



Westminster Housing Supply Review

Final Report

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Section 0: Introduction

Westminster City Council ('WCC' or 'The Council') is committed to maximising the delivery of Truly Affordable Housing (TAH) across the Council's housebuilding pipeline.

The 2022 Westminster City Council election took place on 5 May 2022. In the previous election in 2018 the Conservative Party had maintained their longstanding control of the Council, with the Labour Party forming the council opposition. In 2022, Labour won an 8 seat council majority for the first time since 1964. The Council set out its priorities including:

1. Make building new Council (social) and lower rent homes the Council's top priority policy
2. Conduct a day-one review of all current regeneration and infill programmes to find ways to increase the amount of social and truly affordable rented housing they provide and improve the proportion of affordable housing that is for social rent

Following the 2022 local election, the Council undertook to complete a review of the Council's housing led regeneration programme considering the new administration's ambition to deliver more Truly Affordable Housing

Following the local election, the new administration implemented a cross-council plan to deliver more truly affordable homes. Cabinet Members requested a review of the Council's development programme, and A Future of Westminster Commission was established to review opportunities and look at options for increasing Truly Affordable Housing. Subsequently, the Council completed a review of current council-led development schemes to ensure that low cost social rent housing was prioritised in their delivery. A report was presented to Cabinet in October 2022 summarising the outcome of the review and confirming the opportunity to see the initial delivery of at least 143 new social rented homes in Westminster.

The Council have also published 'Our Strategy for a Fairer Westminster' 2022 – 26 which makes the commitment to 'put residents' at the centre of our housing offer' with one of its five main ambitions being to deliver 'Fairer Housing – where *the housing needs of residents families and social care users are met through the provision of greener and more genuinely affordable housing, the majority of which is for council rent, aiming for 70% on council-owned developments.*

Following the report to Cabinet, the Council committed to developing a Review of Housing Supply as a comprehensive strategy to deliver as many affordable homes as possible.

The context for the Housing Supply Review is the Council's commitment to delivering a Fairer Westminster and in particular the pledge by the new administration to "make building new council, social, and lower rent homes the council's top policy priority".

The objective of the Westminster Review of Housing Supply was to:

- Review current financial, delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme
- Identify opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council's own land holdings or the wider development market
- Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA
- Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity
- Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk
- Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme

Objectives....

Review current financial, delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme

Identify opportunities to maximise delivery of social & Truly Affordable Housing; through the Council's own land holdings or the wider development market

Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA

Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity

Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk

Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme

...How this has been delivered

▶ Deep dive analysis and review of key housing regeneration schemes was completed to understand approach and cost assumptions

▶ Section 3 sets out 7 different Options that could be implemented to maximise the delivery of TAH

▶ Option 5 provides details of additional funding sources available to the Council and Section 7 sets out a Housing Financing Strategy and the range of traditional and non-traditional sources of funding

▶ Section 5 provides a detailed review of existing delivery vehicles

▶ Section 4, 9 and 10 provide analysis & commentary on the Options to enable the Council to make informed decisions about which alternative options they may wish to pursue

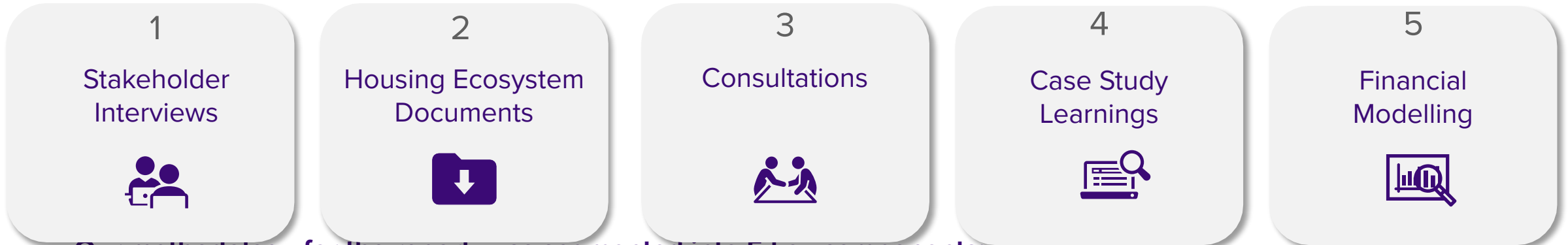
▶ Section 5 and 6 provides options for governance and resourcing together with a recommendation

This document provides an overview of the work undertaken as part of the Housing Supply Review to assess the opportunities for the Council to maximise and accelerate the delivery of social and Truly Affordable Housing in Westminster. It provides the following:

- Data and analysis to understand need and demand for affordable housing in Westminster and consider how affordable the current Housing ecosystem is for residents living in the borough; in the context of household income levels.
- Proposes a definition for ‘Truly Affordable Housing’ to clearly interpret the need and demand for this type of housing in Westminster.
- Identifies a series of Options for maximising the provision and accelerating the delivery of Truly Affordable Housing; either through delivery of additional housing units or creation of additional headroom in the HRA and General Fund that will in turn finance additional homes.
- Demonstrates the financial impact of different Options using financial modelling and case study examples.
- A review of delivery mechanisms, staffing resources and the role of different housing delivery vehicles to ensure delivery is not held back by capacity issues.
- Provides Legal advice to govern and support housing delivery.

This document aims to provide the Council with a series of options that act as a menu of interventions for delivering additional ‘Truly Affordable Housing’. The analysis will give the Council an understanding of the potential impact of these options on housing supply, the financial implications and how this correlates with risk. It will communicate the structure, resource and governance requirements for delivery and will explain any wider legal considerations that need to be accounted for in implementing these options alongside the council’s future housing led regeneration programme.

To conduct our analysis, we utilised 5 key sources:



Our methodology for the report, was segmented into 5 key components:



Section 1: Executive Summary

The Executive Summary focuses on highlighting the key areas and critical analysis underpinning our recommendations for increasing Truly Affordable Housing in Westminster.

Further detail and analysis can be found in the main body of the report.

The key areas addressed in the Executive Summary include:

- »» Defining Truly Affordable Housing
- »» Options for increasing Truly Affordable Housing
- »» Delivery structures: Key findings
- »» Resourcing: Key findings
- »» Future governance proposals
- »» Financing Strategy

We have concluded the executive summary by providing responses to key questions requested by WCC.

The Housing Supply Review explores options to increase Truly Affordable Housing (TAH) in Westminster

Objectives....

Review current financial, delivery and tenure mix proposals for existing schemes within the Council's housing led regeneration programme

Identify opportunities to maximise delivery of social & Truly Affordable Housing; through the Council's own land holdings or the wider development market

Review the financial resources available to the Council for delivering more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams such as GLA

Review the existing delivery vehicles available to the council to deliver affordable housing; the need for such arrangements as well as reviewing their business plans, governance, and operational delivery capacity

Consider whether alternative delivery options for housing delivery would more effectively deliver the Council's objectives; without exposing the Council to unacceptable financial impacts or risk

Identify the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme

...How this has been delivered

Deep dive analysis and review of key housing regeneration schemes was completed to understand approach and cost assumptions

Section 3 sets out 7 different Options that could be implemented to maximise the delivery of TAH

Option 5 provides details of additional funding sources available to the Council and Section 7 sets out a Housing Financing Strategy and the range of traditional and non-traditional sources of funding

Section 5 provides a detailed review of existing delivery vehicles

Section 4, 9 and 10 provide analysis & commentary on the Options to enable the Council to make informed decisions about which alternative options they may wish to pursue

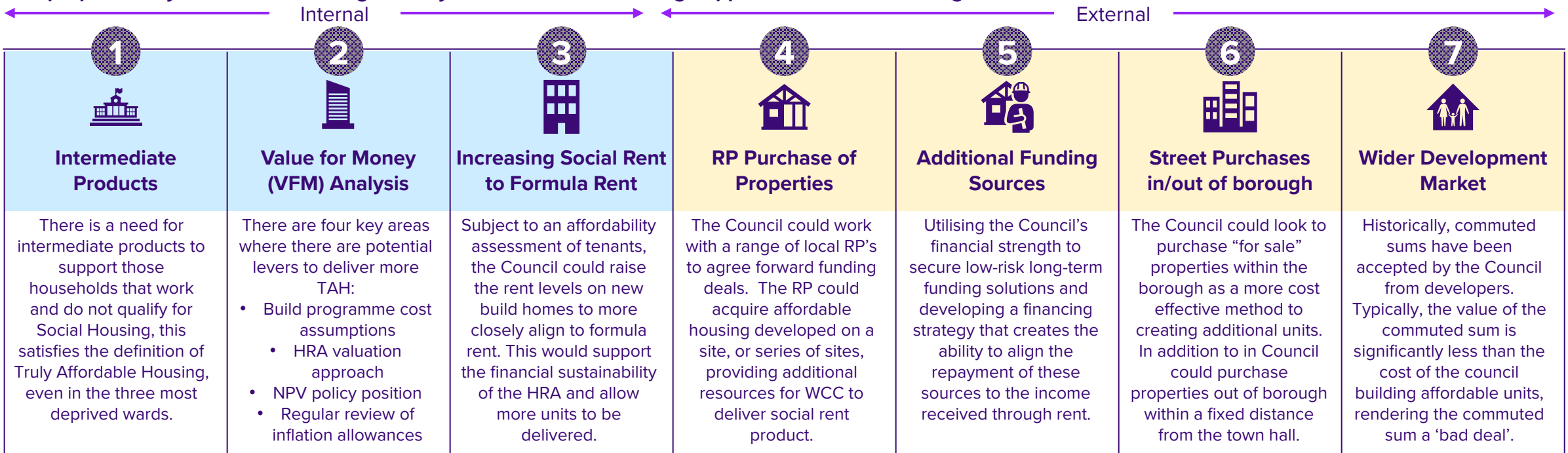
Section 5 and 6 provides options for governance and resourcing together with a recommendation

7 Options have been developed which, if delivered in a complementary way, could deliver additional TAH

Truly Affordable Housing definition: “Truly Affordable Housing is housing for **sale or rent at below market rates** that is **available in a variety of tenure and types**, at costs that **reflect local incomes** and are at a level that households could **afford and reasonably be expected to sustain in the medium term**”

The Mayor of London guidance is that annual housing costs should be **no greater than 40%** of net household income*. This guidance has been assumed throughout the affordability metrics referenced in this document

We propose Truly Affordable Housing delivery can be increased through application of the following toolkit:

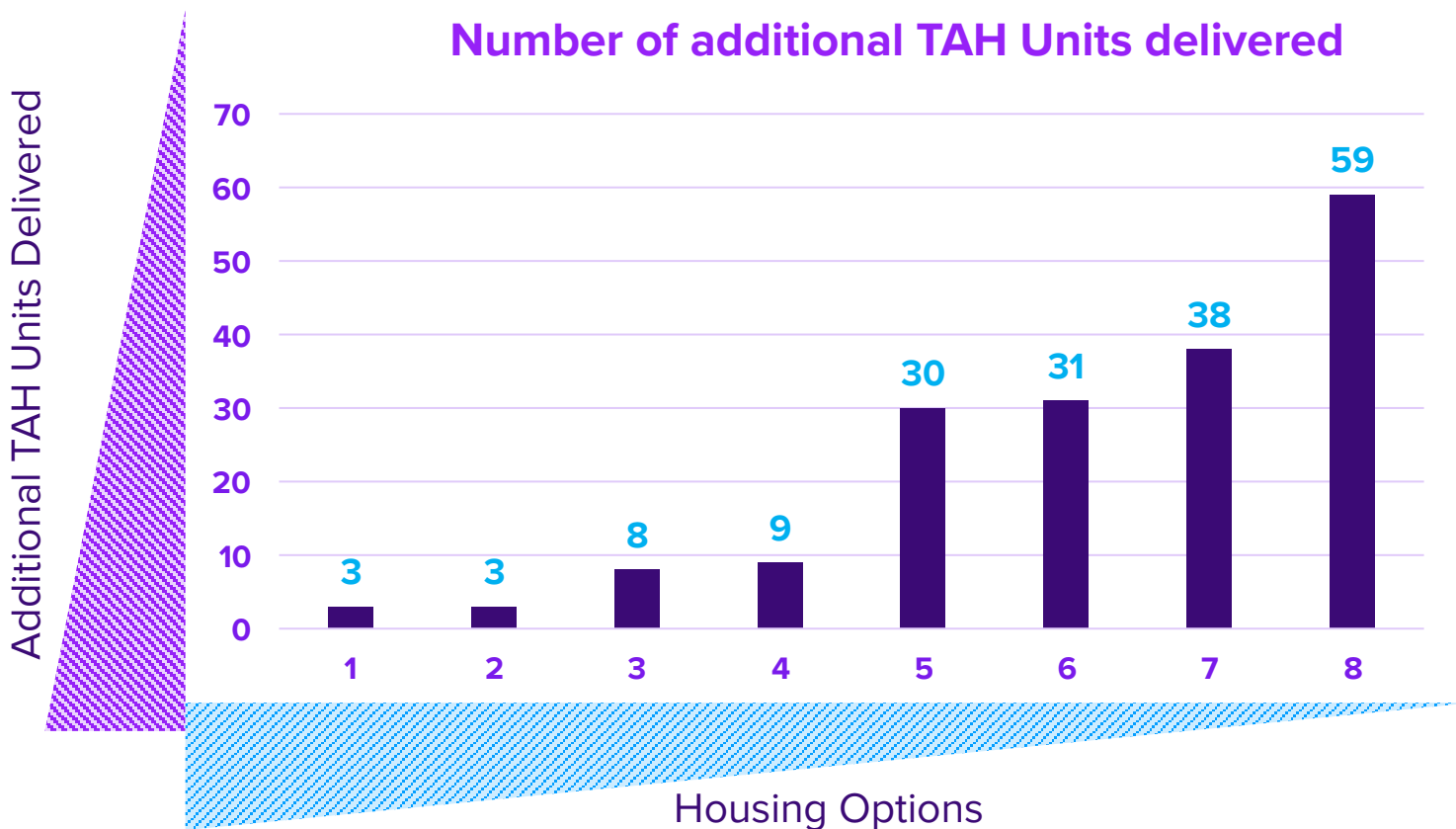


The current priority and focus of the Council is not on delivering Truly Affordable Housing for sale and the emphasis of this Housing Supply Review, in order to meet the Council's objectives, is on maximising the opportunities to deliver additional 'Truly Affordable Housing' for social rent.

We have adopted a ‘100 unit scheme’ analysis to demonstrate the impact of the options

The potential impact of each of the Housing Supply Options has been mapped together on the graph below to show the number of additional Truly Affordable Housing (TAH) units that could be delivered based on a 100-unit scheme. **Some of the original 7 options that were analysed have given rise to several different opportunities – leading to 8 proposed interventions.**

When mapping out the impact of the options, options 5,6,7, and 8 are the most impactful in terms of delivering additional units of housing.



The Options:

- 1 **RP purchase:** Increase Valuation to RP Methodology
- 2 **Increase Social Rent to Formula Rent**
- 3 **Intermediate Products:** Increase LLR to DMR
- 4 **VFM Analysis:** Increase HRA Valuation
- 5 **VFM Analysis:** Build at Private Sector rates
- 6 **Street Purchases:** Acquire in borough instead of Build
- 7 **Street Purchases:** Buy Properties for TA Out-of-Borough
- 8 **Street Purchases:** Acquire out of borough instead of Build

In order to deliver the proposed options, the appropriate delivery mechanisms must be in place

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

The Council largely has the correct delivery structures



When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that it wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle. The only potential exception to this is the form and structure of WCH as a Charitable RP, this is discussed further below.

Lack of Strategic Direction



The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.

Operating in Silos



Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.

Vehicle Selection



There appears to be a lack of understanding of the capabilities of each vehicle and which should be used for which purpose, including what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other.

Analysis on the current resourcing has shown there is a need to establish a future governance framework

The review of the current resourcing arrangements and the development of proposals for governance and the future operating model have highlighted or been guided by some key findings. These are identified below:

There are a range of governance and resource models in place across London and the wider Housing sector that suggests a flexible and bespoke approach can be used to design the optimum arrangements for Westminster.

There are some clear guiding principles and key ingredients that should be in place to support successful governance. Predominantly, the council should aim to have a clear, systematic governance framework in place which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded.

Good practice would see the Council using a consistent approach when it comes to engaging with its entities. For example, applying arrangements in a similar legal model e.g. through using standard articles of association or shareholder's agreements. This is beneficial to standardise and make the approach to managing multiple entities efficient

A future governance and resourcing model should focus on providing additional oversight, streamlining resourcing and facilitate a joint strategic approach through with the Housing Strategic Objectives and Housing Delivery Plan can be delivered. This is recommended through establishment of a Strategic Oversight Board and Housing Working Group.

In the future, there is the option to move to a consolidated group structure (see option 3 in appendix 4) which may provide a single point of focus for managing the council's commercial activity and an even more effective use of resources.

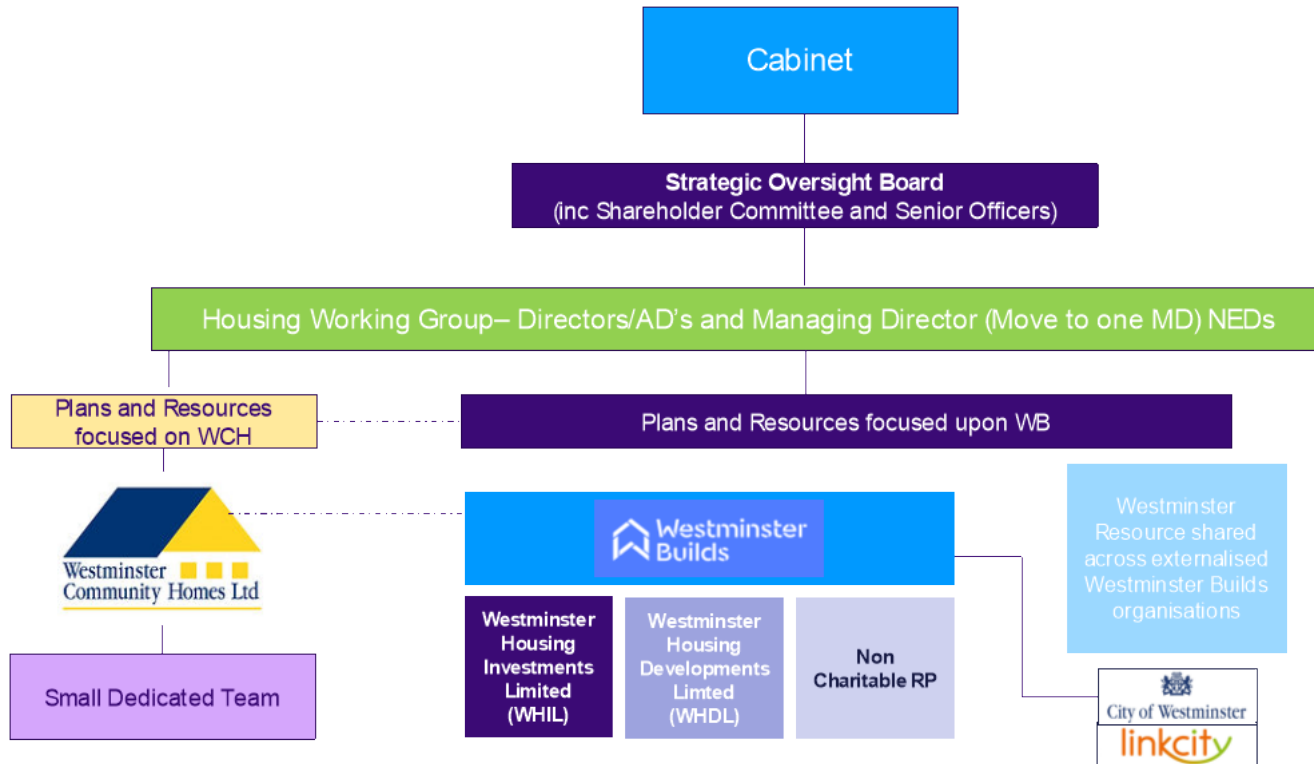
The council anecdotally has a current reliance on 'buying in' external resource to close any shortfall in resource. A strategic approach should be agreed for the recruitment and retention of staff and to enable internal skills to be built over time. A detailed skills audit may be required to identify areas of skill gap. A review of pay and conditions may be required to support the recruitment and retention strategy.

It is recommended that the council take action to agree a future governance framework and implement this in the short term so that Housing Strategic Objectives and a Housing Delivery Plan can be agreed and start to be delivered to optimise the delivery of Truly Affordable Housing in Westminster.

A Housing Working Group has been suggested to align governance and create an accountability framework

Lack of Strategic Direction – Whilst the Council has all of the appropriate tools and delivery vehicles it needs to develop and operate the full spectrum of housing it needs; it has not set an appropriate strategic framework to maximise the benefits of this toolkit.

Streamlining – The current governance structure can be streamlined and this strategic focus added through the establishment of a **Strategic Oversight Board** that will own a set of **Housing Strategic Objectives** that sit across the different delivery structures, and these should be extended to the Business Plans of each entity in order to drive the entire housing delivery ecosystem. This body will then develop an amalgamated **Housing Delivery Plan** that will provide business planning for the longer term. This Board will be merged with the existing Shareholder Committee and will facilitate political scrutiny and assurance. This will enable a focus on delivery and performance against the overall Housing Delivery Plan.



A **Housing Working Group** is created to bring together the governance and create an accountability framework for the different delivery entities. This will enable a focus on operational delivery and monitoring performance of each entity's Business Plan.

The Housing Working Group will have a key role in implementing the Housing Delivery Plan and specifically in **determining which delivery vehicle should be used for which purpose.**

There is also the potential to add experts, such as NEDs, to the Housing Working Group who provide an external voice and challenge.

There is a lack of clarity over which delivery vehicle should be used for which purpose.

The diagrams below bring out the key types of development / operation that is best suited to the vehicle that is in place. Appendix 3 provides additional detail to explain why these vehicles should be used.

Westminster Housing Investments Limited (WHIL)	Westminster Housing Developments Limited (WHDL)	Non Charitable RP		
<ul style="list-style-type: none"> Ownership and Management of private rented units Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired) Purchase, ownership and management of temporary accommodation 	<ul style="list-style-type: none"> Development of schemes of housing for private sale / rent with an objective of generating surpluses Development of affordable housing to be sold to third party RPs Development of schemes of other non residential uses with an objective of generating surpluses 	<ul style="list-style-type: none"> Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL) 	<ul style="list-style-type: none"> Development of mixed use schemes where the purpose is not predominantly to generate financial returns, Schemes can include private sale / rent, affordable and commercial uses. Development of affordable housing schemes Ownership and Management of social rent units within the HRA Ownership and Management of intermediate rent units for key workers on secured tenancies 	<ul style="list-style-type: none"> Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units

A robust housing financing strategy will underpin the success of improving Truly Affordable Housing

A financing strategy is a key part of the Council's framework and provides the tools to:

Raise financing for investment into service delivery, sustainable development and addressing corporate objectives; ensuring alignment of existing financing policies with, medium- and long-term local and national priorities;

Prioritise finance to take advantage of housing opportunities in the near-term, and identify financing policy areas for the medium- and long-term;

Ensure that financing policies and regulatory frameworks from across different areas are coherent, sustainable, and risk-informed for example, pay regard to current and future rules regarding accessing Public Works Loan Board;

Identify opportunities to access technical assistance & capacity building support to undertake due diligence, risk analysis and affordability reviews on non-traditional approaches to accessing finance where a category of spend lends itself to such an approach.

A financing strategy aims to detail an approach that ensures any housing investment is aligned with the Council's corporate objectives and is made in a cost effective and efficient manner. It will provide a framework that seeks to:

- »» Avoid fragmented decision-making
- »» Better align efforts
- »» Identify gaps and opportunities for the optimum use of the Council's resources.

The strategy should build and feed into the existing methodologies and tools that the Council may already make use of, such as medium-term financial strategy, planning gain strategies and any future revenue savings strategies and provides a key part of a strategic capital framework.




It will support financial decision making as part of the capital programme governance and will allow strategic longer term financial planning by supporting financing decisions for the longer-term housing pipeline. A strategy sets out the approach to assessing financing opportunities. The route to sourcing this finance will be governed by the Council's Treasury Management Strategy, which in turn will be responsive to the wider macro-conditions prevailing at the time.

Traditional sources of funding derive from both internal and external sources

Many Councils are now looking at financing housing through both the traditional route of the HRA and through the General Fund for additional flexibility. An integrated financing strategy that uses both traditional and non-traditional sources of funding can support the Council to make the most out of its housing delivery programme by focusing resources in a coherent, consistent and affordable manner. It can be used to address short-term financing requirements and support the long-term strategic aims of the Council; allowing for more consistent planning. There are considerations to guide the use of different funding types, risks and mitigations which are set out in further detail in Section 7.

Traditional Sources of Funding

Internal Sources of Funding

-  **Capital Receipts**
-  **Revenue Contributions**
-  **Internal Borrowing**

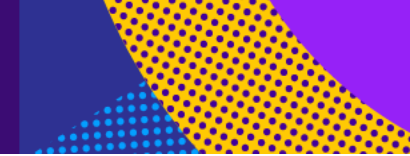
External Sources of Funding

-  **Government Grants**
-  **External Borrowing**
-  **Development Contributions**
-  **Match/Part Funding**

Non-Traditional Sources of Funding

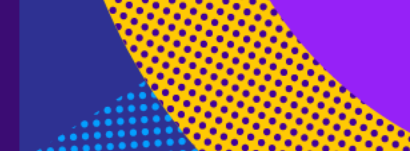
Non-Traditional Sources of Funding

-  **Sale/ Lease & leaseback**
-  **Empty Property Tax**
-  **A bond issuance**
-  **Income Strip Solution**
-  **CPO Purchases**
-  **JV/ Partnership Approaches**



Question	Response
<p>1. Can the review develop an understanding of the Council’s current financial, delivery and tenure mix proposals for existing schemes within the Council’s housing led regeneration programme?</p>	<p>The basis of the review has been predicated in developing a deep understanding of the Council existing programmes and the local context of Westminster. This has been achieved through</p> <ul style="list-style-type: none"> • Reviewing each of the major schemes with the Council team; and • Reviewing the work undertaken by the Council in reviewing these schemes to increase levels of social rented housing. <p>The findings of this review have been developed based on this evidence base and a set of bespoke options developed from best practice examples to address the Council’s objectives.</p>
<p>2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council’s own land holdings or the wider development market?</p>	<p>Yes. The Council team undertook a quick win review that highlighted significant new social rented homes that could be enabled from the portfolio. This review has built upon the initial review work to develop a menu of interventions that can be applied by the Council to enable increased delivery of social and Truly Affordable Housing. These interventions have been categorised into three areas on the basis of the whether they:</p> <p><i>Provide better value out of existing investments (i.e. more homes for the same money); and / or;</i></p> <p><i>Increase the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent); and / or</i></p> <p><i>Introduce additional funding from alternative sources to increase the scale of affordable housing delivery</i></p> <p>The approaches range from working with external partners to changing valuation methods and from securing additional funding from institutional funds to delivering different types of housing.</p> <p>The report has also developed the key conditions for the application of these interventions and how they can be applied in a complementary fashion in order to maximise their impact.</p>

Question	Response
<p>3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?</p>	<p>Yes.</p> <p>There are a variety of ways to maximise financial resources, however, these need to be balanced with the Council’s appetite for risk and its broader objectives.</p> <p>The Council has brought forward significant number of truly affordable homes and continues to do so across its schemes, through utilising its HRA and General Fund, however the review has developed a number of potential additional ways in which to both utilise its own financial resources to deliver increased numbers of Truly Affordable Housing and also the ability to secure additional funding to maximise potential delivery.</p> <p>Key interventions include:</p> <ul style="list-style-type: none"> • Working with RPs to enable their funding of units through direct purchase from Council schemes; • The delivery of a broader spectrum of truly affordable homes, including intermediate rent to enable cross subsidy between different rental products, although this needs to be carefully utilised in areas where demand for these units is appropriate; • The Council has yet to fully utilise private sector and institutional finance to deliver housing. Given the range of sites coming forward, the Council should consider whether this financing approach could add to the financial toolkit by addressing any short term affordability constraints, this may be particularly appropriate for large schemes or a portfolio of temporary accommodation; and • Alternative valuation techniques that can unlock additional funding from the HRA. However, this delivery would decrease the financial sustainability of the HRA and this impact must be considered, particularly in terms services to current residents; • There is the potential for the Council to increase its reliance on General Fund resources to deliver housing. The General Fund has additional flexibilities that could allow it to provide subsidy to the HRA or other delivery options.



Question	Response
<p>4. Are the Council’s existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?</p>	<p>When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that it wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle.</p> <p>There are, however, a number of improvements that can be made to the Council’s housing ecosystem at large to enable these tools to be deployed more effectively. In particular:</p> <ul style="list-style-type: none"> • There appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way; • There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other; and • It has been questioned by the Council as to whether the existing RP can deliver the Council’s broader objectives, including accessing grant from the GLA. <p>As a result, the Council is not currently in a position to achieve the potential from these vehicles as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used. This should be reviewed by the Council and an holistic approach developed in line with the recommendations in this report.</p>
<p>5. What is the optimum position on management and staffing resources for delivery of the Council’s housing led regeneration programme?</p>	<p>The work has concluded that there is a need to update the governance arrangements for the Housing Ecosystem to create additional strategic oversight and to streamline the governance. It is also recommended to implement a further detailed review of the Council’s resourcing model in relation to skills. The resourcing review has highlighted:</p> <p>In the short term, there is the opportunity to bring in additional external skills to support in specialist areas e.g. finance, but there is anecdotally an over reliance upon external resource provision which may need to change to address and close the current skills gap. It has been recommended that, in order to provide stability, career pathways, the “right” culture, a learning environment and sustainability, then there is a need to establish a refreshed governance model, recruit and then grow the skills internally;</p> <p>The business planning of the Council and its various delivery structures would be better served as a consolidated plan to enable the impact as a whole to be managed. There is a need to implement overarching governance arrangements via a Strategic Oversight Board and Housing Working Group to establish the Council’s housing delivery strategy and then to monitor progress on it. The Council may wish to consider a longer-term consolidated structure to better enable planning, leadership and strategic direction with regard delivery.</p>

01

Socialise the report, the toolkit of options and test the appetite and parameters for implementing different or a combination of options

02

Adopt and communicate an agreed definition for Truly Affordable Housing

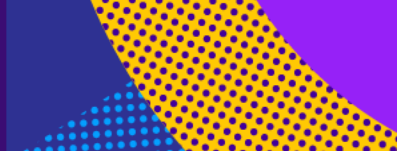
03

Develop a set of strategic objectives and Housing Delivery Plan to guide the current and future housing delivery programme. Instigate a refresh of the delivery ecosystem and Business Plans for delivery vehicles to reflect objectives.

04

Develop an implementation plan to move to new governance arrangements

Section 2: Truly Affordable Housing



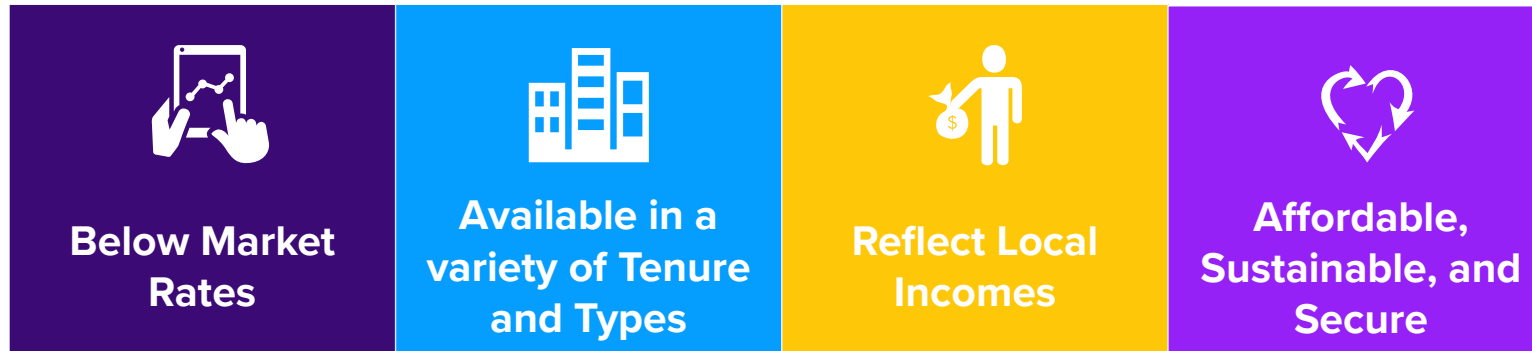
With a new administration in place, tackling the affordable housing shortage is a priority and at the forefront of the housing agenda.

In order to accurately depict the need and demand for Truly Affordable Housing in Westminster, it's critical to define what is meant by 'Truly Affordable Housing'. Whilst there is **no industry standard, widely agreed or recognised definition**, unpacking the meaning of 'truly affordable' is complex due to both the ambiguity of the phrase, as well as the differing interpretations of different stakeholders within the housing ecosystem. For example affordable housing means different things when defined by the Government, a Developer or a Resident:

GOVERNMENT 	DEVELOPER 	RESIDENT 
<p>Subsidised housing through a variety of means such as social rented housing, affordable rent housing, shared ownership, and intermediate rent homes. The Government state affordable housing to rent should cost no more than 80% of the average local market rent</p>	<p>The affordability and viability of delivering housing in accordance with set budgets and regulations</p>	<p>The cost of housing in relation to earnings – Shelter defines affordable housing as that which costs no more than 35% of net household income. The Mayor of London guidance (London Housing Strategy 2018) states that annual housing costs should be no greater than 40% of net household income</p>

- It is recommended that a definition of 'Truly Affordable Housing' is adopted by the Council to provide a consensus and remove any ambiguity as to what affordability means in housing terms.
- By providing clarity and an agreed definition for what is meant by 'Truly Affordable Housing' the Council can select the optimum combination of options for delivering additional affordable housing and it allows the implications of this approach on existing and planned development of affordable and private housing to be more clearly understood.
- It is important to note that there has been a significant shift in housing inflation since the 40% metric was issued in the 2018 London Housing Strategy and WCC may want to determine its own percentage threshold of net household income that reflects the current housing market and resident's earnings in the borough.

Truly Affordable Housing can be broken down into 4 key components:



A working definition for Truly Affordable Housing is proposed below:

“Truly Affordable Housing is housing for **sale or rent at below market rates** that is **available in a variety of tenure and types**, at costs that **reflect local incomes** and are at a level that households could **afford and reasonably be expected to sustain in the medium term**”

The Mayor of London guidance (London Housing Strategy 2018) states that annual housing costs should be **no greater than 40%** of net household income*, which has been assumed throughout the affordability metrics referenced in this document.

For clarity, the current focus of the Council and priority is not on delivering Truly Affordable Housing for sale and the emphasis of this Housing Supply Review, in order to meet the Council’s objectives, is on:

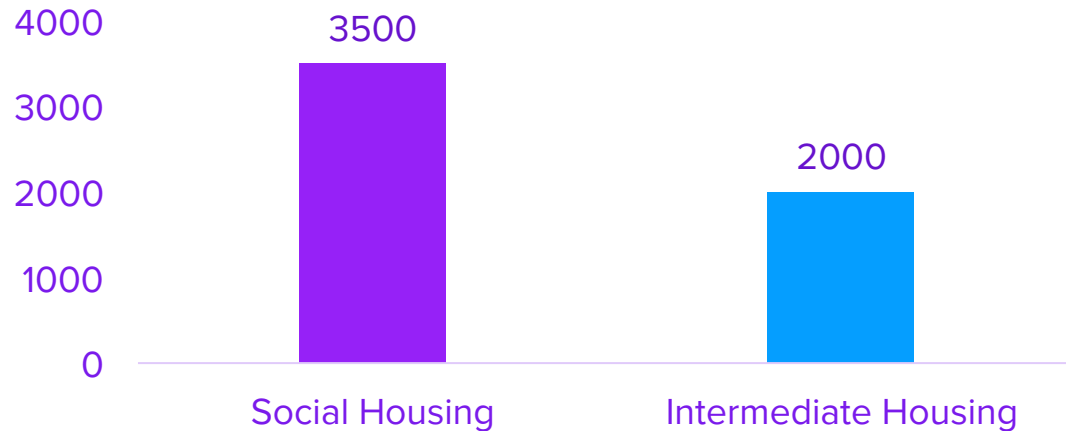
» **Maximising the opportunities to deliver additional ‘Truly Affordable Housing’ for social rent**

However, the options provided in the following sections of the report provide a range of opportunities for the Council to maximise and accelerate its delivery of affordable housing, including via other tenures. Adopting a broader definition may be useful in that context.

*income after tax and benefits. For the purposes of the TAH analysis in the following slides, housing costs are assumed to be rental costs only.

The current housing landscape within WCC indicates the scale of delivering on this challenge

Number of households registered for housing



Circa 5,500 households are either on the social or intermediate housing waiting list, which demonstrates the scale of need and demand for housing within Westminster

We have undertaken analysis of housing and income data from CACI to understand the existing housing landscape in Westminster. By doing this we can demonstrate at what cost point the real need is for housing that is affordable in relation to local earnings. This has demonstrated that

»» **The median household income across Westminster is £52,311.**

However, we understand that because the income levels in WCC are skewed significantly, overall averages can be misleading.

In order to demonstrate affordability in a more accurate way we have selected 3 of the statistically most deprived wards (Church Street, Westbourne and Queens Park) to demonstrate the affordable housing gap in WCC. The table on the **next slide** show the average household income and the average rental cost and accordingly what the % of household income would be used in paying the rental costs for different tenures in the borough.

This analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs.

The housing landscape within Westminster is diverse, with significant income variances across different wards

The average household income across Westminster is **£60,994**. Because the **income** levels in WCC are **skewed** significantly, overall **averages** can be **misleading**. Because of this, we have selected **3** of the **statistically most deprived wards** to demonstrate the affordable housing **gap** in WCC.

Average income in these wards is assumed to be a good representation of households seeking affordable housing in the absence of distributional income data.

Ward	Avg. Gross Household income	Avg Net Household Income	Average Rental Cost	% of Net Household Income
Church Street	£33,692	£28,762	WCC Social: £7,572 Target: £8,289 LLR: £12,815 DMR 50%: £12,841 DMR 65%: £16,693 LHA: £18,387	Social: 26% Target: 29% LLR: 45% DMR 50%: 45% DMR 65%: 53% LHA: 64%
Westbourne	£37,702	£31,438	WCC Social: £7,572 Target: £8,103 LLR: £13,443 DMR 50%: £15,031 LHA: £18,387 DMR 65%: £19,541	Social: 24% Target: 26% LLR: 43% DMR 50%: 48% LHA: 58% DMR 65%: 62%
Queen's Park	£39,194	£32,435	WCC Social: £7,572 Target: £7,573 LLR: £12,765 DMR 50%: £13,125 DMR 65%: £17,062 LHA: £18,387	Social: 23% Target: 23% LLR: 39% DMR 50%: 40% DMR 65%: 53% LHA: 57%

We have undertaken an affordability analysis by tenure which is set out in the table:

Rental costs for intermediate and market rent units are based on data from the Ebury Scheme.

	Rate	Social	Target Rent	LLR	DMR (50%)	LHA	DMR (65%)	Market Rent	Market Sale
Gross Rent	£ / Month	£631	£691	£1,120	£1,248	£1,532	£1,623	£2,497	N/A
Gross Rent	£ / Year	£7,572	£8,289	£13,444	£14,980	£18,387	£19,475	£29,961	N/A
Rental Cost	% of Rent	57.50%	52.52%	42.63%	42.63%	42.63%	42.63%	29.03%	N/A
Net Rent	£ / Year	£3,218	£3,936	£7,713	£8,594	£10,548	£11,173	£21,263	N/A
Yield	% Net	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	N/A
Valuation	£ / Unit	£80,449	£98,388	£192,826	£214,857	£263,709	£279,315	£567,021	£987,409
If GLA Grant is applicable	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Value	% OMS	23.7%	25.6%	25.9%	21.8%	26.7%	28.3%	57.4%	100.0%
Capital Value	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Expenditure	£ / Unit	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000
Net Position	£ / Unit	-£515,551	-£497,612	-£494,174	-£535,143	-£486,291	-£470,685	-£182,979	£237,409
Market Unit Cross-Subsidy	Per 1 Market Sale	2.17	2.10	2.08	2.25	2.05	1.98	N/A	N/A
Affordability	% of Net Income	25%	27%	44%	49%	60%	63%	N/A	N/A

This analysis demonstrates the following findings:

That assuming an average build rate of £750k per unit, only market sale units generate enough capital value to produce a surplus, with every other tenure showing a net loss:

Affordable Tenures show losses ranging from £570k (social rent) to £470k (65% DMR)

Assuming a 70/30 split between social and intermediate tenures, the results show that only 30% of units can be provided onsite as affordable

1) Recommendation

A definition for 'Truly Affordable Housing' should be adopted and communicated by WCC to remove any ambiguity as to what as to what affordability means in housing terms.

2) Recommendation

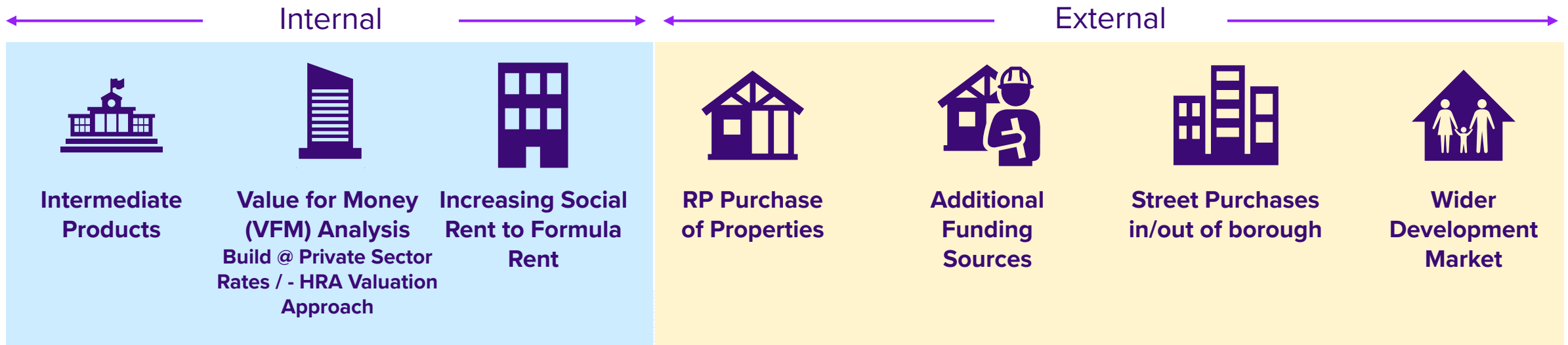
The analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs. Given the GLA definition on affordability, this means that the average income for residents should support and be affordable at a range of rental points with the potential for an increase from current social rent levels. The Council should provide consideration to those that fall below this "average" level of income and to be truly affordable the Council should ensure that there are rent levels to address all needs.

3) Recommendation

Only market sale units generate a surplus over costs, with every other tenure showing a net loss. Therefore, to deliver additional numbers of Truly Affordable Housing units market sales units will need to be built to provide cross subsidy to the truly affordable programme.

Section 3: Housing Options

Through analysing the current baseline delivery position, we have identified and analysed 7 potential options to create a toolkits of viable sustainable solutions that, if delivered individually or on a complimentary basis could deliver the greatest impact on Truly Affordable Housing within Westminster



Each option has been analysed to determine if used how this could positively impact on the delivery programme. Consideration is given to the feasibility and viability within the current market, considering both financial and non-financial impacts of implementation and whether options are complimentary or mutual exclusive, i.e. which options can work together or on their own.

The housing options have been categorised into three key themes:

(a) Providing better value out of existing investments (i.e. more homes for the same money)



**Increasing Social Rent
to Formula Rent**



**Intermediate
Products**



**Value for Money (VFM)
Analysis**

(b) Increasing the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent)



**Wider Development
Market**



**Street Purchases
in/out of borough**



**RP Purchase of
Properties**

(c) Introduce additional funding from alternative sources to increase the scale of affordable housing delivery



**Additional
Funding Sources**

It should be noted that some options deliver benefits across two or three of these categories, however they have been categorized into the most dominant section for this analysis. This is explained for each option in the following section

Throughout our analysis, we have utilised case studies and worked examples to demonstrate the impact of the Housing Supply options on a housing scheme.

100 units example

The ‘100 units’ example, applies each Housing Supply option on a base case example of a 100 unit scheme to demonstrate its potential impact if implemented.

For example, “when applying the principles of ‘Option X’ on a base case of 100 units, an additional 25 units can be realised’.

The analysis is based on 21/22 figures and does not account for the impact of the recent inflationary rise for the 22/23 figures.

Ebury Bridge

In terms of worked example case studies, we have used Ebury Bridge as the base case, and applied the options to Ebury to demonstrate the impact of the numbers.

The base case for Ebury bridge is as follows:

- Ebury Phase 1 is a Westminster Development with available data to conduct a case study on some of the options to increase affordable housing
- Phase 1 is developing 226 units, 142 of which are affordable split 98 social and 44 intermediate
- Current data shows an “all-in” capital costs of circa £778k per unit, including fees, contingency and financing costs
- The capital value for the social units is assumed as follows:

	Studio	1 bed	2 bed	3 bed
Social (Baseline)*	£59,775	£59,775	£71,054	£75,004

Option 1: Value for Money Analysis (VFM)

In addition to options that deliver additional housing units it is important to first identify opportunities to create additional headroom in the HRA and General Fund that will in turn finance delivery of additional homes. Our Value for Money (VFM) analysis has included a detailed review of the Council’s current housing programme, the approach taken to develop assets including the cost metrics and valuation methodology used, the risk appetite applied, and assumptions embedded into the viability assessment and cost of schemes.

The VFM analysis has identified the following approaches that could enable WCC to identify cost saving efficiencies:



1) Build Programme Cost Assumptions

We have used benchmark data to compare average build cost of private sector developers with the council’s current housing programme forecast costs to provide analysis on the average build cost of the council developing its own assets as opposed to the private sector.



3) NPV Policy Position

NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project. The council would benefit from gaining consensus and agreeing a policy position on what assumptions are used to assess NPV and what range of NPV should be targeted across the portfolio. A key benefit of agreeing a policy position is unlocking the ability to conduct scenario analysis to understand how and what variations away from NPV would impact the programme.



2) HRA Valuation Approach

The HRA approach includes covering interest from Year 1 and repaying debt within 50 years. A change in valuation approach could yield cost efficiencies



4) Inflation Allowances

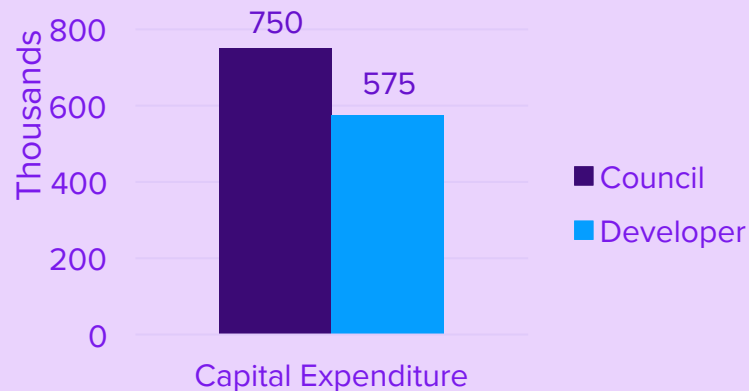
With the current of living and inflation crisis, embedding robust inflation assumptions into financial modelling and calculations is critical to understanding the viability and cost of schemes. Regular scenario analysis and updates are required to ensure the most relevant data is factored into decision making.

The cost of the council building properties is significantly higher than the private sector and therefore should consideration be given to mechanisms which allow the wider development market to deliver more homes on sites not yet under contract e.g. future pipeline schemes. Given the dynamic nature of the economy, regular confirmation that any assumptions used in the HRA are valid and represent the most appropriate measure for future costs and incomes could offer further opportunities for the delivery of truly affordable units.

Build At Private Sector Rates

The Council has or is developing assets on a range of sites within the City. Each of the sites has its own characteristics and unique requirements. However, it is this uniqueness of each site that provides us with a typical programme of work for our analysis. Analysis is applied to the five sites chosen for this element of the review. The average build cost across these sites, without accounting for land value is c£750,000 before potential grant allocation is considered, (with land value the figure is closer to £900,000). Benchmark data, extracted from Arcadis London benchmark data, and uplifted for Westminster shows a similar cost for private sector developers of £575,000 per unit.

Analysis



On average, the council spends **30% more on building properties, or £175k per unit, when compared to private sector developers**

Key Considerations

In comparing the figure of £750,000 to other benchmark figures several considerations stand out:

- The Council is committed to delivering to a quality standard that allows it to meet wider objectives e.g. climate emergency, cost of living crisis etc.
- The Council is undertaking delivery on sites that the market consider "difficult" and unviable
- The Private sector figure is drawn from a range of developers across London whose size would offer efficiencies of scale in delivery;
- It would be difficult for the Council to just "reduce costs" and the implications of reducing costs down; and
- The Westminster average cost figure, although drawn from a range of sites, maybe skewed by outliers e.g. Cosway Street.

In a 100-unit scheme, this would equate to 30 additional social units

Build At Private Sector Rates (continued)

For the purpose of the Build Cost analysis, the average cost of a Council building a single unit is based on the 261 units delivered across 5 sites.

Scheme	Total Units	CAPEX per Unit	Adj. CAPEX per Unit
Luxborough	14	£989k	£1,139k
300 Harrow Road	112	£591k	£691k
Ashbridge	26	£936k	£1,111k
Cosway Street	49	£991k	£1,216k
Lisson Arches	60	£723k	£873k
Total	261	£752k	£898k

Cost of building a unit

- »» The 5 capital expenditure totals for schemes underway in Westminster have an average rate of circa £750k per unit. However, there is a range of c£700k up to £1,140k
- »» This excludes the opportunity cost of forgoing land value in the form of receipts, estimated at £145k per unit
- »» The total capital cost of building a unit is circa £900k per unit

HRA Valuation Approach

The Council is required to produce a HRA Business Plan that sets out its strategic plan for managing and maintaining its social housing stock. The plan sets out in detail the short to medium term plans and priorities for the management of its housing asset (5 years) and provides a long term (30 year) forecast on stock investment and financial planning. The plan needs to be flexible and agile to allow it to both meet its medium-term requirements but also address the strategic objectives of the Council and the impact of Government policies on rents, disposals and regeneration. With this in mind, any assumptions made within the Plan need to be robust, but also dynamic so as not to adversely impact on the financial sustainability of the plan.

When considering the Plan, the Council has made a number of assumptions, based on its medium to long term assessment of the housing stock and its risk appetite in ensuring the financial sustainability of the HRA.

One of the key assumptions is the value that the HRA can pay for any new build units. Currently, the Council's risk appetite dictates that all units should be valued on a development yield basis. This approach delivers long-term financial strength to the HRA and allows value to be generated from each unit that can support the wider stock. However, by taking a different approach to this valuation methodology the Council could use a portion of this value to support a higher price paid per unit.

HRA Valuation KPI Basis

Two methods that have been test as part of this review are detailed below. However, the Council could through a use of a portfolio view of the Net Present Value, or a dynamic review of assumptions, look to calculate the price paid on a site-by-site basis, whilst considering the impact on the wider HRA. The two approaches detailed below provide a "bookend" approach, with the Council assessing its risk appetite and the financial health of the HRA at regular intervals.

1. The valuation must not have a negative impact on the HRA, such that the impact of the unit as a minimum breaks-even in its first year of occupation.
2. The longer-term value of the units are of prime consideration whereby the unit provides a break-even position over a 50 year asset life, i.e. the cost of purchase and the long term operational costs do not have a negative impact on the HRA over this period.

These KPI's lead to two valuations that are significantly higher than the value derived from the development yield approach (as shown in the impact table to the right), thus indicating a potential disconnect between the values used on the development viability versus what the HRA can afford.

In order to facilitate more streamlined viability and value engineering processes, a more connected and transparent approach is required.

Impact

	Development Yield	Year 1 Breakeven	50-year breakeven
Capital Value	£80,449	£123,730	£137,366

In a 100-unit scheme (assuming £750k capex), this equates to between 7-9 additional social units

Delivery Structure	There is no requirement for the Council to use any additional delivery structures to implement these opportunities.
Viability	By implementing these opportunities, the Council could increase the number of affordable units delivered on a 100 units scheme by up to 39 units.
Resources	The Council will need to assess its new build programme to assess how, and if resources need to be put in place to reduce costs.
Legal Considerations	There are no additional legal requirements that the Council must consider if these opportunities are implemented.
Potential Risks	The Council must consider its requirements as landlord if it takes an approach to risk that could impact detrimentally on the financial sustainability of the HRA. A reduction in the quality of new build units could impact on the Council's ability to address wider priorities e.g. climate emergency
Scalability	The opportunities in this section provide the Council tools with which to ensure its assumptions and assertions are regularly checked to ensure they are making the most out of its available resources.

This section has concluded that there is potential to better understand some of the key aspects of the build programme as a tool to increase the level of Truly Affordable Housing. It's recognised that the Council has already enacted some of the points raised and has made positive steps to enhancing the ability of the Council to deliver more. We would therefore make the following recommendations in order to take this forward:

4) Recommendation

The Council should conduct a review of its costs to ensure they are comparable to external market rates. Where deviation does occur then the Council should ensure that additional costs are adding value to the development and/or are contributing to wider Council objectives, e.g., climate emergency

5) Recommendation

There is currently a disconnect in the valuation methodology used by the development appraisals and HRA business plan. The valuation per the HRA business plan (the amount the HRA can afford) is significantly higher than the value derived from the development yield approach (that used in the development appraisals); indicating a potential disconnect between the values used on the development viability versus what the HRA can afford. This could lead to developments not being considered viable or the level of affordable being reduced.

As with this and other assumptions used. The Council should regularly review key drivers of delivery to ensure they are up to date and consistent.

6) Recommendation

The Council could consider to moving to an approach whereby the affordability of a unit is assessed over 50 years, rather than 30 years. This increased duration could allow a higher premium to be paid. However, this approach is not without risk and the overall impact on the financial sustainability of the HRA must be considered.

Option 2: Street Purchases in/out of Borough

As a result of the lack of affordable developable land within Westminster, the Council could look to purchase “for sale” properties within the borough or within a defined distance from the borough. The purchase of suitable properties would give the Council a relatively quick route to increasing its access to housing units for both truly affordable rent and the potential use of Temporary Accommodation. Subject to a viability assessment these houses could then be used to provide a range of different tenure, from truly affordable rental provision to the use of the unit to discharge the Council's homelessness pressures.

The scarcity of land in Westminster has meant that development is inhibited by high land costs. This, in turn has a negative impact on viability and the ability to deliver significant levels of affordable housing in the City. Additionally, such is the complexity of developing in the City, when land is available and development is viable, the development cycle is length, often taking up to 5 years to deliver homes.

Street properties could provide a costs effective alternative to accessing additional units in relatively short timescales. This should not replace the development activities, but compliment. The units, being outside of the Housing Act requirements could sit in the General Fund (TA) or in a separate company and be funded by a variety of different approaches, e.g., Bromley has used institutional funding to support this initiative. Once identified, housing units can be purchased in a matter of months, rather than years.

In-borough

Analysis has shown that the average cost of a unit in Westminster, when compared to a comparably sized new build unit is considerably less. However, as previously stated, new build units have the added benefit of allowing the Council to address a wider range of priorities, e.g., energy efficiency leading to lower whole life costs for tenants.

Out-borough

In addition to purchasing units in the City, the Council could benefit to a greater extent when it compares the value of units outside of Westminster against the rents that each unit commands. Analysis has shown that like for like for sale properties are cheaper in neighbouring boroughs and therefore would offer a greater saving to the Council when compared to a new build. Whilst the Council has a preference for ensuring that housing needs are delivered within the City. Additional units that offer significant savings could be used to free up units where tenants wish to downsize, where units are used to discharged homelessness responsibilities or where there is a need for decant. By increasing the overall housing stock the Council will increase the flexibility it has to address a range of housing needs and financial pressures.

Analysis shows adopting a street purchase programme could potentially improve the number of Truly Affordable Housing units available

Acquisition data spans from 2014 to 2022, and so it is difficult to assess current costs per unit

We used a property sourcing software to show the likely costs both in Westminster and surrounding boroughs

- Average property price in Westminster is £531k per unit (assuming same bedroom mix as typical WCC Development scheme)
- Average property price within 5km radius of Westminster Council offices are £438k per unit

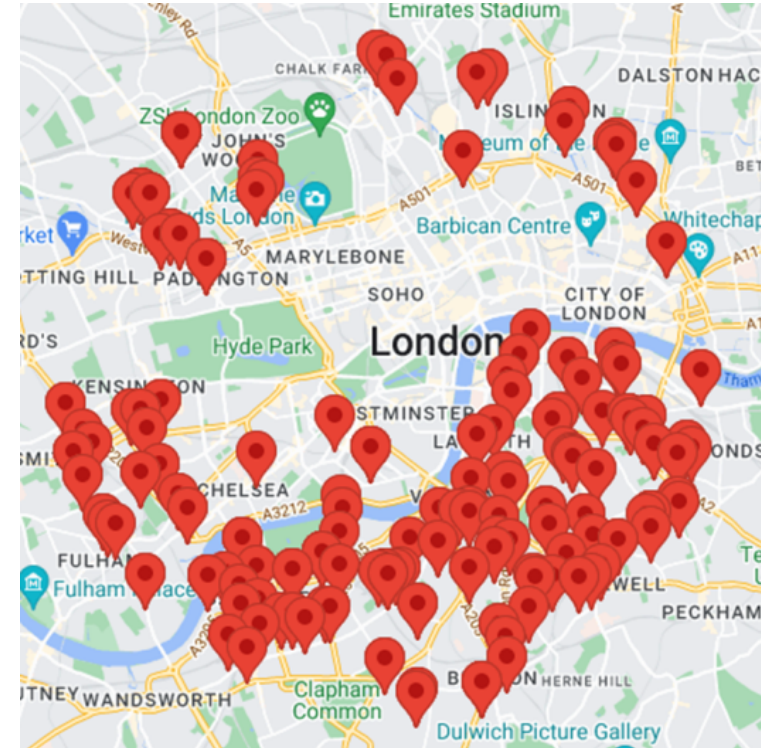
If purchasing units of this type outside of borough is compared to purchasing them inside the Borough it delivers the following results:

In a 100-unit portfolio, acquiring units outside of Westminster would equate to 21 additional units based on price point

Yields and investment opportunities will improve with a wider search area, with the sourcing software showing likely yields in Westminster of 3.0% assuming LHA rent versus 4.15% in a 5km radius.

Therefore if the above results are updated to enable purchasing outside Borough, it delivers the following results:

If the increased affordability from better yields was added on top of cheaper prices, then in a 100-unit portfolio this would equate to 38 additional units



The Image above visualizes the high-yielding property advertisements located within 5km of council's offices over a 1-week period

Scheme	Total Units	CAPEX per Unit	Grant per Unit	RLV per Unit	Adj. CAPEX per Unit
Luxborough	14	£989k	-£153k	£150k	£986k
300 Harrow Road	112	£591k	-£153k	£100k	£538k
Ashbridge	26	£936k	-£153k	£175k	£958k
Cosway Street	49	£991k	-£153k	£225k	£1,063k
Lisson Arches	60	£723k	-£153k	£150k	£720k
Total	261	£752k	-£153k	£145k	£750k

Cost of building a unit

» The table to left shows 5 Capital Expenditure totals for schemes underway in Westminster with rates averaging circa £750k per unit, netting to circa £600k with grant

» This excludes the opportunity cost of forgoing land value in the form of receipts, estimated at £145k per unit

The total net capital cost of building a unit is circa £750k per unit

Cost of acquiring a unit

» The average property price for an investment property in Westminster is £531k, though with on-costs the capital cost totals circa £570k unit (assuming 7.5% on-costs)

» The average property price for an investment in a 5km radius is £438k, with a capital cost of £470k per unit (assuming 7.5% on-costs)

In a 100-unit scheme (assuming £750k capital), this would equate to 31 additional units in Westminster or 59 additional units in a 5km radius

Case Study

The London Borough of Bromley started a street purchase programme in partnership with Orchard & Shipman.

The £85m programme is funded by £18m from Council resources and £67m from the Pension Insurance Corporation for fifty years. Up to 300 homes will be acquired to enable households to be moved out of temporary accommodation. The access to additional units will deliver significant savings for the Council when compared to its current costs.

The programme sees the homes fully refurbished and then let by O&S to local residents nominated by the Council.

The use of specialist property agents significantly improves the speed and value for money of acquisitions as this is not a natural local authority skill set. Aligning an agent fee structure to reducing the purchase price also improves value for money.

Need to adequately identify the cost of refurbishment to lettable standard as well as the likely medium- and long-term investment requirements of homes. Also need to ensure there is sufficient capacity in house or in the supply chain to survey and refurbish homes to ensure opportunities are not lost and newly acquired homes do not remain empty for sustained periods.

Important to consider the ability to improve the future energy efficiency and required investment in the home as part of the appraisal process.

Whilst it may offer good value for money initially, this can change if the home is difficult to adapt towards net zero targets.

Be aware of additional costs of managing the home, e.g. service charges in private blocks, which can materially impact the viability of individual properties.

This section has concluded that there is significant potential to utilise street purchases as a key tool to increase the level of Truly Affordable Housing. We would therefore make the following recommendations in order to take this forward.

7) Recommendation
The Council should consider the scale of investment it would wish to dedicate to this programme, with a focus on which tenures / unit types it would target for the programme. For example, Temporary Accommodation / Social Rent / Intermediate Rent and 2 bed / 3 bed homes

8) Recommendation
The Council should review the delivery approach it would wish to use for the programme. Depending on the unit types and the tenures to be used the HRA or individual delivery vehicles could be used for different types of unit. For example, certain rental types on short term tenancies may need to be undertaken through a management vehicle, such as Westminster Builds, whereas Social rented properties could be let from the HRA or RPs

9) Recommendation
The Council should consider the tools and resources it dedicates to the street purchase programme to ensure it is targeting available properties effectively and efficiently and can select appropriate properties and transact them appropriately

10) Recommendation
The Council should consider the funding options available to it for this programme including utilising internal / PWLB borrowing, potential bonds to institutional investors. It should consider this on a programme basis to ensure the appropriate route is elected.

Delivery Structure	If the Council rely on private or institutional finance to purchase the assets, then there will be a requirement for a structure that sits wholly outside the Council. This position could be taken by Westminster Builds, giving the Council additional flexibility to meet a range of housing needs.
Viability	This option increases the number of units for the same financial envelope. Although, this relies on the Council's programme accurately assessing any initial renovations and does not consider the whole life costs of the assets once bought.
Resources	This option would require resources to source and purchase the units, including conveyance, property finder and finance. Any renovations required could be completed by the Council's current HRA service, that being similar to a Void turnaround. However, a purchase programme that provided a disparate property portfolio may increase costs.
Legal Considerations	This option would not require any specific legal powers. Legal consideration may be needed to agree any private finance deal
Potential Risks	Potential risks could include artificially inflating the price of properties on the local market, the political risk of discharging housing requirements out of the City and the impact on tenants of being placed outside of the City. Using HRA resources for the refurbishment of homes could divert capacity from maintenance and investment in current stock. In addition, a break-even position over a longer period means you are using existing resource to support the new units.
Scalability	This approach is scalable across the Borough / out of Borough and is only really limited by the Council appetite and demand. Significant funding routes have been followed by Boroughs across London, including bond issues for this purpose as well as institutional funding arrangements across programmes

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Does Street Purchase represent Value for Money?	<p>Street Purchase units has been shown to be a cost-effective method of increasing housing supply at a rate that is below the cost of a new build. However, the potential disparate nature of this units and the potential impact on the Council's quality standards mean that it is not a substitute for a new build programme and should be used to complement and increase supply.</p>
What are the main consideration of this approach?	<p>The purchase of these units allows the Council additional flexibility as they can be bought outside of the Housing Act requirements. Many Councils have used a similar programme to support their homelessness provision, thereby reducing pressure on existing or new build stock.</p> <p>Consideration should be given to ensuring the yield offered by each property is sufficient to support the unit and in doing this the Council should consider the benefits of purchasing units out of boorugh.</p> <p>Consideration should be given as to whether Street Purchase properties should sit in the GF, the HRA or an arms-length entity. Most Council have decided that to increase future flexibility these are kept outside of the HRA.</p>

Option 3: RP Purchase of Properties

Under this approach the Council works with a range of local Registered Providers (RPs) to agree forward funding deals to acquire the affordable housing developed on a site, or series of sites.

The diagram to the right shows a potential approach to increase the Council's resources for the development of more affordable homes. This approach is explained as follows:

- (1.) Development is undertaken by the Council, either directly or through one of its wholly owned companies (WOC);
- (2.) Private and commercial units are funded by the Council;
- (3.) The affordable units are not funded by the council, instead they are funded by an RP, who purchases and operates them;
- (4.) These are funded on a forward funded basis, meaning the RP agrees to purchase them in advance of development and pays the purchase price in instalments that match the development costs, thus negating the need for any other funding (Golden Brick);
- (5.) The stock is then owned and operated by the RP; BUT
- (6.) The Council receives the nomination rights to these units on an ongoing basis to address its housing waiting list.

This results in (7.), the potential for the Council to develop more affordable homes due to:



- The saving in funding costs enabling these resources to be applied to other units;
- The fact that an RP will typically pay more for these units than the Council would to purchase them into the HRA, the principal reasons for this are:
 - The valuation model used by RPs which is more commercially focused; and
 - The supply chain savings a number of RPs experience enabling the net value of the units to be appraised as higher.

The combined saving from these elements can result in the potential for the Council to either develop more units on the site or future sites.

Case Study



This is a very common solution for Council's that do not own their own affordable housing, or for sites where the Council does not have an overriding desire to own the affordable units that are delivered.

Southend on Sea City Council are regenerating the Queensway housing estate in central Southend into a new residential led mixed use development of c. 1,600 units situated next to Southend Victoria station. A forward funding deal has been put in place with an RP to fund all affordable on the site, c.500 units.

The RP funds all development of the units through the purchase. Payments are made on a monthly basis to cover the development costs. The units, once complete are owned and managed by the RP with all nominations to the Council. As part of procuring the RP the Council required a number of commitments on the terms and conditions to be used, including quality of management and rent levels

This case study is a good example of a Council and an RP working effectively in partnership.

The business models of the 2 organisations differ in terms of the way that the RP funds and operates the units it owns, however, the overall goal of the two organisations of providing high quality sustainable affordable housing tailored to the needs of local people, means that a partnership arrangement that met the needs of both could be put in place.

The RP, in this scenario, wished to increase the critical mass of their stock in the Southend area, and the efficiency and effectiveness of the management arrangements to be put in place could be considered in advance to ensure the units were developed to the appropriate quality for both parties and that they could be situated well in terms of buildings and cores to ensure maintenance and management costs were efficient.

Early-stage engagement with the market was the key lesson learned from this process for Councils such as Westminster, to maximise the value to the delivery of Truly Affordable Housing. Developing the understanding of the RP delivery model was critical to ensuring that the scheme could be delivered effectively in partnership

RP vs. HRA Purchase Values

RP's principal goal is to develop and manage affordable homes in an efficient and effective way. As such, the organisations' business model is structured almost entirely with this goal in mind.

When compared to a Local Authority model, whose strategy and goals is far wider, this typically demonstrates a number of ways in which their efficiency and cost effectiveness can be maximised.

In order to demonstrate this, the Council's HRA valuation approach has been compared with benchmarked RP valuation approaches to demonstrate the typical differences, and their resultant impact.

	Council	Typical RP
Gross Rent	£631	£691
Operating Exp.	57.5%*	42.5%**
Yield	4.00%	4.82%***
Capital Value	£80,449	£98,886
Range - Low	£66,252	£84,427
Range – High	£94,646	£117,024

* Council's gross to net ranges between 50%-65%

** RP gross to net ranges between 40%-45%

*** RP Yield ranges between 4.25%-5.40%

If this analysis were applied to a 100 unit scheme this would result in an increase in the number of truly affordable homes that could be developed as shown to the right.

The table to the left shows the key metrics that impact the potential value (shown in the blue shaded cells) that the council's HRA could pay for the units vs. what an RP would pay, based on their delivery model.

The key differences relate to:

- Operating Expenditure – The RP can deliver management and maintenance more efficiently due to stronger supply chains and focused business models; and
- Yields – Council funding rates can lead to a small yield advantage, however, this is typically not offset by the Operating expenditure differences

The impact on values is on average an increase of c. £18.5k per unit or an increase of 23%, with a range depending on unit size of between £13k and £23k.

In a 100-unit scheme (assuming £750k capex), this would equate to 3 additional social units

The RP sector works extensively with Council's across the country on arrangements of this type. However, there are some key operational considerations for the Council should it choose to implement a strategy of working more closely in this way. Key points include:

Scale and unit configuration – RPs are typically interested in purchasing properties from Council's. however, a key consideration for them will be the scale of units that are available and how they are configured. The more units that are situated together in the same buildings / area, the more attractive this offer becomes. This is due to the economies in management arrangements where local servicing and arrangements around supply chain can be established effectively. In multi occupier buildings / groups of buildings the clustering of units around specific cores / areas is more attractive.

However, this is not to say that RPs will not be interested where smaller groups of units become available. Smaller scale locally based RPs will typically be interested in taking, even small numbers of units, provided they are either near existing stock of their own, or there is a potential for a portfolio of units to be developed in partnership with the Council. There are a number of smaller RPs that are active in Westminster that could be interested

Quality of RP – The Council needs to consider the potential RP market and what the key criteria are for the type of RP is wishes to work with. Key things to consider include:

- Management Arrangements – A focus on the quality of management arrangements and tenant satisfaction of the RP
- Scale – There are a variety of RPs working in borough ranging from very large national providers to small niche ones. Consideration of the values and approach that are driven by this scale is key
- Commercialism – some RPs are more commercially minded than others with a focus on efficiency and generating surpluses, sometimes at the expense of some elements of pastoral care.
- Demand – An assessment needs to be made of the likely interest from different RPs for the specific opportunities that are highlighted.

RP Purchase of properties: Findings

<p>Delivery Structure</p>	<p>No specific delivery structure is required for this approach to be delivered as external RP's will generally be the purchaser of the units. It is possible for the Council's own RP (Westminster Community Homes) to purchase the units, however, this would result in the Council's own housing ecosystem still funding the assets negating much of the benefit of this approach.</p>
<p>Viability</p>	<p>This approach supports an improvement in viability as a result of 2 main factors.</p> <ul style="list-style-type: none"> • The saving in funding costs by virtue of the units being funded through the RP purchase; and • The increase in value paid by an RP compared to the Council's own purchase costs into the HRA
<p>Resources</p>	<p>There is limited impact on development resources, however, this approach does impact resources in 2 other main ways:</p> <ul style="list-style-type: none"> • The Council no longer manage and maintain these assets, as they are owned and operated by the RP; and • The Council's funding requirements are reduced due to the golden brick approach
<p>Legal Considerations</p>	<p>The Council is undertaking development through this approach in the same way as all other approaches included in this analysis, it is then selling the assets, as such beyond ensuring it receives best consideration for these assets, additional legal considerations are few.</p>
<p>Potential Risks</p>	<p>The Council must consider the quality of the RP that purchases the assets and ensure that they are selected on the basis of their strong management and maintenance experience.</p> <p>The potential local market in RPs needs to be assessed to ensure there is appropriate demand from quality RPs.</p>
<p>Scalability</p>	<p>Developing a partnership with an RP or series of RPs can be beneficial in developing a programme of purchases of this type. Through this approach the parties start to understand how each other operates and the values / market interest of different parties.</p> <p>Through this approach this becomes a scalable solution for Councils and their affordable housing programmes.</p>

11) Recommendation

If the council is keen to take this approach forward, it should build on its existing relationships with local RPs and potentially cast the net more widely to undertake a formal soft market testing exercise with this group. This exercise should be used to develop a register of interested parties on which it should capture an understanding of each party's appetite, what scale of units they would be interested in, and in what location. Subsequently a protocol / approach should be developed for how these parties are engaged as opportunities arrive.

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Would the selling of new affordable units to RPs support an increase in Truly Affordable Housing?	Yes – By selling these units to an RP this enables external funding to enter the housing delivery ecosystem freeing up funds from the HRA / Council owned RPs to deliver / purchase other units, thus resulting in an increase in Truly Affordable Housing
Would such a sale impact on the quality of tenant experience for Westminster’s tenants?	This is largely in the Council’s control. The way the RP would be selected could be based on the quality of management services they would offer and performance elements can be built into the contractual arrangements to ensure ongoing quality
Would the RP market be interested?	Yes – This will be defined by the scale of units developed and their location, but typically the RP market has moved heavily into working with Council’s in the current climate. Smaller groups of units are likely to appeal to more local RPs, whilst larger groups could be more attractive to larger G15 parties
What are the key risks in this approach that the Council need to consider?	Demand from the RP sector / selection of the right RP to deliver the quality of services the Council requires / Engagement at the appropriate time with the market

Option 4: Increasing Social Rent to Formula Rent

The Council's requirement is to increase the delivery of truly affordable units in the City. The previous section within this report sets out a definition for "Truly Affordable" and assesses how that translates into a rental product. It is clear from this analysis that there are a range of rent price points that would satisfy this definition.

In addition, the Council has recently implemented a policy whereby new build properties are let at market rent. This section sets out the impact on viability of delivering new build or void units at a range of rent points

The Council is set to deliver a significant number of new build units on sites within the City. To deliver truly affordable units on these sites will require subsidy from either the development (through the development viability appraisal) or from the Council (through additional resource). When considering the rent levels that can be achieved the two levers set out above can be moved to support the Council's requirements.

The following analysis considers the impact on the viability of the schemes by varying the rent, against two recognised rent levels:

- The Council's Social Rent product;
- Target (Formula) Rent; and

The Council is prohibited from raising rents with current tenants at a rate above that directed by Government (CPI linked), however, where new build properties or Voids are let the Council has the scope to increase rents to better reflect market conditions. However, we note that, in places, the Council has made the commitment to return displaced residents on their previous rents. Subject to an affordability assessment of tenants, the Council could ensure all new units have a rent that is comparable to the target rent.

The next table sets out a range of rents from Social to Market to better understand the impact of rent levels on viability.

	Rate	Social	Target Rent	LLR	DMR (50%)	LHA	DMR (65%)	Market Rent	Market Sale
Gross Rent	£ / Month	£631	£691	£1,120	£1,248	£1,532	£1,623	£2,497	N/A
Gross Rent	£ / Year	£7,572	£8,289	£13,444	£14,980	£18,387	£19,475	£29,961	N/A
Rental Cost	% of Rent	57.50%	52.52%	42.63%	42.63%	42.63%	42.63%	29.03%	N/A
Net Rent	£ / Year	£3,218	£3,936	£7,713	£8,594	£10,548	£11,173	£21,263	N/A
Yield	% Net	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	N/A
Valuation	£ / Unit	£80,449	£98,388	£192,826	£214,857	£263,709	£279,315	£567,021	£987,409
If GLA Grant is applicable	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Value	% OMS	23.7%	25.6%	25.9%	21.8%	26.7%	28.3%	57.4%	100.0%
Capital Value	£ / Unit	£234,449	£252,388	£255,826	£214,857	£263,709	£279,315	£567,021	£987,409
Capital Expenditure	£ / Unit	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000	£750,000
Net Position	£ / Unit	-£515,551	-£497,612	-£494,174	-£535,143	-£486,291	-£470,685	-£182,979	£237,409
Market Unit Cross-Subsidy	Per 1 Market Sale	2.17	2.10	2.08	2.25	2.05	1.98	N/A	N/A
Affordability	% of Net Income	25%	27%	44%	49%	60%	63%	N/A	N/A

Based on the analysis, 1 social rent unit needs 2.17 market sale for cross-subsidy. Alternatively, the Council could seek to use other resources, with £515,551 supporting the delivery of 1 social rent unit.

As set out there is a financial gap between current social rent charged by the Council (**25.3% OMR**) and the target formula rent (**28% OMR**).

By increase the rent levels from social to target rent the capital value of the unit increases by c.£18,000. This additional value could be used to support the delivery of more units on a development within the same cost envelope.

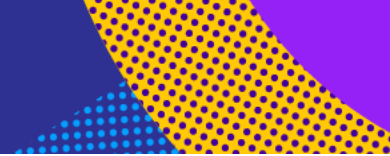
There is scope for the Council to increase the rent on new build and Void units, whilst still maintaining affordability for the most at need. Any increase in rents will allow the HRA to be more financially resilient and allow it to support more “truly affordable” housing

	Rate	Social	Target Rent
Gross Rent	£ / Month	£631	£691
Gross Rent	£ / Year	£7,572	£8,289
Rental Cost	% of Rent	57.50%	52.52%
Net Rent	£ / Year	£3,218	£3,936
Yield	% Net	4.00%	4.00%
Valuation	£ / Unit	£80,449	£98,388
With GLA Grant	£ / Unit	£234,449	£252,388
Capital Value	% OMS	23.7%	25.6%
Affordability	% of Net Income	25%	27%

<p>Delivery Structure</p>	<p>The Council must consider the impact of a range of rent levels on the requirement to hold homes in a range of different structure. Currently, any home that attracts LHA grant can be held in the HRA. However, if the Council is looking at a cross subsidy model to support more truly affordable units, then it may wish to consider whether these are held outside of the HRA – potentially under Westminster Builds.</p>
<p>Viability</p>	<p>The rent level charged directly impacts on the value of the truly affordable unit. Where the Council is looking to reduce or maintain rents at a social or target rent then to increase numbers then additional Council resources will be required.</p>
<p>Resources</p>	<p>No additional resource are required to implement these opportunities. However, if rents fall outside of the rent setting regime of the HRA, then consideration must be given to any additional resources that could be required in one of the Council's management companies.</p>
<p>Legal Considerations</p>	<p>The Council must pay regard to legal requirements around rent setting and residents tenure when it assesses the rent payable on its properties. If the property is classed as 'low cost accommodation' then the rent standard would apply. Further detail can be found in the legal section of this report, and the legal papers</p>
<p>Potential Risks</p>	<p>The Council must consider the impact on tenants of any rent level, particularly in light of the move to universal credit and the current cost of living crisis.</p>
<p>Scalability</p>	<p>This approach can be adopted across the entire portfolio for new tenancies in new build properties or relet properties</p>

12) Recommendation

The Council should review its rent approach for social rent levels on new build and relet properties. If it is not already charging target rent on these units, it should move to this basis, unless there are specific local reasons not to do so.



Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Is the Council currently charging appropriate social rent levels to tenants?	The Council has not always moved to a target rent approach for its social rented properties meaning that there is potential headroom to increase rents within the guidance
Is there the opportunity to increase the value from social rents whilst still ensuring affordability for local people?	There is the opportunity to increase rents for new lettings in new or existing units and the analysis has demonstrated that this would still be affordable tenants
Could an increase to target rents support the delivery of more Truly Affordable Housing?	Yes – an increase in rents will enable the HRA to be more viable and thus potentially support further development in the future.

Option 5: Additional Funding Sources

Local authorities traditionally borrow from the Public Works Loan Board to finance capital investment but there are an increasing number of examples of utilising institutional funding as an alternative.

For funding of 100% social rent homes in the Housing Revenue Account, where there is no requirement for MRP, it makes sense to borrow from the PWLB on an effective interest only basis, although alternative funding can be used as part of a mixed approach.

However, for other tenures which are outside of the HRA and where repayment of any debt must be incorporated, alternative forms of funding may provide a better option. It can enable a greater number of homes to be developed in a more affordable manner than traditional sources of finance.

Whilst the PWLB has a low headline rate, it is relatively inflexible and incorporating MRP leads to challenges in early years viability and large surpluses towards the end of financing period.

Large institutional funders offer debt financing on a different profile with a substantially lower year one payment which indexes annually for the duration of the loan. This aids early years viability meaning substantially more homes can be provided and is a more efficient form of finance where the rental income generated can be expected to index.

In addition, structured finance can allow the Council to address specific risk, viability gaps or affordability issues; working with funders to put forward a package of finance to specifically meet its requirement.

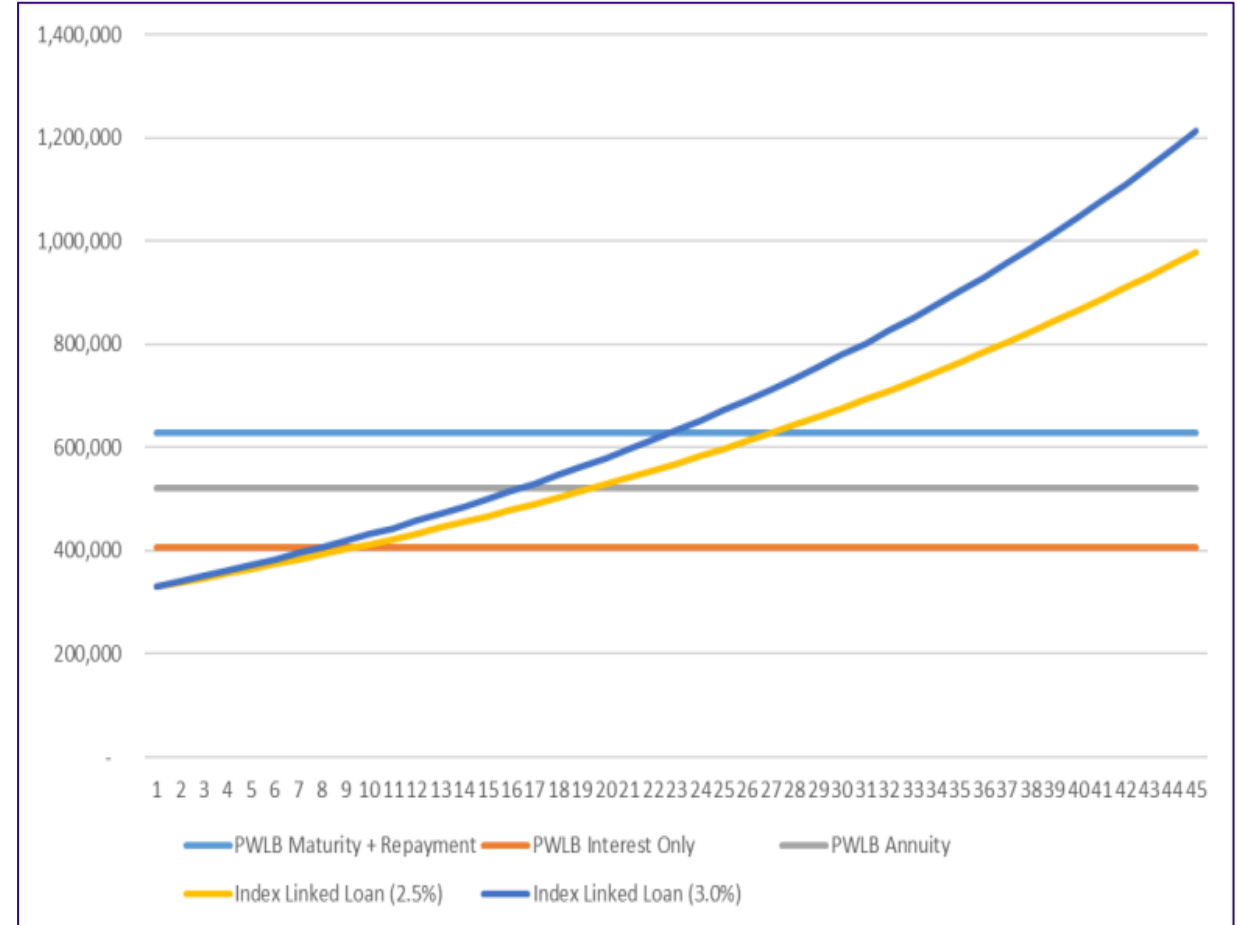
However, where PWLB is a fixed rate offer over a defined period, many of the alternate debt finance offerings introduce an additional inflationary risk into the model where there is a risk that rents and debt payment increases do not mirror each other.

The analysis below is based on available rates on 12/12/2022 and demonstrate the different repayment profile of a range of debt packages.

- Traditional PWLB debt provides absolute certainty for the duration of the loan, with the Total Cost being a fixed amount
- An index linked loan starts substantially cheaper in year one but increases annually based on an agreed index
- The two index linked loan examples illustrate the impact of annual inflation of 2.5% and 3.0%
- The total cost of the loans in nominal terms are similar but differences emerge when the net present value is calculated

	Year One Cost	Total Cost (Notional)	Total Cost (NPV)
PWLB Maturity + Repayment	628,222	28,270,000	14,132,142
PWLB Interest Only	406,000	18,270,000	9,133,153
PWLB Annuity	522,020	23,490,908	11,743,079
Index Linked Loan (2.5%)	330,352	26,928,998	11,693,190
Index Linked Loan (3.0%)	330,352	30,630,170	12,937,150

PWLB Annuity and Index linked loan are comparable in terms of NPV, but have a distinctly different profile.

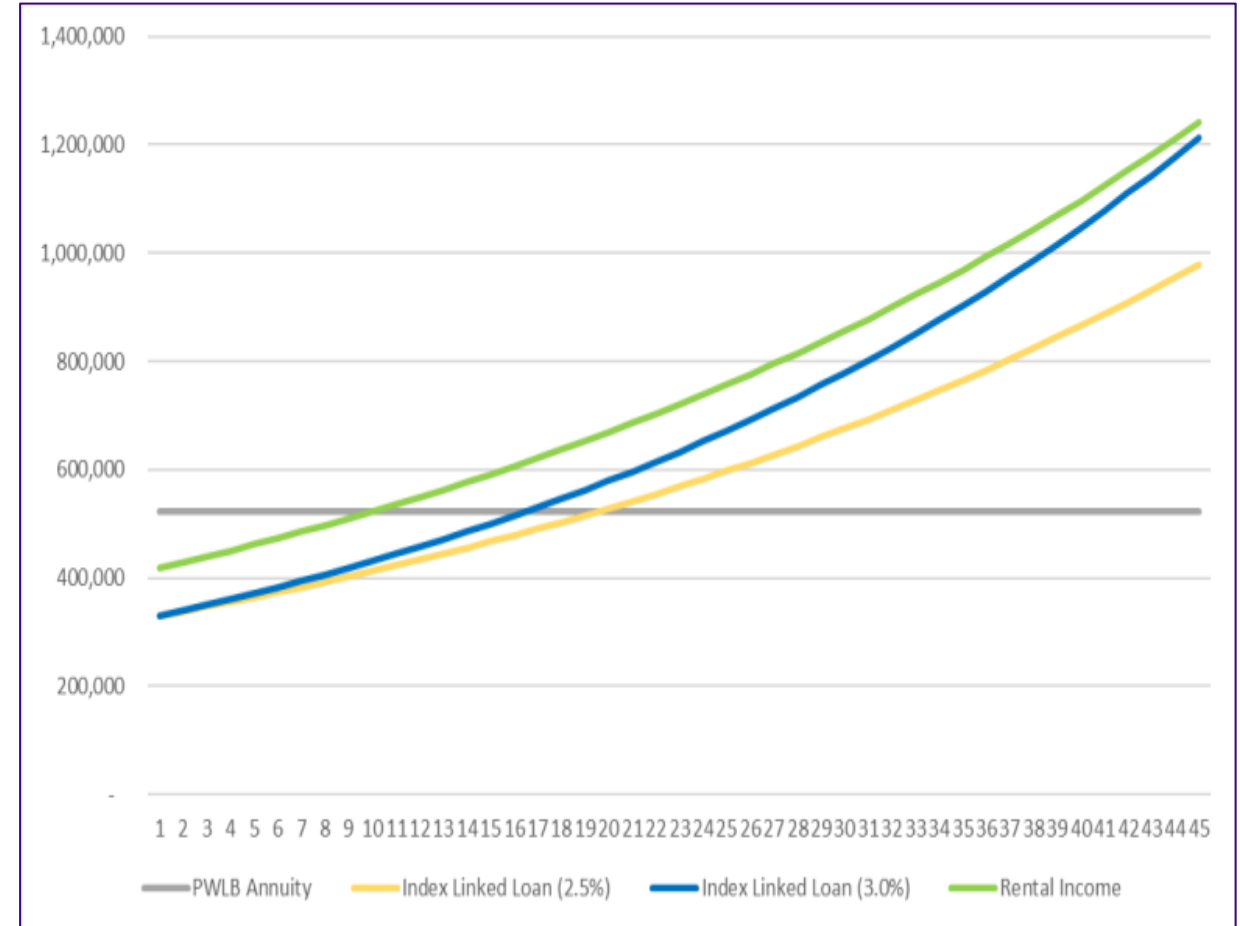


The shape of the financing curve becomes more relevant when the profile of rental income is incorporated. Where it is reasonable to assume that rents will increase annually, e.g. non-social affordable, key worker, market rent, shared ownership, it is more efficient to fund with an increasing debt cost

The alternative of a fixed debt cost, though certain, requires Council subsidy in the early years until rents increase sufficiently. In the example provided, PWLB debt costs do not equal rent until year 10 and the repayment of the prior years subsidy takes until c. year 18.

An index linked loan can be structured to mirror the rental agreements in place, e.g. CPI/RPI, and to incorporate caps, e.g. the annual payment will never increase by more than 5%

Index linked loans can enable an immediate surplus rather than require subsidy though has a different risk profile so it is important to identify potential mitigations as part of the business planning process. Many authorities use these surpluses to build up a general reserve to protect against future risks.



Case Study

Barking & Dagenham created B&D Reside to develop Truly Affordable Housing as a complement to its social rent in the HRA.

Homes were let at a mix of 50%, 65% and 80% of market rent targeting local people in employment but unable to afford private rents.

The developments were funded by an institutional investor on an index linked RPI lease structure. Homes were let on long term assured shorthold tenancies and indexed annually in line with RPI. The timing of the increase in the institutional lease and tenancy agreements mirror to ensure no mismatch exposing the Council.

The Council passed on the inflation risk through the tenancy agreements to ensure that annual indexation in the head lease was perfectly mirrored in the annual rent increases.

The financial model was linked to % of market rent rather than social rents or local housing allowance. As HPI traditionally outstrips RPI, over time, this has provided headroom for increasing rents upon relet.

There is flexibility in adjusting the mix of tenures to mitigate the risks of a) ensuring sufficient rental income to ensure the investor is paid its return and b) to adapt to changing demand for housing in the borough.

The homes were let to local tenants based on income levels which caused an additional administrative burden at the initial let stage due to the volume of new homes and applications. There were also some instances of fraudulent applications being accepted until improvements were made in the systems.

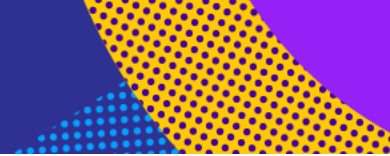
<p>Delivery Structure</p>	<p>Can be applied to any housing delivery structure but is normally used for affordable and market rent tenures outside of the HRA</p>
<p>Viability</p>	<p>Can aid the viability of housing programmes due to a lower cost of financing in the early years compared to traditional borrowing options</p>
<p>Resources</p>	<p>May require specialist support to advise on and arrange institutional finance</p>
<p>Legal Considerations</p>	<ul style="list-style-type: none"> • Creates long term arrangement with an institutional funder • Institutional lease and loan agreements may need third party legal advice
<p>Potential Risks</p>	<ul style="list-style-type: none"> • Index linked loans/leases are subject to annual increases which may not mirror the yearly rental income changes • Longer lead time to arrange creating market exposure risk until rates are confirmed • Overly complex finance structures can be poorly understood creating risk within the Authority
<p>Scalability</p>	<p>Alternate finance could provide a stepped change in the Council's ability to support the delivery of Truly Affordable Housing. Risks are ring-fenced to the specific units developed with the finance and as such remediation action can be agreed if risk of non-payment occur. In addition, the long-term nature of the deal and the amount of finance available from funders both support housing delivery, allowing the Council to access relatively large amounts of finance for long periods that reflect the use of the home.</p>

Key Questions

Key Question	Commentary
<p>When would you use alternate finance?</p>	<p>Alternate finance can be used to complement existing finance strategies. It is particularly useful where early year affordability is an issue, or where a specific site has been identified to deliver a range of affordable tenures. Its ability to better match costs and incomes allows the Council a more clarity on risk and therefore the ability to manage risk proactively.</p> <p>The main application would be on housing (or commercial) developments where there is a high long-term expectation (on average) of inflation/higher than inflation rental increases. This would typically be market rent housing or non-regulated affordable rents such as key worker/sub-market rent homes.</p> <p>It would not normally be used for homes which are regulated and subject to government rent policy, e.g. the HRA. That is not to say it could not be applied but there is a risk that the ability to raise the rent annually could be taken out of the HRA’s control by central government meaning the rental income increase would not mirror the indexation applied to the debt servicing costs.</p>

Key Questions

Key Question	Commentary
<p>Which finance sources or approach move the dial on debt that can be supported?</p>	<p>Alternative finance is generally provided by institutional funders who are looking to match their long term (pension) liabilities with an income stream from a strong counter party that protects pensions from inflationary risk. This makes it a good partner for Local Authorities who are seen by funders as a low-risk counter party. Given the nature of the income stream and the relatively strong correlation between rent increases and index linked funding the use of this finance can provide a more affordable route for Council's looking to delivery large scale mixed tenure developments.</p> <p>The particular characteristic of alternative financing routes is the substantially lower year one cost compared to traditional sources of debt, e.g. fixed rate loans. On the assumption that the operational delivery of the homes has to break even in year one, the largest cost is that of debt service and therefore significantly reducing that cost can enable a far higher proportion of affordable homes to be delivered.</p>



Key Questions

Key Question	Commentary
<p>Which finance approaches are just a way to do thing differently?</p>	<p>Alternate finance is similar to any finance option that the Council can access. However, where it does support a stepped change in delivery is the ability to better match financing costs to rental income. By doing this the Council can mitigate affordability risks that arise in the early years from more traditional forms of finance. Many local authorities use this type of finance to complement their financing strategy rather than it being the main form of finance. It is particularly useful when a specific project or programme is identified, as risks can be ringfenced and managed to that particular scheme</p>

Option 6: Intermediate Products

There is a need for intermediate products to support those households that work and do not qualify for social rented housing. It is critical, however, that any Intermediate products delivered in Westminster are targeted at those in need of them locally, and therefore a “truly affordable” for local people.

Truly Affordable Intermediate Rented Units

The previous section has defined “Truly Affordable Housing” as housing that can be paid for with less than 40% of net household income. Even in Westminster’s most deprived wards, this evidence has shown that there are some households who can afford intermediate products that are capped at this 40% level (£1,030 per month). If these housing solutions are not provided, there can be a whole section of the resident population who are disregarded by either not qualifying for social rented housing, or not being able to afford private rented housing. When residents of mid tier and upper tier wards in terms of average income levels are examined there are potentially significant numbers of households that would benefit from the provision of intermediate rented units at this level.

Powers

Under the Council’s existing statutory powers, and, as articulated in the policy statement on rents for social housing, the Council is able to directly provide these intermediate rented units to Key Workers. The definition of whom is to be largely set at the Council’s discretion. If it wished to provide intermediate homes to non Key Workers, it is likely that it would need to utilise one of its delivery vehicles, most likely the management arm of Westminster Builds.

Benefits to the increase affordable units

Intermediate rented units generate a higher income than social rented units and therefore generally improve viability either by virtue of achieving a higher sale price to an external party or being operated at a surplus within the Council / delivery vehicle. These returns can in turn be used to subsidise more social rent unit delivery.

The key caveat to this is the potential of achieving affordable housing grant on units at different rent levels, for example current policy enables a grant of c60k per unit to be achieved on units at London Living Rent (LLR) levels. As such the interplay between the 40% income threshold that is proposed for Intermediate Rent, and LLR needs to be examined scheme by scheme to understand viability impacts of different tenures

Case Study



Milton Keynes City Council developed a definition of Truly Affordable Housing for the City and undertook a research exercise to establish where the RP and private markets were failing its population.

This study found that whilst demand for social housing was high, the second highest need was for intermediate products for residents who had little chance of accessing “affordable” rent housing, but who are not able to afford to rent or buy a home on the open market, for example local key workers.

This study led to a twin tracked approach to drive up social rent and intermediate rented products tailored to address true affordability in the City.

There are a lot of similarities between the Milton Keynes experience and the evidence generated from the review of housing provision and income demographics of the Borough.

Key points include:

- Significant evidence that a large number of Westminster residents fall between a position of qualifying for social rent and being able to afford private sector rents within the Borough. This typically leads to an “underserved middle” who lose their home and present as homeless, requiring temporary accommodation provision.
- Research in Milton Keynes showed that there was private sector and RP market failure in this area as the intermediate products in question are less profitable than private rent, and as such are underprovided by the market, leading to a need for public intervention. This correlates with the evidence in Westminster.
- Milton Keynes were focusing almost exclusively on social rent delivery, however, this change in emphasis was driven by the needs of their local population and enabled cross subsidy to be generated. This has the same potential in the Borough

Adjusting Rents with Affordability

The table on the right shows an analysis of Westminster's' waiting list for households applying for intermediate housing. This shows that, again assuming up to 40% of a household's income can be used to pay their housing rent costs, then households earning between £26k and £46k are best accommodated in homes paying the average London Living Rent (blue shaded cells). However, those earning between £46k and £60k can afford to pay a discounted market rent at a higher level.

If the rent levels were increased above this then those earning between £46k and £60k could afford to pay up to 55% of market rent (purple shaded cells), which is 23% higher than LLR. This equates to over 25% of the households on the waiting list.

	Rate	LLR	DMR (55%)
Gross Rent	£ / Month	£1,120	£1,373
Gross Rent	£ / Year	£13,444	£16,479
Rental Cost	% of Rent	42.63%	42.63%
Net Rent	£ / Year	£7,713	£9,454
Yield	% Net	4.00%	4.00%
Valuation	£ / Unit	£192,826	£236,343
Capital Value	% OMS	19.5%	23.9%

The table on the left shows how this rent level is built up to generate a capital value for the asset, or what a third party, such as Westminster Builds, or an RP, would pay to purchase this unit today. This shows, in the blue cells that the value increases from £193k to £236k when rent is increased from LLR to 55% of market rent.

If this analysis were applied to a 100 unit scheme this would result in an increase in the number of truly affordable homes that could be developed as shown below.

In a 100-unit scheme (assuming £750k capex), this would equate to 8 additional Intermediate units based on 55% DMR

Households on the intermediate list		
Income Band	No	%
£0k-£10k	30	1.39
£11k-15k	15	0.70
£16k-£20k	68	3.17
£21k-£25k	114	5.33
£26k-£30k	219	10.2
£31k-£35k	254	11.82
£36k-£40k	262	12.21
£41k-£45k	206	9.58
£46k-£50k	203	9.43
£51k-£55k	169	7.88
£56k-£60k	171	7.96
£61k-£65k	131	6.11
£66k-£70k	81	3.79
£71k-£75k	83	3.86
£76k-£80k	70	3.25
£81k-£85k	38	1.78
£86k-£90k	33	1.55

LLR Grants

Currently the GLA are making grant available to Council's that are delivering new housing at LLR levels. The Council has received indications that in the event that they develop these LLR units they are likely to receive £60k per unit in affordable housing grant to offset the capital costs of development.

In this scenario this skews the analysis undertaken on the previous page as whilst this has shown that third parties would pay an additional £43.5k per unit for 55% market rent units this is £16.5k less than the grant they would receive, as such in this circumstance these units would have a negative impact on viability.

However rents based on median Westminster rents represents...

In the higher value wards across Westminster this tips – In 7 (35%) of Westminster wards the value of a 55% DMR capital value of these units is more than £60k higher, as such this rent level is a key consideration in applying this approach.

Moving forward with this option here are therefore 2 key considerations for the council:

- The current grant rates are achievable for intermediate rented products, and the impact this has on overall viability; and
- The sections of the population that are targeted for this intermediate product to ensure that it is both viable and of need in the areas in which it is developed.

<p>Delivery Structure</p>	<p>Where the Council develops intermediate rented housing it can choose to operate this within the Council should it be classed as Key Worker Housing, however, if it is developed and let to any other resident group it could not do so within the Council. In this event the stock could be held by a company, such as Westminster Builds or it could be sold to a third party, such as an RP.</p>
<p>Viability</p>	<p>Intermediate rented units let above social rent levels will always have a positive impact on viability, subject to the availability of affordable housing grant for these units. If grants area available then the level of grant needs to be reviewed to ascertain whether this more than offsets the capital value of these units.</p>
<p>Resources</p>	<p>Intermediate rented units require the same resources to develop and manage as any other of the social rented units identified within the development programme. Should these be let to non Key Workers, and the Council wished to own and operate these units, then a company would need to be used. In this circumstance, management / maintenance services would need to be let back to the Council or to a third party</p>
<p>Legal Considerations</p>	<p>There are no key legal constraints on the Council developing these units. The key legal consideration for the Council is its powers to own and operate the units once developed. The policy statement on rents for social housing enables the Council to do so where the units are let to Key Workers, the designation of whom can be defined by the Council. Beyond this group, any Intermediate rented units let to others would need to be operated from a company.</p>
<p>Potential Risks</p>	<p>The Council would be taking the same risks on development and operation as for the rest of its housing programme. In addition key risks relevant to intermediate units relate to the level of grant available for these units, any changes in government policy regarding Local Authorities powers to develop and operate these types of units and the types of residents that are targeted and their designation as key workers</p>
<p>Scalability</p>	<p>The diversity of household incomes across the Borough make this a significant solution in some wards / areas in order to provide TAH to an underserved section of the population. This makes this solution scalable across the Borough based on a set of critical factors such as demand and household demographics.</p>

13) Recommendation

The Council should review its approach to intermediate housing and consider its delivery in areas where income levels support it. Where intermediate housing is considered appropriate, the Council should:

- Undertake modeling to understand the interplay between the sourcing of GLA grant vs the benefits of increasing rents to intermediate levels; and
- Consider which delivery mechanism(s) should be considered for the development and operation of the intermediate homes as part of the Council's housing delivery ecosystem to ensure the appropriate vehicle(s) are used.

Key Questions

This slide summarizes and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
Should the Council consider intermediate housing as an appropriate tenure when delivering Truly Affordable Housing in the Borough?	Yes – The analysis shows that intermediate rented housing is an appropriate housing type that would be “truly affordable” to those in housing need in the Borough. In particular, in areas where incomes are not at their lowest
Would the use of Intermediate Housing result in an increase in the level of Truly Affordable Housing that could be delivered?	Yes – Intermediate housing delivers a higher financial return to the Council than social rented housing. This return can be used to support the delivery of more Truly Affordable Housing, and provide cross subsidy to more challenging tenures such as social rent
What are the conditions under which Intermediate Housing should be considered?	Where housing need is significant and there are prospective tenants on the intermediate housing weighting list / Where income levels would support housing costs (household income between £46k and £60k)
What about the impact on the available GLA grant?	The impact on grant capture from other tenures should be considered and the interplay between grant levels and the extra value of rents considered in selecting the tenure.

Option 7: Wider Development Market

As well as being a housing developer within the City, the Council, through its role as the Local Planning Authority, also has an impact on the housing delivered by other sectors. Other local authorities have found that having a supportive, partnering arrangement, through the LPA and their wider stewardship role has allowed it to deliver better housing outcomes.

This section assesses how the Council could consider its use of some of the tools and powers offered through its role as the Local Planning Authority, its guardianship and stewardship of the City and its wider requirements to deliver its corporate plan. It builds on a range of activities taking place in authorities across the country to deliver better housing outcomes and includes:

- The Local Planning Authority will only support those applications that include the minimum level of truly affordable units;
- The Council could look to support developers through financial interventions and support to enable private led schemes to meet a minimum level of affordable provision or better align it to a truly affordable offer;
- The Council could partner with developers, including RPs to de-risk developments and ensure that delivery of affordable is a priority;
- The Council will require housing units over commuted sums or ensure that information is available to negotiate commuted sums that at least cover the costs of delivery, thereby maximising the delivery of truly affordable units.

Minimum Levels of Affordable

The City of Westminster, as a local authority area has some of the highest residential values in the country. As such, developments within the City can support above average costs. Whilst land values are significantly higher than elsewhere there is still significant opportunities for development.

The LPA taking account of the Westminster City Plan and the GLA policy guidance supports the delivery of policy compliant development and going forward it should maintain its approach. However, the City Plan sets out a requirement of 60% intermediate rent/sale and 40% social rent. By defining truly affordable within the Plan the Council could encourage the delivery of more units that meets its requirements.

Partnering Approach

Councils across the England have adopted a more collaborative approach to the delivery of affordable housing. Working with the wider development market Councils have partnered or collaborated to better understand the risks and viability levers that can be used to allow development to come forward whilst maintaining or increasing the levels of affordable units delivered on site.

Examples include:

- The release of land near the development to provide additional value;
- Support in, or the removal of onerous or spurious conditions;
- Use of CPO powers to support land assembly and delivery; and
- De-risking the sales process through guaranteed purchase schemes

Financial Support

In a period where finance is becoming more expensive, and the banking sector is taking a more risk averse approach to lending local authorities are assessing whether they can use their financial strength to support development.

The previous section set out how alternative forms of institutional finance is being attracted to the sector by long term return offered by housing management. In a similar fashion, the Council can provide financial guarantees, short term development loans or longer-term financial assistance to support the delivery of sites. Where this has been particularly successful, and noting the Council's wider objectives, is where financial assistance has been linked to enhanced delivery. This could include enhanced public realm, more sustainable development or increase levels of affordable housing.

In acting as a "bank" to support schemes the Council needs to be clear on its financial and wider objectives when entering these arrangements, i.e. foregoing financial return to deliver more truly affordable or supporting the viability on inherently unviable sites.

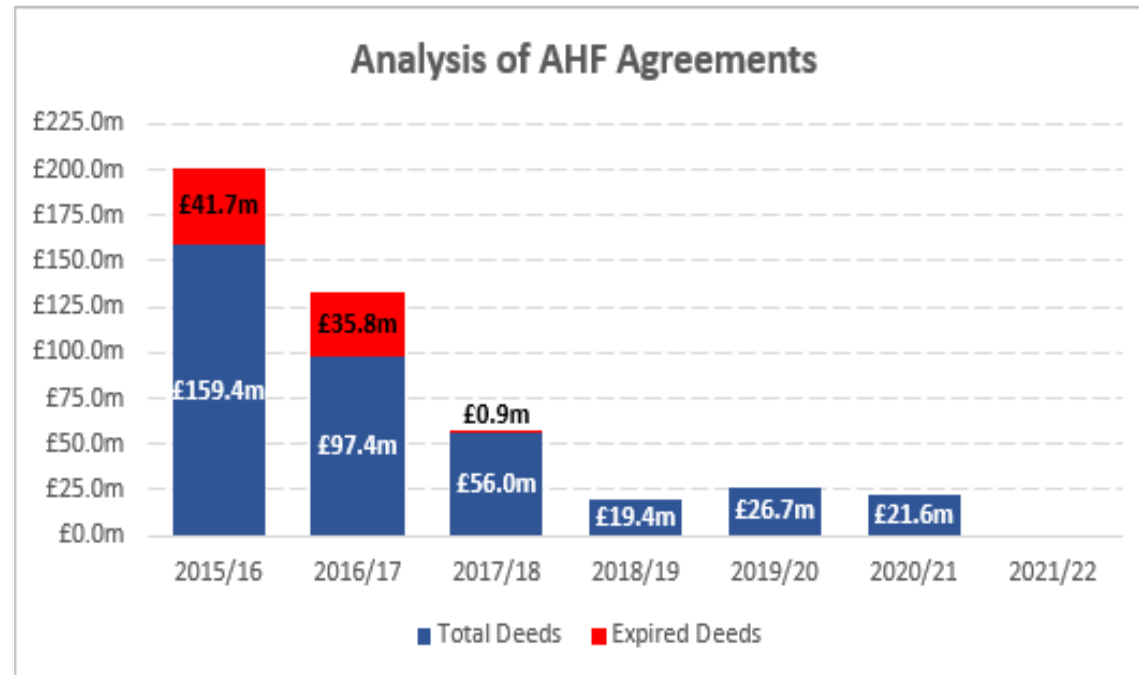
The current economic situation has led many developers to stall or rethink their approach to delivery. Distressed sites could provide the Council with access to new projects that, where its intervention could help secure affordable housing.

Changing the council policy position on commuted sums could improve the number of additional housing units

Historically, commuted sums have been accepted by the council from developers. Typically, the value of the commuted sum is significantly less than the cost of the council building affordable units, therefore rendering accepting the commuted sum a ‘bad deal’

Considerations

- » Existing data on commuted sums is historic and very limited.
- » The councils planning policy has already pivoted to be stronger on requiring residential developers to provide on site. The council’s position is that acceptance of commuted sums is on the way out.
- » Should further data be made available on commuted sums, analysis can be conducted to understand the impact of maintaining a strong stance in line with policy compliance.
- » This could in turn lead to additional units due to the additional funding gained or more units delivered onsite.



The Affordable Housing Fund (AHF) is funded by commuted sums. The reduction is a result of changes in policy around office developments. Currently, there is no data to align the payments to number of units delivered.

There is insufficient data to calculate the impact and potential additional units that could be delivered through this approach

<p>Delivery Structure</p>	<p>No specific delivery structures are required for this option</p>
<p>Viability</p>	<p>Interventions here will increase the levels of truly affordable provision by providing cheaper finance, working in partnership to increase viability, ensuring commuted sums are sufficient to support housing delivery and ensuring the development market has a better understanding of the Council's housing requirements</p>
<p>Resources</p>	<p>No additional resources are required for this option. However, any financial support will impact on the Council's balance sheet and will need to be considered in line with wider Council considerations and medium term financial sustainability.</p>
<p>Legal Considerations</p>	<p>The Council must be mindful of Planning Act legislation. In addition, any support given to the wider market must be considered against the new Subsidy Control Regime due to commence on the 3 January 2023.</p>
<p>Potential Risks</p>	<p>The Council must consider the potential for financial loss or the achieving outcomes that represent poor value for money when considering any financial support. There is also an increased political risk when engaging with the wider market to achieve specific policy outcomes, particularly where there is the risk or loss or the potential to be favoring specific developments or developers.</p>
<p>Scalability</p>	<p>This is an important tool that could be used to bring forward stalled or marginally viable developments. This could lead to increased scale, particularly that it is supporting delivery on sites not owned by the Council. Other interventions would support additional delivery but, importantly allows the Council to set the tone, particularly of levels of affordable and rejecting the use of Commuted Sums.</p>

This section has concluded that there is significant potential to engage with the external development market as a key tool to increase the level of Truly Affordable Housing. We would therefore make the following recommendations in order to take this forward.

14) Recommendation

The Council should consider the benefits of ensuring that all developments brought through the planning system deliver, as a minimum, the policy requirements for affordable homes.

15) Recommendation

Where development capacity is a constraint on delivery, the Council should consider partnership approach to access spare capacity in other organisations. This is particularly relevant when considering the current capacity in the RP market. A focus on commercial covenants, increased costs and cladding issues has resulted in RPs slowing down their development programmes in order to ensure financial sustainability.

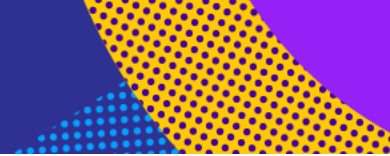
16) Recommendation

The Council should assess whether key sites within the City have stalled as a result of viability issues. Consideration should be given as to whether, through the injection of finance, the Council could support the schemes and thereby get an enhanced in level of affordable homes.

17) Recommendation

Through our analysis we found that the level of commuted sums previously received by the Council has not always given rise to a commensurate increase in affordable provision. However, the information held was inconclusive as to the reasons.

The Council has already started to implement a policy whereby commuted sums are not considered and this report recommends that this policy is continued moving forward.



Key Questions

This slide summarises and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
<p>Can the Council support the delivery of increased numbers of affordable homes through the wider development market?</p>	<ul style="list-style-type: none"> • The Council can use its planning powers to ensure that all development undertaken meets the minimum requirement for affordable delivery • The Council can partner with external developers, particularly RPs, to access spare capacity and skills, potentially supporting a more efficient delivery programme. • The Council can use the strength of its financial covenant to support stalled or marginally viable developments. In doing this, the Council would expect enhanced affordable provision. • The Council can ensure that commuted sums are only considered after all other available options have been exhausted, supporting actual delivery of units. <p>In addressing all the points above the Council can set the tone with the external development market that looks to support, encourage and enhance the delivery of Truly Affordable Housing across the City.</p>

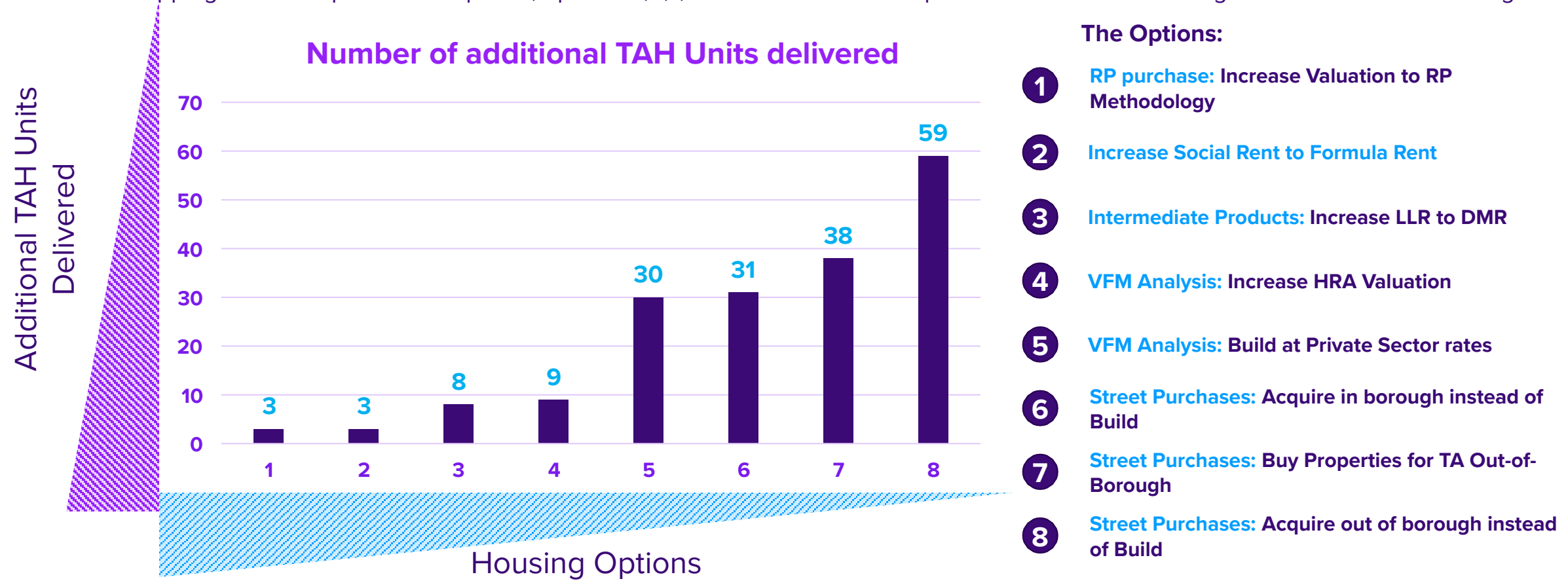
Section 4: Analysis of the Options

- This section sets out the impact of implementing the relevant elements of each of the key opportunities set out in the previous sections. When considering each option and its applicability as an intervention to the Council’s build programme there are a number of considerations when assessing its likely impact.
- Each of the options will need to be considered in terms of:
 - Any additional financial risk or burden placed on to the Council;
 - How the option best meets the wider strategic objectives of the Council e.g.:
 - Keeping rents at the lowest level;
 - Building high quality units;
 - Supporting the Council’s climate emergency activities; and
 - Addressing wider resident consideration, e.g., building safe and resilient communities.
 - Timescales for delivery (short/ medium and long-term options)
 - The delivery and resourcing models currently available to the Council
 - Future recommendations regarding the financial, resourcing and legal impact of this report.
- The following slide sets out the analysis on the potential options for delivering additional truly affordable units, when compared to the current baseline demonstrates that between 3 and 91 additional units could be delivered by taking a different approach.

Impact Analysis

The potential impact of each of the Housing Supply Options has been mapped together on the graph below to show the number of additional Truly Affordable Housing (TAH) units that could be delivered based on a 100-unit scheme. **Some of the original 7 options that were analysed have given rise to several different opportunities – leading to 8 proposed interventions.**

When mapping out the impact of the options, options 5,6,7, and 8 are the most impactful in terms of delivering additional units of housing.



The Options:

- 1 **RP purchase:** Increase Valuation to RP Methodology
- 2 **Increase Social Rent to Formula Rent**
- 3 **Intermediate Products:** Increase LLR to DMR
- 4 **VFM Analysis:** Increase HRA Valuation
- 5 **VFM Analysis:** Build at Private Sector rates
- 6 **Street Purchases:** Acquire in borough instead of Build
- 7 **Street Purchases:** Buy Properties for TA Out-of-Borough
- 8 **Street Purchases:** Acquire out of borough instead of Build

Ebury Bridge Estate has been used as a case study to better understand how options could be applied. It is an ongoing development in Westminster which will see the creation of 781 affordable homes, with over 50% being affordable housing. The proposed programme will see the development of new homes, alongside redevelopment of the current estate in the heart of London.



Ebury Phase 1 is a "typical" Westminster Development and was chosen for analysis as it has available data to conduct a case study on some of the options to increase affordable housing. For the purposes of this analysis, we have excluded from this analysis is the Council policy to allow 198 resident the right to return at their current rents.

Phase 1 is developing:

- 226 units, 142 of which are affordable
- split 98 social and 44 intermediate

Current data shows an “all-in” capital costs of circa £778k per unit, including fees, contingency and financing costs

- The capital value for the social units is assumed as follows:

	Studio	1 bed	2 bed	3 bed
Social (Baseline)	£59,775	£59,775	£71,054	£75,004

- Modelling assessed what the likely capital receipt would be under the following three scenarios:

- Increasing rents to Target Rent
- Assuming a disposal to an RP
- Optimising HRA valuation to a Day 1 breakeven rate

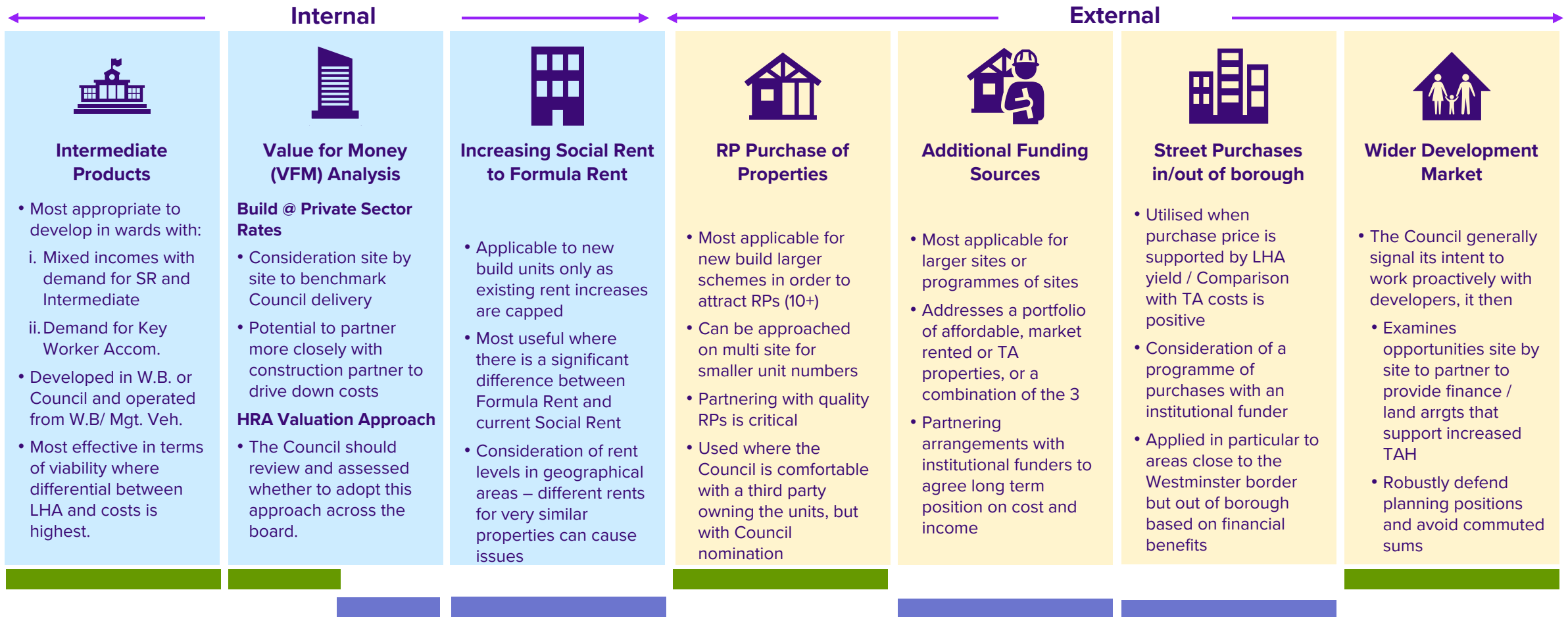
	Studio	1 bed	2 bed	3 bed	Increased Affordable Units
Social (Baseline)	£59,775	£59,775	£71,054	£75,004	
Increase to Target Rent	£75,565	£86,337	£91,404	£96,482	+ 4 units
RP Valuation	£84,814	£116,809	£102,592	£108,292	+ 7 units
HRA Day 1 Breakeven	£91,934	£91,934	£109,281	£115,356	+ 6 units

- An estimated 4-7 additional units could have been provided if any of these options were implemented. However, it must be noted that each of these options are mutually exclusive and cannot be used together.

Note: Westminster has already agreed to implement a move to target rent on those new residents to the scheme providing a financial boost and quick win.

Each of the 7 options identified carry the potential to individually increase the delivery of Truly Affordable Housing units. However, it is more likely that these approaches would be used in a complementary way, with more than one being applied on the same scheme(s). To exemplify this each of the approaches have been detailed below with high level guidance of the conditions for their application.

Which approaches can then be applied together in a complementary fashion have been shown in 2 groups (■ & ■)



Section 5: Delivery Structures

There are currently 4 main delivery and operational approaches for the Council’s housing growth agenda. These are each detailed within the table below, along with the key features of each.

Approach	Features
	<p>The Council develops and operates its own housing stock within the HRA. The HRA growth plan is significant with in excess of £950m of capital investment planned over the next 5 years which will fund the delivery of c. 1,500 new by 2025/26.</p>
	<p>The Council owns a group of 2 companies branded as Westminster Builds which has been established to develop (through Westminster Housing Developments Ltd) and hold and operate housing (through Westminster Housing Investments Limited). These companies are 100% owned by the Council. They currently own and operate 71 intermediate units, however, no development activity has been undertaken to date. The housing is managed and maintained through service contracts let back to the Council’s HRA</p>
	<p>The Council also owns a charitable RP, in the form of Westminster Community Homes (WCH). This RP was established in 2009 to develop, manage and maintain affordable homes within the Borough. WCH currently owns and operates in excess of 500 units, these are operated through a management contract with the Council.</p>
	<p>The Council entered into a Joint Venture (JV) in 2019 with Link City, the development arm of the Bouygues group. The Linkcity JV was a financial intervention to safeguard delivery of affordable housing and is tailored to this scheme. The JV delivers a mixed tenure housing scheme comprising 171 units across 2 sites at Luton Street. The 62 homes developed comprise social rent, which is purchased by the Council's HRA, and intermediate rent, which are purchased by Westminster Builds. This arrangements is coming to an end, at this juncture, the benefits of it should be reviewed for the Council to consider similar arrangements being put in place in the future.</p>

Each of these bodies was reviewed to understand the key features of each, the key activity that each undertook and how they inter-related in the delivery of the Council’s growth agenda. The key advantages and disadvantages of each are detailed in Appendix 3, and the key findings of this review are detailed below.

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

The Council largely has the correct delivery structures



When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that it wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle. The only potential exception to this is the form and structure of WCH as a Charitable RP, this is discussed further below.

Lack of Strategic Direction



The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.

Operating in Silos

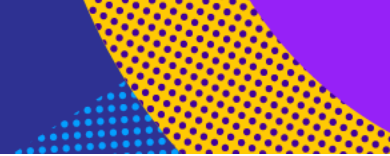


Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.

Vehicle Selection



There appears to be a lack of understanding of the capabilities of each vehicle and which should be used for which purpose, including what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other.



The Council is seeking to establish a housing delivery ecosystem that enables it to be in control of the development and selection of management arrangements of the Truly Affordable Housing that it delivers, and to do this in the most efficient and effective way possible.

In order to maximise the potential for the delivery of TAH the Council is seeking to include all of the appropriate tools that it needs to address this objective. The inclusion of a Registered Provider is a key potential tool that could be included. The Council currently has a Charitable RP within its ecosystem, in the form of WCH, however, there are some challenges with the form and function of this RP.

The key advantages of the inclusion of an RP in the Council’s housing toolkit are considered below against the current arrangements in place.

Key Feature	WCH
Ability to secure grant from the GLA for the development and management of Truly Affordable Housing grant	WCH does provide access to these grants through its RP status, as such grant can be secured for the development and operation of TAH
Closely controlled by the Council to enable the RP’s objectives to be adapted to be utilised effectively alongside the other housing delivery and management tools	WCH does not provide the Council with this level of control. The RP has a charitable status and is controlled by the Board with little to no influence from the Council beyond the financial support it provides.
Council control over the long term of the assets developed and ability to influence the ongoing management, maintenance and develop activities of these assets	WCH does not provide control over these assets as again the charities board is in control of its activities. As such, should the Council wish to move assets / change the arrangements it has no direct levers to do so

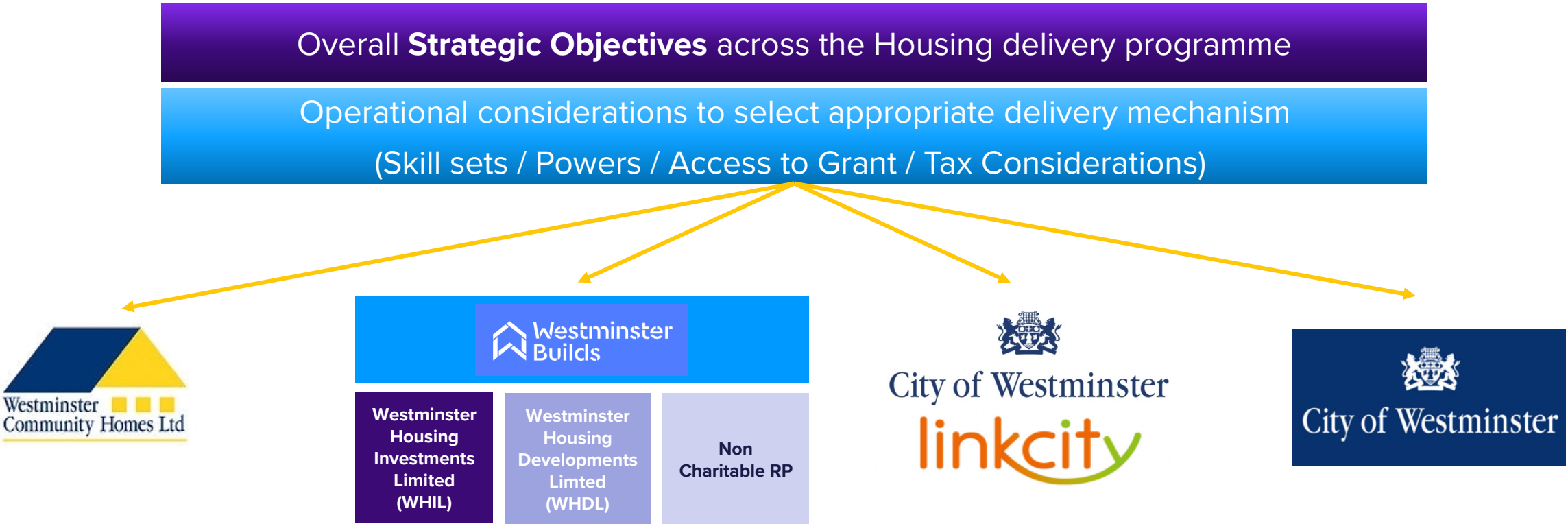
The lack of control over the RP arrangements is the key disadvantage of WCH. This could be addressed through the establishment of a Non-Charitable RP within the Council delivery ecosystem. A non-charitable RP could be established within the Westminster Builds group. The Council as shareholder would have typical shareholder controls which would address the above issues.

The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.

Lack of Strategic Direction – Whilst the Council has all of the appropriate tools it needs to develop and operate the full spectrum of housing it needs, it has not set an appropriate strategic framework to maximise the benefits of this toolkit.

The Council needs to establish a strategic approach to their use by putting in place a set of **Housing Strategic Objectives** that sit across the different delivery structures, and these should be extended to the Business Plans of each entity. These are then implemented by a **Strategic Oversight Board**

Subsequently a set of operational structures / principles then need to be agreed that informs the selection of the different delivery structures on an ongoing basis. This structure is shown below, and the approach to the use of the different vehicles in the Council’s toolkit is addressed in the following slide.



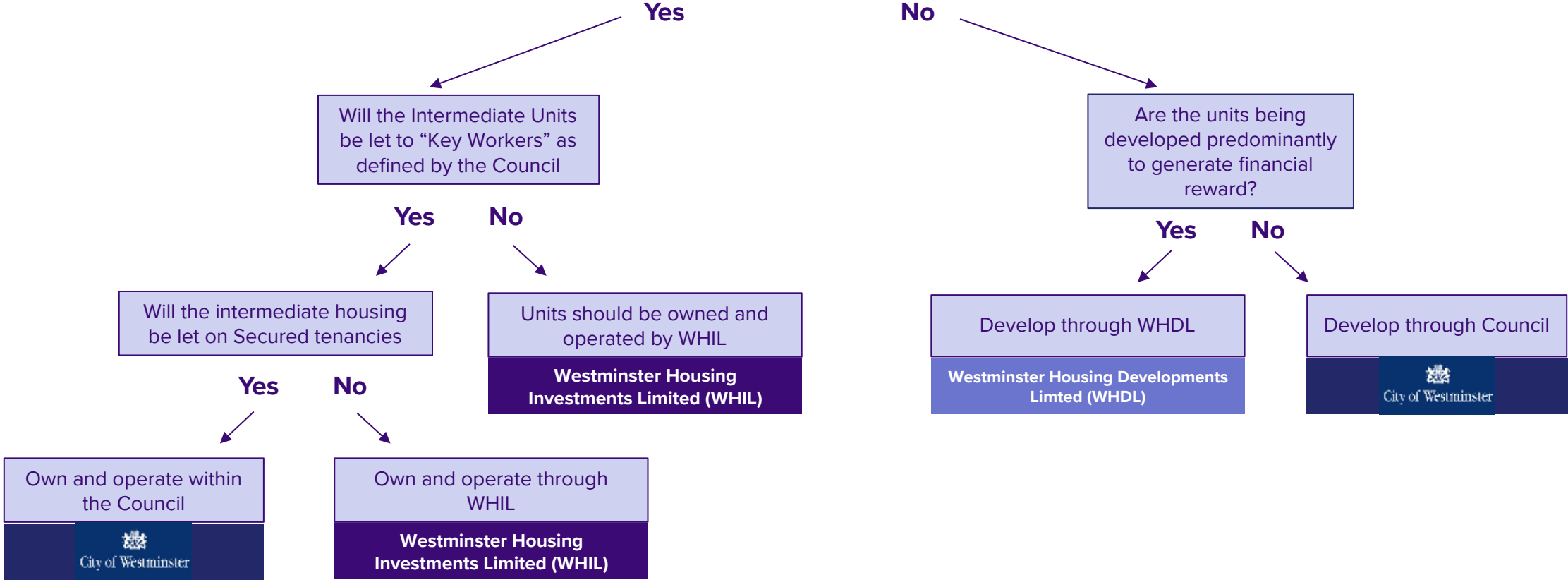
Determining the appropriate structure - The Council has an appropriate set of tools to deliver its housing aspirations, however there is a lack of clarity over which vehicle should be used for which purpose.

The diagrams below bring out the key types of development / operation that is best suited to the vehicle that is in place. Appendix 3 provides additional detail to explain why these vehicles should be used. The following slide also provides an example decision tree to demonstrate how the appropriate vehicle is selected.

Westminster Housing Investments Limited (WHIL)	Westminster Housing Developments Limited (WHDL)	Non Charitable RP	City of Westminster	Westminster Community Homes Ltd
<ul style="list-style-type: none"> Ownership and Management of private rented units Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired) Purchase, ownership and management of temporary accommodation 	<ul style="list-style-type: none"> Development of schemes of housing for private sale / rent with an objective of generating surpluses Development of affordable housing to be sold to third party RPs Development of schemes of other non residential uses with an objective of generating surpluses 	<ul style="list-style-type: none"> Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL) 	<ul style="list-style-type: none"> Development of mixed use schemes where the purpose is not predominantly to generate financial returns, Schemes can include private sale / rent, affordable and commercial uses. Development of affordable housing schemes Ownership and Management of social rent units within the HRA Ownership and Management of intermediate rent units for key workers on secured tenancies 	<ul style="list-style-type: none"> Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units

A decision tree process could be used for development and management of different types of unit. An example tree is shown below for the question:

Do the Council want to own and operate Intermediate Rented Housing it develops?



This section has concluded that the Council has a largely fit for purpose set of delivery structures, however, there are significant improvements needed to maximise the potential that these structures have to deliver the Council’s objectives. We would therefore make the following recommendations.

18) Recommendation

The Council needs to establish a strategic approach to its housing delivery ecosystem. To accomplish this, it needs to establish a **Strategic Oversight Board** to oversee the housing delivery ecosystem. This Board should develop a set of Housing Strategic Objectives that sit across the different delivery structures. These objectives should then form the basis of the development of the Business Plans for each entity. These Business Plans should be amalgamated to form the basis of a new Housing Delivery Plan.

19) Recommendation

The Council should seek to agree the key criteria for which vehicle should be used for which purpose in delivering its Housing Delivery Plan.

20) Recommendation

The Council should seek to establish a new non charitable RP as a body within the Westminster Builds brand. The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.

21) Recommendation

As the Link City JV comes to an end, the Council should review the performance of the JV in order to

- Examine what has gone well and less well in the performance of the vehicle
- Identify any lessons learned for partnership arrangements in the future
- Identify the skill sets the Council has developed through its partnership working.

On the back of the review the Council’s approach to partnership working with the private sector should be reviewed and key principles developed for how the Council could maximise the potential for these arrangements in the future.

Section 6: Resourcing

A key objective of the Review of Housing Supply is to identify what the optimum position is on management and staffing resources for delivery of the Council’s housing led regeneration programme

The previous section has examined the housing delivery ecosystem that the Council currently has in place and concluded that:

- **The Council needs to establish a strategic approach to its housing delivery ecosystem via a set of Housing Strategic Objectives and a Housing Delivery Plan.**
- **The Council has a strong set of delivery structures that can deliver the full spectrum of housing, with the exception of the establishment of a “for Profit” Registered Provider.**

This section of the report now overlays the governance and resourcing requirements to support the current and future housing delivery ecosystem.

Approach

The approach to reviewing the resourcing arrangement has been:

- A mixture of desktop research and conversations with key internal housing experts from across Housing and other key functions from the Council.
- A range of conversations and desktop research undertaken across the wider Housing sector, including conversations with experts at a national level, where in general terms, consideration has been undertaken of the optimum operating models and resourcing options available.
- To consider the best options and opportunities for Westminster, consideration has also been made of what happens pan London in terms of delivery models and the associated skill sets required via desktop research across a range of documents.

Sources of Research:

- London Councils Housing Group
- North London Housing Partnership and their skills academy
- New approaches to Housing Management – Chartered Institute of Housing
- Housing Learning and Improvement Network
- Local Authority Direct Delivery of Housing Research – Royal Town Planning Institute/UCL
- Local Government Association focus upon Housing advice and best practice
- Local Partnerships – Local Authority Company Review Guidance

Findings

In order to consider the best possible future outcome and operating model for WCC in terms of resources, consideration has been made of current & historical models utilised, as well as relationships across the Housing sector. Below is a summary of the key findings:

Pan London Research Summary

- There are a range of governance and resource models in place across London that suggests a flexible and bespoke approach can be used to design the optimum arrangements.
- The predominant approach for delivery is via Development Agreements and a Direct Development Partner approach (61% of delivery is through this approach).
- Public/Private joint ventures are preferred by 22% of London Boroughs with only 8% favouring provision through wholly owned companies.

Wider Housing Sector Research Summary

- Nationally there are a range of delivery, governance and resource models.
- Walsall is considered a relevant and exemplar model for WCC. They have an externalised organisation which comprises of 5 companies operating as different delivery vehicles, together with a joint overarching Board. They have been successful in establishing succession planning, learning and development. Further information on this model and example is available in appendix 4.

- Research plus conversations with key stakeholders and market experts identified that there are a range of operating model options for WCC to implement from a governance and resources perspective.
- There are a range of varying people skills required to enable delivery and sustainability of the optimum operating model.
- **A flexible and bespoke approach can be used to design the optimum arrangements**
- Appendix 4 provides more of the detail from the research.

Governance Aims

Good corporate governance requires councils to carry out their functions in a way that demonstrates:

Accountability

Transparency

Effectiveness

Value

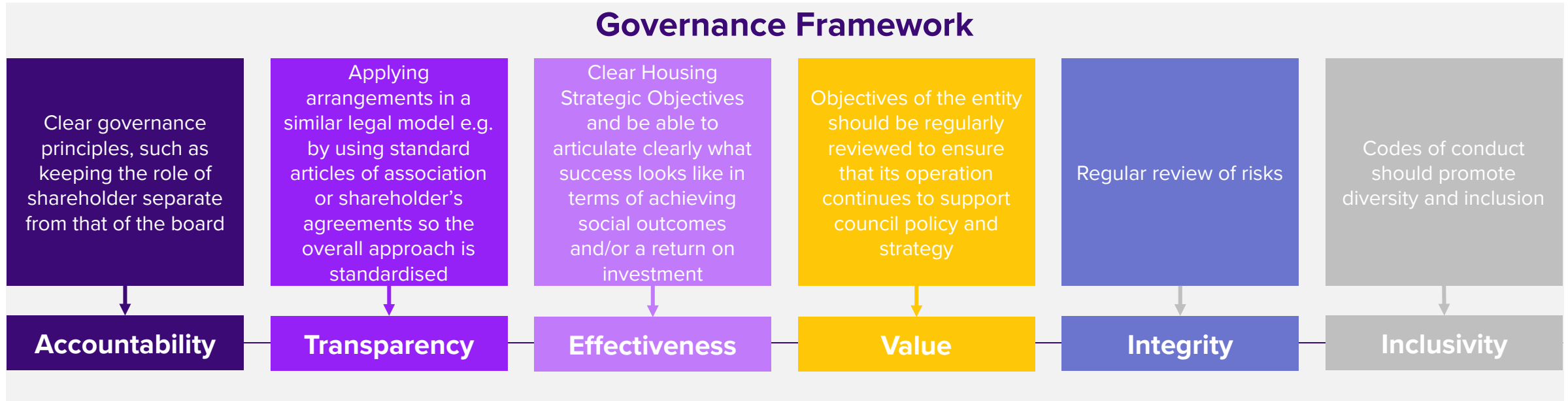
Integrity

Inclusivity

- The Governance arrangements for council owned entities should seek to ensure that:
 - The entity should have **sufficient freedoms to achieve its objectives**
 - The council should have **sufficient control to ensure that its investment is protected**, appropriate returns on investment can be obtained and that the **activities of the entity are aligned with the values and strategic objectives of the council**
 - The entity continues to be **relevant and required (in its existing form)** and if not, appropriate steps are taken (for example, amending constitutional documents or changing form or terminating the vehicle)
 - Sufficient **checks and balances are in place**
 - **Risks are appropriately recognised and managed**
 - There is an **effective scrutiny function** and that challenge of political priorities by both members and officers is seen as a positive
- The council must have a designated “shareholder” to represent its ownership of the entity.
 - The process for appointing a shareholder needs to be set out in the council’s constitution which should also detail how the shareholder reports on the exercise of delegated powers.
 - There should be clarity regarding the role of shareholder, with reserved matters clearly documented

Council oversight, scrutiny, and governance framework

The council should have a clear, systematic framework which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded. The framework should be underpinned by:

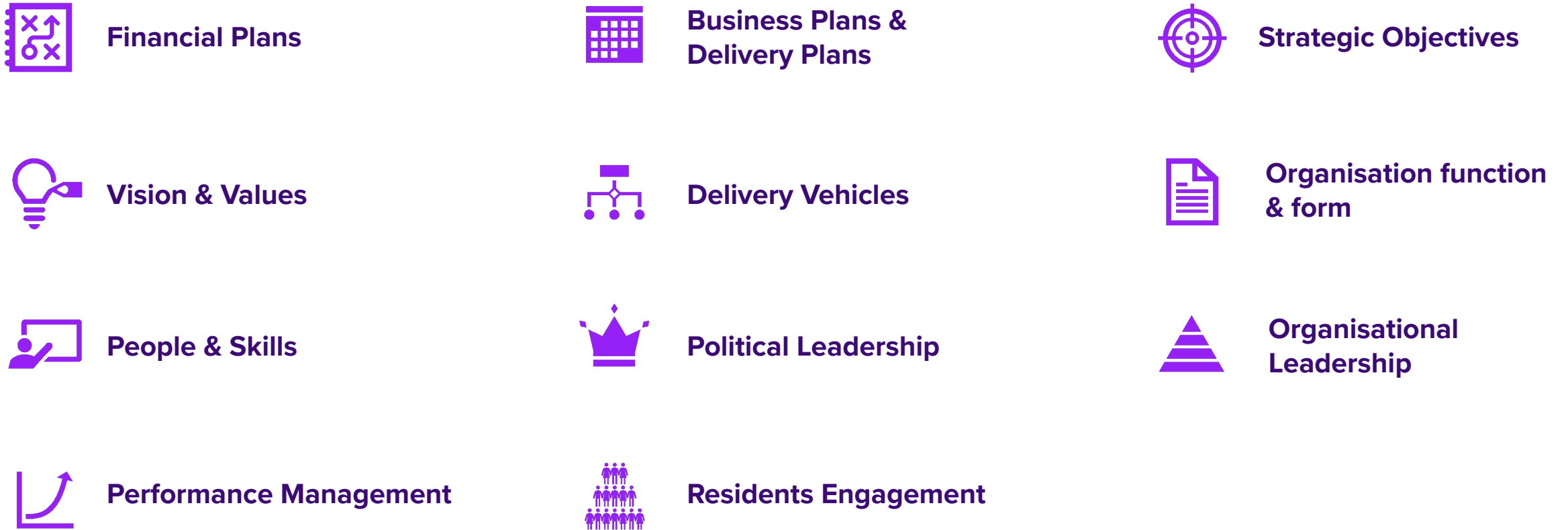


There should also be:

- Commercial agreements which set out any assistance provided to that entity and the associated terms. This can relate to assistance in the form of Loan or parent guarantee, or Goods, services or staff.
- Evidence that a culture exists whereby actual or potential conflicts of interests are identified, declared, and acted upon, including evidence of appropriate training across the organisation
- Clearly defined and documented roles, responsibilities and reporting lines of officers and members who are involved in council oversight of the entities, the provision of services between the entities or the running of the entities

Key ingredients

There are several key ingredients required to be in place in order to provide the best possible governance and to enable best practice to be developed and recognised. These are delivered through a mixed economy of people and process and are set out below:



S.W.O.T Analysis

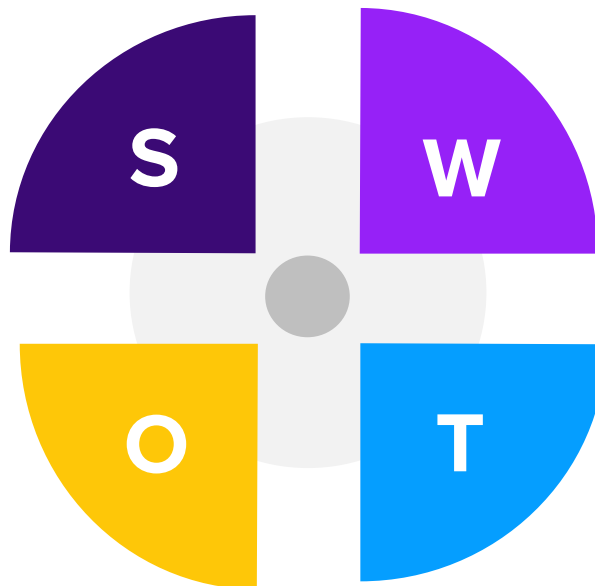
A SWOT analysis has been undertaken to consider the current governance and resourcing model and to understand the environment in which the current Housing programme is being delivered. This approach is an effective way of identifying the Council’s capabilities of delivering the future housing delivery programme and identifying where there are areas needing change.

Strengths:

- Creates focused activity in respective organisations
- Offers relatively simple governance
- Allows organisations to develop in specific areas and to provide focus
- Allows each entity to raise and utilise funding as appropriate
- Uses existing and experienced staff within the organisation

Opportunities

- Simplify the governance to enable a better delivery model
- Provide combined strategies and business plan/development
- Provide career pathways for housing professionals
- Provide clearer assurance opportunities
- Clearer management of funding opportunities and utilisation
- Potential for external enterprise to be better utilised



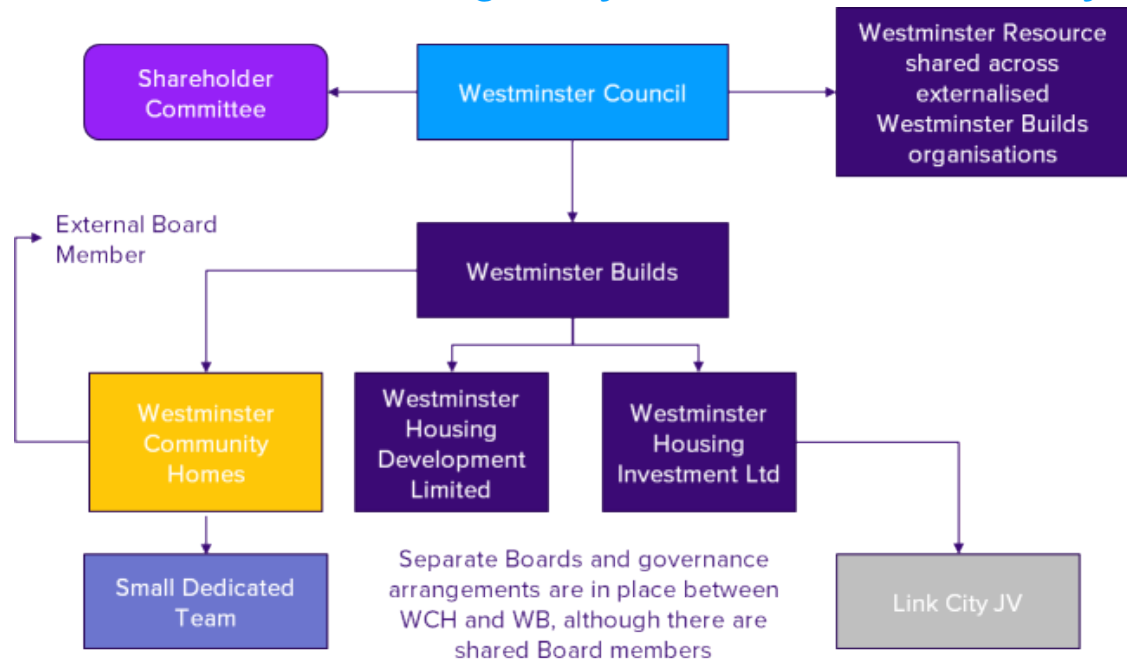
Weaknesses

- Inward focus - No sense of overall strategy or application
- Funding opportunities may be difficult to manage
- Business plans do not necessarily complement each other
- A mixed economy of delivery - commercial v social
- Residents may lose out in terms of influencing opportunities
- Overarching assurance of delivery and development is complex
- Hard for staff to develop skills and close skills gaps. – reliance on buying in skills

Threats

- Culture and change ability restricted as no common strategy/business plans
- Overall political scrutiny/assurance unclear
- Skill gap not clear in terms of commercial and social development of staff
- External skills not attracted into the functions – difficulty to recruit due to inability to pay market rates

The detail below represents an understanding of the current resourcing and operating model across the Housing ecosystem at Westminster City Council



Management and Staffing Analysis

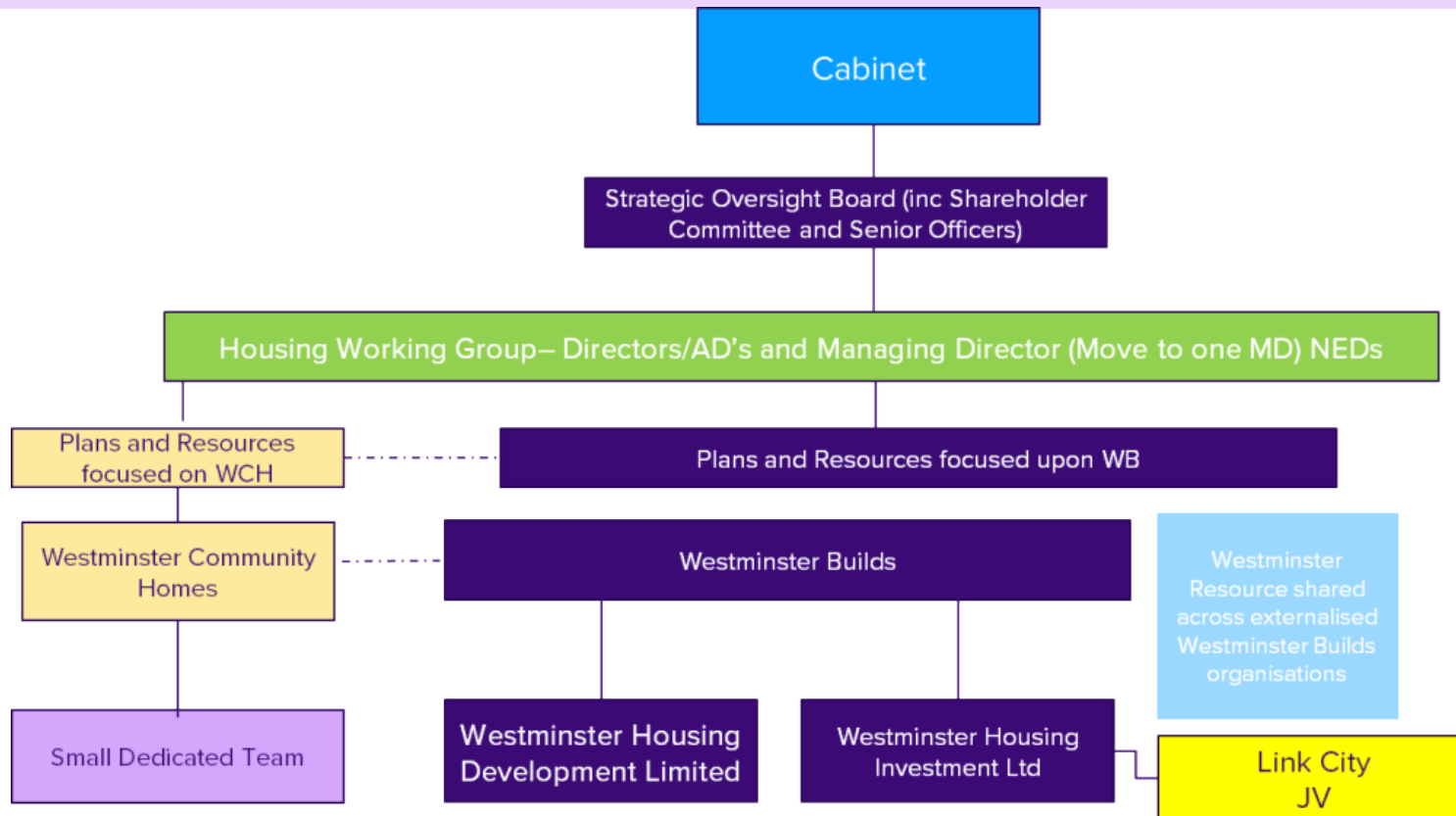
- The roles which currently exist within Development appear to be very functional. There is an improvement opportunity to secure skills and establish new roles that create a dynamic business environment to deliver an ambitious housing strategy. There does not appear to be any skill gap analysis being undertaken, nor a review of function and form to consider the types of skills required in support of strategic aims or business/service plans.
- There are gaps in resource needed to take advantage of commercial opportunities, develop strategy, provide legal support, manage and develop specialist procurement knowledge as well as planning, customer and resident skills. Further detail of the types of roles required is set out on slide 112 and 113.

Example Resource Profile - Development

- Assistant Development Manager
- Assistant Development Delivery Manager
- Client Care Manager
- Commercial Manager
- Construction Manager
- Data Analyst
- Development Delivery Manager
- Development Finance Manager
- Development Manager
- Development Sales Coordinator
- Development Sales Manager
- Group Resource Manager
- Programme Manager
- Programme Officer
- Quantity Surveyor
- Senior Asset & Development Manager
- Senior Construction Manager
- Senior Development Delivery Manager
- Senior Development Finance Manager
- Senior Development Manager
- Senior Programme Manager

The Council have an ambition to streamline the current governance arrangements whilst retaining the appropriate level of oversight

The structure below sets out a proposal for future governance in order to establish a strategic approach to its housing delivery ecosystem. It establishes a **Strategic Oversight Board** to facilitate a joint strategic approach – to set Housing Strategic Objectives and develop an amalgamated Housing Delivery Plan that will provide business planning for the longer term. This Board will be merged with the existing Shareholder Committee and will facilitate political scrutiny and assurance. This will enable a focus on delivery and performance against the overall Housing Delivery Plan.



A **Housing Working Group** is created to bring together the governance and create an accountability framework for the different delivery entities. This will enable a focus on operational delivery and monitoring performance of each entity’s Business Plan.

The Housing Working Group will have a key role in implementing the Housing Delivery Plan and specifically in **determining which delivery vehicle should be used for which purpose.**

There is also the potential to add experts, such as NEDs, to the Housing Working Group who provide an external voice and challenge.

High Level Terms of Reference for the future governance

Strategic Oversight Board is accountable for:

- Developing and agreeing the Council’s Housing Strategic Objectives
- Political Oversight between the council and the housing entities
- Establishing the framework for strategic oversight and management performance through a memorandum of understanding
- Agreeing the Strategic and Business plans, direction of travel, as well as profit and loss targets
- The financial performance and management within national guidance of the HRA and General fund, as well as Grant provision
- The Housing Working Group membership and focus
- Legal compliance of the housing entities
- Workforce development and skills frameworks
- Assuring that all national legislation and resident charters in respect of Housing are adhered to
- Considering the voice of the Westminster resident or potential residents in relation to the Housing Strategy

Membership:

- **The Board is comprised of the Political Leadership (4 Cabinet Members plus Executive Director of Finance and Resources and Executive Director of Growth Planning and Housing)**

Housing Working Group is accountable & responsible for:

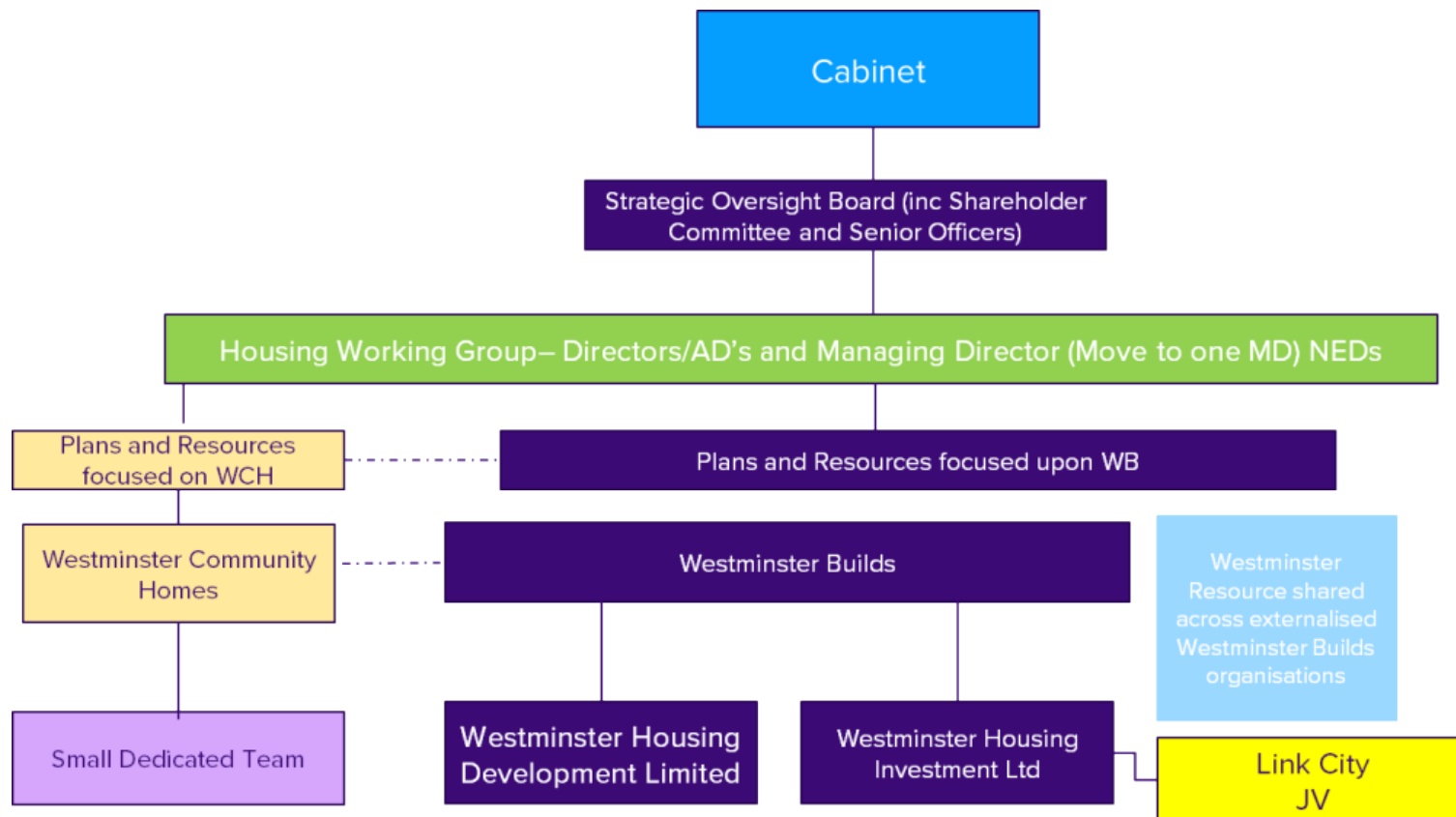
- Delivery of the memorandum of understanding as agreed with the Strategic Oversight Board
- Production of the Strategic and Business plans of the housing entities
- Delivery of all plans and strategic direction
- The provision of all relevant skills and staffing – including their recruitment and retention through the development and delivery of a workforce strategy and plan
- The delivery of all agreed performance targets – whether these be KPI’s or profit and loss
- The recruitment of external support and advice to the Board
- The delivery of all relevant legislation and charters on behalf of residents.
- The delivery of all housing plans in accordance to agreements with the Strategic Oversight Board around use of the HRA/General Fund and any Grant provision

Membership:

- **The Working Group is comprised of the Director of Housing, Director of Development, Managing Director of WCH –it should also have HR, Finance and Technology Board members and Non Executive Directors**

The resourcing requirements for the future governance will need to achieve the optimum balance of external and internal resources

The new governance framework will need to be supported by a resource profile that achieves the optimum balance of external and internal resources, supports people development in order to recruit and retain talent and reduce the reliance on external support. The resource profile to support the future governance is set out in more detail below:



Aim to develop a range of additional future Specialist/Technical skills:

- Contract Managers
- Various Policy and Planning experts
- Design Specialists
- Specialist Programme Directors/Managers
- Specialist Housing/Regeneration/Build Project Managers
- Commissioning Managers – Contractors/Site Design/Regeneration/OPE
- Commercial managers – Sales (Private)/Land Management
- Procurement Specialists
- Development Appraisal Specialists (Finance/Investment)
- Customer and Resident Managers
- Strategic Managers
- Legal expertise (to avoid continued use of external advice)

In order to develop a range of opportunities and skills which will enable Westminster to grow and develop its Housing approach and offer, there are a range of skills which are identified as being key to enabling, and then sustaining the way forward. **The roles identified enable Westminster to develop its Truly Affordable Housing offer, whilst at the same time developing some key skills in house, potentially reducing the reliance upon external support.**

Additionally, there are examples of the types of role and Board additions which might be considered to help embed the chosen operating model approach as well as some key enablers in terms of culture, learning and development and development of clear strategic aims and business plans across the housing environment.

Types of Roles which enable the delivery of the future governance model.

- Group Managing Director
- Non-Executive Directors from across Housing and Beyond
- Local Business Leader(s) for Commercial thinking development
- Director of Commercial Operations
- Commissioning and Procurement Leads
- Programme Directors
- Finance Directors focused upon Investment and ROI
- Resident representation
- Head of Legal for Property Services



Enabled by a "shopping bag of":

- A review of pay and conditions to attract and retain the best talent
- Potential to pay market rates or incentives to join/stay with the organisation where this doesn't fit council existing approach - to enable internal skills to be built over time
- Creating a learning culture
- Reviewing vision, values and behaviours required to enable delivery
- Ensure progress is based upon skill and potential
- Ensuring that the community is at the heart of all thinking
- Having the right "can do" mindset – so ensuring that there is freedom (within legal constraints) to act commercially
- Having strategic plans, business plans, financial plans and development/delivery plans in place
- Appropriate controls and application in place to enable an integrated approach to delivery
- Cradle to grave delivery approach for residents & property

The benefits of this proposal:

The new governance framework can deliver a number of benefits in the short term and sustain a way forward to support longer term delivery of the Council's housing programme and maximise the delivery of Truly Affordable Housing via the housing delivery ecosystem.

In terms of immediate and Business as Usual the benefits are:

- Enables existing structures to remain to allow restructure in council's Development Team to progress and external specialist skills to be utilised in the short term.
- Allows the council via consolidated governance to focus on immediate challenges e.g. recession, mould and potential referral to Social Housing Regulator
- Would not be a formal organisational change.
- Addresses the ambition to streamline governance and signifies a shift in operational arrangements to start to develop culture change

In the longer term:

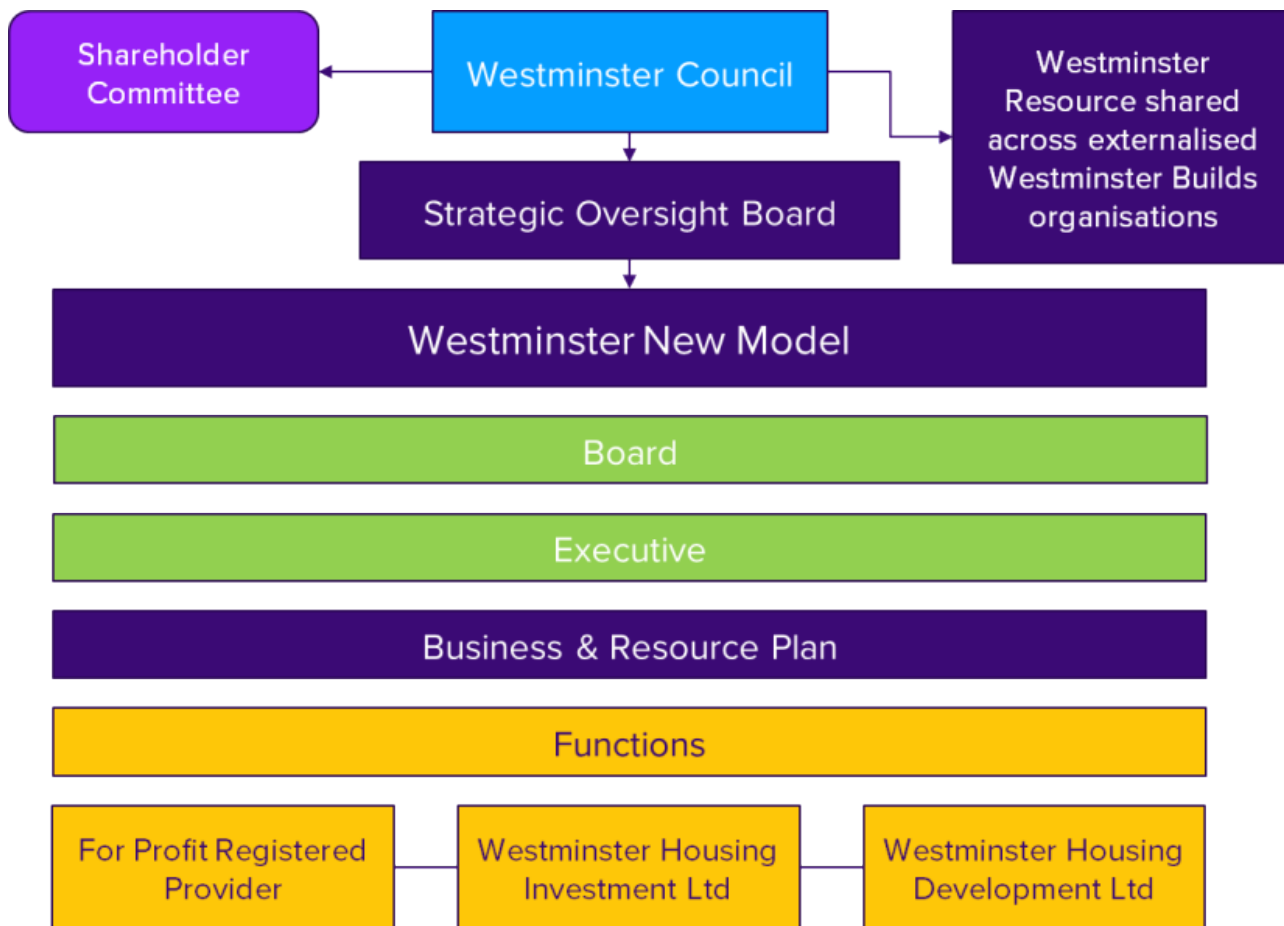
- Allows time to identify and develop skills which challenge internal capability
- By creating the environment for strategy and business plans to be seen through a similar lens – this enables opportunities to see synergies, identify gaps and manage risk more effectively
- Enables recruitment of new skills through clearer line of sight and opportunity for career development and progression
- Reduces reliance upon external support for resource
- Provides a basis to consider future operating models such as a consolidated group structure

The new governance framework will support delivery of the Council's housing programme in the following ways:

- Enables a joined-up approach and clarity of purpose across all areas of the organisations in the housing delivery ecosystem
- Facilitates development of Strategic Objectives and a Housing Delivery Plan and then Business Plans to emerge for each delivery vehicle that align with overall objectives
- Creates a governance framework that provides oversight and accountability
- Provides a framework for political scrutiny
- Enables risks to be appropriately identified and effectively managed
- Would enable existing plans to be changed, updated and developed in a consistent and transparent manner across the group
- Allows the potential to add experts to the Housing Working Group who provide an external voice and challenge

Alternative Longer term Governance & Resourcing Model

There is opportunity for Westminster City Council to continue to develop and evolve their governance and resourcing model. Over time it may determine a consolidated group structure is a more appropriate model for the future that would further develop resources, along with culture and a review of terms and conditions to attract talent.



In Summary a Consolidated Group Structure would:

- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two.
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance

Key Findings

The review of the current resourcing arrangements and the development of proposals for governance and the future operating model have highlighted or been guided by some key findings. These are identified below:

There are a range of governance and resource models in place across London and the wider Housing sector that suggests a flexible and bespoke approach can be used to design the optimum arrangements for Westminster.

There are some clear guiding principles and key ingredients that should be in place to support successful governance. Predominantly, the council should aim to have a clear, systematic governance framework in place which underpins arrangements for overseeing, interfacing, and engaging with entities to ensure its interests are safeguarded.

Good practice would see the Council using a consistent approach when it comes to engaging with its entities. For example, applying arrangements in a similar legal model e.g. through using standard articles of association or shareholder's agreements. This is beneficial to standardise and make the approach to managing multiple entities efficient

A future governance and resourcing model should focus on providing additional oversight, streamlining resourcing and facilitate a joint strategic approach through with the Housing Strategic Objectives and Housing Delivery Plan can be delivered. This is recommended through establishment of a Strategic Oversight Board and Housing Working Group.

In the future, there is the option to move to a consolidated group structure (see option 3 in appendix 4) which may provide a single point of focus for managing the council's commercial activity and an even more effective use of resources.

The council anecdotally has a current reliance on 'buying in' external resource to close any shortfall in resource. A strategic approach should be agreed for the recruitment and retention of staff and to enable internal skills to be built over time. A detailed skills audit may be required to identify areas of skill gap. A review of pay and conditions may be required to support the recruitment and retention strategy.

It is recommended that the council take action to agree a future governance framework and implement this in the short term so that Housing Strategic Objectives and a Housing Delivery Plan can be agreed and start to be delivered to optimise the delivery of Truly Affordable Housing in Westminster.

This section has concluded that the establishment of new governance arrangements that include a Strategic Oversight Board and a Housing Working Group initially provides WCC with the opportunity to make progress to a joint strategy, business plan and ability to focus upon closing the skills gap . We would therefore make the following recommendations.

22) Recommendation:

Create a Strategic Oversight Board which includes Political and Shareholder oversight, along with Senior Officers –at Executive Director level to have oversight, set strategic direction and business plans across all of the Housing delivery ecosystem. This Board would be accountable for the performance management of all Housing delivery through establishment of KPI, as well as profit and loss targets. This should be enacted with immediate effect and be in place within 3 months.

23) Recommendation

Establish a Housing Working Group, initially with existing Directors and Managing Directors to work joining on strategic ambition across Westminster, delivering joint business plans and also taking action to maintain and deliver through the provision of the skills agreed to enable the strategic and business plan. Agree board membership and time limited structure to move towards one Managing Director across the Housing Group. This should be enacted within immediate effect and be in place within 3 months

24) Recommendation

Secure External support through the recruitment of Non-Executive Directors (NED) will help to drive the strategy and planning, as well as providing advice around profit and loss. Additionally, the NEDs will ensure that due diligence and governance is delivered as agreed with the Strategic Oversight Board, as well as providing insight and advice around market development and housing delivery. This should be enacted with immediate effect and be in place within 6 months.

25) Recommendation

Undertake a deep dive skills audit across the Housing function to identify exiting skill set and potential gaps in strategic direction of travel. Assess capability to delivery long term business plans and through the skills audit reconsider the key roles and competencies required to enable and enact delivery. This will include consideration of pay and reward elements of any new job creation. This should be completed within a 3 month time period.

Key Questions

This slide summarises and provides direct commentary for the key questions the analysis for this section seeks to answer

Key Question	Commentary
<p>Are the existing governance structures and processes for managing risk sufficiently robust?</p>	<ul style="list-style-type: none"> The Shareholder Committee through its articles of association provides an approach to managing risk. Through a joint Strategic Oversight Board with senior officer membership and a Housing Working Group with external support (NED) this would enable risk to be managed in a robust manner and with sufficient oversight.
<p>What is the optimum position on management and staffing resources (internal vs external) for delivery of the Council’s housing led regeneration programme?</p>	<ul style="list-style-type: none"> There needs to be a skills audit in relation to and in support of any published Housing strategy and Business Plans. There is a balance between functional delivery and specialist knowledge, as well what is determined to be specialist. Ideally the council would be able to recruit and “grow” their own skilled people reducing any dependence on continued consultancy or contractors – for example Legal advice and Commercial knowledge. This though comes down to a deeper review of the current operating model versus thinking around a new operating model for the future.
<p>Is WCC currently taking advantage of all external support which can help to grow and shape their housing entities in the long run and to be sustainable?</p>	<ul style="list-style-type: none"> From conversations within WCC, there has been a reliance upon external consultancy and contractor support in the past. The challenge for Westminster is whether this is acceptable going forward, or it wants to have these skills available in house – where it might be felt that sustainability is delivered. Use of specialist skills externally might be advantageous in the short term – however longer term the “knowledge” gap is invariably never closed – which places more risk onto the system than is necessary. Use of skills from across the sector to sit at Board level will help shape the housing entities over the longer term. Non-Executive Director support will provide challenge, help manage risk, develop strategy and enable sustainability in the long run.

Section 7: Financing Strategy

The Council's housing programme is being delivered by a number of structures, but ultimately the finance for this programme is from either:

- »» The Housing Revenue Account
- »» Or the General Fund.

As such, the Capital Programme and the HRA business plan will be informed by a Capital Strategy that sets out the longer-term context for future investment and is developed to ensure the Council can take capital and investment decisions in line with the Council priorities and provides a framework to consider **stewardship, value for money, prudence, risk, sustainability and affordability**.

Many Councils are now looking at financing housing through both the traditional route of the HRA and through the General Fund for additional flexibility.

An integrated financing strategy can support the Council to make the most out of its housing delivery programme by focusing resources in a coherent, consistent and affordable manner. It can be used to address short-term financing requirements and support the long-term strategic aims of the Council; allowing for more consistent planning.

A financing strategy is a key part of the Council's framework and provides the tools to:

Raise financing for investment into service delivery, sustainable development and addressing corporate objectives; ensuring alignment of existing financing policies with, medium- and long-term local and national priorities;

Prioritise finance to take advantage of housing opportunities in the near-term, and identify financing policy areas for the medium- and long-term;

Ensure that financing policies and regulatory frameworks from across different areas are coherent, sustainable, and risk-informed for example, pay regard to current and future rules regarding accessing Public Works Loan Board;

Identify opportunities to access technical assistance & capacity building support to undertake due diligence, risk analysis and affordability reviews on non-traditional approaches to accessing finance where a category of spend lends itself to such an approach.

A financing strategy aims to detail an approach that ensures any housing investment is aligned with the Council's corporate objectives and is made in a cost effective and efficient manner. It will provide a framework that seeks to:

- »» Avoid fragmented decision-making
- »» Better align efforts
- »» Identify gaps and opportunities for the optimum use of the Council's resources.

The strategy should build and feed into the existing methodologies and tools that the Council may already make use of, such as medium-term financial strategy, planning gain strategies and any future revenue savings strategies and provides a key part of a strategic capital framework.

It will support financial decision making as part of the capital programme governance and will allow strategic longer term financial planning by supporting financing decisions for the longer-term housing pipeline. A strategy sets out the approach to assessing financing opportunities. The route to sourcing this finance will be governed by the Council's Treasury Management Strategy, which in turn will be responsive to the wider macro-conditions prevailing at the time.

Traditional sources of funding derive from both internal and external sources

Traditional Sources of Funding

Internal Sources of Funding



Capital Receipts



Revenue Contributions



Internal Borrowing

External Sources of Funding



Government Grants



External Borrowing



Development Contributions



Match/Part Funding

Source	Narrative
External	
Grants	Given the national priority given to house building significant grant programmes are available to support delivery. As a priority programmes should be aligned to access grants to improve viability and increase the provision of affordable homes.
Other Contributions (Incl S106 & CIL)	Contributions are created as a result of the impact of wider physical development that creates a planning obligation. The Contribution is generally paid to support the costs of a specific intervention (s106) or provided to address wider more strategic interventions that may be needed as a result of any development (CIL, s106).
Match/ Part Funding	Finance may be available from a number of different external and internal sources to support or increase the viability of schemes or programmes of work. Examples could include housing contributions to increase policy led provision and include Right to Buy receipts for 30% of new housing delivery, which the Council must utilise or repay to Central Government, whilst also incurring an interest payment.
Internal	
Capital Receipts excl. RTB	The Council can utilise any capital receipts it generates from the disposal of its assets to delivery its capital programme
Revenue Contributions	The Council can make direct revenue contributions to support the delivery of capital programme. However, this is generally for low level or short asset life expenditure.
Borrowing	The Council can use the powers enshrined on the Prudential Code to support borrowing. Traditionally, Local Authority borrowing is sourced from the Public Works Loans Board (PWLb), a statutory body of the UK Government that provided loans to public bodies from the National Loans Fund. In addition, Council can undertake “internal” borrowing, using internal cash balance to support its capital programme

Source	Narrative	Use of Finance Narrative
External		
Grants	<p>Grants have a specific focus to support nationally and regionally identified outcomes. Grant applications are generally made where local and national outcomes are aligned. Examples would include London Affordable Homes Programme, Home Building Fund or specific grants to support increased affordable provision or green initiatives e.g., Green Heat Network Fund.</p>	<p>Grants support a wide range of initiatives and are targets to support local or national schemes or housing delivery or initiatives.</p> <p>Grants that are aligned with both corporate plan and wider external objectives should be considered for inclusion in the programme to support delivery of either additional units or to reduce the development burden e.g, support higher quality, green solutions.</p> <p>However, if it is identified through the revised bidding forms that there is an ongoing revenue impact associated with this investment then priority will be given to those that confirm costs are included within departments budgets and they are affordable.</p>
Other Contributions (Incl S106 & CIL)	<p>Contributions are created as a result of the impact of wider physical development that creates a planning obligation. The Contribution is generally paid to support the costs of a specific intervention (s106) or provided to address wider more strategic interventions that may be needed as a result of any development (CIL, s106).</p>	<p>Sources of finance such as these will often be defined by the Council’s wider infrastructure strategy (CIL), or the planning obligations of a specific scheme (S.106) will be tied to specific outputs and be time limited.</p> <p>Again, where these are used to deliver schemes the bidding form must pick up any future liabilities that result in this expenditure to ensure they are affordable and included within the Council’s revenue budget</p>

Source	Narrative	Use of Finance Narrative
External		
Match/ Part Funding	<p>Finance may be available from a number of different external and internal sources to support or increase the viability of schemes or programmes of work. Examples could include housing contributions to increase policy led provision and include Right to Buy receipts for 30% of new housing delivery, which the Council must utilise or repay to Central Government, whilst also incurring an interest payment.</p>	<p>Where schemes attract match funding or part funding finance that improve the viability and deliverability of the scheme then any Council contribution should be consider in line with other capital projects.</p> <p>Inclusion of these schemes will be based on the outcomes delivered by each scheme against the available resources and any Council contribution will be considered in terms of the level of match funding required and the impact on the revenue accounts.</p> <p>As projects are generally development focused and long term in nature other authorities have used borrowing to support these programmes. And, in the context of the Council must be considered in light of other competing projects requiring this support.</p>

Source	Narrative	Use of Finance Narrative
Internal		
Capital Receipts excl RTB	The Council can utilise any capital receipts it generates from the disposal of its assets to delivery its capital programme	<p>The use of Capital Receipts does not raise the Council’s Capital Financing Requirements (CFR) and therefore does not have a direct impact on the Council’s revenue account.</p> <p>Any capital receipts should be held for corporate use to ensure they are allocated efficiently. Generally, their use will be dependent on the nature of the asset and its expected life. should be used to reduce the impact of any borrowing, with a focus on those assets where the Council’s policy would require MRP to be provided over shorted periods (<25 years).</p> <p>Crucially, the use of the capital pipeline will allow the Council to preserve the flexibility of capital receipts by considering other financing options ahead of their use.</p>
Borrowing	The Council can use the powers enshrined on the Prudential Code to support borrowing. Traditionally, Local Authority borrowing is sourced from the Public Works Loans Board (PWLB), a statutory body of the UK Government that provided loans to public bodies from the National Loans Fund. In addition, Council can undertake “internal” borrowing, using internal cash balance to support its capital programme	The Council can use revenue contributions to support the capital programme, however, this method should be seen as a last resort as it has the biggest impact on the revenue account for each £(pound) spent, i.e., it is the least affordable.

Source	Narrative	Use of Finance Narrative
Internal		
Revenue Contributions	The Council can make direct revenue contributions to support the delivery of capital programme	<p>Where the capital programme is not fully supported by previous financing sources then consideration must be given to accessing external finance; guided by the Prudential Code.</p> <p>The Council should seek to access the most efficient and effective sources of finance to support any residual capital programme expenditure and the level of borrowing will, in turn, be supported by the Council’s current and future cash requirements.</p> <p>Where cash is available (internal borrowing), then this should be used to minimise financing costs (not MRP, which will still apply). Where the Council needs to borrow externally, then it will use its Treasury Management Function to access the most cost effective manner of doing this.</p>

Source	Risks/ Considerations	Management/ Mitigation
Grants	<ul style="list-style-type: none"> • May be insufficient to complete works as a result of poor scoping or project overspends; • Investment leads to an ongoing and unbudgeted revenue impact; • Grant focus may not align with corporate objectives making other schemes or projects unviable. 	<ul style="list-style-type: none"> • The Capital Bidding form should detail how each project supports a corporate priority and any future revenue impact associated with the investment; • The project scoping should be robust to ensure programme costs are linked to grant amounts; • A central corporate overhead should be utilised where costs rises are due to macro impacts.
Other Contributions (Incl S106 & CIL)	<ul style="list-style-type: none"> • Focus of intervention may not compliment future Council priorities e.g. traffic positive interventions; • Insufficient finance to support strategic infrastructure interventions leaving a residual liability with the Council; • May insufficient to complete works as a result of poor scoping or project overspends; • Investment leads to an ongoing and unbudgeted revenue impact; 	<ul style="list-style-type: none"> • The Capital Bidding form should detail how each project supports a corporate priority and any future revenue impact associated with the investment; • The project scoping should be robust to ensure programme costs are linked to grant amounts; • Projects should be included on the Council’s Strategic Infrastructure Plan
Match/ Part Funding	<ul style="list-style-type: none"> • Despite match funding viability may still require additional financial support; • Match-funding may not align with the Council’s corporate objectives; • Often any overspends will be the responsibility of the Council 	<ul style="list-style-type: none"> • Projects scoping should include the same rigour as other projects; • Using the Capital Bidding Forms, each project should demonstrate how it meets the Council’s corporate objectives; • Terms of match fundings should be reviewed to ensure any risk of overspend its appropriately balanced

Source	Risks/ Considerations	Management/ Mitigation
Capital Receipts	<ul style="list-style-type: none"> No accurate estimate of quantum or timing of capital receipts; Receipts used to support viability on projects which they are generated rather than corporately applied; 	<ul style="list-style-type: none"> The Council should ensure it has a robust and up to date asset management plan, allowing it to manage the use of Capital receipts centrally; Receipts should be set aside for short life investment
Borrowing	<ul style="list-style-type: none"> If the Council identifies a scheme with the need for future borrowing it should consider the impact of changes to interest rates on the viability of this project; The Council should consider new guidance regarding its financial standing and whether it has more than a negligible ability to repay any future borrowing; The Council should consider its MRP policy in light of future borrowing requirements The Council should regularly review its revenue impact target to ensure it aligns with its current risk appetite; The Council has stated it does not invest primarily to generate a yield; however, it must ensure that where a project does create a return that this is commensurate with the risk it takes. 	<ul style="list-style-type: none"> Avoiding borrowing in advance of need, the Council should review its borrowing requirements to best take advantage of the current economic forecasts; The Council should ensure that all borrowing is affordable and in line with its Prudential indicators; The Council should have a clear policy on MRP especially when charging in advance of need or where capital repayments are received on loans to its associated companies; The agreement of the Capital Pipeline and Programme will set the capital need for the MTFP; Through the use of the Capital Bidding Forms, the Council demonstrate that projects are impacting on a range of corporate objectives
Revenue Contributions	<ul style="list-style-type: none"> Revenue contributions are used to support capital projects that could be better served by borrowing 	<ul style="list-style-type: none"> Revenue contributions should only be used as an exception and by signed off by the S151 officer.

Non-Traditional funding sources provide affordable alternatives to securing finances

Non-Traditional Sources of Funding

There are other sources of finance that Westminster could potentially utilise to support specific programmes or schemes, where the source could provide a more affordable solution or supports specific scheme or financing risks when compared to traditional sources.



Sale/ Lease & leaseback



Empty Property Tax



A bond issuance



Income Strip Solution



CPO Purchases



JV/ Partnership Approaches

Source	Narrative
Income Strip Solution	Where finance is provided by an external entity and repayment is through a long-term index linked structure. The income strip is generally calculated against the future income of a particular project or programme, but once active security is generally taken through a guarantee of payment rather than a charge over an asset.
Empty Property Tax	Councils throughout the England are looking at the impact on communities of empty properties. Properties are considered empty when they are vacant for over two years. Legislation allows that the Council can charged up to 4 times the normal Council Tax bill if the property has been empty for 10 years or more. By taking a vigorous approach to this, those properties that are unfit for use, or are used as second homes, can provide an income stream to support housing delivery.
Sale/ Lease and leaseback	Finance is created through the sale of the freehold or leasehold of an operational Council asset; thereby realising a capital receipt. The Council then (generally) continue to use the operational asset and enter into a long-term amortising lease. There is usually a clause that once the lease is completed then the Council will have the right to repurchase the asset.
A bond issuance	An external provider would issue a bond in the name of the local authority, generally through a private placement to a range of institutional investors, although a number of authorities have investigated local bonds, sold to residents. The Council then commits to an annual payment to all bond holders until the bond is either amortised or repaid through a bullet payment.
CPO Purchases	Councils have used their powers the purchase of those units that are considered derelict or unfit for habitation on a long-term basis. In addition, Westminster has assessed the whether powers granted by the Proceeds of Crime Act can allow it to seize housing. In both cases the additional units can be used to provide additional units through either redevelopment or sale.
Joint Ventures or Partnership Approaches	The Council can support its project objectives through the use of its assets to generate a matched or comparable finance source from a partner. Many local authorities use the value of their land to provide match funding into a partnership vehicle with the partner matching this value with cash. Upon transfer the land is unencumbered by local authority financial rules and the partnership can use this value to seek leveraged finance from external funders.

Source	Risks/ Considerations	Management/ Mitigation
Income Strip Solution	<ul style="list-style-type: none"> • Borrowing although set based on a projected income is then divorced from these amounts i.e., income strip finance is another form of borrowing and should be treated as such • Repayments are generally linked to an indexed increase and although cheaper initially have the ability to become expensive in future years; • Although becoming more prevalent, the costs associated with funding agreements are in excess of PWLB; • Early repayment terms are punitive 	<ul style="list-style-type: none"> • The Council should consider the whole life costs and the value for money consideration of any income strip; • Income strip solutions are better suited to underlying long life assets that have an income stream that are also indexed linked e.g., housing; • Income strips can be beneficial in a high/low inflationary environment when supported by the use of appropriate collars and caps.
Empty Property Tax	<ul style="list-style-type: none"> • Resource heavy in assessing whether a unit is empty. The financial impact may be outweighed by costs; • Risk of appeal and need to repay receipts • Tax will feed into wider GF balances and may not be allocated for housing 	<ul style="list-style-type: none"> • The Council should implement systems to allow it track empty properties to ensure of successful collection of income. • Consideration should be given to hypothecate EPT to housing delivery
Sale/ Lease and leaseback	<ul style="list-style-type: none"> • Sale and Leaseback is a form of Project Finance, and the affordability is related to the underlying assets; • Long Term Finance with an index linked repayments so significant risk that the underlying rents may not keep up with the lease; • Generally, requires additional terms to ensure that the asset value is maintained to a sufficient standard; • Early repayments terms are punitive; • Generally, requires the use of a separate entity/SPV to avoid vires complications; • Unclear of how the future impact of IFRS16 may impact on the accounting for this commercial structure. 	<ul style="list-style-type: none"> • The Council should consider the whole life costs and the value for money consideration of any deal; • Solutions are better suited to underlying long life assets that have an income stream that are also indexed linked e.g., housing; • The asset must be clearly identified in the Asset Management Plan as having the right characteristics for this type of deal; • The Council must have a clear maintenance plan for the asset • Deals can be beneficial in a high/low inflationary environment when supported by the use of appropriate collars and caps.

Source	Risks/ Considerations	Management/ Mitigation
A bond issuance	<ul style="list-style-type: none"> • Long term fixed or variable finance • Expensive to set up; • No or limited control over the counter-party; • No ability to repay the finance before its maturity. 	<ul style="list-style-type: none"> • Bond finance could be used to support a specific Council initiative e.g., a Green Bond. Under these circumstances there maybe additional central government support in its delivery. • If a Bond is an attractive option, the Council could use the Municipal Bond Agency to support its delivery
Compulsory Purchase	<ul style="list-style-type: none"> • The CPO purchase can be cumbersome and take considerable amount of time and resource • Significant political risk and challenge associated with CPO homes using the POCA 	<ul style="list-style-type: none"> • Potential to use external support to address process and legal risk
Joint Ventures or Partnership Approaches	<ul style="list-style-type: none"> • Complicated structures that generally require procurement and significant investment in set up costs; • Council will cede an element of control on the project delivery • Objectives for use need to be clear and are generally defined by more than just access to finance. 	<ul style="list-style-type: none"> • Joint Ventures and Partnership agreements should be considered where each side has complimentary considerations, but both have the same or compatible objectives, for example: • The Council owns land that it wishes to see developed • Additional skills are required to complete the project; • The delivery risk of the schemes is higher that the market supports, inhibiting value; • The Council wishes to control the objectives but reduce its risk exposure.

Section 8: Legal Advice and Considerations

There are 3 key powers which WCC can utilise to develop housing through the General Fund

POWERS TO DEVELOP LAND



The general power of competence (GPC)

(Section 1, Localism Act 2011)

Local authorities have the power to do anything that an individual may do, for "the benefit of the authority, its area or persons resident or present in its area."

- WCC could seek to rely on the GPC to develop housing for rent or sale in WCC's area
- Subject to several limitations e.g. can only use GPC for commercial purposes through a company



The power to carry out works on land

(Section 2, LA Land Act 1963)

This provides that WCC may: "for the benefit or improvement of their area, erect any building and construct or carry out works on land"

- Power explicitly provides WCC with the ability to develop on land for the improvement of WCC's area
- WCC could consider the use of this where the GPC is not an appropriate option



The power to provide housing accommodation

(Section 9, Housing Act 1985)

A local housing authority may provide housing accommodation by (a) erecting houses, or converting buildings into houses, on land acquired by them for the purposes of this Part, or (b) by acquiring houses

- Can be used for land that is not accounted for in the HRA
- Can cause a degree of confusion as to the 'right' account which should be used for the development

Affordable housing can be held in the HRA upon appropriation of the developed land, pending assessment of the key considerations

To hold affordable housing within the **HRA**, the developed land would need to be "**appropriated**" from the **General Fund** into the HRA.

To appropriate land, a decision would need to be made by the **appropriate decision-making body**.

The Council will wish to be **satisfied** that the developed land is **no longer required** for the **purposes it was held**.

Key Considerations:

Appropriation does not involve a sale and purchase, therefore an accounting **adjustment**, rather than a payment is required. The adjustment can be lower than the build cost paid by the General Fund for the development, however there are several considerations to factor when making the adjustment:

- » **Best Value Duty:** an authority should consider overall value when reviewing its functions. This includes economic, environmental and social value.
- » **Fiduciary Duty:** Councillors would need to take such an approach and ensure there was a reasonable basis for the decision and that each accounting adjustment was considered on its own terms.
- » **Balancing Budgets:** Statutory duty to deliver a balanced revenue budget. this duty is of relevance for accounting adjustments which would be at an “undervalue”.

WCC is subject to the Rent Standard, and can let properties directly via the HRA

If properties are classified as 'low cost rental accommodation', then the Rent Standard would apply to them.

The **Rent Standard** has applied to local housing authorities since 1 April 2020 and applies to any '**low cost rental accommodation**', other than that provided to high income social tenants or to which the "Policy statement on rents for social housing" does not apply

Accommodation is low cost rental accommodation if:

- » it is made available for rent,
- » the rent is below the market rate, and
- » The accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

Market rent properties can be acquired & let directly by the Council via the HRA, however there are key issues to consider:

- » We are **not aware** of other local authorities letting market rent properties within the HRA.
- » Letting market rent properties could be seen as **commercial activity**, thus requiring the use of a company.
- » Tenancies would either be secure, introductory or flexible tenancies – unlike a company, the Council **cannot** grant assured or assured shorthold tenancies.
- » Tenants would have the statutory Right to Buy (**RTB**).

Section 9: Summary & Recommendations

The context for this review was a strong cross council commitment to review its activities with the aim of delivering more truly affordable homes. This was supported by the establishment of “A Future of Westminster Commission” to review opportunities and examine options to support this ambition.

The Council itself undertook an immediate review of its existing council-led development schemes to ensure that low cost social rent housing was prioritised in their delivery. This resulted in a report being presented to Cabinet in October 2022 which listed a series of actions that resulted in the opportunity to increase the delivery of new social rented homes by 143 units.

Following production of this work, the Council subsequently committed to a ‘Review of Housing Supply’ as a comprehensive strategy to deliver as many truly affordable homes as possible. This report was commissioned to support this strategy and to provide the analysis of a range of options to drive forward increasing levels of Truly Affordable Housing.

The scope of this review was to address a series of 5 key questions in partnership with the Council:

1. Can the review develop an understanding of the Council’s current financial; delivery and tenure mix proposals for existing schemes within the Council’s housing led regeneration programme?
2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council’s own land holdings or the wider development market?
3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?
4. Are the Council’s existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?
5. What is the optimum position on management and staffing resources for delivery of the Council’s housing led regeneration programme?

This section of the report summarises the answers to these questions that this review has provided together with considerations for implementation of the range of options to increase levels of Truly Affordable Housing.

1. Can the review develop an understanding of the Council’s current financial, delivery and tenure mix proposals for existing schemes within the Council’s housing led regeneration programme?

The basis of the review has been predicated in developing a deep understanding of the Council existing programmes and the local context of Westminster. This has been achieved through

- Reviewing each of the major schemes with the Council team; and
- Reviewing the work undertaken by the Council in reviewing these schemes to increase levels of social rented housing.

The findings of this review have been developed based on this evidence base and a set of bespoke options developed from best practice examples to address the Council’s objectives.

2. Is there the potential for additional opportunities to maximise the delivery of social and Truly Affordable Housing; through the Council’s own land holdings or the wider development market?

Yes. The Council team undertook a quick win review that highlighted significant new social rented homes that could be enabled from the portfolio. This review has built upon the initial review work to develop a menu of interventions that can be applied by the Council to enable increased delivery of social and Truly Affordable Housing. These interventions have been categorised into three areas on the basis of the whether they:

- *Provide better value out of existing investments (i.e. more homes for the same money); and / or;*
- *Increase the amount of direct Council resources to deliver Truly Affordable Housing (i.e. increase HRA borrowing capacity or equivalent); and / or*
- *Introduce additional funding from alternative sources to increase the scale of affordable housing delivery*

The approaches range from working with external partners to changing valuation methods and from securing additional funding from institutional funds to delivering different types of housing.

The report has also developed the key conditions for the application of these interventions and how they can be applied in a complementary fashion in order to maximise their impact.

3. Are there opportunities to better utilise the financial resources available to the Council to deliver more Truly Affordable Housing; including opportunities for accessing alternative private and public funding streams?

Yes.

There are a variety of ways to maximise financial resources, however, these need to be balanced with the Council's appetite for risk and its broader objectives.

The Council has brought forward significant number of truly affordable homes and continues to do so across its schemes, through utilising its HRA and General Fund, however the review has developed a number of potential additional ways in which to both utilise its own financial resources to deliver increased numbers of Truly Affordable Housing and also the ability to secure additional funding to maximise potential delivery.

Key interventions include:

- Working with RPs to enable their funding of units through direct purchase from Council schemes;
- The delivery of a broader spectrum of truly affordable homes, including intermediate rent to enable cross subsidy between different rental products, although this needs to be carefully utilised in areas where demand for these units is appropriate;
- The Council has yet to fully utilise private sector and institutional finance to deliver housing. Given the range of sites coming forward, the Council should consider whether this financing approach could add to the financial toolkit by addressing any short term affordability constraints, this may be particularly appropriate for large schemes or a portfolio of temporary accommodation; and
- Alternative valuation techniques that can unlock additional funding from the HRA. However, this delivery would decrease the financial sustainability of the HRA and this impact must be considered, particularly in terms services to current residents;
- There is the potential for the Council to increase its reliance on General Fund resources to deliver housing. The General Fund has additional flexibilities that could allow it to provide subsidy to the HRA or other delivery options.

4. Are the Council's existing delivery vehicles that deliver affordable housing the right ones? should they be revised? and if not are they achieving delivery as effectively and efficiently as possible?

When compared with best practice across the sector, the Council is in a strong position to deliver the full spectrum of housing that it wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle.

There are, however, a number of improvements that can be made to the Council's housing ecosystem at large to enable these tools to be deployed more effectively. In particular:

- There currently appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way;
- There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other; and
- It has been questioned by the Council as to whether the existing RP can deliver the Council's broader objectives, including accessing grant from the GLA.

As a result, the Council is not currently in a position to achieve the potential from these vehicles as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used.

This should be reviewed by the Council and an holistic approach developed in line with the recommendations in this report.

5. What is the optimum position on management and staffing resources for delivery of the Council's housing led regeneration programme?

The work has concluded that there is a need to update the governance arrangements for the Housing Ecosystem to create additional strategic oversight and to streamline the governance. It is also recommended to implement a further detailed review of the Council's resourcing model in relation to skills. The resourcing review has highlighted:

- In the short term, there is the opportunity to bring in additional external skills to support in specialist areas e.g. finance, but there is anecdotally an over reliance upon external resource provision which may need to change to address and close the current skills gap. It has been recommended that, in order to provide stability, career pathways, the “right” culture, a learning environment and sustainability, then there is a need to establish a refreshed governance model, recruit and then grow the skills internally;
- The business planning of the Council and its various delivery structures would be better served as a consolidated Plan to enable the impact as a whole to be managed. There is, therefore, a need to implement overarching governance arrangements via a Strategic Oversight Board and Housing Working Group to establish the Council's housing delivery strategy and then to monitor progress on it; and
- The Council may wish to consider a longer term consolidated structure to better enable planning, leadership and strategic direction with regard delivery.

Implementation and Application of Options

A menu of interventions have been developed in order to maximise the impact in the delivery of Truly Affordable Housing for the Council.

In applying this toolkit of options, the Council will need to moderate the selection and use of the options depending on a number of factors including:

- **Pace of implementation**, relating to resource availability;
- **Risk Appetite**, including risks from a political, financial and quality perspective; and
- **Viability**, including how the impact of each is maximised.

For example, if the Council were driven purely by the interventions that could maximise the number of Truly Affordable homes delivered, then it would seek to apply the toolkit in purely unit impact order from **Option 8 (acquire out of borough instead of build)** down to **Option 1 (Increasing valuation to RP methodology)**.

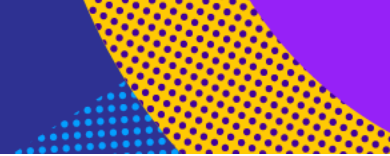
However, in all likelihood this impact will be moderated by the above factors. For example:

- Were the Council only seeking to implement interventions within Borough then this would discount **Options 8 (acquire out of borough instead of build)** and **7 (Buy properties for TA out of borough)**,

or

- Were the Council not keen to increase rents above LLR then this would discount **Option 3 (Increase LLR to DMR)**.

As is stated in the summary section - it should be noted that there is no single solution that alone can deliver a step change in the quantum of Truly Affordable Housing delivery and for the quantum of delivery to increase significantly then a shift in position on some significant areas may be needed.



In answering the 5 questions set for this review a set of interventions have been developed that can be applied to different types of schemes, units and circumstances in order to specifically increase the level of Truly Affordable Housing that can be delivered.

Delivery & Implementation

In order to determine a prioritisation of Options and plan for implementation, understanding the typical timescale for delivery is key. Each of the Options has been appraised at a high level to determine which of those are quick wins versus a longer timeframe based on availability of current resource and suitability of existing delivery vehicles and governance to support implementation. These options are set out by number on the spectrum below:



- The Options:**
- 1 **RP purchase:** Increase Valuation to RP Methodology
 - 2 **Increase Social Rent to Formula Rent**
 - 3 **Intermediate Products:** Increase LLR to DMR
 - 4 **VFM Analysis:** Increase HRA Valuation
 - 5 **VFM Analysis:** Build at Private Sector rates
 - 6 **Street Purchases:** Acquire in borough instead of Build
 - 7 **Street Purchases:** Buy Properties for TA Out-of-Borough
 - 8 **Street Purchases:** Acquire out of borough instead of Build

Risk Appetite

The analysis throughout the report has been used to highlight the maximum additional units that could be delivered by implementing the option. In practice, this approach would expose the Council to the maximum level of risk and therefore a more prudent level of risk will result in a lower impact.

The analysis pays regard to financial and legal considerations and provides a maximum intervention. However, it does not attempt to overlay these results with any political imperatives regarding residents and future housing strategy decisions.

Quality

Specifically relating to Westminster's build costs being significantly above private sector levels, no work was undertaken to understand the increased quality, the desire to address the climate emergency and any other specific Council-led design requirements and their impact costs. Anecdotally, the Council recognised that its desire to use its build programme to address wider Council priorities would impact negatively on development viability.

Key Decisions

This suite of options set out in earlier sections of this report has provided a toolkit of interventions for the Council to take forward, however, it should be noted that there is no single solution that alone can deliver a step change in the quantum of Truly Affordable Housing delivery, instead, it is through a more refined application of a set of tools to different circumstances that increases can be achieved.

It should also be noted that for the quantum of delivery to increase significantly then a shift in position on some significant areas may be needed, for example:

- A new commitment to the development of a **clear strategy for housing delivery** that maximises the role and remit of the housing delivery ecosystem, including the delivery vehicles as part of an overarching delivery strategy;
- Consideration of **options that have previously been less politically palatable** such as Street Purchase out of borough or the development of intermediate tenures that serve residents on slightly higher incomes, but are currently underserved; and
- An examination of the balance of risk the Council will take, for example such as through bringing in institutional funding utilising its covenant strength.

These measures can then be partnered with the interventions and the conditions for implementation that have been developed for each option in order to maximise the potential for increased delivery across the portfolio of schemes and units.

Recommendations

A consolidated set of Recommendations pertaining to this report are set out in Appendix 2.

Section 10: Next Steps

In order for the Council to be in the optimum position to maximise the delivery of Truly Affordable Housing we recommend that the following are undertaken as next steps:

- » Consider the options and socialise these internally amongst the Council to test the appetite for implementing different or a combination of options
- » Confirm the risk appetite of the Council for the delivery of TAH and identify any parameters that will guide implementation
- » Adopt and communicate an agreed definition for Truly Affordable Housing (TAH)
- » Develop a set of strategic objectives to guide the future council housing delivery programme and how the delivery ecosystem can best be used. Instigate a refresh of Business Plans for the delivery vehicles to reflect the strategic objectives.
- » Commence preparation of a Housing Delivery Plan - determine the prioritisation of options and develop a detailed implementation plan across the current development programme and future housing pipeline
- » Consider the Governance recommendations, select the preferred governance arrangements and develop an implementation plan to move to the new governance arrangements, including the development of updated Terms of Reference and membership of different groups.
- » Consider the enablers for resourcing and determine those to pursue such as the skills audit.

Section 11: Appendix

Appendix 1 - Key Assumptions

The table below outlines the key assumptions underpinning the analysis throughout the report

Value	Key Assumption Commentary
Assumed Bedroom Mix across Developments / Acquisitions	44% 1 Bed / 38% 2 Bed / 17% 3 bed / 2% 4 bed
Social Grant / Intermediate Grant (LLR only)	£154k per unit / £63k per unit
Affordability Definition	Rent is no more than 40% of net household income (GLA definition) For Gross wages to Net calculations (i.e. income tax) it was estimated that there were 1.5 earners per house
Target Rent	Capped formula rent (based on standard calculation) using following market sales values: £540k 1 Bed / £660k 2 Bed / £810k 3 Bed / £1,020k 4 Bed
Acquisition On-Costs	Assumed to be 7.5% of on-costs on top of price
Three wards used for household income	Church Street, Westbourne, Queen's Park
Private Rent Rates	£1,741 pm 1 Bed / £2,385 pm 2 Bed / £2,578 pm 3 Bed (ONS data)

Appendix 2 – Recommendations: Collated View

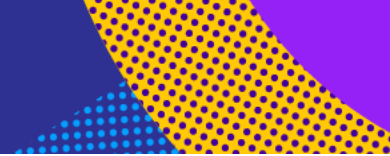
Section	#	Recommendation
TAH	1	A definition for 'Truly Affordable Housing' should be adopted to remove any ambiguity as to what as to what affordability means in housing terms.
TAH	2	The analysis shows that there is the potential for households in three highly deprived wards in Westminster to spend £1,030 per month (40% of income) on their housing needs. Given the GLA definition on affordability, this means that the average income for residents should support and be affordable at a range of rental points with the potential for an increase from current social rent levels. The Council should provide consideration to those that fall below this "average" level of income and to be truly affordable the Council should ensure that there are rent levels to address all needs.
TAH	3	Only market sale units generate a surplus over costs, with every other tenure showing a net loss. Therefore, to deliver additional numbers of Truly Affordable Housing units market sales units will need to be built to provide cross subsidy to the truly affordable programme.
VFM	4	The Council should conduct a review of its costs to ensure they are comparable to external market rates. Where deviation does occur then the Council should ensure that additional costs are adding value to the development and/or are contributing to wider Council objectives, e.g., climate emergency
VFM	5	<p>There is currently a disconnect in the valuation methodology used by the development appraisals and HRA business plan. The valuation per the HRA business plan (the amount the HRA can afford) is significantly higher than the value derived from the development yield approach (that used in the development appraisals); indicating a potential disconnect between the values used on the development viability versus what the HRA can afford. This could lead to developments not being considered viable or the level of affordable being reduced.</p> <p>As with this and other assumptions used. The Council should regularly review key drivers of delivery to ensure they are up to date and consistent.</p>

Section	#	Recommendation
VFM	6	The Council could consider to moving to an approach whereby the affordability of a unit is assessed over 50 years, rather than 30 years. This increased duration could allow a higher premium to be paid. However, this approach is not without risk and the overall impact on the financial sustainability of the HRA must be considered.
Street Purchases	7	The Council should consider the scale of investment it would wish to dedicate to this programme, with a focus on which tenures / unit types it would target for the programme. For example, Temporary Accommodation / Social Rent / Intermediate Rent and 2 bed / 3 bed homes.
Street Purchases	8	The Council should review the delivery approach it would wish to use for the programme. Depending on the unit types and the tenures to be used the HRA or individual delivery vehicles could be used for different types of unit. For example, certain rental types on short term tenancies may need to be undertaken through a management vehicle, such as Westminster Builds, whereas Social rented properties could be let from the HRA or RPs.
Street Purchases	9	The Council should consider the tools and resources it dedicates to the street purchase programme to ensure it is targeting available properties effectively and efficiently and can select appropriate properties and transact them appropriately.
Street Purchases	10	The Council should consider the funding options available to it for this programme including utilising internal / PWLB borrowing, potential bonds to institutional investors. It should consider this on a programme basis to ensure the appropriate route is elected.

Section	#	Recommendation
RP purchase	11	If the council is keen to take this approach forward, it should build on its existing relationships with local RPs and potentially cast the net more widely to undertake a formal soft market testing exercise with this group. This exercise should be used to develop a register of interested parties on which it should capture an understanding of each party's appetite, what scale of units they would be interested in, and in what location. Subsequently a protocol / approach should be developed for how these parties are engaged as opportunities arrive.
Increasing Social Rent to Formula Rent	12	The Council should review its rent approach for social rent levels on new build and relet properties. If it is not already charging target rent on these units, it should move to this basis, unless there are specific local reasons not to do so.
Intermediate Products	13	<p>The Council should review its approach to intermediate housing and consider its delivery in areas where income levels support it. Where intermediate housing is considered appropriate, the Council should:</p> <ul style="list-style-type: none"> • Undertake modeling to understand the interplay between the sourcing of GLA grant vs the benefits of increasing rents to intermediate levels; and • Consider which delivery mechanism(s) should be considered for the development and operation of the intermediate homes as part of the Council's housing delivery ecosystem to ensure the appropriate vehicle(s) are used.
Wider development market	14	The Council should consider the benefits of ensuring that all developments brought through the planning system deliver, as a minimum, the policy requirements for affordable homes.





Section	#	Recommendation
Wider development market	15	Where development capacity is a constraint on delivery, the Council should consider partnership approach to access spare capacity in other organisations. This is particularly relevant when considering the current capacity in the RP market. A focus on commercial covenants, increased costs and cladding issues has resulted in RPs slowing down their development programmes in order to ensure financial sustainability.
Wider development market	16	The Council should assess whether key sites within the City have stalled as a result of viability issues. Consideration should be given as to whether, through the injection of finance, the Council could support the schemes and thereby get an enhanced in level of affordable homes.
Wider development market	17	Through our analysis we found that the level of commuted sums previously received by the Council has not always given rise to a commensurate increase in affordable provision. However, the information held was inconclusive as to the reasons. The Council has already started to implement a policy whereby commuted sums are not considered and this report recommends that this policy is continued moving forward.
Delivery Structures	18	The Council needs to establish a strategic approach to its housing delivery ecosystem. To accomplish this, it needs to establish a Strategic Oversight Board to oversee the housing delivery ecosystem. This Board should develop a set of Housing Strategic Objectives that sit across the different delivery structures. These objectives should then form the basis of the development of the Business Plans for each entity. These Business Plans should be amalgamated to form the basis of a new Housing Delivery Plan.
Delivery Structures	19	The Council should seek to agree the key criteria for which vehicle should be used for which purpose in delivering its Housing Delivery Plan.

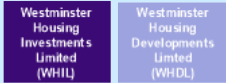
Section	#	Recommendation
Delivery Structures	20	The Council should seek to establish a new non charitable RP as a body within the Westminster Builds brand. The Council should consider whether WCH should be retained in its current form as well as establishing a new non profitable RP, whether it could be adapted to be non-charitable to fulfil this role or whether its continued use should be curtailed and the organisation collapsed.
Delivery Structures	21	<p>As the Link City JV comes to an end, the Council should review the performance of the JV in order to</p> <ul style="list-style-type: none"> • Examine what has gone well and less well in the performance of the vehicle • Identify any lessons learned for partnership arrangements in the future • Identify the skill sets the Council has developed through its partnership working. <p>On the back of the review the Council’s approach to partnership working with the private sector should be reviewed and key principles developed for how the Council could maximise the potential for these arrangements in the future.</p>
Resourcing	22	Create a Strategic Oversight Board which includes Political and Shareholder oversight, along with Senior Officers –at Executive Director level to have oversight, set strategic direction and business plans across all of the Housing delivery ecosystem. This Board would be accountable for the performance management of all Housing delivery through establishment of KPI, as well as profit and loss targets. This should be enacted with immediate effect and be in place within 3 months.



Section	#	Recommendation
Resourcing	23	Establish a Housing Working Group, initially with existing Directors and Managing Directors to work joining on strategic ambition across Westminster, delivering joint business plans and also taking action to maintain and deliver through the provision of the skills agreed to enable the strategic and business plan. Agree board membership and time limited structure to move towards one Managing Director across the Housing Group. This should be enacted within immediate effect and be in place within 3 months
Resourcing	24	Secure External support through the recruitment of Non-Executive Directors (NED) will help to drive the strategy and planning, as well as providing advice around profit and loss. Additionally, the NEDs will ensure that due diligence and governance is delivered as agreed with the Strategic Oversight Board, as well as providing insight and advice around market development and housing delivery. This should be enacted with immediate effect and be in place within 6 months.
Resourcing	25	Undertake a deep dive skills audit across the Housing function to identify exiting skill set and potential gaps in strategic direction of travel. Assess capability to delivery long term business plans and through the skills audit reconsider the key roles and competencies required to enable and enact delivery. This will include consideration of pay and reward elements of any new job creation. This should be completed within a 3 month time period.

Appendix 3 – Delivery Structures

Approach	Advantages	Disadvantages
	<ul style="list-style-type: none"> All units developed are controlled by the Council Council can define specification and have some flexibility on social rent levels for new units. Council can own and operate intermediate housing for “Key Workers” 	<ul style="list-style-type: none"> Limited resources of HRA to develop / purchase units Limited Intermediate products developed and operated from HRA Units developed are subject to government policy / regulations changes Units are subject to Right to Buy HRA prudential limits act as natural barrier to significant expansion.
	<ul style="list-style-type: none"> Enables housing to be built and managed for profit utilising trading powers Enables tax efficient dev’t / mg’t through 2 company structures Organisation has focused purpose of delivery and management of housing, underpinned by the rigor of the Business Plan process Units held are exempt from Right to Buy 	<ul style="list-style-type: none"> Currently, there is a lack of strategic direction to its use by the Council Tax leakage from profits (Corporation Tax) Arms length from Council, therefore, the Council has less control The vehicles are not currently developing units
	<ul style="list-style-type: none"> Vehicle can deliver housing with the use of Affordable Housing Grant Organisation has a focused purpose of delivery and management of Affordable Housing, underpinned by the rigor of the Business Plan process Independent NEDs can bring skills to the organisation Ring fencing of risks in the organization 	<ul style="list-style-type: none"> Arms length from Council and run as an independent charity, therefore, the Council has less control Currently there is a lack of strategic direction to its use by the Council Some grant benefits can now be realised by the Council Units have the potential to Right to Acquire but currently a lower risk than RTB.
	<ul style="list-style-type: none"> Council have 50% control over the development of the units Council can acquire units in Westminster Builds for operation Units are exempt from Right to Buy if held outside the Council Delivers wider leisure and community space 	<ul style="list-style-type: none"> Council is providing financial support which could be used to support other schemes Council provides an underwrite to acquire homes if sales price drops below floor



The Council is not able to undertake activities for the expressed purpose of profit. It is required to undertake these activities through a company limited by shares, such as Westminster Builds.

It is therefore **is best used for the following purposes:**

- **Development of schemes of housing for private sale / rent with an objective of generating surpluses**
- **Development of affordable housing to be sold to third party RPs**
- **Development of schemes of other non residential uses with an objective of generating surpluses**
- **Ownership and Management of private rented units**
- **Ownership and Management of intermediate rent units on assured shorthold tenancies (non key worker must be in the vehicle, key worker could be if desired)**
- **Purchase, ownership and management of temporary accommodation**

The 2 company structure in place is ideal to develop and manage properties in a tax efficient structure



The Council is not always able to access grant funding that is available to the Registered Provider sector, as such many Council's have established Registered Providers in their delivery ecosystem. .

However, the Council wishes to have more control over the activities of the RP, retaining the potential to bring units back into the Council in the future and to utilise the RP as an extension of its Ecosystem. A Charitable RP has to be independent of the Council, and therefore WCH does not fulfil this role.

This new RP **is best used for the following purposes:**

- **Development of schemes including affordable housing where grant can be secured and the Council wishes to retain control**
- **Ownership and Management of affordable units of all types where the Council wishes to retain control, including social rent, affordable rent and intermediate units (note intermediate units do not need to be held in the RP – they could be held in WHIL)**



Development and management through the Council's Housing Revenue Account continues to be a key tool in its housing programme.

The HRA is best used for the following purposes

- **Development of mixed use schemes where the purpose is not predominantly to generate financial returns**
- **Schemes can include private sale / rent, affordable and commercial uses.**
- **Development of affordable housing schemes**
- **Ownership and Management of social rent units within the HRA**
- **Ownership and Management of intermediate rent units for key workers on secured tenancies**



The Council is not always able to access grant funding that is available to the Registered Provider sector, as such many Council's have established Registered Providers in their delivery ecosystem. A charitable RP is established with expressed charitable purposes and is independent of the Council

This RP is best used for the following purposes:

- **Development of schemes including affordable housing where grant can be secured and the Council does not wish to have control**
- **Ownership and Management of affordable units of all types where the Council does not wish to retain control, including social rent, affordable rent and intermediate units**

Key Findings

The review of the current housing delivery and management ecosystem has highlighted some strong delivery by the individual entities, however, it has also highlighted some key challenges. These are identified below:

1. The different vehicles appear to have been conceived, and have then grown, organically, largely independent of each other. As a result there appears to be a lack of strategic direction over how the Council chooses to use the individual tools in an integrated way.
2. Each of the bodies themselves largely operate day to day in a siloed way and do not integrate their delivery models. Whilst individual transactions can be addressed intra group, the overall approach is not integrated.
3. There appears to be a lack of understanding of which vehicle should be used for which purpose. As a result, these tools are not joined up into a true ecosystem, and in some ways can be seen to be competing with each other, rather than complementing each other.
4. There is a lack of strategic understanding of the capability of each structure and what types of development / operation each are best suited to deliver, and in what circumstance.
5. It has been questioned by the Council as to whether the existing RP can deliver the Council's broader objectives, including accessing grant from the GLA

Each of these issues combine to question the benefit of the different structures in their current form, however, they do not undercut the potential ability of this mix of companies to deliver the council's objectives.

When compared with best practice across the sector, **the Council is in a strong position to deliver the full spectrum of housing that it wishes to, as it has developed, in an organic way, an appropriate set of tools that has the capability to develop affordable, intermediate and private rented housing and to own and operate all of these from a Council controlled vehicle.** The only potential exception to this is the form and structure of the RP in place which should be reviewed by the Council.

However, the Council is not currently in a position to achieve this effectively as it has not developed an holistic approach that is underpinned by a clear set of housing objectives and a clear set of parameters for how each vehicle is used.

Appendix 4 – Resourcing – Detailed View

Various models of delivery which operate pan London were investigated to help consideration of options and opportunities going forward. The detail below was sourced from a report into this area completed by London Councils Housing Group

Type of Delivery Model	Number of Models	% of Total Models	Examples
Development Agreement – Direct Development Partner	88	61%	<u>Development Agreement - Direct Development Partner</u> <i>LB Haringey selected Lendlease as preferred development partner for its High Road West development in Tottenham. Lendlease will deliver more than 2,500 new homes including at least 750 affordable</i>
Development Agreement/Strategic Development Partner	3	2%	<u>Development Agreement - Master/ Strategic Development Partner</u> <i>ASF Group Ltd and LB Barking & Dagenham are working together to deliver a major infrastructure and development project in the Castle Green area of Barking, including ~15,000 new homes.</i>
Direct Public Sector Delivery	8	6%	<u>Direct Public Sector Delivery</u> <i>LB Camden has a well-established direct delivery programme with 14 projects delivering more than 2,000 new homes.</i>
Public/private Contractual Joint Venture	2	1%	<u>Public/Private Contractual Joint Venture (JV)</u> <i>LB Hammersmith & Fulham has a de facto contractual JV with CapCo at Earl's Court (Land Sale Agreement with overage clauses), set to deliver ~7,500 new homes.</i>
Public/Private Corporate Joint Venture	32	22%	<u>Public/Private Corporate Joint Venture (JV)</u> <i>Barking Reside Ltd is a JV development company owned by the GLA (49%) and L&Q (51%), scheduled to deliver 10,800 new homes.</i>
Wholly Owned Public Vehicle	12	8%	<u>Wholly-Owned Public Vehicle</u> <i>Sutton Living, with a pipeline of Council owned sites earmarked to delivery a range of commercial and residential developments.</i>

Alongside considering the outputs of an investigation by London Councils, the next slides consider the governance and resource models from across London and at national level.

London Borough of Barking & Dagenham – Reside

- Six independent limited liability and limited companies plus new RP Barking & Dagenham Homes Limited
- Reside led by 5 Independent Directors including Chair and an MD (also a Part time PA)
- Has Finance and Governance Lead Part Time
- Has full time Commissioning Manager
- Utilises external Housing organisation for sales
- Had own set of performance targets, has vision and values, purchase Legal advice and also invests in Resident engagement

London Borough of Bexley – Bexley Group

- Sought to develop several sites (10) and to provide an income stream
- Struggled to settle with a Chief Executive to deliver and enable their ambition
- Have a Chair/Chief Executive, Finance Director, Development Director
- Commissions from Planning professionals and also uses a range of consultants
- Business Plan struggled to be developed and delivered – struggle to agree objectives and to retain Chief Executives
- Has a fairly “safe” approach to development – risk averse

London Borough of Sutton – Sutton Living

- Had long term Chief Executive in place – very commercially focused – potentially “forgot” about the Council
- Light touch structure – Part time Managing Director/Chief Executive
- Part time Finance Director
- Also use Regen Officers
- Have a new Chair – ex Lewisham – now have 3 new people on their Board

Stoke City Council – Fortior Homes

- Wholly Owned Company by Stoke City Council – Direct Regen Partnerships with Private Sector and Government, rather than City West Homes
- 6 NEDS, (Including Leader of the Council), Director of Housing and Customer Services, Director of Place, Growth and Prosperity, A local Civil Servant and a Local Business Owner
- Mixed economy of build – Affordable, commercial and repurposed Public Sector property

Walsall Housing Group (WHG)

- Comprised of 5 companies – Anthem Homes (sales) WHG Trading CO (management and professional services to external customers), Buy for Good (CiC Social value Procurement) WHG Treasury (SPV provides funds as a money lender of bonds to parent co) WHG Developments (Design and build services)
- Has 4 committees Audit and Assurance, Governance and Remuneration, Customer Experience, Development made up of WHG Board and Independents – assurance to the Business that all duties discharged appropriately.
- Has succession planning, Learning and Development plans

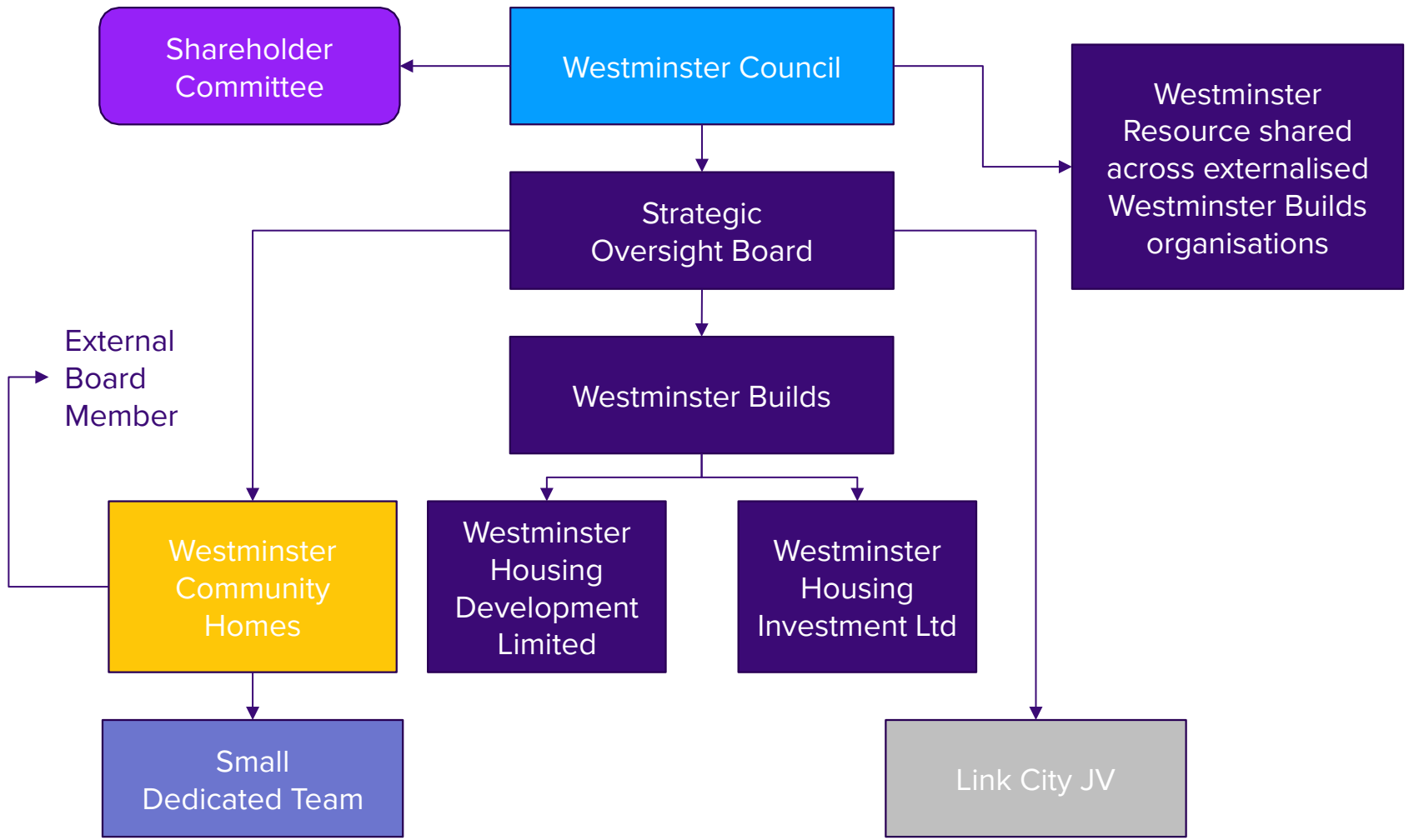
Operating Model

In order to consider the best possible future outcome and operating model for Westminster City Council in terms of resources, consideration has been made of historical models utilised, as well as relationships across the Housing sector. Such an approach has enabled the production of potential governance arrangements as well as skill sets and these are outlined in more detail later within this report. Although there has not been an explicit set of design principles developed for this work, the following areas have been considered to shape the recommendations.

- Previous models of delivery – for example – City West Homes
- Experience of staff and customers of the existing models of delivery
- Ability to act strategically, delivering business plans to agreed outcomes
- Cultural considerations
- Skills required to lever the best possible outcomes for WCC going forward
- The current environment – attitude to risk, focus upon delivery and positive outcomes for the customers of WCC
- Appetite for change and likelihood
- Added value e.g., Vision, Values, Performance
- Options being utilised by other Councils pan London

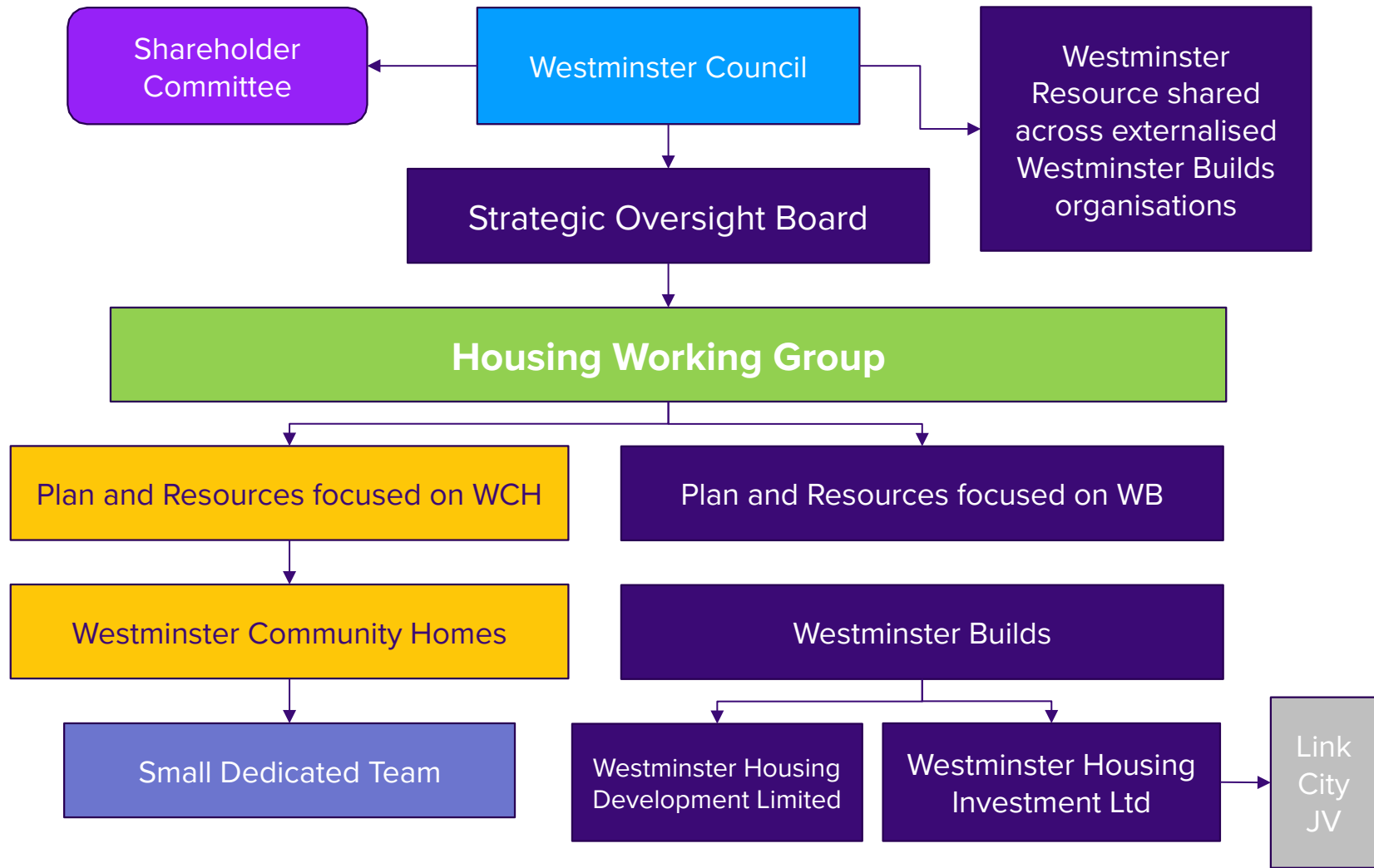
Governance

The following slides consider a range of options in terms of delivery approach and resources required.



Strategic Oversight Board created would:

- Enable a clear focus upon direction of travel
- Be Member led linking to Shareholder committee
- Provide a joined-up approach for clarity and line of sight in terms of purpose, investment, key development, balance between total affordable homes and development opportunities
- Accountability and Control would be “in plain sight”
- Allow current structures to be maintained beneath the board
- Allow existing plans to continue yet undergo potentially more vigorous scrutiny
- New opportunities would be considered across the “whole” structure.
- Maintain the existing culture, vision and values
- Core structures would remain the same using internal WCC staff as well as specialist advisors
- Enable strong control for the council in operations and evolving strategy



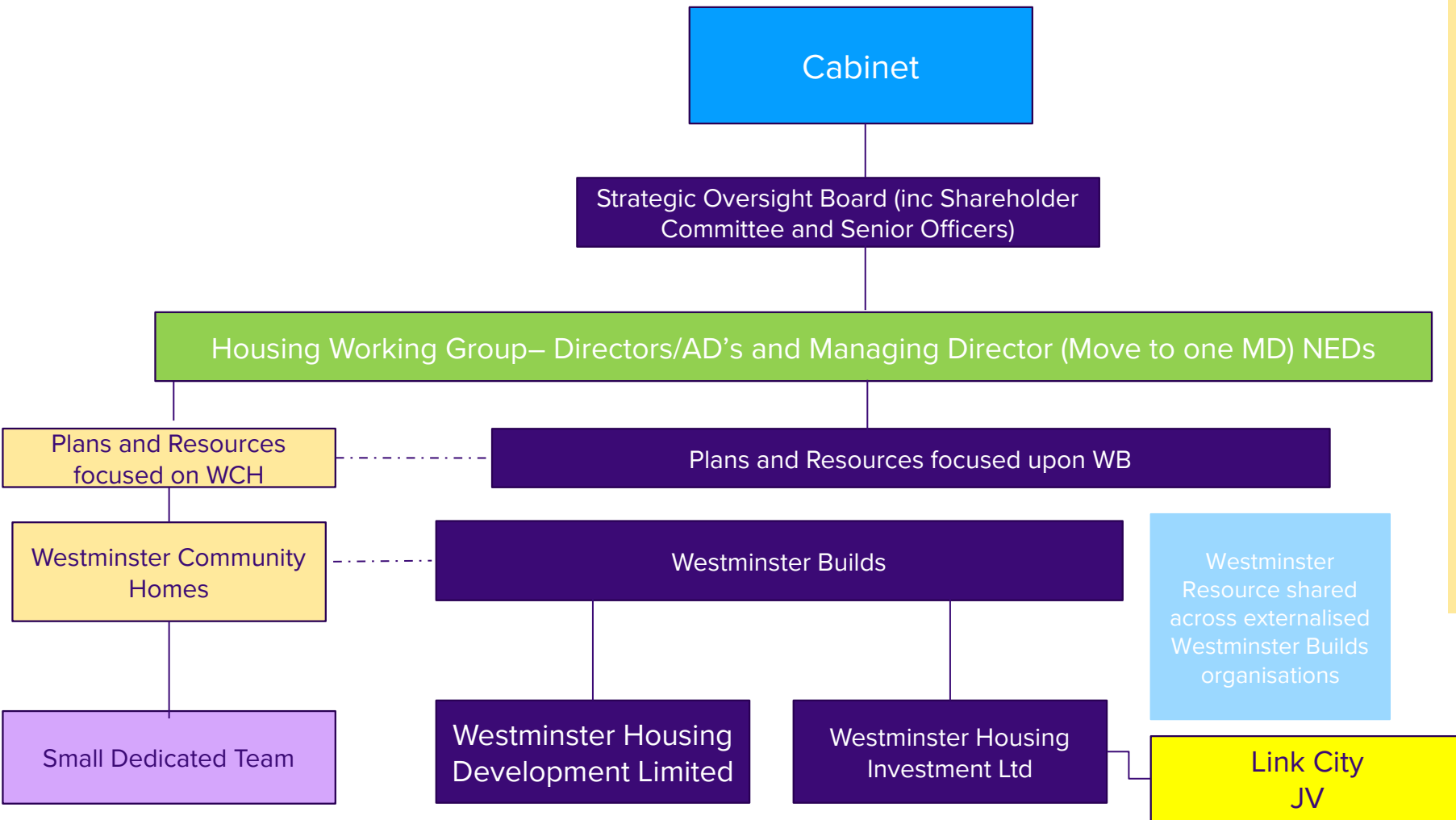
Creating a Housing Working Group would:

- Enable existing structures to remain
- One Working Group would bring together organisational settings into one as an executive – providing strategic, development and financial/planning oversight as well as accountability
- Would enable a joined-up approach and clarity across all areas of the organisations
- Would enable continued and change activity with better clarity of purpose.
- Would enable plans to be changed, updated and developed in a consistent and transparent manner across the group
- Would not be a formal organisational change
- Potential to add experts to the Board who provide an external voice and challenge
- Would identify skill gaps and potential for these to be closed over time.
- Develop a balance between internal and external expertise – potential better line of sight in terms of skill sets and people development
- Maintain the existing culture, vision and values
- External specialist skills still be required unless recruited to which challenges pay, terms and conditions

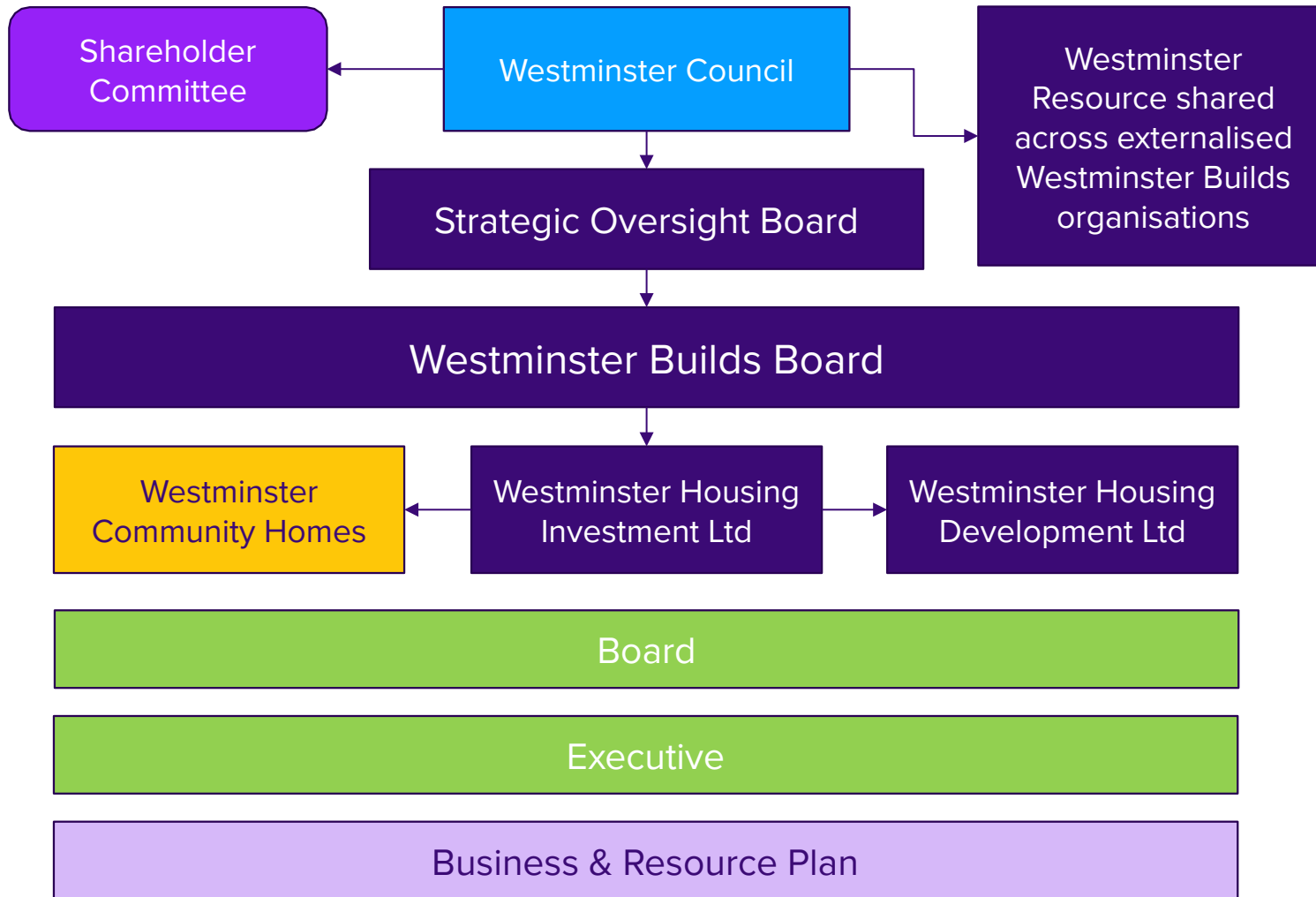
However:

- Doesn't grow the culture of the organisations/council

The Council have a ambition to streamline the current governance arrangements whilst retaining the appropriate level of oversight

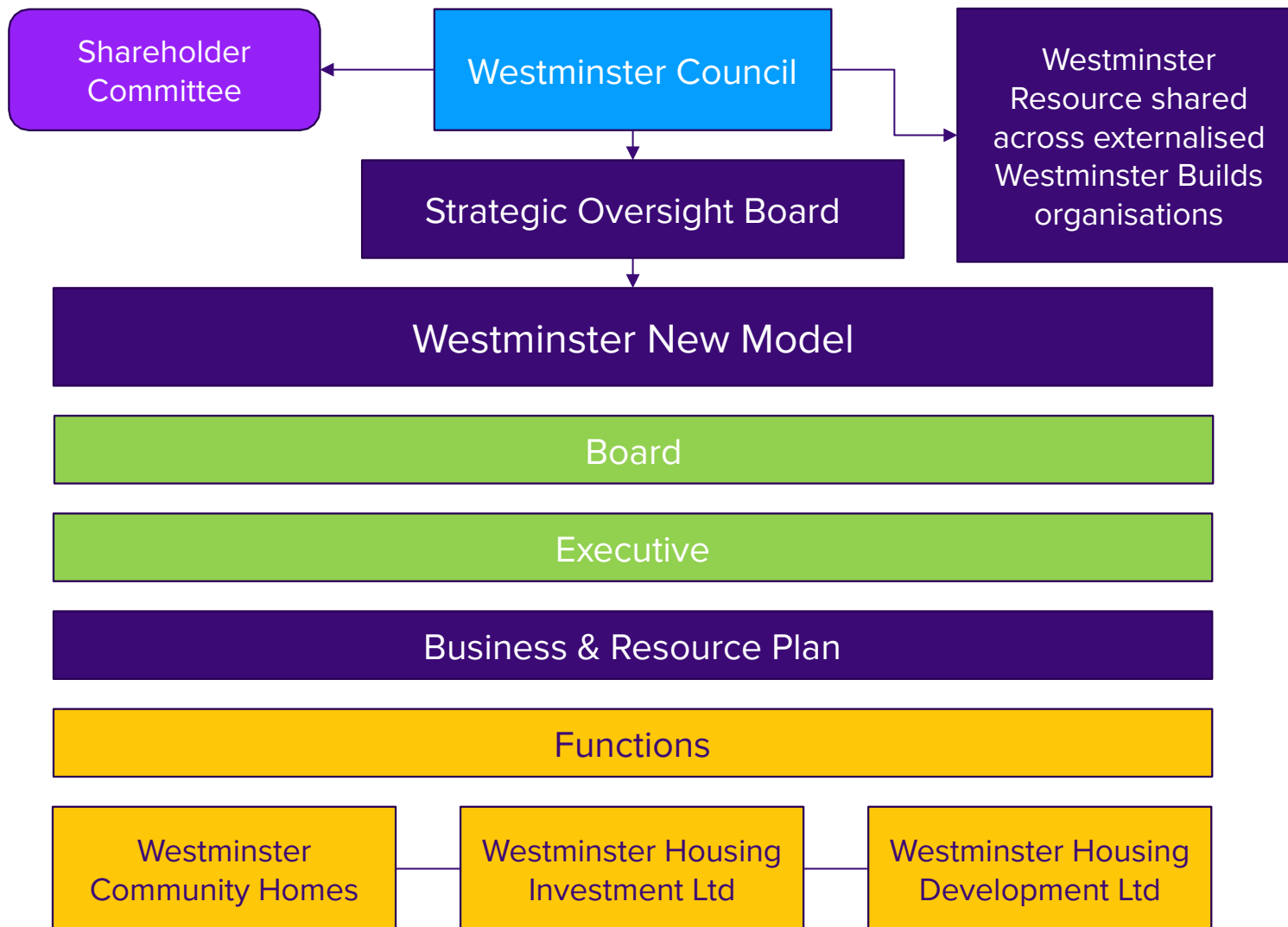


- Key Changes**
- One oversight Board
 - Opportunity to streamline function and form
 - Political scrutiny with key senior officers for assurance via the Strategic Oversight Board
 - Facilitates developing joint strategic approach
 - Business plans can be developed for the long term
 - Allows time to identify and develop skills which challenge internal capability
 - Allows recruitment of new skills – reduces reliance upon external support
 - Brings external support and challenge onto board through NEDs



A new strategic and BAU board would:

- Enable a consolidated group structure
- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Develops the existing culture, vision and values.
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance



- A new organisational model would:**
- Require some significant change in ways of working – establishing a new organisation
 - Would require a total review of all processes, procedures and governance
 - Would require the development of a structure, consultation and have implications across HR, Legal, Accommodation and Pension considerations for example
 - Would require political support and clear direction of travel.
 - Would potentially disrupt current progress and add in additional time as well as financial activity
 - Could be seen as “going backwards” as the corporate memory of externalised organisations is not overall positive.
 - Would potentially not be following the trend of other authorities bringing their models closer or in house – e.g. Lambeth
 - Challenges to council culture directly

The opportunity for Westminster City Council to develop their model is to potentially move to Option 2 (a Housing Working Group) and then onto 3 (arm’s length org.) over time and to develop resources, along with culture and a review of terms and conditions to attract talent.

In Summary Option 2 (a Housing Working Group) - would:

- Enable existing structures to remain to allow restructure in Development to progress.
- Enables the case for change to develop
- Allows the council to focus on immediate challenges e.g. recession, Mold and potential referral to Social Housing Regulator
- Allows strategies, Boards to develop, Business plans to emerge
- Establish one housing working group that would bring together organisational settings into one as an executive – providing strategic, development and financial/planning oversight as well as accountability
- Would enable a joined-up approach and clarity across all areas of the organisations –Would enable continued and change activity with better clarity of purpose.
- Would enable existing plans to be changed, updated and developed in a consistent and transparent manner across the group
- Would not be a formal organisational change.
- Potential to add experts to the Board who provide an external voice and challenge - consider one MD, NEDs, new Roles required.
- Would identify skill gaps and potential for these to be closed over time.
- Develop a balance between internal and external expertise – potential better line of sight in terms of skill sets and people development
- External specialist skills still be required unless recruited to which challenges pay, terms and conditions
- However, doesn’t grow the culture of the organisations/Council

In Summary Option 3 (arm's length org.) – would

- Enable a consolidated group structure
- Enable group oversight in planning, leadership, strategic direction and delivery
- Identify and enable delivery of appropriate skills across the operational areas
- Enable consolidated plans and delivery timescales to be coordinated
- Enable focused plans which consider and manage impact across the group
- Enable the strategic oversight board with the opportunity to create strategic options, measurements and maintain control/accountability
- Enables there to be one MD in place instead of two.
- Potential to bring in external expertise
- Enables specialist skills to be developed internally over time and to create change through reduction in external sources
- Brings further opportunities for external support onto the board to help drive development and challenge existing thinking across Council
- If required WCH/WHIL/WHDL could maintain separate boards
- Growing internal specialist skills could take time
- Recruiting external specialist skills would challenge wider council pay and conditions
- Challenges the existing council culture - needs a careful balance

In order to develop a range of opportunities and skills which will enable Westminster to grow and develop its Housing approach and offer, there are a range of skills which are identified as being key to enabling, and then sustaining the way forward. The roles identified enable Westminster to develop its Truly Affordable Housing offer, whilst at the same time developing some key skills in house, potentially reducing the reliance upon external support.

Additionally, there are examples of the types of role and Board additions which might be considered to help embed the chosen operating model approach as well as some key enablers in terms of culture, learning and development and development of clear strategic aims and business plans across the housing environment.

Develop a range of Specialist/Technical skills:

- Contract Managers
- Various Policy and Planning experts
- Design Specialists
- Specialist Programme Directors/Managers
- Specialist Housing/Regeneration/Build Project Managers
- Commissioning Managers – Contractors/Site Design/Regeneration/OPE
- Commercial managers – Sales (Private)/Land Management
- Procurement Specialists
- Development Appraisal Specialists (Finance/Investment)
- Customer and Resident Managers
- Strategic Managers
- Legal expertise (to avoid continued use of external advice)

Types of Roles which enable the delivery of model 2 & 3:

Group Managing Director
 Non-Executive Directors from across Housing and Beyond
 Local Business Leader(s) for Commercial thinking development
 Director of Commercial Operations
 Commissioning and Procurement Leads
 Programme Directors
 Finance Directors focused upon Investment and ROI
 Resident representation
 Head of Legal for Property Services

Enabled by a "shopping bag of":

- A review of pay and conditions to attract and retain the best talent
- Potential to pay market rates or incentives to join/stay with the organisation where this doesn't fit council existing approach
- To enable internal skills to be built over time
- Creating a learning culture
- Reviewing vision, values and behaviours required to enable delivery
- Ensure progress is based upon skill and potential
- Ensuring that the community is at the heart of all thinking
- Having the right "can do" mindset – so ensuring that there is freedom (within legal constraints) to act commercially
- Having strategic plans, business plans, financial plans and development/delivery plans in place
- Appropriate controls and application in place to enable an integrated approach to delivery
- Cradle to grave delivery approach for residents & property

The following statements summarise the key conclusions from the resourcing review:

Key Observations

Research and conversations with key stakeholders and market experts identified that there are a range of options for Westminster City Council to consider moving forward from a resources perspective.

There does also seem to be some areas or approaches which would not be fully supported, for example the creation of an arms length organisation. This is not unexpected given past experience at the Council, but also when considering the direction of travel across London. For example, at the time of writing this report, LB Lambeth and LB Haringey have decided to bring their arms length provision back in house.

There is currently a reliance upon external resource provision closing the skills gap by using external expertise under contract or through consultancy – where the skills are not available in house. Whether this is sustainable or not has not been considered. However, in order to provide stability, career pathways, the “right” culture, a learning environment and sustainability, it does seem prudent and practical to consider how to recruit and then grow the skills internally. This presents some challenges potentially in pay and grading, in culture and in being able to provide the career pathway that would retain talent across the Development and Regeneration environment.

Opportunities

There does seem to be an opportunity to bring external talent into the Housing provision that would be beneficial, and consideration should be given to attracting Non-Executive Directors onto the Boards to help create the stimulus for growth and sustainability as opposed to the current reliance on external resource in key development areas.

The existing structures allowed gaps to be identified of the type of role and people required. If these are considered as recruitment opportunities by WCC and at appropriate pay scales, this would reduce the reliance upon external resource provision e.g. Commercial/ Procurement expertise

Additionally, one clear strategy and one clear Business Plan would help create a pathway which can be understood by all key stakeholders, bringing all key actions, roles, investment etc into one place and in one area of “thinking”.

Residents and Business owners should be a part of the future governance thinking. There could be real potential in having a residents representative on the Board(s), along with a local Business person who will help potentially from a commercial perspective. If a resident representative is not on the Board(s), then there should be a clear and explicit group linked to development of strategy and business plans going forward in the delivery of a Truly Affordable Housing approach.

Recommendation for Governance and Resource arrangements:

22) Recommendation

In terms of governance and resource arrangements going forward, it is recommended that:

- Initially option 2 (Housing Working Group) be adopted, bringing together a Housing Working Group and looking to develop common approaches to strategy and business planning, as well as looking at combined roles representing each organisational setting.
- In terms of development Option 3 (arm's length org.) should be adopted within 6-9 months enabling one board, one MD and bringing in external skills onto the board.
- One Strategy and Business Plan should be developed and a skills audit undertaken to help bring in additional skill sets into the Council.
- A piece of work around culture, values and behaviours should be undertaken, helping to underpin the delivery models and linked to a review of the approach to pay and reward, accepting that the latter maybe challenging initially.
- If required, each organisation could and should retain a Senior Leadership Team board to ensure alignment and delivery in continued in line with strategy and business planning.



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