City of Westminster

Meeting or Decision Maker:	Cabinet
Date:	13th February 2023
Classification:	General Release
Title:	2023/24 Housing Revenue Account 30-Year Business Plan and Housing Investment Plan
Wards Affected:	All
Fairer Westminster:	This report addresses all income and expenditure associated with the Council's existing social housing stock, as well as investment in new housing and estate regeneration. This underpins multiple elements that support the delivery of the Council's Fairer Westminster Strategy.
Financial Summary:	The report presents the 30-year Business Plan for the Housing Revenue Account (HRA) covering the spending plans for both capital and revenue over that period. The 5-year outlook for the HRA revenue budget projects gross income of £701.87m and gross expenditure of £675.73m (with a further £26.14m contribution to fund capital). The business plan includes total capital investment of £794.51m over the next 5 years and a total of £2.359bn over the full 30 years. The HRA Business Plan is viable, subject to some over-arching assumptions, and demonstrates that the capital investment ambition over the 30 years can be funded sustainably. Resilience measures are incorporated to mitigate identified risks.
Report of:	Debbie Jackson, Executive Director of Growth, Planning and Housing and Gerald Almeroth, Executive Director of Finance & Resources.

1. Executive Summary

1.1 This report presents the updated 30-year Housing Revenue Account (HRA) Business Plan which the Council is obliged to prepare on an annual basis. It provides an overview of the financial planning that supports the management of the 20,788 homes operated by the Council's HRA. This covers both revenue and capital expenditure and therefore incorporates the extensive Housing Investment Plan.

1.2 Despite a volatile economic backdrop that has presented the HRA with significant financial challenges (see **Section 7**), the Council has delivered a sustainable HRA Business Plan from 2023/24 onwards. In doing so, it has managed to safeguard all planned housing investment whilst also increasing the delivery of social homes by 318 across its development programme. This is a significant achievement in the context of delivering the Council's Fairer Westminster vision.

1.3 Housing is a significant pillar within this vision and the HRA Business Plan is therefore a critical enabler for Council in delivering key strategic outcomes. As well as maximising the delivery of social housing, the plan supports investment in several other important objectives which are covered in **Section 5**. This includes increasing frontline staff, improving the condition and safety of existing stock, and investment to retrofit homes in order to achieve net zero carbon emissions by 2030.

1.4 The report seeks approval for the HRA revenue budget for 2023/24 (see **Section 8**). This includes approval for the proposed uplifts to both HRA rents and non-dwelling charges to take effect from 3rd April 2023. The Council is proposing to adopt a 7% rent increase for 2023/24 (in line with the government's rent cap), along with a 10.1% increase to charges for garages and sheds (in line with its wider fee & charges policy). It is acutely aware of the current pressure on household incomes and proposes to increase its Rent Support Fund from £0.575m to £1.010m to provide targeted support to tenants. This will be held as an earmarked reserve. Based on these proposals, the HRA will generate £126.17m across a range of income streams in 2023/24 (of which £85.23m comes from tenant rents). The 2023/24 expenditure budget is £123.48m, which leaves an operating surplus of £2.69m (which will be used to fund the capital programme).

1.5 The report also seeks approval for the 5-year HRA capital programme which includes planned capital expenditure of £794.51m (see **Section 9**). The 30-year programme totals £2.359bn. Just under half of the programme is funded from external sources (£1.014bn) with the remainder supported by the HRA itself. This includes a requirement to borrow an additional £479m over the next 16 years (including 2022/23, an increase of £51m on the previous iteration). The business plan ensures this is prudent by setting minimum reserve levels, applying a minimum interest cover ratio, and creating appropriate contingencies to manage risk (see **Section 12**).

2. Recommendations

2.1 Approve the HRA revenue budget for 2023/24 (Table 1 and Appendix 3)

2.2 Note the HRA 5-year revenue budgets for 2023/24 to 2027/28 (Appendix 3) and HRA 30-year revenue budgets for 2023/24 to 2052/53 (Appendix 4a)

2.3 Approve the HRA 5-year Capital Programme totalling £794.51m (Table 4)

2.4 Note the 30-year Capital Programme for 2023/24 to 2052/53 totalling £2.359bn (Appendix 5)

2.5 Approve the inclusion of all Fairer Westminster investments, including the expansion of the HRA Rent Support Fund to £1.010m in 2023/24 (to be earmarked to support tenants experiencing financial difficulty during the cost-of-living crisis)

2.6 Approve a rent increase of 7% from 3rd April 2023 in line with the social rent cap introduced by government for 2023/24, whilst noting that the Council continues to exercise its discretion under the rent restructuring policy to set rents for re-lets (both new tenants and transfers) up to formula target rent

2.7 Approve an increase of 10.1% to the fees charged for garages and sheds (in line with CPI at September 2022) from 3rd April 2023

2.8 Approve that tenant service charges be varied in line with estimated actual costs for 2023/24 from 3rd April 2023

2.9 Note the HRA reserves and balances for the 5-year Business Plan (Table 5)

3. Reasons for decision

3.1 Section 76 of the Local Government and Housing Act 1989 requires Local Authorities with a Housing Revenue Account (HRA) to set a budget for the account that avoids a deficit, whilst using robust and valid assumptions.

3.2 Furthermore, there is a statutory requirement for the Council to prepare a 30-Year Business Plan for the HRA on an annual basis. The purpose of this exercise is to keep the long-term financial viability of the HRA under regular review.

3.3 The report also provides the approval needed to set HRA tenant rents and other charges for the financial year 2023/24. The City Council is required by law to give tenants at least 28 days' notice of any variation to the rent charged.

3.4 Finally, this report outlines how the Housing Investment Plan supports the delivery of the Council's Fairer Westminster vision, including its commitment to deliver new affordable homes whilst maintaining the condition of the existing housing portfolio.

4. Key Implications

4.1 The report seeks approval for the 2023/24 HRA revenue budget. The proposed budget represents a balanced position and will retain a HRA reserve balance of £17.0m (to be maintained over the first 5 years of the plan). The budget is dependent on a rent uplift of 7% being applied in 2023/24 in line with the maximum increase for 2023/24 set by The Rents for Social Housing policy.

4.2 It also seeks approval for the 5-Year HRA Capital Programme which includes total expenditure of £794.51m. This includes £333.16m of investment in existing stock (supporting key priorities around fire safety and climate change) and £461.35m of development investment to deliver more than 900 new homes for social rent over this period. This is supported by a range of funding sources but ultimately requires the HRA to borrow £169.00m, which will result in a total interest cost of £13.93m to be covered by the revenue budget an on-going basis from 2027/28 onwards.

4.3 The report outlines the financial plan for the HRA based on assumed rent changes, service budget requirements and other variables as set out in the report. It also highlights the decisions made in relation to HRA reserve levels and other contingencies designed to improve the resilience of the HRA. Acceptance of the proposed financial strategy and approach to risk management that is adopted by the business plan will help the Council to deliver its strategic housing objectives in a manner that is sustainable and keeps the HRA on a secure financial footing.

5. Fairer Westminster

5.1 The funding plans earmarked in the HRA Business Plan will make a significant contribution to the delivery of the Council's Fairer Westminster vision. A summary of the proposed outputs under each strategic theme is shown below:

5.2 Fairer Housing

- Deliver 1,400 new council homes for social rent from 2023/24 onwards to expand access to truly affordable housing across the City (an increase of 318 versus the previous iteration of the business plan)
- Undertake stock condition surveys across more than 30% of homes in 2023/24 to ensure all Council tenants live in homes maintained to a decent standard

5.3 Fairer Environment

- Provide funding for a £218m programme to retrofit existing homes and help the Council to achieve its ambition of net zero emissions by 2030
- Improve the energy efficiency of HRA stock to help tenants and leaseholders to reduce energy bills and reduce the debilitating impact of fuel poverty
- Support de-carbonisation of the PDHU with funds to deliver network upgrades

5.4 <u>Fairer Communities</u>

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

5.5 <u>Fairer Council</u>

- Increasing the number of frontline housing officers and creating estate offices to ensure tenants can easily access the support that they need
- Digital investment to enhance the experience of tenants when they engage with the Housing service (including an upgrade to the Orchard system)

5.6 <u>Fairer Economy</u>

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

6. Background

6.1 The HRA covers all income and expenditure relating to the portfolio of housing stock owned by the Council. It is required by the Local Government and Housing Act 1989 to be ring-fenced from the Council's General Fund. The legislation specifies that only expenditure relating to the Council's landlord role can be charged to the HRA and, by extension, funded by the rents charged to tenants. The Council has a legal duty to ensure that the account remains solvent and to prepare a long-term business plan annually that keeps this under regular review.

6.2 Preparing the 30-year HRA Business Plan involves a long-term assessment of the funding needed to deliver landlord duties alongside wider strategic housing objectives. This involves detailed modelling of operating resource requirements, capital investment plans and external funding streams against wider environmental factors such as macro-economic assumptions and potential legislative changes. This creates a detailed financial outlook for the HRA which is summarised in **Sections 8-10** of this report (with detailed schedules included in Appendices 2-4).

6.3 The over-arching assumptions that support the business plan are included at Appendix 1. Any adverse movement on these assumptions has the potential to put financial pressure on the HRA and reduce its ability to support capital investment. A key aspect of the business planning process is making strategic decisions about appropriate levels of cover to ensure that the HRA remains resilient in the face of an ever-changing economic. This approach is outlined in **Sections 12-13**, which also includes sensitivity analysis to test what level of financial shock the HRA could be expected to absorb without compromising deliverables.

7. The operating context for the HRA

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

7.2 <u>Inflation</u>

7.2.1 The UK has experienced high levels of inflation over the last 12 months. The Consumer Price Index (CPI) has remained higher than 10% for much of the year which has put significant pressure on the HRA given that the CPI assumption in the previous business plan was closer to 3%. This has been exacerbated by the HRA's exposure to sectors such as construction and utilities which are experiencing specific inflation pressure that is running much higher than CPI.

7.2.2 Consequently, this iteration of the HRA business plan has had to absorb more than £4m of residual 2022/23 inflation pressure on revenue expenditure from the outset. An assessment of inflation exposure on the Development capital programme has identified a further £56m pressure. This has created a significant challenge for the Council in maintaining the sustainability of the plan.

7.2.3 Despite the Bank of England's assessment that CPI will begin to stabilise and start to come down by the end of 2023, the business plan has been prepared on the basis on CPI continuing to run at 10% for 2023/24. This is considered a prudent approach to ensure that sufficient allowances are made for the new financial year and results in the inclusion of an inflation contingency of approximately £5.5m across the HRA cost base.

7.3 <u>Social Rent Policy</u>

7.3.1 In the Autumn Statement, the government announced that there would be a 7% cap applied to social rent uplifts from 1st April 2023. This represented a significant change to the existing rent policy which had previously allowed for a rent uplift of CPI+1% (which formed the basis of the assumptions in the previous business plan).

7.3.2 The Council intends to adopt a rent uplift in line with the 7% cap, but this inevitably results in a below-inflation increase that creates a shortfall in HRA resources in the face of the cost pressures noted above. Every 1% of rent is worth roughly £800k to the HRA, which creates a funding shortfall of roughly £3.2m on the basis that the previous business plan assumed CPI+1% (which would have required an 11% uplift). To help manage this funding gap, efficiency savings of £3.1m have been identified.

7.3.3 Despite the introduction of a cap, the Council remains acutely aware that a 7% rent increase still has the potential to put considerable pressure on household income for its tenants, especially when taken in combination with increased energy costs. A large proportion of tenants (68%) are in receipt of housing benefit and therefore should see a corresponding increase in support to manage the rent increase. To help remaining tenants that may require help with the rent increase, the Council has committed to extending its Rent Support Fund from £0.575m to more than £1m to ensure that it is able to target financial support to households where needed.

7.4 **Legislative Changes**

7.4.1 The HRA is always exposed to the impact of new requirements being imposed on social landlords as a result of new legislation. Resources have been allocated to cover new duties created by the Building Safety Act that will be fully implemented before the end of 2023 (with £620k earmarked for an increased inspection regime).

7.4.2 The housing sector is also gearing up for dampness and mould to be the next area of focus nationally in relation to tenant safety. Whilst there is no indication of what any additional requirements might look like at the current time, Westminster has opted to be proactive in this area. It has allocated a further £600k to undertake targeted stock condition surveys in 2023/24 (with a focus on internals). This will allow the Council to survey more properties over the next 12 months and improve its chances of identifying mould issues and taking remedial action early.

7.4.3 Finally, the Social Housing White Paper is another piece of legislation that has the potential to alter the way in which housing services are delivered in the future and which may result in a need to fundamentally alter the way in which resources are allocated within the business plan.

7.5 **Interest Rates**

7.5.1 The Bank of England's response to the inflation challenge has been to take swift action to increase interest rates. This is a critical assumption within the HRA business plan given the impact that it has on the HRA's ability to borrow in order to fund the capital programme.

7.5.2 As part of the refresh of the business plan, the Council has opted to maintain the same assumption for interest rates as the last plan (2.6%). The Council has a forward borrowing facility that will safeguard this rate of interest for at least a couple of years, with the business plan prepared on the basis that interest rates will stabilise at the end of that period. Nonetheless, if interest rates continue to rise and this is sustained for a longer period then the HRA's borrowing capacity will be reduced as a result.

8. HRA Revenue

8.1 The HRA Business Plan is underpinned by the objectives that form the basis for the Council's Fairer Westminster strategy. It therefore provides an important vehicle for allocating resources to the delivery of this vision. The following investments have been factored into the HRA revenue budget from 2023/24 onwards.

8.2 <u>Improving the quality of the Housing Service</u>

8.2.1 The business plan supports the addition of 8 additional Housing officers to further supplement the increase in frontline officers that was delivered as part of the service redesign in 2021/22. This injection will initially last for 18-months and be funded from the HRA reserve until sufficient capacity can be identified within the baseline HRA revenue budget.

8.2.2 The service is also working to deliver a new generation of estate offices (subject to suitable assets being available) that will improve the presence and connectivity of frontline officers. The borough has already been mapped to identify the areas in which access to officers is weakest and this will be used to structure the approach to providing enhanced facilities (with some options already being progressed).

8.3 <u>Improve the condition of existing stock</u>

8.3.1 Resources have been allocated to boost the volume of stock condition surveys due to be undertaken in 2023/24, with a focus on internal condition (including potential damp and mould issues). A one-off injection of £600k will be made from the HRA reserve to deliver this. The service is hopeful that the additional resources will increase coverage to more than 30% of all HRA tenanted stock over the next 12 months. The additional funding will also be sufficient to ensure that the Council can undertake remedial repairs when the need is identified as part of a survey.

8.4 <u>Improve safety of housing stock</u>

8.4.1 An extra £620k has been built into the HRA revenue budget to support an enhanced building safety inspection regime on an on-going basis. This is a response to the additional duties placed on the Council as a landlord under the Building Safety Act. It also underlines the Council's commitment to ensuring that its tenants and leaseholders feel safe in their homes.

8.5 <u>Supporting tenants in the cost-of-living crisis</u>

8.5.1 Finally, the Council has committed to expanding the size of its earmarked Rent Support Fund to more than £1m for 2023/24. This will provide flexibility for the Housing Service to be able to target support at households experiencing difficulty with paying rent because of pressures created by the cost-of-living crisis. The mechanism for operating this fund is also in the process of being amended so that tenants can access support as efficiently as possible to minimise anxiety.

8.6 The HRA Business Plan considers both the operation of the Housing Management service and the delivery of the capital programme. The delivery of the capital programme has direct revenue implications due to the impact of financing costs incurred to support the extra borrowing required. In addition, the Regeneration programme increases the level of housing stock and therefore drives growth in both income (increased rents) and expenditure (additional housing management responsibilities) within the HRA revenue budget.

8.7 The five-year revenue outlook for the HRA includes an expectation that rents will increase by 7% in 2023/24 (in line with the recently announced cap), reverting back to CPI+1% for 2024/25 (as per the existing rent policy) and by CPI from 2025/26 onwards (subject to what the government announces in relation to future rent guidance). Based on the current rent roll, the proposed 7% rent increase will generate approximately £5.6m in additional rental income in 2023/24. There is an expectation of a further £1.1m of income to be generated by the addition of new social homes from the development programme. The key assumptions used to set the 2023/24 budget and long-term business plan are set out at Appendix 1. The table below (Table 1) shows the 5-year revenue outlook for the HRA.

8.8 Rent assumptions are a critical element of the HRA Business Plan. One of the important points to note about Westminster's plan is that the rent uplifts from 2025/26 have been held at CPI which is a prudent assumption in comparison to other social housing providers. The government have given the strongest indication to date that it may continue with a rent policy that limits uplifts to CPI+1% beyond 2024/25. However, this remains speculative, and the Westminster plan therefore adopts a more prudent outlook. This can be considered one of the resilience measures built into the plan given that the Council has been able to balance its plan and will therefore get the potential benefit of any upside that comes from confirmation of the government's initial indication about future rent policy.

8.9 The five-year HRA revenue outlook also includes an expectation that the HRA will see a net increase in stock numbers of more than 500 homes. This boosts income from rents but also generates increased management costs (the impact of which need to be monitored closely to ensure that new units meet the operational assumptions included in the business case for each development scheme). This assumption also creates a corresponding financial risk for the HRA if schemes experience delays and units are handed over later than profiled which would reduce projected income levels for the HRA in any given year.

8.10 To help mitigate revenue risks, a flexible revenue contribution to capital is built into the revenue budget (as shown in Table 1). Its primary purpose is to reduce HRA debt levels over the life of the business plan, but there is also flexibility for it to be used as a revenue contingency if the revenue budget comes under pressure or additional borrowing is needed at any given point. It essentially creates a level of interest cover within the revenue budget (at a ratio of no less than 1.20 in any given year). This represents an important metric for ensuring that HRA borrowing plans are sustainable and the HRA is resilient to unforeseen risks.

Table 1 – 5 Year HRA Business Plan

	1 2023/24	2 2024/25	3 2025/26	4 2026/27	5 2027/28
	£m	**£m**	**£m**	**£m**	**£m**
Dwelling Rents	(85.231)	(93.914)	(97.215)	(99.970)	(102.239)
Non-Dwelling Rents	(0.901)	(0.955)	(0.993)	(1.013)	(1.034)
Commercial Rents	(7.800)	(8.363)	(8.698)	(8.872)	(9.049)
Service Charges	(22.673)	(24.461)	(24.963)	(25.508)	(26.061)
Heating & Hot Water Service Charges (incl. PDHU)	(7.212)	(7.644)	(7.950)	(8.109)	(8.271)
HRA Investment & Other Income	(2.350)	(2.491)	(2.591)	(2.642)	(2.695)
TOTAL INCOME	**(126.166)**	**(137.829)**	**(142.410)**	**(146.114)**	**(149.349)**
Staff	21.866	22.850	23.535	24.006	24.486
Repairs & Maintenance	26.605	28.599	29.867	30.693	31.359
Supervision & Management	9.739	10.805	11.228	11.845	12.082
Estate Services	11.063	11.727	12.196	12.440	12.689
Heating & Hot Water Expenditure (incl. PDHU)	7.212	7.645	7.951	8.110	8.272
Rents, Rates and Commercial Charges	0.629	0.666	0.693	0.707	0.721
Regeneration	0.367	0.387	0.401	0.409	0.417
TMO Allowances	1.656	1.755	1.825	1.862	1.899
Support Costs	10.771	11.417	11.874	12.111	12.353
Movement on Bad Debt Provision (BDP)	0.550	0.583	0.606	0.618	0.631
Depreciation	21.360	22.816	24.124	24.780	25.387
Capital Financing Costs	11.661	11.435	12.584	12.874	13.933
TOTAL INCOME	**123.478**	**130.685**	**136.884**	**140.455**	**144.228**
HRA OPERATING (Surplus)/Deficit	**(2.688)**	**(7.144)**	**(5.527)**	**(5.658)**	**(5.121)**
Revenue Contribution to Fund Capital (RCCO)	2.688	7.144	5.527	5.658	5.121
HRA TOTAL	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Interest Cover Ratio	**1.23**	**1.62**	**1.44**	**1.44**	**1.37**

8.11 The table demonstrates that the HRA revenue budget will be balanced over the medium-term, despite the impact of high inflation and a below-inflation rent uplift for 2023/24. This has been achieved, in part, through the identification of £3.1m of budget savings within the revenue budget (none of which create any tangible reduction in service levels). This ensures that a continued commitment to the efficient use of HRA resources is what balances the funding gap for 2023/24, and not a reduction in the level of capital ambition.

8.12 Furthermore, the balance on the HRA reserve (which is covered in more detail in **Section 11**) will intentionally be held at £17m for the duration of the first 5 years of the plan. This is consistent with the minimum level set in the previous iteration of the business plan and represents 11-14% of total HRA turnover over this period. This will increase the financial strength of the HRA during the main building phases of its development programme, as well as increasing resilience in the face of a highly volatile economic environment, with high levels of cost inflation, labour and materials shortages, and interest rate increases. The long-term objective for the HRA reserve is for it to be maintained at a minimum of 10% of turnover from Year 6 onwards. This means it never drops below £15m over the life of the business plan.

9. HRA Capital and Stock Investment Plan

9.1 The HRA capital programme will see £794.51m of capital expenditure committed over the next five years (2023/24 – 2027/28) on the development of new build affordable housing, the regeneration of estates, and on maintaining the condition of existing housing stock. The HRA will finance this programme using a variety of funding sources and will always ensure that the most appropriate financing option is used to support scheme viability and generate value for money for the revenue budget (which means reducing borrowing wherever possible). The following sections set out the major categories of spend within the capital programme and details some of the projects and schemes within these categories. A full schedule of the whole capital programme can be found at Appendix 5. **Section 10** sets out in more detail the financing of the capital programme.

9.2 **Planned Maintenance Programme (£1.597bn)**

The 2023/24 HRA Business Plan includes capital investment in existing stock totalling £60.80m. The business plan projects a total of £1.597bn to be invested in maintaining and improving existing HRA stock over the next 30 years.

This programme, and the associated budgetary requirement, is built using substantial supporting data taken from a rolling 3-year stock condition survey. This is further informed by overlaying analysis of the number and location of repairs being generated, insurance claims, legislative changes (e.g., building and fire safety), and complaints. This information is fed into the asset management database to assess priorities and determine the annual capital programme requirement.

It should be noted that elements of the planned maintenance programmes include works to leaseholder properties, and the costs reflected below represent the gross costs. Leaseholders will be consulted and billed in accordance with their lease for contributions they are required to make towards qualifying works.

Table 2 – HRA Planned Maintenance

HRA BP Year >>	1	2	3	4	5	6-30	
Scheme Name	2023/24	2024/25	2025/26	2026/27	2027/28	28/29 to 52/53	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Voids and Aids & Adaptations	5,700	5,700	5,700	5,700	5,700	128,900	**157,400**
Electrical & Mechanical Services	2,757	2,728	2,773	2,627	2,460	58,120	**71,465**
Major Works	31,384	30,527	32,906	35,296	36,472	393,150	**559,735**
Health & Safety (incl. Fire Safety)	3,448	2,424	2,132	1,360	1,360	26,400	**37,124**
Asset Mngt & Minor Works	2,705	2,595	2,595	2,400	2,100	34,900	**47,295**
Domestic Heating & Hot Water	1,030	1,030	1,030	900	900	18,400	**23,290**
Lifts	2,613	2,613	2,613	2,613	1,835	40,780	**53,067**
Climate Works (Retrofit)	5,000	10,000	10,000	10,000	10,000	167,188	**212,188**
PDHU	4,441	3,166	1,605	1,205	405	0	**10,822**
Inflation Allowances	1,718	4,031	5,990	7,743	9,133	396,030	**424,646**
Planned Maintenance TOTAL	**60,796**	**64,814**	**67,344**	**69,844**	**70,365**	**1,263,868**	**1,597,032**

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

9.2.1 **Voids and Aids & Adaptations (£157.400m)** – this is a demand led budget, with £3.9m earmarked annually for the refurbishment of voids and £1.8m provided for adapting properties to meet the accessibility needs of residents (including grab rails, converting bathrooms into wet rooms, baths into showers, installing stair lifts, etc).

9.2.2 **Electrical & Mechanical Services (£71.465m)** – this budget covers the renewal of estate lighting, door entry systems, communal boilers, lateral mains, and lightning conductors.

9.2.3 **Major Works (£559.735m)** – the major works programme is derived from the asset management database which records the useful economic life of each building component across the HRA stock portfolio, and therefore schedules the replacement requirements for each (including roofs, windows, communal decorations, etc).

9.2.4 **Health & Safety (£37.124m)** – Fire Risk Assessments (FRA) are periodically completed for all buildings that are more than 6 storeys (with frequency dependant on the risk associated with each building). The actions emanating from these are placed into a programme of works, which includes things such as the renewal of fire doors, installation of sprinkler systems, etc. Ultimately, this budget helps to ensure that the Council is compliant with the requirements of the Building Safety Act.

9.2.5 **Asset Management & Minor Works (£47.295m)** – Damp and condensation are critical issues for aging housing stock and are a specific focus of improvement works at Westminster. The installation of internal wall insulation, secondary or double glazing and cavity wall insulation assists in tackling these issues and contributes towards the Council's drive to reduce carbon emissions.

9.2.6 **Domestic Heating & Hot Water (£23.290m)** – This budget delivers the domestic boiler replacement programme. Westminster has 6,566 domestic boilers, which are replaced with low energy boilers Grade A+ on a rolling 15-year cycle.

9.2.7 **Lifts (£53.067m)** – This budget covers the management of Westminster's 363 lifts in high rise blocks, with a planned programme of renewal and refurbishment.

9.2.8 **Climate Works (£212.188m)** – The Council has set itself a challenging target to become a carbon neutral council by 2030. Achieving this requires major investment to retrofit its housing assets and upgrade its communal heating systems. The overall budget for the Climate Action Plan remains £218m (with some spend incurred in 2022/23). This includes an ambitious assumption that 50% of this can be funded from external grants (although the government continues to release grants on a piecemeal basis).

9.2.9 **PDHU (£10.822m)** – The Council is committed to decarbonising the Pimlico District Heating Undertaking (PDHU), which is the Council's largest district heat network and largest emitter of carbon. A Strategic Outline Case (SOC) was approved in January 2023 to take forward the development of four options for the future of the PDHU. The development of these options will consider a range of factors, including carbon reduction, household energy costs and levels of disruption to residents and the wider area. This is expected to require significant capital investment in the region of £175-225m. The phasing of works and expenditure is not yet determined but is likely to be spread over several years in the run up to meeting the carbon neutral target of 2030. Funding for the full scheme is also yet to be finalised, but will likely be a mixture of government grant, leaseholder contributions and Council funding as the main sources of finance. The current budget only includes a minor allowance to support emergency network upgrades to the PDHU network at Lillington & Longmoore (which would form part of any future upgrade scheme anyway) as well as progression of the wider business case.

9.2.10 **Inflation Allowances (£424.646m)** – The Planned Maintenance programme includes an inflation provision to ensure that budgets remain fit for purpose to deliver the investment in existing homes required over the life of the 30-year business plan. These allowances also provide uplifts to support additional maintenance costs generated by new units as the size of the HRA portfolio grows.

9.3 **Development & Regeneration Programme (£761.62m)**

<u>Table 3 – Development & Regeneration Programme</u>

HRA BP Year >> Scheme Name	1 2023/24 £000	2 2024/25 £000	3 2025/26 £000	4 2026/27 £000	5 2027/28 £000	6-30 28/29 to 52/53 £000	TOTAL £000
Ashbridge	1,674	0	0	0	0	0	**1,674**
Ashmill	177	0	0	0	0	0	**177**
Cosway	3,452	0	0	0	0	0	**3,452**
Carlton Dene	4,546	20,589	28,119	0	0	0	**53,254**
Queens Park Court	6,500	5,095	0	0	0	0	**11,595**
Lisson Arches	3,237	0	0	0	0	0	**3,237**
Parsons North	168	454	0	0	0	0	**622**
Ebury Acquisitions & Decants	4,590	11,043	0	0	0	0	**15,633**
Ebury - Phase 1	35,000	29,739	8,894	177	23	0	**73,833**
Ebury - Phase 2	2,000	58,873	1,025	2,107	62,897	30,372	**157,274**
Pimlico (Churchill Gdns)	1,939	10,537	16,152	0	0	0	**28,628**
Infills	11,907	7,639	150	150	0	0	**19,846**
Church St Acquisitions	4,700	17,132	0	0	0	83,439	**105,271**
Church St - Site A	1,174	34,675	14,893	164	4,729	30,982	**86,617**
Church St - Site B	0	0	0	1,208	931	99,812	**101,951**
Church St - Site C	0	0	0	0	0	42,758	**42,758**
West End Gate	-35	0	0	0	0	0	**-35**
Lisson Grove	0	0	0	0	3,318	3,317	**6,635**
Paddington Green	1,537	3,690	5,843	0	0	0	**11,070**
300 Harrow Rd	1,958	0	0	0	0	0	**1,958**
Westmead	0	4,841	0	0	0	0	**4,841**
Cundy St Quarter	0	0	7,000	0	0	0	**7,000**
Contingency	2,789	6,742	2,709	126	2,373	9,592	**24,331**
Development & Regen TOTAL	**87,314**	**211,049**	**84,785**	**3,932**	**74,271**	**300,272**	**761,622**

9.3.1 The HRA Business Plan has been developed at a time of growing construction costs and expectations of an increasingly challenging residential market in central London. While the Council cannot control or influence these challenges, the plan is structured to minimise their impact on the Council's programme and safeguard the planned delivery of affordable homes. For example, a detailed review of inflation risk was undertaken in 2022 and £50m has subsequently been diverted from the programme-wide contingency to keep the programme on track.

9.3.2 The programme remains under constant review, and each scheme is subject to a detailed viability assessment to ensure the Council is always delivering value for money. Each scheme has its own individual business case which is subject to a separate Cabinet Member decision. The business cases for each scheme contain stress tests to indicate the financial and delivery risks.

9.3.3 One such review was undertaken in 2022 with a view to maximising the level of truly affordable housing being delivered. Underpinned by the Fairer Westminster strategy, the Council challenged itself to go back to first principles and identify ways in which tenures could be flipped across the programme to deliver more affordable housing, with a particular focus on increasing the number of homes for social rent. This highly successful initiative has identified 318 extra homes for social rent (across a range of schemes) and hopes to secure an additional £60m of GLA funding to support their delivery. The total number of homes for social rent being delivered by the programme as a whole from 2023/24 onwards is close to 1,400.

9.3.4 Further details of some of the prominent schemes within the Development & Regeneration programme are provided below.

9.3.5 **Carlton Dene (£53.254m)**

This scheme involves the redevelopment of an existing 42 bed care home in Maida Vale into a modern extra care housing development which will deliver 65 self-contained extra care flats for older people. Extra care homes are designed to meet the needs of people of retirement age, making sure people are safe and supported whilst also maintaining independence. The scheme also incorporates the redevelopment of Peebles House into 22 affordable apartments. This includes a range of unit sizes, including one-, two- and three-bedroom homes.

The delivery route for this development has now been confirmed as self-delivery of the consented scheme. Demolition procurement is complete, and work is underway to discharge all planning conditions to allow works to start by March 2023 (which is required to claim agreed GLA and Department of Health funding). This scheme won the Housing Design Award 2022 under the HAPPI category.

9.3.6 **Church Street (£336.597m)**

Church Street is the most deprived area of Westminster and is the focus of much needed regeneration. This is highlighted within the Church Street Masterplan which seeks to deliver real change for the community by creating great places, opportunities for a healthy and prosperous lifestyle, new homes and more jobs.

Site A is the first to come forward and its redevelopment will contribute to the delivery of the Council's Fairer Westminster objectives by using a transparent process to provide a range of homes and creating opportunity for residents and businesses. The redevelopment will also provide significant improvements to the Church Street Market and public realm.

The Hybrid Planning Application for Church Street Sites A, B and C was submitted in November 2021. Since May 2022 the development team have been exploring changes to the design brief for Church Street Sites A, B and C. This has included an increase to the size of the new library facility within Site A, and also increasing the provision of a greater number of homes for social rent. Amendments to the hybrid planning application for Church Street Sites A, B and C were submitted in January 2023 with a targeted committee date of March 2023.

A positive outcome from the recent resident ballot has also been confirmed, with over 70% voting in favour of the proposed development. This unlocks significant levels of potential GLA funding, subject to meeting funding parameters and the submission of the bid (which is underway). This additional funding has been fundamental in helping the scheme to release more homes for social rent.

9.3.7 **Lisson Arches (£6.635m)**

The Lisson Arches site is adjacent to disused railway arches within the Church Street ward. This development will provide 60 sheltered accommodation units as well as enterprise space.

An extensive enabling works package was completed in August 2020, and United Living are now on site progressing the construction of the new building, which is expected to complete in Summer 2023.

Of the total number of social housing units being delivered, 45 will provide replacement homes for the units that are earmarked for demolition at Penn House, a nearby sheltered accommodation block. The remainder will provide additional decant space for the wider Church Street Programme.

9.3.8 **Ebury Bridge (£246.740m)**

Ebury Bridge is a wholescale estate regeneration scheme with full demolition and re-provision. The scheme will deliver 781 new mixed tenure homes, with high quality public realm along with community and social infrastructure. Outline planning consent for the entire scheme and detailed planning consent for Phase 1 was achieved in 2021 and the main works contractor, Bougues UK (BYUK), commenced delivery of Phase 1 in November 2021. Construction is progressing in accordance with the programme and completion is currently scheduled for 2024.

WCC has committed to self-delivering Phase 1 which comprises of 226 new homes. This phase will largely enable the Council to meet the re-housing requirements for future phases of development. In 2022, proposals for tenure changes been put forward, which, subject to commercial review and planning changes will see an increase in the provision of social rent homes.

The design of Phase 2 is also progressing well, with tenure change amendments and learning from Phase 1 being incorporated into the delivery proposals. The design is being reviewed in line with anticipated Building Safety amendments. A refreshed OBC, scheme viability and the recommended delivery strategy for Phase 2 are in progress and likely to be submitted for approval in the second quarter of 2023.

Preparations for the resident ballot in February 2023 are well progressed. A positive ballot result will secure GLA grant funding of c.£40m across both phases and will enable the delivery of more social housing on the scheme.

9.3.9 Churchill Gardens (£28.628m)

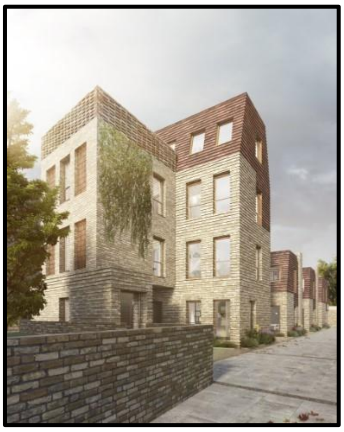
This scheme involves the redevelopment of Darwin House on the Churchill Gardens estate to provide 34 modern community supported homes (including a warden's flat) and 18 homes for intermediate rent. The community homes will be designed according to high sustainability and HAPPI (Housing our Ageing Population Panel for Innovation) principles to ensure that they meet the needs of residents.

An Advanced Works Instruction has been issued enabling works to progress on site whilst the Full Business Case and associated Cabinet Member Report are produced, with construction due to start in Spring 2023.

9.3.10 **Infill Programme (£19.846m)**

The Infill Programme identifies development opportunities within the existing estate that can be brought forward for, predominantly, new affordable housing. These include conversion of disused space such as basements, drying rooms and storage sheds and new build opportunities on underutilised garage sites, car parks and vacant land adjacent to estates. Most schemes within this programme have achieved planning and are now either in the construction stage or have completed. This programme is set to deliver just under 90 social rent homes.

9.4 **Disposal of Social Rent Properties**

One of the fundamental changes to the HRA capital programme from 2023/24 onwards is the removal of the Self-Financing scheme. The Council has committed to ceasing the disposal of social rent units as part of its Fairer Westminster strategy in order to protect Westminster's existing social housing stock and support the retention of mixed communities.

This scheme was designed to sell units that met certain disposal criteria and then replace them by recycling the sales receipts towards the purchase new stock. The

Council remains interested in continuing the acquisition of units to provide additional housing for social rent but there is currently no funding available within the constraints of the business plan (in the absence of the capital receipts that were previously being generated by disposals or additional off-site contributions to the Affordable Housing Fund above the levels required to meet the existing commitments outlined in 10.6). In the short-term it intends to focus its acquisition strategy on Temporary Accommodation, which is funded by the General Fund.

The disposals programme also generated £45m of funding that was used to support new build activity. The other effect of the decision to cease disposals is that this projected funding will no longer be available to the Development programme. The council is seeking other sources of income but, in the interim, the borrowing requirement in the refreshed business plan has been increased to cover the gap.

10. Capital Programme Funding

10.1 The HRA business plan utilises multiple sources of finance to deliver the capital programme and aims to adopt the optimal funding approach in any given year. This ensures that both individual schemes are viable and value for money is achieved for the HRA.

10.2 The HRA business plan encompasses a robust strategic approach to capital financing that considers a range of prudential factors. The key consideration, ultimately, is the ability of the HRA revenue budget to cover the cost of servicing additional borrowing (i.e., interest costs). Capital financing costs constitute approximately 13% of the total income generated from rents and therefore represent a significant element of the revenue budget. Whilst there is no requirement for the HRA to set a Minimum Revenue Provision (MRP), as is the case for the General Fund, it is important that the HRA provides an appropriate level of interest cover to ensure that the level of borrowing it commits to is sustainable. The plan aims to ensure that the interest cover ratio never drops below 1.20, which effectively means that the revenue budget is always able to absorb the impact of a 20% swing in borrowing costs.

10.3 Whilst the HRA seeks to maximise the flexibility it has available to it in terms of making decisions on how best to apply available capital funding in any given year, the HRA business plan adopts a set of general principles on the most efficient approach to funding the capital programme. This involves utilising funding that has time and usage conditions first, with a set of prioritisation criteria then applied to other types of funding. Ultimately, borrowing is always the last option to finance investment given the financial implications this has (as noted above).

10.4 The various HRA financing options detailed in this chart are explained in further detail below.

10.5 **Conditional Grants** – Some grants that are awarded to the Council have conditions attached to them that stipulate how (and sometimes when) they must be used to ensure that the required outputs are delivered. For the HRA, this generally applies to grants awarded by the GLA (which is the most common source of grant funding for development schemes).

10.6 **Affordable Housing Fund (AHF)** – Payments received from developers on planning schemes in lieu of affordable housing obligations are held in the Council's Affordable Housing Fund. These funds are available to be used by the Council to invest in the delivery of affordable housing across the City, either through Council-led developments (including estate regeneration) or in partnership with housing associations.

The Council held an AHF balance of £146.3m as of 1st April 2022. From 2023/24, AHF funding will be entirely applied to schemes on the HRA capital programme to maximise the delivery of social housing. The existing balance is already committed in its entirety, and a further £45m is projected over the next 5 years to meet the total AHF requirement to fund the HRA capital programme (which totals £185m from 2022/23 onwards). Future AHF receipts are dependent upon new planning applications, for which changes to the Council's planning rules have seen a significant drop-off in the number of schemes involving an AHF contribution (due to developers being obliged to provide affordable housing directly), but the projections built into the business plan are considered prudent.

10.7 **Community Infrastructure Levy (CIL)** – Developers are required to make CIL contributions as part of the planning requirements for most schemes. The Council is only able to apply CIL to fund clearly defined activities within its overall capital programme. An exercise has been undertaken to maximise the amount of CIL that can be applied within the HRA capital programme, with an additional £15m added to the business plan. The most obvious qualifying expenditure is the public realm elements of the major regeneration schemes but works on the PDHU (as energy infrastructure) and the provision of community assets elsewhere have also been captured.

10.8 **Capital Receipts** – The HRA generates capital receipts for transfers of land or disposal of property which can be recycled to finance the capital programme. Many development schemes also use receipts from the sale of private units to subsidise the delivery of affordable housing. These receipts represent a significant proportion of projected capital financing for the HRA. However, there are risks attached to any assumptions about capital receipts. Any variance in their value or timing may impact on the HRA's ability to finance capital spend and could ultimately lead to a need for increased levels of borrowing. Scheme viabilities are always prepared from the outset using conservative estimates on property values, which is critical in the current housing market. Valuations are subsequently undertaken throughout the development process to monitor any fluctuations in value and allow mitigating action to be sought if required.

10.9 **Right to Buy Receipts** – Secure tenants within the HRA have the "Right to Buy" their home. The purchase price is discounted but generates a capital receipt for the HRA. This receipt must be partially used to fund the delivery of a replacement affordable home under the terms of the "one-for-one" agreement held with DLUHC. The rules previously required receipts to be applied within three years (with unspent receipts returned to the Treasury) but this timeframe was recently extended by a further two years.

10.10 **Major Repairs Allowance and Leaseholder Contributions** – The HRA is required to set aside a statutory minimum level of revenue funding for capital, known as the Major Repairs Allowance (MRA). This must be committed to the upkeep of the existing housing stock and is therefore allocated to fund the Planned Maintenance programme. The level of the MRA contribution must be equivalent to the depreciation calculation for HRA stock. This ensures that a minimum level of investment is made in the existing stock to keep assets fit-for-purpose.

Traditionally, the HRA at Westminster has opted to include a £2m discretionary top-up to the MRA to fund the Planned Maintenance programme, which was designed to reduce borrowing given the programme has always been much larger than the statutory level of MRA. However, the funding shortfall created by the rent cap in 2023/24 means that this has necessarily been removed in the revised business plan to balance the revenue position. This has no discernible impact on the capital programme other than to increase borrowing by a modest amount (whilst also creating extra headroom in the revenue budget to cover that borrowing).

10.11 **Leaseholder Contributions** – Major Works are delivered across the Housing portfolio meaning that many of the residents that benefit from this investment will be leaseholders. They are required to contribute towards the funding of capital works. Contributions from leaseholders therefore help to finance the Planned Maintenance programme. These funds are held separately and ringfenced towards the specific works to which they relate.

10.12 **Borrowing** – Any capital expenditure not covered through any of the funding routes noted above will require borrowing. In broad terms, all additional borrowing is undertaken with a consideration of the financial return for the HRA. This might be in terms of extending the life of existing HRA stock to safeguard future rents, or to help finance new build schemes which will effectively increase stock numbers and grow the HRA bottom line through the generation of additional rental income.

As noted above, the level of borrowing that the HRA can commit to is one of the main considerations when assessing the viability of the HRA business plan. The

HRA is projected to borrow £462.89m over the course of the revised 30-year plan (equating to £479.49m if 2022/23 is included). This equates to almost 20% of the entire HRA capital programme and represents a £51m increase on the level of borrowing included in the previous iteration of the business plan. Nonetheless, this level of borrowing can be supported by the revenue budget with an appropriate level of resilience (see below).

10.13 Capital Programme – Financial Overview

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

Table 4 – Capital Programme Financing Plan

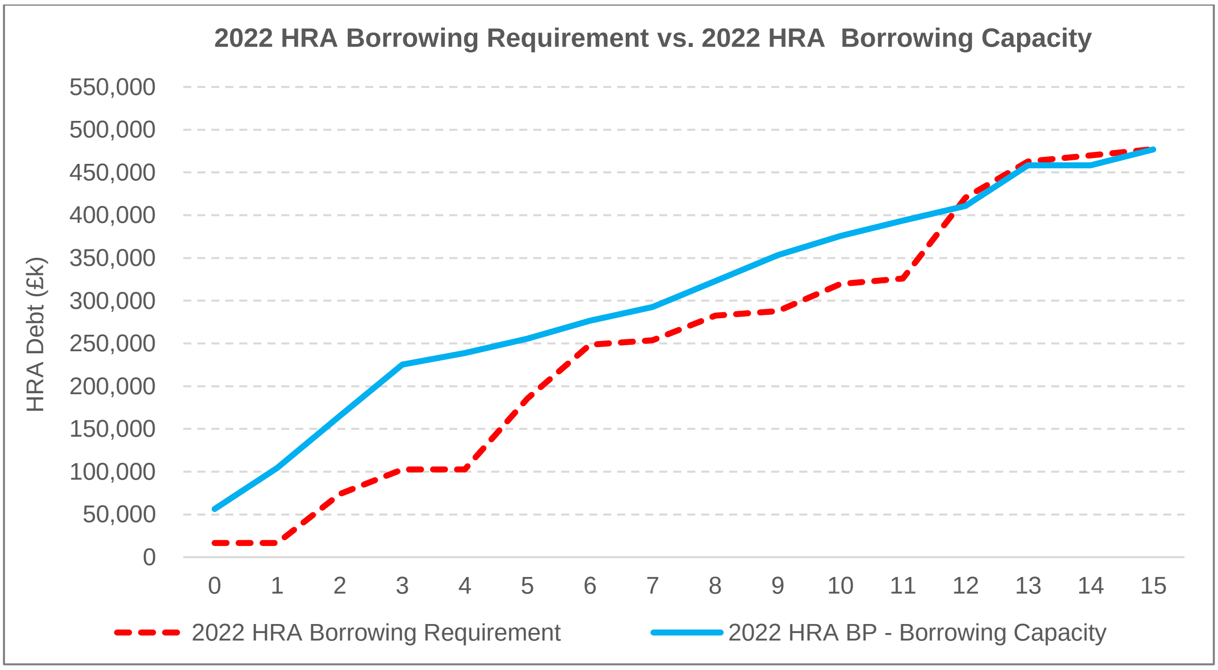
HRA BP Year >>	1	2	3	4	5	6-30	TOTAL
	2023/24	2024/25	2025/26	2026/27	2027/28	28/29 to 52/53	
	£000	£000	£000	£000	£000	£000	£000
Planned Maintenance	60,796	64,814	67,344	69,844	70,365	1,263,868	**1,597,032**
Development and Regeneration	87,314	211,049	84,785	3,932	74,271	300,272	**761,622**
TOTAL HRA Capital Programme	**148,110**	**275,864**	**152,129**	**73,776**	**144,636**	**1,564,141**	**2,358,655**
Funded by:							
Government Grant	27,983	3,112	9,380	2,067	0	4,172	**46,713**
Affordable Housing Fund (AHF)	28,660	64,535	12,923	0	0	33,353	**139,472**
Capital Receipts	60,200	81,373	49,206	32,887	0	0	**223,666**
Community Infrastructure Levy (CIL)	4,441	11,719	1,605	1,205	405	36,228	**55,603**
Right-to-Buy Receipts	1,543	2,016	3,573	4,080	4,227	163,247	**178,685**
Climate Grants	2,500	5,000	5,000	5,000	5,000	81,500	**104,000**
Leaseholder Contributions	11,259	11,010	11,859	12,411	12,640	206,865	**266,044**
Major Repairs Allowance (MRA)	11,525	32,652	24,124	16,126	34,041	703,558	**822,025**
Revenue Contribution to Capital	0	7,292	5,638	0	5,305	41,328	**59,562**
New Borrowing	0	57,156	28,821	0	83,018	293,891	**462,885**
HRA FUNDING TOTAL	**148,110**	**275,864**	**152,129**	**73,776**	**144,636**	**1,564,141**	**2,358,655**

10.14 The opening debt balance for the HRA as of 1st April 2022 was £325.83m. Based on the future borrowing requirements built into the proposed HRA capital programme, HRA debt is projected to peak at £805.32m by 2038/39. This debt is ultimately supported by the £1.6bn of assets held in the HRA (and underpinned by the income generating potential that these assets hold).

10.15 No new borrowing is projected in 2023/24 due to excess external funding. This reduces the growth required within the HRA revenue budget and leaves it needing to manage a total capital financing cost of £11.66m. New borrowing is assumed to come with a 2.6% cost of finance based on the use of forward borrowing deals that has secured £400m of financing at preferential rates. It is forecast that interest rates in the future will fall from the currently higher rates as inflation falls and therefore it is prudent to assume 2.6% over the longer term. This will be reviewed annually.

10.16 Even though the HRA no longer has a formal debt cap, borrowing is still constrained by the ability of the HRA revenue budget to cover the cost of borrowing (i.e., interest costs). As part of the business planning work, an assessment is made of the maximum borrowing capacity that the HRA has over the next 15 years (which covers the bulk of the Housing Investment Plan). Chart 1 shows that the £479m that is now required from 2022/23 onwards is right at the limit of what the HRA can support. Whilst the business plan has reasonable levels of borrowing headroom over the first 11 years, the borrowing requirement hits the borrowing capacity from Year 12 onwards which acts as a constraint on any further borrowing over the course of the preceding period.

Chart 1 – HRA Borrowing Requirement vs. HRA Borrowing Capacity



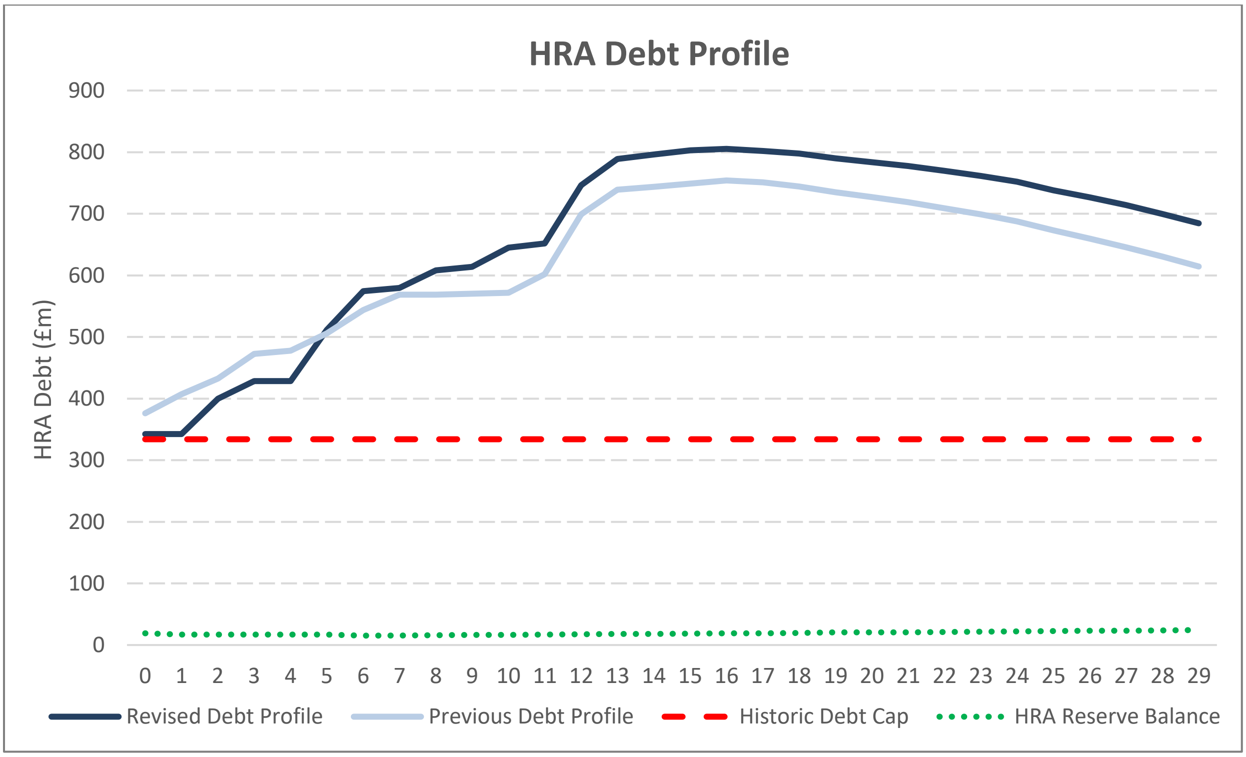
10.17 The HRA is projected to generate surpluses over the second half of the business plan, largely because the Development capital programme does not extend beyond the first 15 years. It is assumed that these surpluses will be available to pay down debt, and therefore help to manage the capital financing burden placed on the HRA revenue budget (which grows to £23.51m per annum once the HRA hits its peak debt level in 2038/39). The total value of the available surpluses in the business plan is £118.13m. There is no requirement for the HRA to pay down debt, and this approach is subject to the ability to re-finance within the various debt instruments used. If debt cannot be re-paid surpluses would go into the HRA reserve and the revenue budget would have to continue to cover interest costs at the peak level.

10.18 Chart 2 shows the revised HRA debt profile (the darker line) versus the previous iteration of the HRA business plan (the lighter line) which demonstrates the higher levels of debt required in the updated business plan. This profile assumes that surpluses in the second half of the plan would be used to pay down debt, and that the HRA reserve (the dotted line) would be maintained at the proposed minimum.

10.19 The lines on the chart represent the following:

- **Current Projected Debt (dark line)** - Borrowing rises from the current level of £325.83m (as at 1st April 2022) and peaks in 2038/39 at £805.32m based on the borrowing need within the revised HRA business plan. The lighter line shows the equivalent profile from the previous iteration of the business plan and demonstrates a greater level of borrowing in this iteration of the plan
- **HRA Reserve Balance (dotted line)** - The HRA business plan seeks to maintain a minimum reserve balance of £17m over the first 5 years and no less than 10% of turnover from Year 6 onwards, which works out at no less than £15m over the life of the plan (see **Section 11**). If the HRA was unable to pay down debt (which is assumed within the downward trajectory of the blue line from Year 16) the reserve balance would increase accordingly
- **Debt Cap (dashed line)** – This represents the debt cap previously imposed on the Westminster HRA (£334m) and demonstrates the increased borrowing flexibility generated by the business plan (that is being used to drive growth)

Chart 2 – HRA Debt Profile



11. HRA Reserve Position

11.1 The opening balance on the HRA reserve at the start of the 2022/23 financial year was £19.3m. This reserve balance is primarily designed to help the HRA to cover in-year risks but may also be used to support one-off projects and investment opportunities that might drive efficiencies and/or delivery of a better service to residents of the Council.

11.2 As a means of managing financial risk, it should be noted that the HRA reserve is finite and is therefore only suitable for covering one-off shocks or helping to mitigate more permanent financial issues over a short period of time (while alternative solutions are sought). Reserve levels are therefore considered in conjunction with an assessment of the level of interest cover required within the revenue budget, which provides a more structural level of contingency which is better suited to managing the impact of significant shifts in business plan assumptions over a longer period.

11.3 The table below presents the projected approach to managing the HRA reserve over the next 5 years. This demonstrates the strategic intention to maintain the reserve at a level of £17m over this period (which was set in the previous iteration of the business plan) to provide cover against economic volatility being experienced both nationally and more specifically within the housing sector. The reserve position will be reviewed on an annual basis in line with the overall HRA business plan.

Table 5 – Medium-Term Reserve Projection

	1 2023/24	2 2024/25	3 2025/26	4 2026/27	5 2027/28
	£m	**£m**	**£m**	**£m**	**£m**
Opening Balance	19.300	17.240	17.000	17.000	17.000
Planned Contribution/(Drawdown)	(2.060)	(0.240)	0.000	0.000	0.000
Proposed Reserve Balance	**17.240**	**17.000**	**17.000**	**17.000**	**17.000**
Proposed Reserve as a % of HRA Turnover	14%	12%	12%	12%	11%

11.4 What the table indicates is that the surplus of £2.3m that resides in the HRA reserve (above the minimum requirement of £17m stipulated in the business plan) will be used to support the strategic initiatives outlined in **Section 8**. This includes the 18-month expansion of housing officers (£0.600m), the increase in stock condition surveys in 2023/24 (£0.600m) and the earmarked Rent Support Fund (£1.010m).

12. Risk Management

12.1 This report underlines the strategic intention within the HRA to maximise investment in both existing stock (including energy efficiency improvements) and the delivery of new homes across the city. This objective requires the HRA to commit to an increased level of borrowing over the next 30 years. This means that the HRA Business Plan is effectively at the limit of its borrowing capacity overall (see Chart 1 above) in terms of being able to cover the cost of interest within its revenue budget. Clearly the consequence of this is a reduction in the ability of the HRA to absorb or manage the financial impact of unforeseen risks that may materialise over the course of the plan (some of which have been identified in Appendix 5).

12.2 The HRA Business Plan is built on a series of assumptions about the expected future impact of several variables (including inflation, rent increases, interest rates, etc). The first aspect of risk management within the HRA is to ensure that the assumptions built into the plan are as prudent as possible. This helps to ensure that the plan is viable in the face of a relatively conservative outlook. An overview of key assumptions is included at Appendix 1. The primary area in which prudence has been exercised is on future rent assumptions, which have been held at CPI from 2025/26 onwards. A more favourable settlement within any future rent policy would therefore create headroom within the HRA business plan and therefore increase flexibility in terms of its ability to absorb risk.

12.3 The second aspect of the risk management approach is to actively build financial cover into the business plan that would allow the HRA to absorb the impact of any adverse movement on key assumptions or the emergence of any more general unforeseen risks. These measures allow the HRA to manage the impact of emerging risks without necessarily having to compromise on either service delivery or the level of capital ambition. The refreshed business plan does this in 4 key areas:

a) **HRA Reserve** – this has been maintained at £17m over the first five years of the plan to manage medium-term financial volatility driven by inflation. It never drops below 10% of turnover from year 6 onwards and the approach will be reviewed annually. The reserve represents the ultimate backstop in managing financial risk, with its finite nature meaning that it can only help to manage one-off shocks or cover on-going pressures for a limited period of time.

b) **Revenue Interest Cover** – the refreshed business plan ensures that the minimum ratio of interest cover in the revenue budget is 1.20. This is achieved through the inclusion of a flexible revenue contribution to capital (set at £2.69m in 2023/24). This primarily helps to reduce additional borrowing over the life of the plan, but it also provides significant manoeuvrability to manage financial risk. It can be diverted to cover revenue pressures if required, and unlike the HRA reserve can actually be used to permanently adjust the revenue budget and cover pressures that are on-going. If risks emerge on the capital programme, it can also be diverted to provide additional borrowing capacity. The £2.69m included in 2023/24 could support additional borrowing of c.£100m if it was all used to cover interest.

c) **Capital Contingency** – a programme-wide capital contingency of 3.3% is included in the business plan for the Development and Regeneration programme (which is additional to any contingencies that are included within the viabilities for individual schemes). This is factored into the projected borrowing requirement and ensures that the plan can absorb the impact of unforeseen costs or specification changes, price inflation on schemes not yet in contract, or reduced capital receipts from unit sales. This means that the HRA can cover some of the inherent risks of a development programme without any impact on its overall viability over 30 years. Whilst the revenue interest cover noted above can also help to mitigate capital risk, if required, it is primarily seen as a means of managing revenue risk and the capital contingency would therefore be the first port of call for any cost increase on the capital programme. This represents a reduction on the 10% level that was held in the previous version of the business plan which demonstrates the importance of holding this contingency in the first place to keep the programme on track during a period of extreme exposure to inflation, which is what this has been utilised for in this plan.

d) **Planned Maintenance Inflation** – the Planned Maintenance programme represents a rolling programme of works to improve the condition of existing stock. It is set based on information in the asset management database which uses today's prices. The business plan therefore models a level of inflation on the capital budgets to reflect the fact that a boiler replacement will be more expensive in 15 years' time, for example. Again, this is built into the projected borrowing requirement and ensures that planned maintenance requirements have a level of insulation against the impact of inflation within the plan.

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

a) **Re-Profiling** – not all expenditure on the Development programme is fully committed. This provides an opportunity to re-profile by extending or delaying the delivery of certain schemes to meet revised affordability parameters. This does expose the Council to contract price inflation but remains an option.

b) **Reduce Planned Maintenance Schedule** – whilst the HRA is required to make a minimum investment in existing stock and many contracts have a minimum annual spend requirement, the current investment plan is higher than both and could be revised to manage affordability concerns. This is likely to have a knock-on impact on stock condition and increase the volume/cost of revenue repairs.

c) **Dispose of HRA Assets** – a more aggressive assessment of which assets are surplus to requirements could generate increased capital receipts to help fund the capital programme.

d) **Rent Policy** – the average rent is currently lower than the maximum formula rent allowable. Although annual rent increases are capped, there are options available to the Council to allow it to converge towards the maximum.

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

13. Sensitivity Analysis

13.1 A summary of the sensitivity analysis referenced in **Section 12** is outlined below. This is designed to stress test the HRA Business Plan and identify the limits to which the plan could be pushed (in terms of risks crystallizing) before it would become unsustainable and therefore require more drastic risk mitigation measures to be implemented (as outlined in paragraph 12.4 above).

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

Table 6 – HRA Sensitivity Analysis

Test	HRA BP Failure Point	Comments
Rent limits	**<5%** rent cap in 2024/25	▪ The HRA BP could just withstand a 5% rent cap in 2024/25 (equivalent to 1% below inflation)

Increased interest rates	**>4%** average interest rate (over first 5 years)	▪ 39% of all new borrowing is over the first 5 years of the plan ▪ The HRA BP could tolerate an average interest rate of 4% on new debt over that 5-year period and remain viable ▪ It could tolerate an average interest rate of 5% over the same period but would need to draw down £4m from reserves in Years 14 to 17 (taking the reserve below the minimum level for this short period)
Capital programme inflation	Planned Maintenance - >**8.5%** (over first 3 years) Development – >**7%** inflation (on existing cost estimates)	▪ The HRA BP could tolerate an extra 8.5% of inflation (over and above existing estimates) on the Planned Maintenance programme and remain viable ▪ Just under half of the Development programme is considered to be exposed to inflation (i.e. not in contract). The programme contingency could support a further 7% of cost inflation on these schemes ▪ The HRA BP could tolerate both scenarios above simultaneously (and, by definition, a worse outcome on one where the other is more favourable)

14. Financial Implications

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

15. Legal Implications

14.1 The expenditure referred to in this report will be spent pursuant to the Council's powers and duties as set out below. The Council has a duty to disclose information as set out in The Housing Revenue Account (Accounting Practices) Directions 2016.

14.2 The provision of housing accommodation is set out in Part II of the Housing Act 1985. Statutory requirements regarding keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 ("Act"). The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the HRA and to implement and review the budget. The Act places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

14.3 On 10 November 2020 MHCLG published [guidance on the operation of the Housing Revenue Account ring-fence]. This guidance updates and replaces Circular 8/95 published by the former Department of the Environment (DoE). It gives advice to local housing authorities in England on certain aspects of the HRA. This guidance restates ministers' established policy for the HRA and introduces no new issues of principle. However, it does highlight the need to be fair to both tenants and council taxpayers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund.

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

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

14.6 On 29th October 2018, the government confirmed that the HRA borrowing cap was abolished with immediate effect. As a result, local authorities with an HRA are no longer constrained by government controls over borrowing for housebuilding and are able to borrow against their expected rental income, in line with the Prudential Code. All borrowing within the HRA must be in line with the CIPFA Prudential Code.

14.7 The basis for setting rent stems from Section 24 of the Housing Act 1985 which provides that a local authority must make such reasonable charges as they determine for the tenancy occupation of their houses. This report deals with other legislative provisions which are expected to influence the Housing Investment Strategy such as the social rent reduction introduced by Section 23 of the Welfare Reform and Work Act 2016 and changes to the social benefits system under Sections 8-17 of the Welfare Reform and Work Act 2016.

14.8 The Housing and Planning Act 2016 is also likely to affect the findings of subsequent reports and also the Council's regeneration initiatives. The relevant provisions include the imposition of a liability for local housing authorities which maintain a Housing Revenue Account to make payments to the Secretary of State based on the market value of any vacant higher value void properties which the local authority owns. Additionally, Chapter 6 and Schedule 7 the Housing and Planning Act 2016 seek to phase out secure tenancies as life interests and replace them with fixed term secure tenancies thus potentially allowing for more flexibility in terms of stock management.

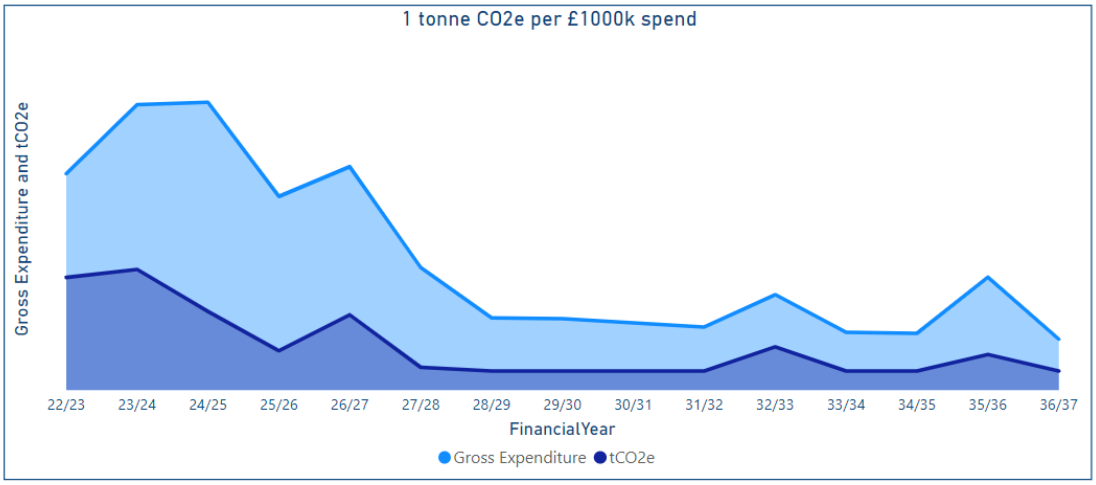
14.9 The Housing and Planning Act 2016 also contains provisions which have been implemented and may attract procedural changes in the way the Council progresses its regeneration projects. Such provisions include the amendments made to the planning regime under Part 6 and amendments to the compulsory purchase and appropriation procedures under Part 7.

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

15 Carbon Implications

15.1 The Council-wide Capital Programme (for which the HRA represents a large element) has a gross carbon footprint of 1.2m tonnes CO2, over the course of its 15-year duration.

15.2 This is mapped to capital expenditure as follows:



15.3 The Council's current 2030 net zero target only includes Scope 1, Scope 2, and selected Scope 3 emissions, which are defined as follows:

- **Scope 1** covers direct emissions from owned or controlled sources. This is typically the combustion of gas for heating or fuel for use by vehicles in Westminster.
- **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by Westminster. The

emissions are generated outside of Westminster, but the user is within the city, so the indirect emissions are attributed here.

- **Scope 3** includes all other indirect emissions that occur in Westminster's value chain, but that Westminster has no control over. This can include purchased goods, services, good, waste and travel outside of the city.

15.4 A significant proportion of the capital programme carbon footprint is Scope 3 emissions. As such, the 2030 net zero strategy and the emissions we report publicly will not be significantly impacted by the capital programme.

15.5 Scope 3 emissions are extensive and complex to determine, which is why most scope 3 emissions are not currently included in the Council's emissions baseline and 2030 net zero target. This work helps the organisation to better understand our scope 3 emissions and begin to develop a clear picture of our scope 3 impact. It will enable more informed decision making and a better understanding of the carbon implications of capital schemes, allowing the development of a clear strategy to reduce or offset these. From this work, and in conjunction with external consultants, we will be able to set a scope 3 baseline and consider appropriate net zero targets that encompass scope 3.

15.6 The council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the council by 20230, across Westminster and our communities. Significant HRA initiatives include:

- Retrofit of Council homes - Reviewing the environmental credentials of our portfolio of HRA homes and delivering the retrofit scheme for which the business plan includes £218m of funding

- Building efficient new homes – Ensuring that the Development and Regeneration programme delivers high-specification new build housing schemes will are designed to reduce the Council's carbon impact

- Decarbonising the PDHU – Whilst the HRA business plan doesn't yet include the full investment plan for the future PDHU strategy, it provides funding to deliver emergency upgrades in the short-term and is supporting the development of the four options that are being progressed to an outline business case

16 Staffing Implications

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

17 Consultation

17.1 Development of the Business Plan and Housing Investment Plan has involved officers from within the Housing, Regeneration and Finance departments as well as input from the relevant Cabinet Members (as well as the Westminster Commission). Regard is made throughout to national and local housing policies and objectives which have informed the priorities for investment.

17.2 A key component of the housing regeneration programme is community engagement: officers and consultants have worked with local communities to develop plans for their neighbourhoods. Community engagement teams work on the ground with residents, visiting residents in their homes, staffing drop-in sessions and holding open days. Resident expectations are high, and the City Council is committed to an on-going programme of resident involvement as these schemes develop further. Consequently, consultations are undertaken at the appropriate stage on a given scheme basis rather than as a part of the Business Plan process.

17.3 The internal governance processes within the Housing, Development and Major Projects teams have been rigorously reviewed and focus now upon key project management skills and tolerance reporting. The creation of a Programme Management Office (PMO) during 2018/19 also adds to the monitoring of the significant programmes that are being funded by the HRA.

18 Equalities Implications

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

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.

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

18.3 The Council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making new decisions in the current context and in relation to the new strategy.

18.4 It should be noted in respect of the Council’s public sector equalities duties where the setting of the capital, revenue and HRA budget result in new policies or policy change, the relevant service department will carry out an equality impact assessment to secure delivery of that duty, including such consultation as may be required.

18.5 In addition, each of the estate regeneration schemes is subject to an Equalities Impact Assessment to ensure any arising issues are addressed. DDA works and disabled adaptations are included as essential works within the capital programme. Further Equalities Impact Assessment and/or consultation may be necessary if significant changes are envisaged to Housing Management Schemes.

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

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