	2,319	28,681	0	0	71,242	24,707	5,617	333	26,633	13,952	71,242	**0**
8	2023.24	594	17,474	7,132	15,453	2,377	17,323	0	0	60,354	0	1,975	35,660	22,719	0	60,354	**0**
9	2024.25	609	17,911	7,310	15,839	2,437	34,473	0	0	78,580	0	2,509	32,467	33,016	10,588	78,580	**0**
10	2025.26	624	18,358	7,493	16,235	2,498	0	0	0	45,209	0	2,091	0	28,789	14,329	45,209	**0**
11	2026.27	1,792	18,177	4,608	19,201	2,560	0	0	0	46,339	0	2,151	63,750	-19,562	0	46,339	**0**
12	2027.28	1,837	18,632	4,724	19,681	2,624	0	0	0	47,498	0	2,214	0	45,284	0	47,498	**0**
13	2028.29	1,883	19,097	4,842	20,173	2,690	0	0	0	48,685	0	2,278	0	46,407	0	48,685	**0**
14	2029.30	1,930	19,575	4,963	20,678	2,757	0	0	0	49,902	0	2,344	0	47,558	0	49,902	**0**
15	2030.31	1,978	20,064	5,087	21,195	2,826	0	0	0	51,150	0	2,412	0	36,493	12,244	51,150	**0**
16	2031.32	7,241	19,118	5,214	14,483	2,897	0	0	0	48,952	0	2,483	0	33,433	13,036	48,952	**0**
17	2032.33	7,423	19,595	5,344	14,845	2,969	0	0	0	50,176	0	2,555	0	34,205	13,416	50,176	**0**
18	2033.34	7,608	20,085	5,478	15,216	3,043	0	0	0	51,431	0	2,630	0	34,995	13,806	51,431	**0**
19	2034.35	7,798	20,587	5,615	15,597	3,119	0	0	0	52,716	0	2,707	0	35,803	14,207	52,716	**0**
20	2035.36	7,993	21,102	5,755	15,987	3,197	0	0	0	54,034	0	2,787	0	36,629	14,619	54,034	**0**
21	2036.37	4,916	21,630	5,899	14,748	1,639	0	0	0	48,831	0	2,869	0	37,474	8,488	48,831	**0**
22	2037.38	5,039	22,170	6,046	15,116	1,680	0	0	0	50,052	0	2,953	0	38,339	8,760	50,052	**0**
23	2038.39	5,165	22,725	6,198	15,494	1,722	0	0	0	51,303	0	3,040	0	39,223	9,040	51,303	**0**
24	2039.40	5,294	23,293	6,353	15,881	1,765	0	0	0	52,585	0	3,130	0	40,128	9,328	52,585	**0**
25	2040.41	5,426	23,875	6,511	16,279	1,809	0	0	0	53,900	0	3,223	0	41,053	9,624	53,900	**0**
26	2041.42	2,966	24,472	6,674	18,539	1,854	0	0	0	54,506	0	3,318	0	41,999	9,188	54,506	**0**
27	2042.43	3,040	25,084	6,841	19,003	1,900	0	0	0	55,869	0	3,417	0	42,968	9,484	55,869	**0**
28	2043.44	3,116	25,711	7,012	19,478	1,948	0	0	0	57,265	0	3,500	0	43,958	9,807	57,265	**0**
29	2044.45	3,194	26,354	7,187	19,965	1,996	0	0	0	58,697	0	3,586	0	44,971	10,140	58,697	**0**
30	2045.46	3,274	27,013	7,367	20,464	2,046	0	0	0	60,164	0	3,674	0	46,007	10,483	60,164	**0**

Appendix E

This appendix sets out the possible impact of the introduction of a levy, the "Higher Value Voids" (HVV) Levy (the Levy), under section 69 of the Housing and Planning Act 2016 which is likely to be implemented in the next financial year. This information is based on broad estimates because detailed modelling has not been possible as no details have yet been published regarding the Levy. The paper goes on to propose objectives for developing strategies and options for the Council in dealing with the Levy and sets out initial options, in order to obtain early views on these.

1. BACKGROUND

1.1 In 2015 the Government announced a range of housing changes, including the extension of Right to Buy (RTB) to housing association tenants funded by the sale of vacant higher value council homes – "higher value voids". These changes were enacted in the Housing and Planning Act 2016 (the HPA). The HPA, under section 76, introduces a new duty for housing authorities to "consider selling its interest in any higher value (HRA) housing that has become vacant". The detail behind this, in particular, the meaning of "higher value housing" will be defined in regulations yet to be made by the Secretary of State (SoS).

1.2 In addition, under section 69, the HPA provides for the introduction of a levy on housing authorities which retain housing. Again the details of the levy will be determined by regulations to be made by the SoS. It is understood that it will be based on assumptions regarding sales of higher value void properties but no draft regulations have been issued yet.

1.3 The HPA also makes provision for the SoS to enter into agreements with local housing authorities such that the payment of the levy will be reduced. In Greater London one of the terms of the agreement must be that the authority must ensure that at least two affordable homes are provided for each old dwelling – except to the extent that the GLA has agreed to provide them. Again further details are awaited.

1.4 On 7th September 2015 as part of a report titled "Impact of national policy changes in the areas of housing reform and further welfare reform" Cabinet received initial estimates regarding the HVV policy. These included the following:

- over 57% of Westminster stock is "higher value" based upon the announced indicative national trigger points,
- 2% or 230 could become void each year,

- If these were sold and not replaced, the HRA could lose £1.3m per year rental income and the reduced ability to re-house homeless households could cost the General Fund an additional £1.5m per year in temporary accommodation costs.

1.5 Over the last year the Government has signalled its intention to smooth the impact of the Levy between local authorities with high value and low value real estate. It is rumoured that typically the Levy will be based on a local housing authority needing to dispose of between 50 and 100 units per year. However, the situation remains uncertain and whilst the above estimates have been and will continue to be reviewed, it should be noted that, in the absence of even draft regulations setting out the government's proposals, detailed financial modelling is not possible. Section 2 below presents the latest estimates and these will be updated as further information becomes available.

2. LEVY SCENARIOS AND IMPACT

2.1 Possible scenarios for the amount of the Levy payable have been developed in order to estimate the impact of the Levy and inform the Council's thinking in developing options to deal with the Levy.

2.2 The Council has had an active asset management strategy since 2013 and based on information from those sales it has been assumed that disposals will generate circa £500k each. After repaying debt, estimated at £33k per property, and disposal costs a net receipt of £460k per property is assumed. These assumptions have been applied to three scenarios which it is considered might apply under the Regulations to be introduced.

2.3 **Scenario 1 – Base Case, £115m Levy, based on 250 sales over 3 years**

Over the last year the Government has signalled its intention to smooth the impact of the Levy between high value and low value local housing authorities. It is rumoured that typically the Levy will be based on a local housing authority needing to dispose of between 50 and 100 units per year. For Westminster we have assumed the higher figure of 100 units per year will apply. In addition we have assumed that the Levy will be introduced in Q2 of 2017/18 and will last for the remaining life of the government. This results in sales and Levy payments as follows:

Scenario 1

	Sales	Gross Receipts	Net Receipts = Levy
		£m	£m
2017/18 (half year)	50	25	23
2018/19	100	50	46
2019/20	100	50	46
Total	250	£125m	£115m

2.4 **Scenario 2 - £250m Levy, based on assumed sales of 500 over 3 years, actual sales as Scenario 1**

Under Scenario 2 officers have assumed a position, which the Government appears to be moving towards, whereby the Levy payment will be divorced from actual sales of HVV properties and will be based on a general assumption regarding receipts from an assumed level of sales for each authority. We have assumed a worst case scenario that Government will base the Westminster Levy payment on 200 sales per year at the average sales value of £500k and that this will be payable, as under Scenario 1, from Q2 2017/18 for the life of the Government. However, under this scenario the actual number of sales and the net receipts from those sales will stay at the level assumed in Scenario 1. Therefore, as shown in the table below, there will be a deficit.

Scenario 2

	Sales for Government Levy Calculation	Government assumed Gross Receipts = Levy	Actual Net Receipts to Westminster (=Scenario 1)	Deficit
		£m	£m	£m
2017/18 (half year)	100	50	23	27
2018/19	200	100	46	54
2019/20	200	100	46	54
Total	**500**	**£250**	**£115**	**£135**

The modelling undertaken shows that, unless sales can be increased, this deficit could be partially mitigated by reducing the major works capital programme back to £1.4bn.

2.5 **Scenario 3 – Two for One Replacement in place of Levy Payment, 250 sales over 3 years (300 net new regeneration units within scope)**

The HPA provides for the Levy to be reduced where a London housing authority enters into an agreement to provide two-for-one replacement dwellings. Taking the assumptions for Scenario 1 regarding the sales of HVV properties, the net receipts are used to fund replacement housing for properties sold. As 250 properties are assumed to be sold, 500 need to be replaced. Current assumptions are that the replacement properties will be both In-Borough and Out of Borough at an average cost of £400k per unit. The modelling shows that it should be possible to provide 200 replacement dwellings and maintain the major works capital programme at £1.5bn. Together with the 300 new units being provided already within the regeneration programme this would give a total of 500 units during the period. Our assumption is that this will satisfy the requirement for two for one replacement programme

2.6 **Scenario 4 – Two for One Replacement in place of Levy Payment, 250 sales over 3 years (300 net new regeneration units not within scope)**

Taking the assumptions for Scenario 3 as a starting point this scenario assumes that the 300 net new units within the regeneration programme considered above are disbarred. Therefore 500 units would need to be provided. It has been assumed that some of these could be delivered in-borough on land already in the ownership of the Council and others would need to be provided out-of-borough on land that would need to be purchased and/or the Council would need to buy completed new units. It has been assumed that this could be achieved for a blended average of £400k per unit, thus a total of £200m. Modelling shows that this is affordable to the HRA provided that the capital programme is reduced to £1.4bn and that the levy payments are not spread over 5 years from 2020/21.

2.7 **Impact on the General Fund**

The impact on the General Fund relates to the loss of properties to re-house homeless families and therefore the increase in net temporary accommodation costs burden. It has been assumed that 70% of any properties sold to fund the Levy would ordinarily be used to take households out of temporary accommodation. The estimated marginal costs to the General Fund are £2,500 per year per property. On the assumed sales set out in the previous section of 250 sales over 3 years the cost to the General Fund would be:

- 2017/18 (50 sales) - £125k
- 2018/19 (150 cumulative sales) - £375k
- 2019/20 (250 cumulative sales) - £625k

This impact would be mitigated if the Council is able to agree a Two for One replacement programme.

3. TWO FOR ONE REPLACEMENT – LONDON WIDE VEHICLE

3.1 Scenarios 3 and 4 above assume that Westminster will enter into an agreement for the Levy to be reduced where a London housing authority enters into an agreement to provide two-for-one replacement dwellings. It appears that Communities and Local Government ministers might support a “London deal” to manage the impact of the changes, including a 2 for 1 replacement housing strategy which would involve retaining the Levy monies to fund new provision of affordable housing both in and out of borough. As reported to Cabinet in September 2015, we are participating in a London Councils led group to develop a position for London. Currently this work is proposing a solution in the form of a London Wide Vehicle.

3.2 The rationale for the proposal for a London wide vehicle is that the 2 for 1 replacement housing policy will be easier to deliver if boroughs work jointly across boundaries and make better use of available resources. The emerging proposition is for a cross-borough Collaborative Housing Vehicle as a mechanism for pooling funds and for investing to unlock housing potential and engage strategically with the wider public sector as well as private sector partners. The assumption is that Levy funds could be invested in this vehicle to enable more affordable housing provision rather than paid over to government. Details are still emerging and it is too early to undertake any modelling but this could have several attractions for the Council, particularly if it opened up opportunities to deliver more housing available for Westminster residents.

4. STRATEGY FOR DISPOSAL OF HIGHER VALUE VOIDS

4.1 As can be seen from the above initial financial analysis, the Council will need to amend its current disposal strategy to raise additional funding either to pay the Levy or to fund additional affordable housing under the two for one replacement policy. Current work is focussing on two aspects:

1) A review of which properties to sell

2) A review of the options for disposal - to whom the properties might be sold and upon what terms.

4.2 Review of Properties to sell

It is likely that officers will propose in a future report to the Cabinet Member for Housing, Regeneration, Business and Economic Development that the current criteria in the asset strategy, which indicates when a void dwelling can be sold, should be expanded to include a Higher Value Voids Disposal Strategy. Factors to consider in revising the current strategy might include, inter alia, the following:

- Consideration of a proactive sale of units that have values that are much higher than the mean,
- whether the dwelling needs to be retained to meet other business needs – for example, in a block earmarked for retention in a regeneration area and needed for decanting occupiers from blocks to be demolished,
- the presence of adaptations for disabled occupiers in the unit,
- whether there should be limits to the number of disposals in any one area.

4.3 In addition consideration is being given to the introduction of an incentive scheme for tenants to move from Higher Value dwellings.

4.4 Review of Disposal Options

Officers are also considering options with respect to the disposal strategy and in particular examining options whereby all or a proportion of any dwellings that are disposed of remain in use as affordable housing and/or temporary accommodation, and to ensure that, if possible, ownership of dwellings disposed of can revert to the Council in due course.

4.5 In considering possible options, it is being assumed that the Council will under the regulations to be made under the HPA be able to sell a reversionary interest of a lesser period than the norm (e.g. 50 years rather than 125 years). An initial consideration of a long list of options has produced a short list of options as set out below, in no order of priority.

4.6 **Option 1 - Disposal on the Open Market**

This is the base case against which the other options are considered. It would involve a straight-forward disposal of dwellings into the market as they are identified for sale. Subject to the review of which properties to sell and further work on viability, this option is probably best suited to the highest value voids which would not be viable as affordable housing without significant subsidy. Alongside the outright sale option, disposal by a lease at market rent will be reviewed. Leasehold disposal requires further consideration in relation to the length of the lease and issues of leasehold enfranchisement, disposal via a lease premium and rent or rent only as well as the accounting issues. However it does mean that dwellings disposed of can revert to the Council upon expiry of the lease.

4.7 **Disposal to a subsidiary of Westminster Community Homes (WCH) or a new housing company wholly owned by the Council (WOC)**

This option has been considered alongside direct disposal to WCH and, at this stage, is considered to be a better option. Both options potentially allow the dwellings to remain in the "social" housing sector, subject to further consideration in relation to the price which could be paid in relation to the rents to be charged (and further advice in relation to a WOC regarding the ability to offer assured tenancies rather than secure tenancies). The assumption at this stage is that the WCH option would be a better option where the Council wished the dwellings to be retained as "social" housing (at social, affordable or intermediate rents) but a WOC might be a better option for dwellings where market rents would be considered.

4.8 However, the option also faces the problem that, because the Council owns shares in WCH (and would own a WOC), the law prevents more than five disposals per annum to an organisation in which the Council has an interest. This could be addressed by applying for specific SoS consent or by amending the shareholding structure of WCH. SoS consent is likely to depend upon demonstrating how the proposal meets government objectives. Alternatively, if the Council were to give up its shareholding in WCH it would need to rely solely on contractual remedies as influence through governance arrangements would be removed. The Council would need to consider whether this would be acceptable.

4.9 The advantage that disposal to a subsidiary of WCH (or a WOC) rather than direct disposal to WCH offers is that neither would be a registered provider. This avoids the following issues:

1) as WCH is a registered provider the dwellings would remain subject to the impact of the 1% rent reduction regime and the Right to Buy and further consideration will be needed as to whether WCH could acquire at market value and then rent at sub market rents viably,

2) section 70(3) of the HPA allows the SoS, in determining the amount of the levy, to assume that any housing disposed of to a private registered provider remains owned by the disposing authority,

Thus a subsidiary of WCH (or a WOC) offers greater flexibility to provide for a range of housing needs, including intermediate rent and temporary accommodation, as well as to ensure viability without need of subsidy/grant (which would reduce the funding available to pay the Levy).

4.10 **Disposal via a lease to a third party with a leaseback to a Council controlled organisation**

This option could be considered in relation to disposal back to WCH or disposal back to a subsidiary of WCH or a WOC. The disposal to a third party before leaseback would remove the problem in relation to the five dwelling annual limit where the disposal is direct to a Council controlled organisation. This option has the further attraction that the Council could re-acquire the dwellings at the end of the lease term, if so desired, albeit that to ensure that sufficient funds are generated to pay the levy this is likely to be in 40 to 60 years. This option involves no change in control of WCH. However, it does involve a significant amount of work and modelling to establish the viability, accounting arrangements and ensure legality.

4.11 Conclusion on Strategy for Disposal of Higher Value Voids

The above discussion is speculative and no further work on disposal options may usefully be undertaken until at least some of the details that will feed into the calculation of the Levy are released by central government.

Appendix F

Key achievements in the last 12 months

Achievements in the past year have included:

- Appointment of Peter Brett Associates to develop a detailed master delivery plan of Church Street
- Preparation of an Outcomes Framework for Church Street to guide decisions of projects within the programme to ensure that the goal of transforming the neighbourhood is met
- Appointment of BDP to design the Green Spine in Church Street
- Opening a programme office in Church Street, appointment of a new Chair to the Futures Steering Group and its reorganisation
- Completion of the homes at Orchardson Street and their letting to local families
- Commercial agreement with London and Newcastle/Bouygues (now called 'LinkCity') to deliver 157 new homes at Luton Street. (Planning permission to be sought in December 2016 and work to begin late 2017.)
- Completion of the new nursery scheme at Tresham Crescent, using modular construction, work commenced on the new market stores at Venables Street to facilitate the development at Luton St.
- Work began on the redevelopment of Tollgate Gardens working with Affinity Sutton and Keepmoat. This includes demolition of exiting low rise blocks, refurbishment of the retained tower block and a new community centre
- Development of revised proposals for Ebury Bridge estate to deliver a commercially viable scheme that delivers the promises made to residents
- Community engagement programme with residents on all regeneration estates and work with GLA to secure additional investment in housing regeneration and provide empirical evidence for what works in housing regeneration
- Agreement reached with Soho Housing Association to transfer Wainwright House at Ebury Bridge estate to the Council (legal transfer achieved June 2016)

- Funding and launch of the Westminster Home Ownership Accelerator, a new intermediate housing scheme jointly developed with Dolphin Square Foundation to help eligible household build up a deposit towards moving on into home ownership.

- 213 new social and intermediate affordable homes delivered by housing association partners on a mix of new build sites and through spot purchases.

- £65m paid into the Affordable Housing Fund by developers linked to planning obligations

- Agreement signed with Dolphin Square Foundation for the development of 67 new homes (44 affordable homes) and a new Youth / Community Centre on Lanark Road.

- CityWest Homes service standards re-defined with customers and published.

- New CityWest Homes resident engagement model in-place and first round of meetings completed.

- CityWest Homes complaints management strengthened and satisfaction improving.

- 41 CityWest Homes' staff trained to carry out 'healthy homes' visits, enabling better links with the Council's Public Health team(s).