Cabinet

Decision Maker:	Cabinet
Date:	19 February 2024
Classification:	General Release
Title:	Housing Revenue Account 30-Year Business Plan and Housing Investment Plan 2024/25
Wards Affected:	All
Policy Context:	This report addresses all income and expenditure associated with the Council's existing social housing stock, as well as investment in new housing and estate regeneration. This underpins multiple elements that support the delivery of the Council's Fairer Westminster Strategy.
Cabinet Member:	Councillor Liza Begum
Financial Summary:	The report presents the 30-year Business Plan for the Housing Revenue Account (HRA) covering the spending plans for both capital and revenue over that period. The 5-year outlook for the HRA revenue budget projects gross income of £721.52m and gross expenditure of £680.48m (with a further £41.04m contribution to fund capital). The business plan includes total capital investment of £920.52m over the next five years and a total of £2.493bn over the full 30 years. The HRA Business Plan is viable, subject to some over-arching assumptions, and demonstrates that the capital investment ambition over the 30 years can be funded sustainably. Resilience measures are incorporated to mitigate identified risks.
Report of:	Sarah Warman, Strategic Director of Housing and Commercial Partnerships

1. Executive Summary

1.1 This report presents the updated 30-year Housing Revenue Account (HRA) Business Plan which the Council is required to prepare on an annual basis. It provides an overview of the financial planning that supports the management of the 21,160 homes operated by the Council's HRA. This covers both revenue and capital expenditure and therefore incorporates the extensive Housing Investment Plan.

1.2 Despite a volatile economic backdrop that continues to present the HRA with significant financial challenges (see **Section 7**), the Council has delivered a sustainable HRA Business Plan from 2024/25 onwards. In doing so, it has managed to safeguard all planned housing investment whilst also adding two new schemes. This is significant in the context of the Council's Fairer Westminster vision and the delivery of more social housing within Westminster.

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

1.4 In April 2023, a council-wide Housing Improvement Programme was introduced to improve the delivery of housing services in Westminster. This programme involves a thorough review of all areas of the service, to identify both the areas that are working well and the areas in which the Council needs to deliver improvements for residents. The HRA Business Plan provides the platform for the investment required to support this transformation programme and one-off funding of £4.550m has been earmarked to support the delivery of important service outcomes.

1.5 The report seeks approval for the HRA revenue budget for 2024/25 (see **Section 8**). This includes approval for the proposed uplifts to both HRA rents and non-dwelling charges to take effect from 1st April 2024. The Council is proposing to adopt a 7.7% rent increase for 2023/24 (in line with the maximum limit set by the national rent policy), along with 6.7% increases to non-dwelling charges (in line with CPI as per its wider fee & charges policy). It is acutely aware of the current pressure on household incomes and proposes to extend the Rent Support Fund by 12 months to provide targeted support to tenants (earmarking a further £1.050m within HRA reserves). Based on these proposals, the HRA will generate £134.84m across a range of income streams in 2024/25 (of which £93.35m, or 69%, comes from tenant rents). The 2024/25 expenditure budget is £127.98m, which leaves an operating surplus of £6.855m (which will be used to fund the capital and manage debt levels).

1.6 The report also seeks approval for the 5-year HRA capital programme which includes planned capital expenditure of £920.52m (see **Section 9**). The 30-year programme totals £2.493bn. Approximately 35% of the programme is funded from external sources (£0.863bn) with the remainder supported by the HRA itself. This includes a requirement to borrow an additional £597m over the next 15 years (an increase of £118m on the previous iteration). The business plan ensures this is prudent by setting minimum reserve levels, applying a minimum interest cover ratio, and creating appropriate contingencies to manage risk (see **Section 12**).

2. Recommendations

1.7 Approve the HRA revenue budget for 2024/25 (Table 1 and Appendix 3)

1.8 Note the HRA 5-year revenue budgets for 2024/25 to 2028/29 (Appendix 3) and HRA 30-year revenue budgets for 2024/25 to 2053/54 (Appendix 4a)

1.9 Approve the HRA 5-year Capital Programme totalling £920.52m (Table 4)

1.10 Note the 30-year Capital Programme for 2024/25 to 2053/54 totalling £2.493bn (Appendix 5)

1.11 Approve the inclusion of all Fairer Westminster investments, including the extension of the HRA Rent Support Fund by £1.050m for 2024/25 (to be earmarked to support tenants experiencing financial difficulty during the cost-of-living crisis)

1.12 Approve a rent increase of 7.7% from 1st April 2024 in line with the maximum increase for social rent set by the national rent policy, whilst noting that the Council continues to exercise its discretion under the rent restructuring policy to set rents for re-lets (both new tenants and transfers) up to formula target rent

1.13 Approve an increase of 6.7% to the fees charged for garages, sheds and parking (in line with CPI at September 2023) from 1st April 2024

1.14 Approve that tenant service charges be varied in line with estimated actual costs for 2024/25 from 1st April 2023

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

3. Reasons for decision

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

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

1.3 The report also provides the approval needed to set HRA tenant rents and other charges for the financial year 2024/25. The City Council is required by law to give tenants at least 28 days' notice of any variation to the rent charged.

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

4. Key Implications

1.5 The report seeks approval for the 2024/25 HRA revenue budget. The proposed budget represents a balanced position and will retain a minimum HRA reserve balance of £17.0m (to be maintained over the first 5 years of the plan). The budget is dependent on a maximum rent uplift of 7.7% being applied in 2024/25 in line with the limits set by The Rents for Social Housing policy.

1.6 It also seeks approval for the 5-Year HRA Capital Programme which includes total expenditure of £920.52m. This includes £431.37m of investment in existing stock (supporting key priorities around fire safety and climate change) and £489.15m of development investment which supports the delivery of 374 new homes for social rent over this period. This is supported by a range of funding sources but ultimately requires the HRA to borrow £279.60m, which will result in an estimated on-going interest cost of £15.12m to be covered by the HRA revenue budget from 2028/29 onwards.

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

5. Fairer Westminster

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

5.2 Fairer Housing

- Deliver 1,084 new council homes for social rent from 2024/25 onwards to expand access to truly affordable housing across the City.
- Undertake an expanded programme of stock condition surveys and earmark an additional £10m of capital investment per annum for major works to ensure all Council tenants live in homes that are of a decent standard.

5.3 Fairer Environment

- Provide funding for a £218m programme to retrofit existing homes and help the Council to achieve its ambition of net zero emissions by 2030 (with £207m remaining to be spent from 2024/25 onwards).
- Improve the energy efficiency of HRA stock to protect tenants and leaseholders against the impact of increases in energy bills and reduce the debilitating impact of fuel poverty.
- Earmark £75m of funding for internal network upgrades to improve energy efficiency as part of the wider PDHU replacement project.
- Deliver metering for all heat networks by the end of 2026/27 (in line with legislation) to ensure that network users only pay for the energy they use and can manage their energy usage accordingly.

5.4 Fairer Communities

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

5.5 Fairer Council

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

5.6 Fairer Economy

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

6. Background

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

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

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

7. The operating context for the HRA

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

1.2 <u>Inflation</u>

1.2.1 The UK has experienced high levels of inflation over the last 2 years. Whilst the Consumer Price Index (CPI) has reduced from the levels experienced in 2022/23, where it was consistently running into double figures, it has remained stubbornly high in 2023/24 and the Bank of England has lengthened its projections for when it will return to the target of 2%. The impact of inflation on the HRA is exacerbated by its exposure to sectors such as construction and utilities which have experienced much starker inflationary pressure.

1.2.2 The previous iteration of the business plan took steps to address this by ensuring that there were adequate inflation provisions within both the capital and revenue budgets. Despite this, the repairs budget has continued to experience upwards pressure in 2023/24 and inflation remains a significant risk in this area.

1.2.3 The Bank of England now projects that CPI will reduce to the 2% target by the end of 2025. The business plan has been prepared on the prudent assumption that CPI will move towards the target on a phased basis over the next 18 months. This ensures that sufficient revenue allowances are made for the next financial year, including an inflation contingency of £2.7m across the operating cost base. This is based on an inflation assumption of 3% for 2024/25 (covering both pay and contractual spend). There is also an inflation contingency of £45.0m included across the 5-year capital programme.

1.3 <u>**Social Rent Policy**</u>

1.3.1 There was no announcement in the Autumn Statement regarding the extension of the social rent cap that was enforced for 2023/24 (where a limit of 7% was applied to social rent uplifts from 1st April 2023). This means that the existing rent policy comes back into force, which allows for a maximum annual rent uplift of CPI+1% (based on CPI in the September preceding the new financial year).

1.3.2 Based on the existing rent policy, the maximum uplift for 2024/25 is 7.7% (given that CPI was 6.7% in September 2023). The Council intends to adopt the maximum rent uplift to ensure that it has the resources it needs to absorb the impact of inflation and deliver on other key statutory obligations (see below).

1.3.3 The Council is acutely aware that a 7.7% rent increase has the potential to put pressure on household income levels for its tenants, especially in the context of a cost-of-living crisis. A large proportion of tenants are in receipt of housing benefit and are therefore expected to see a corresponding increase to manage the rent increase. To help remaining tenants that may require financial assistance, the Council has committed to extending its Rent Support Fund into 2024/25 and has made an additional £1.050m available to provide targeted financial support to households in need.

1.3.4 The new financial year (2024/25) represents the final year that is covered by the current national rent policy. This ran for 5 years from 2020/21 to 2024/25 and stipulated a limit of CPI+1% on annual social rent increases (with the 7% cap superseding this policy in 2023/24). The government has yet to consult on the new rent policy that will come into force from 2025/26 onwards. The Westminster business plan ensures that assumptions about future rent increases remain prudent.

1.4 **Legislative Changes**

1.4.1 The HRA is always exposed to the impact of new requirements being imposed on social landlords as a result of new legislation. Resources have been allocated to cover new duties created by the Building Safety Act 2022. This includes £1.927m of recurring budget to support the required annual inspection regime (along with one-off reserve funding of £1.6m to help the Council to achieve initial compliance in line with statutory deadlines).

1.4.2 Finally, the Social Housing (Regulation) Act 2023 is another piece of legislation that will alter the way in which housing services are delivered in the future and which may result in a need to fundamentally alter the way in which resources are allocated within the business plan. The resources allocated to the Housing Improvement Programme are geared towards ensuring that the Housing service is ready to meet regulatory requirements in this area.

1.5 **Interest Rates**

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

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

8. HRA Revenue

1.1 The HRA Business Plan is underpinned by the objectives that form the basis for the Council's Fairer Westminster strategy. It therefore provides an important vehicle for allocating resources to the delivery of this vision. The following investments have been factored into the HRA revenue budget from 2024/25 onwards.

1.2 **Improve the quality of the Housing service**

1.2.1 The business plan provides an additional £0.597m to support an increase in the number of frontline housing officers. This is underpinned by the expansion of estate offices across the borough to make it easier for residents to contact housing officers, with the number of office locations doubling (from 4 to 8).

1.2.2 The business plan also provides significant funding the Housing Improvement Programme (with £4.550m earmarked within HRA reserves). This will provide additional short-term capacity across all aspects of the housing service. It will also seek to deliver longer-term transformation of services to improve outcomes for tenants and leaseholders.

1.2.3 The improvement programme has been informed by:

- Recommendations made earlier this year by the Future of Westminster Commission.
- The findings of the Housing Ombudsman, which has recently highlighted cases where our services have regrettably failed residents, so that we can ensure that these cases are not repeated.
- The lived experience of our residents, including learning from complaints.

1.2.4 Structural changes have already been made within the council t provide additional senior leadership focus and capacity in housing. In June 2023, a new stand-alone Housing and Commercial Partnerships directorate was established. The effects of these changes mean that Housing Services have closer accountability to the Chief Executive, have increased senior capacity (with two additional directors now supporting the service), and is supported by a significant transformation budget to enable the delivery of real change. These changes underline that improvement in housing is a key priority for the council. The service will remain focussed on supporting our housing teams to deliver the best possible services for our residents and communities, with the experience and feedback from residents being used to inform continual service improvement.

1.3 **Improve the condition of existing stock**

1.3.1 A proportion of the funding allocated to the Housing Improvement Programme will be dedicated to increasing the volume of surveying activity across the housing stock. This will focus on internal condition (including damp and mould).

1.3.2 An additional £10m per annum has also been allocated within the business plan for the Major Works programme. This ill ensure that the service have sufficient capital resources to respond to the outcomes from the surveying activity as well as the requirements laid out in the Housing Asset Management Plan.

1.4 **Improve safety of housing stock**

1.4.1 An extra £620k was allocated in the previous iteration of the business plan to expand the in-house Health & Safety function. This was in response to the additional landlord duties placed on the Council under the Building Safety Act (particularly in relation to high-rise blocks).

1.4.2 This has been increased by £1.927m in the revised plan in recognition of the recurring inspection obligations that the Council is required to meet each year and the potential need for remedial repairs. This includes fire risk assessments, cladding surveys, structural assessments and a raft of specific inspection duties (including legionella, asbestos and gas safety). It underlines the Council's commitment to ensuring that its tenants and leaseholders feel safe in their homes.

1.4.3 The plan also includes a one-off fund of £1.6m to help the Council to accelerate some of the new compliance requirements that come with statutory deadlines as part of the Building Safety Act.

1.5 **Supporting tenants during the cost-of-living crisis**

1.5.1 Finally, the Council has committed to extending its Rent Support Fund by a further £1.050m for 2024/25 (which is funded by HRA reserves). This will provide flexibility for the Housing Service to be able to target support towards households experiencing difficulty with paying rent because of pressures created by the cost-of-living crisis. This is on top of the £1.010m that was allocated for 2023/24 and saw a strong level of take-up across the last 12 months.

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

1.7 The five-year revenue outlook for the HRA includes an expectation that rents will increase by 7.7% in 2024/25 (as laid out in the current rent policy). It assumes that the current ceiling of CPI+1% will remain for a further 3 years but will revert to CPI from 2028/29 onwards. These assumptions are entirely subject to what the government announces in relation to future rent guidance. Based on the current rent roll, the proposed 7.7% rent increase will generate approximately £6.5m in additional rental income in 2024/25. There is an expectation of a further £1.5m of income to be generated by the addition of new social homes from the development programme. The key assumptions used to set the 2024/25 budget and long-term business plan are set out at Appendix 1. The table below (Table 1) shows the 5-year revenue outlook for the HRA.

1.8 Rent assumptions are a critical element of the HRA Business Plan. There are no guarantees about the accuracy of future assumptions, but Westminster tries to ensure that its assumptions are sufficiently prudent. The decision to increase the rent assumption from CPI to CPI+1% for 3 years within the plan (2025/26 to 2027/28) has been made due to the increased investment requirement being placed on the HRA (particularly in relation to stock condition and the replacement of the PDHU). If this does not materialise within the future rent policy, then the HRA has several options at its disposal to help it re-balance and remain sustainable. The assumption beyond this short period remains that rent uplifts will maintain parity with CPI. This is considered one of the resilience measures built into the plan given that it could benefit from any upside that comes from the national rent policy in the future.

1.9 The five-year HRA revenue outlook also includes an expectation that the HRA will see a net increase in stock numbers of 374 homes. This boosts income from rents but also generates increased management costs (the impact of which need to be monitored closely to ensure that new units meet the operational assumptions included in the business case for each development scheme). This assumption also creates a corresponding financial risk for the HRA if schemes experience delays and units are handed over later than profiled which would reduce projected income levels for the HRA in any given year.

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

Table 1 – 5 Year HRA Business Plan

	1 2024/25	2 2025/26	3 2026/27	4 2027/28	5 2028/29
	£m	**£m**	**£m**	**£m**	**£m**
Dwelling Rents	(93.348)	(98.137)	(101.560)	(104.245)	(108.280)
Non-Dwelling Rents	(0.881)	(0.898)	(0.916)	(0.935)	(0.953)
Commercial Rents	(7.800)	(7.878)	(7.957)	(8.116)	(8.278)
Service Charges	(23.613)	(24.145)	(24.677)	(25.229)	(25.805)
Heating & Hot Water Charges	(6.753)	(6.888)	(7.026)	(7.167)	(7.310)
HRA Investment & Other Income	(2.446)	(2.495)	(2.545)	(2.596)	(2.648)
TOTAL INCOME	**(134.841)**	**(140.441)**	**(144.681)**	**(148.287)**	**(153.274)**
Staff	25.854	26.359	26.874	27.399	27.935
Repairs & Maintenance	27.999	28.840	29.521	30.263	31.092
Supervision & Management	9.806	10.002	10.202	10.406	10.927
Estate Services	11.086	11.308	11.534	11.765	12.000
Heating & Hot Water Expenditure	6.753	6.888	7.026	7.167	7.310
Rents, Rates and Commercial Charges	0.679	0.692	0.706	0.720	0.735
Regeneration	2.575	2.627	2.679	2.733	2.788
TMO Allowances	1.683	1.716	1.751	1.786	1.821
Support Costs	11.094	11.316	11.542	11.773	12.008
Depreciation	21.638	22.442	23.114	23.504	24.275
Capital Financing Costs	8.817	9.307	10.204	12.321	15.117
TOTAL INCOME	**127.984**	**131.498**	**135.153**	**139.837**	**146.009**
HRA OPERATING (Surplus)/Deficit	**(6.857)**	**(8.943)**	**(9.528)**	**(8.450)**	**(7.265)**
Revenue Contribution to Fund Capital (RCCO)	6.857	8.943	9.528	8.450	7.265
HRA TOTAL	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Interest Cover Ratio	**1.78**	**1.96**	**1.93**	**1.69**	**1.48**

1.11 The table demonstrates that the HRA revenue budget will be balanced over the medium-term, despite the impact of high inflation over the past two years and the need for budget growth to respond to growing statutory requirements (i.e. health & safety inspections). The proposed rent uplift helps to offset the impact these items, along with the £3.1m of budget savings that were delivered in 2023/24. The Housing Improvement Programme will also seek to deliver a full review of HRA budgets to ensure that resources are allocated as effectively as possible towards the delivery of tangible service outputs.

1.12 Furthermore, the balance on the HRA general reserve (which is covered in more detail in **Section 11**) will be held at a minimum of £17m for the duration of the first 5 years of the plan. This is consistent with the minimum level set in the previous iteration of the business plan and represents 11-13% of total HRA turnover over this period. This will increase the financial strength of the HRA during the main building phases of its development programme, as well as increasing resilience in the face of a volatile economic environment, with high levels of cost inflation, labour and materials shortages, and interest rate increases. The long-term objective for the HRA reserve is for it to be maintained at a minimum of 10% of turnover from Year 6 onwards. This means it never drops below £15m over the life of the business plan.

9. HRA Capital and Stock Investment Plan

1.1 The HRA capital programme will see £920.52m of capital expenditure committed over the next five years (2024/25 – 2028/29) on the development of new build affordable housing, the regeneration of estates, and on maintaining the condition of existing housing stock. The HRA will finance this programme using a variety of funding sources and will always ensure that the most appropriate financing option is used to support scheme viability and generate value for money for the revenue budget (which means reducing borrowing wherever possible). The following sections set out the major categories of spend within the capital programme and details some of the projects and schemes within these categories. A full schedule of the whole capital programme can be found at Appendix 5. **Section 10** sets out in more detail the financing of the capital programme.

1.2 **Planned Maintenance Programme (£1.804bn)**

The 2024/25 HRA Capital Programme includes investment in existing stock totalling £80.43m. The business plan projects a total of £1.804bn to be invested in maintaining and improving existing HRA stock over the next 30 years.

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

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

Table 2 – HRA Planned Maintenance Programme

Scheme Name	1 2024/25 £000	2 2025/26 £000	3 2026/27 £000	4 2027/28 £000	5 2028/29 £000	6-30 2029/30 to 2053/54 £000	TOTAL £000
Voids and Aids & Adaptations	6,441	6,441	6,441	6,441	6,441	155,925	**188,130**
Electrical and Mechanical	5,144	2,773	2,627	2,460	2,460	58,120	**73,583**
Major Works	40,000	40,000	40,000	40,000	40,000	452,450	**652,450**
Health & Safety (incl. Fire Safety)	4,489	4,159	1,340	1,810	1,360	26,290	**39,448**
Asset Mngt & Minor Works	2,750	2,750	2,555	2,255	2,255	28,875	**41,440**
Domestic Heating & Hot Water	1,030	1,030	900	900	900	18,400	**23,160**
Lifts	3,250	2,148	2,613	1,835	1,835	40,780	**52,461**
Climate Works (Retrofit)	9,977	10,000	10,000	10,000	15,000	152,304	**207,281**
PDHU	2,466	1,305	14,897	14,405	14,000	28,000	**75,072**
Heat Network Metering	3,367	3,367	3,367	0	0	0	**10,100**
Inflation Allowances	1,520	3,245	5,879	7,690	11,054	411,919	**441,307**
Planned Maintenance TOTAL	**80,434**	**77,217**	**90,618**	**87,795**	**95,305**	**1,373,063**	**1,804,432**

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

1.2.1 **Voids and Aids & Adaptations (£188.130m)** – this is a demand led budget, with £4.6m earmarked annually for the refurbishment of voids and £1.8m provided for adapting properties to meet the accessibility needs of residents (including grab rails, converting bathrooms into wet rooms, baths into showers, installing stair lifts, etc).

1.2.2 **Electrical & Mechanical Services (£73.583m)** – this budget covers the renewal of estate lighting, door entry systems, communal boilers, lateral mains, and lightning conductors.

1.2.3 **Major Works (£652.450m)** – the major works programme is derived from the asset management database which records the useful economic life of each building component across the HRA stock portfolio, and therefore schedules the replacement requirements for each (including roofs, windows, communal decorations, etc).

1.2.4 **Health & Safety (£39.448m)** – Fire Risk Assessments (FRA) are periodically completed for all buildings that are more than 6 storeys (with frequency dependant on the risk associated with each building). The actions emanating from these are placed into a programme of works, which includes things such as the renewal of fire door and the installation of sprinkler systems. Ultimately, this budget helps to ensure that the Council is compliant with the requirements of the Building Safety Act (although there is crossover with the works delivered under the wider Major Works programme).

1.2.5 **Asset Management & Minor Works (£41.440m)** – Damp and condensation are critical issues for aging housing stock and are a specific focus of improvement works at Westminster. The installation of internal wall insulation, secondary or double glazing and cavity wall insulation assists in tackling these issues and contributes towards the Council's drive to reduce carbon emissions.

1.2.6 **Domestic Heating & Hot Water (£23.160m)** – This budget delivers the domestic boiler replacement programme. Westminster has 6,566 domestic boilers, which are replaced with low energy boilers Grade A+ on a rolling 15-year cycle.

1.2.7 **Lifts (£52.461m)** – This budget covers the management of Westminster's 363 lifts in high rise blocks, with a planned programme of renewal and refurbishment.

1.2.8 **Climate Works (£207.281m)** – The Council has set itself a challenging target to become a carbon neutral council by 2030. Achieving this requires major investment to retrofit its housing assets and upgrade its communal heating systems. The overall budget for the Climate Action Plan remains £218m (with spend already incurred over the last 2 years). This includes an ambitious assumption that 50% of this can be funded from external grants (although the government continues to release grants on a piecemeal basis).

1.2.9 **PDHU (£75.072m)** – The Council is committed to replacing the Pimlico District Heating Undertaking (PDHU), which is the Council's largest district heat network and largest emitter of carbon. A Strategic Outline Case (SOC) was approved in January 2023. This identified that the PDHU had to be replaced (i.e. Do Nothing was not a viable option) and agreed to take forward the development of a range of options for the future of the PDHU. The development of these options will consider a range of factors, including value for money for residents, carbon reduction, and levels of disruption to residents and the wider area. This is expected to require significant capital investment, with the funding needed for internal network upgrades expected to fall on the HRA. Until a preferred option for replacing the PDHU has been identified (which will be identified in the Outline Business Case due in 2024) the figures included in the HRA Business Plan are estimates. They have been included to ensure that financial planning within the HRA takes account of such a critical project.

1.2.10 **Heat Network Metering (£10.100m)** – As a heat supplier, the Council is required under legislation (the Heat Network (Metering and Billing) Regulations 2014, which were amended in 2020) to install meters and bill residents according to actual consumption and to formally report status to Government on a quad annual basis.

1.2.11 **Inflation Allowances (£441.307m)** – The Planned Maintenance programme includes an inflation provision to ensure that budgets remain fit for purpose to deliver the investment in existing homes required over the life of the 30-year business plan. These allowances also provide uplifts to support additional maintenance costs generated by new units as the size of the HRA portfolio grows.

1.3 Development & Regeneration Programme (£688.239m)

Table 3 – Development & Regeneration Programme

BP Year >>	1	2	3	4	5	6-30	TOTAL
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30 to 2053/54	
Scheme Name	£000	£000	£000	£000	£000	£000	£000
Luton Street	30	0	0	0	0	0	**30**
Ashbridge	602	0	0	0	0	0	**602**
Ashmill	20	0	0	0	0	0	**20**
Cosway	1,168	799	0	0	0	0	**1,967**
Carlton Dene	14,803	11,954	20,752	211	16	79	**47,816**
Queens Park Court	1,880	893	0	0	0	0	**2,774**
Lisson Arches	1,223	0	174	0	0	0	**1,397**
Parsons North	464	0	0	0	0	0	**464**
Ebury Acquisitions & Decants	11,043	0	0	0	0	0	**11,043**
Ebury - Phase 1	25,456	3,999	2,654	0	0	0	**32,109**
Ebury - Phase 2	13,661	50,605	2,587	96,464	42	13,514	**176,872**
Pimlico (Churchill Gdns)	13,460	6,442	3,785	1,206	0	0	**24,893**
Infills	4,963	655	150	150	0	0	**5,918**
Church St Acquisitions	11,448	0	0	0	58,515	24,924	**94,887**
Church St - Site A	34,985	14,893	164	4,729	30,982	0	**85,753**
Church St - Site B	0	0	0	1,208	931	99,614	**101,753**
Church St - Site C	0	0	0	0	0	42,758	**42,758**
Lisson Grove	0	0	0	0	0	11,840	**11,840**
Westmead	0	0	4,841	0	0	0	**4,841**
Cundy St Quarter	1,000	7,000	0	0	0	0	**8,000**
West End Gate (Block H)	0	3,696	0	0	0	0	**3,696**
291 Harrow Road	0	0	0	0	6,819	0	**6,819**
Contingency	4,495	3,331	1,159	3,431	3,211	6,360	**21,986**
Development & Regen TOTAL	**140,702**	**104,267**	**36,267**	**107,399**	**100,516**	**199,088**	**688,239**

1.3.1 The HRA Business Plan has been developed at a time of growing construction costs and expectations of an increasingly challenging residential market in central London. While the Council cannot control or influence these challenges, the plan is structured to minimise their impact on the Council's programme and safeguard the planned delivery of affordable homes. A programme-wide contingency is included to help mitigate potential cost pressures or shortfalls in expected funding.

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

1.3.3 The Development & Regeneration programme is spread across the General Fund and the HRA, but it is the HRA element that is most critical to the Council's commitment to delivering affordable housing (as it funds the delivery of all social housing within the programme). Following the Truly Affordable Housing Review that was conducted in 2022, an additional 318 homes for social rent were identified across a range of schemes and further GLA funding was successfully bid for.

1.3.4 The total number of homes for social rent being delivered by the programme as a whole from 2024/25 onwards is currently estimated to be 1,084. This includes two new schemes that have been added to the programme in the revised business plan: (West End Gate Block H and 291 Harrow Road). These schemes are at an early stage of development but will add social units to the totals being delivered in the current programme.

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

- **Church Street** – In December 2017, the Cabinet approved the Church Street Masterplan as the Council's framework for informing the future regeneration of the Church Street area. The proposed developments of sites A, B & C form part of this wider Masterplan. The regeneration proposals have since been the subject of a successful ballot (held in December 2022). This provides resident support for the proposed scheme and allows it to attract c.£19m of GLA grant funding which will enable the delivery of greater numbers of affordable housing in line with the Council's Fairer Westminster commitment that aims to ensure that 70% of the affordable housing delivered on its own developments comes in the form of social rent. A joint venture partnership is still the preferred delivery route for Site A and will be progressed further during 2024/25.

- **Ebury Bridge Regeneration** – The Ebury Bridge Estate is one of the priority areas identified within the Council's Housing Renewal Strategy as needing significant improvement and investment. The regeneration plans for the site are split into two phases. In March 2019 a decision was taken by the Council to progress the delivery of Phase 1 through the HRA and this element of the scheme is now in contract (delivering 226 new homes by 2025). The first tranche of Phase 1 private sale homes launched in September 2023. Significant additional GLA grant was awarded in 2022/23 as a result of the positive outcome of the ballot held for the wider regeneration in February 2023. This supported tenure changes across the scheme and the delivery of additional homes for social rent. Procurement is underway for Phase 2 of the programme and is expected to be completed by autumn 2024.

- **Westmead** – Following the Truly Affordable Housing Review, this scheme will now deliver 100% affordable housing to include 34 social and 31 intermediate units.

- **Carlton Dene** – The development project at Carlton Dene comprises the redevelopment of an existing residential care home and one block of nine apartments to provide new housing for older people, specialist housing for people with learning disabilities, affordable housing and private for sale units. The project will deliver 87 new affordable homes, 65 of which will be extra care housing. Site demolition completed in July 2023. The main construction contract is expected to be awarded in 2024/25.

- **Balmoral** – The demolition and redevelopment of the Balmoral Public House, Darwin House and associated garages which will provide 52 new affordable homes in two phases, including 34 community supportive housing units that will enable the decant of Darwin House residents. First phase construction is underway and progressing well.

- **West End Gate (Block H)** – The Council will acquire 45 affordable homes from the second phase of the West End Gate development being delivered by Berkeley Homes. A proportion of these will be purchased by the HRA for social rent.

- **Luxborough** – Delivery of 7 social and 7 new intermediate homes, commercial space and improvement and landscaping works to areas surrounding Luxborough Tower.

10. Capital Programme Funding

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

1.2 The HRA business plan encompasses a robust strategic approach to capital financing that considers a range of prudential factors. The key consideration, ultimately, is the ability of the HRA revenue budget to cover the cost of servicing additional borrowing (i.e. interest costs). Capital financing costs constitute 7-10% of the total income generated from rents (over the first 5 years of the business plan) and therefore represent a significant element of the revenue budget. Whilst there is no requirement for the HRA to set a Minimum Revenue Provision (MRP), as is the case for the General Fund, it is important that the HRA provides an appropriate level of interest cover along with sufficient allowances for repaying debt to ensure that the level of borrowing it commits to is sustainable. The plan aims to ensure that the interest cover ratio never drops below 1.20, which effectively means that the revenue budget is always able to absorb the impact of a 20% swing in total borrowing costs. It also means that this allowance is available to either finance capital or pay down debt in the event that a swing in interest costs does not materialise.

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

1.4 The various HRA financing options are explained in further detail below.

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

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

From February 2023, Westminster stipulated that AHF funding would be exclusively applied to schemes on the HRA capital programme to maximise the delivery of social housing. The Council held an AHF balance of £129.9m as at 1st April 2023 and a further £43m was received over the course of the financial year. The current balance therefore stands at £172.9m and this is sufficient to cover commitments that have been made within the existing development programme (which totals £156.8m from 2023/24 onwards).

Future AHF receipts are dependent upon new planning applications, for which changes to the Council's planning rules have seen a significant drop-off in the number of schemes involving an AHF contribution (due to developers being obliged to provide affordable housing directly). Nonetheless a future projection of £40m has been built into the revised business plan over the next 5 years. This is captured within then general funding assumptions for the HRA capital programme but has yet to be allocated to specific schemes.

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

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

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

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

1.11 **Leaseholder Contributions** – Major Works are delivered across the Housing portfolio meaning that many of the residents that benefit from this investment will be leaseholders. They are required to contribute towards the funding of capital works. Contributions from leaseholders therefore help to finance the Planned Maintenance programme. These funds are held separately and ringfenced towards the specific works to which they relate. The Council continues to work hard to offer flexible payment plans for leaseholders to help them manage the impact of recharges. It is also reviewing its approach to life-cycle asset management in order to reduce the volume of high bills driven by large major works schemes (that encompass multiple elements).

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

As noted above, the level of borrowing that the HRA can commit to is one of the main considerations when assessing the viability of the HRA business plan. The HRA is projected to borrow £597.48m over the course of the revised 30-year plan (equating to £619.04m if 2023/24 is included). This equates to almost 24% of the entire HRA capital programme and represents a £118m increase on the level of borrowing included in the previous iteration of the business plan. Nonetheless, this level of borrowing can be supported by the revenue budget with an appropriate level of resilience (see below).

1.13 Capital Programme – Financial Overview

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

Table 4 – Capital Programme Financing Plan

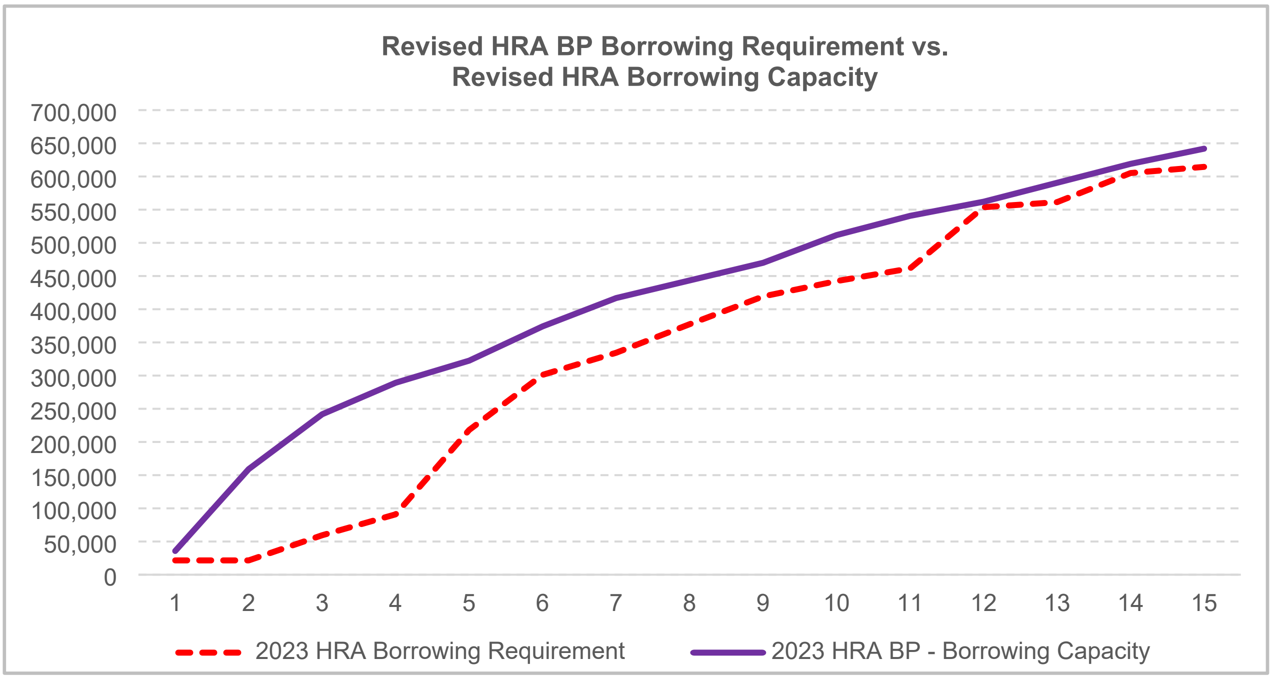
HRA BP Year >>	1 2024/25 £000	2 2025/26 £000	3 2026/27 £000	4 2027/28 £000	5 2028/29 £000	6-30 2029/30 to 2053/54 £000	TOTAL £000
Planned Maintenance	80,434	77,217	90,618	87,795	95,305	1,373,063	**1,804,432**
Development and Regeneration	140,702	104,267	36,267	107,399	100,516	199,088	**688,239**
TOTAL HRA Capital Programme	**221,136**	**181,485**	**126,885**	**195,194**	**195,821**	**1,572,151**	**2,492,671**
Funded by:							
Government Grant	16,411	3,662	8,508	2,114	16	1,325	**32,036**
Affordable Housing Fund (AHF)	64,568	22,753	16,136	10,000	43,353	0	**156,809**
Capital Receipts	95,380	44,272	15,757	0	0	0	**155,409**
Community Infrastructure Levy (CIL)	11,547	1,305	897	405	11,489	24,397	**50,039**
Right-to-Buy Receipts	1,261	2,785	1,295	3,031	3,157	53,911	**65,440**
Climate Grants	4,989	5,000	5,000	5,000	7,500	76,152	**103,640**
L/H Contributions	15,076	15,600	15,012	15,485	15,626	222,467	**299,266**
Major Repairs Allowance (MRA)	11,905	32,175	23,114	23,504	24,275	803,918	**918,891**
Revenue Contribution to Capital	0	16,017	9,655	8,535	7,351	72,103	**113,661**
New Borrowing	0	37,915	31,512	127,119	83,053	317,879	**597,479**
HRA FUNDING TOTAL	**221,136**	**181,485**	**126,885**	**195,194**	**195,821**	**1,572,151**	**2,492,671**

1.14 The opening debt balance for the HRA as of 1st April 2023 was £325.836m. Based on the future borrowing requirements built into the proposed HRA capital programme, HRA debt is projected to peak at £944.87m by 2038/39. This debt is ultimately supported by the £1.6bn of assets held in the HRA (and underpinned by the income generating potential that these assets hold).

1.15 No new borrowing is projected in 2024/25 due to excess external funding (mainly capital receipts). This reduces the growth required within the HRA revenue budget and leaves it needing to cover a total capital financing cost of £8.82m. New borrowing is assumed to come with a 2.6% cost of finance based on the use of forward borrowing deals that has secured £400m of financing for Westminster at preferential rates (and which is projected to last for at least two years within the Council's treasury projections). It is forecast that the high interest rates currently in place will drop as inflation falls and therefore it is prudent to assume 2.6% over the longer term. This will be reviewed annually.

1.16 Even though the HRA no longer has a formal debt cap, borrowing is still constrained by the ability of the HRA revenue budget to cover the cost of borrowing (i.e. interest costs). As part of the business planning work, an assessment is made of the maximum borrowing capacity that the HRA has over the next 15 years (which covers the bulk of the Housing Investment Plan). Chart 1 shows that the £597m that is now required from 2024/25 onwards is right at the limit of what the HRA can support. Whilst the business plan has reasonable levels of borrowing headroom over the first 11 years, the borrowing requirement hits the borrowing capacity from Year 12 onwards which acts as a constraint on any further borrowing over the course of the preceding period.

Chart 1 – HRA Borrowing Requirement vs. HRA Borrowing Capacity



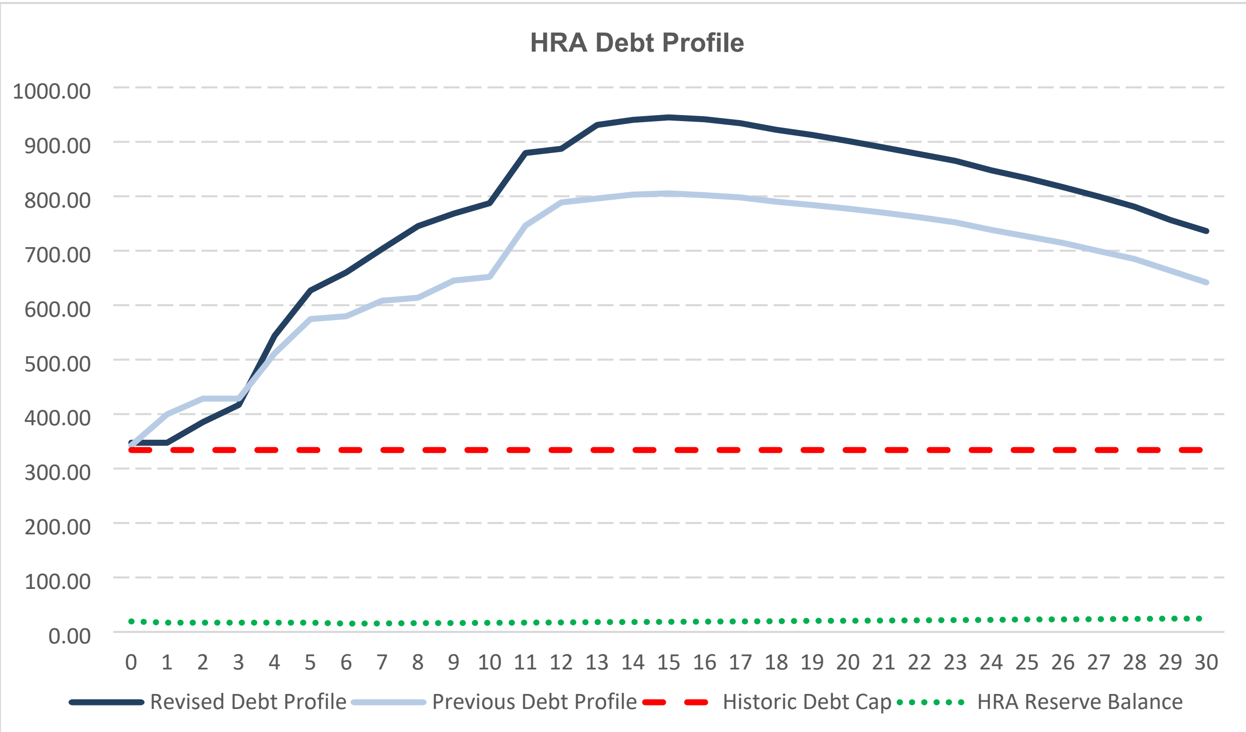
1.17 The HRA is projected to generate surpluses over the second half of the business plan, largely because the Development capital programme does not extend beyond the first 15 years. It is assumed that these surpluses will be available to pay down debt, and therefore help to manage the capital financing burden placed on the HRA revenue budget (which grows to £25.18m per annum once the HRA hits its peak debt level in 2038/39). The total value of the available surpluses in the business plan is £208.75m. There is no requirement for the HRA to pay down debt, and this approach is subject to the ability to re-finance within the various debt instruments used. If debt cannot be re-paid surpluses would go into the HRA reserve and the revenue budget would have to continue to cover interest costs at the peak level.

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

1.19 The lines on the chart represent the following:

- **Current Projected Debt (dark line)** - Borrowing rises from the current level of £325.836m (as at 1st April 2023) and peaks in 2038/39 at £944.87m based on the borrowing need within the revised HRA business plan. The lighter line shows the equivalent profile from the previous iteration of the business plan and demonstrates a greater level of borrowing in this iteration of the plan.
- **HRA Reserve Balance (dotted line)** - The HRA business plan seeks to maintain a minimum reserve balance of £17m over the first 5 years and no less than 10% of turnover from Year 6 onwards, which works out at no less than £15m over the life of the plan (see **Section 11**). If the HRA was unable to pay down debt (which is assumed within the downward trajectory of the blue line from Year 16) the reserve balance would increase accordingly.
- **Debt Cap (dashed line)** – This represents the debt cap previously imposed on the Westminster HRA (£334m) and demonstrates the increased borrowing flexibility generated by the business plan (that is being used to drive growth)

Chart 2 – HRA Debt Profile



2. HRA Reserve Position

11.1 The opening balance on the HRA general reserve at the start of the 2023/24 financial year was £19.6m. There was also £8.2m held in earmarked reserves (i.e. to cover identified requirements). HRA reserve balances are primarily designed to cover in-year risks but may also be used to support one-off projects and investment opportunities that might drive efficiencies and/or delivery of a better service to residents of the Council.

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

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

Table 5 – Medium-Term Reserve Projection

	1 2024/25	2 2025/26	3 2026/27	4 2027/28	5 2027/29
	£m	**£m**	**£m**	**£m**	**£m**
Opening Balance	17.000	17.000	17.000	17.000	17.000
Planned Contribution/(Drawdown)	0.000	0.000	0.000	0.000	0.000
Proposed Reserve Balance	**17.000**	**17.000**	**17.000**	**17.000**	**17.000**
% of HRA Turnover	13%	12%	12%	11%	11%

11.4 The small surplus within the general reserve (above the minimum requirement of £17m) is forecast to be drawn down in 2023/24. The table below provides a breakdown of the HRA earmarked reserves. These are largely being used to support the strategic initiatives outlined in **Section 8** and are expected to be fully utilised by the end of 2025/26.

Commitment	Earmarked Reserves (£m)
Rent Support Fund	2.060
Housing Improvement Programme	4.550
Health & Safety (Initial Compliance)	1.600
TOTAL	**8.210**

12. Risk Management

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

12.2 The HRA Business Plan is built on a series of assumptions about the expected future impact of several variables (including inflation, rent increases, interest rates, etc). The first aspect of risk management within the HRA is to ensure that the assumptions built into the plan are as prudent as possible. This helps to ensure that the plan is viable in the face of a relatively conservative outlook. An overview of key assumptions is included at Appendix 1. The primary area in which prudence has been exercised is on future rent assumptions, which have been held at CPI from 2028/29 onwards. A more favourable settlement within any future rent policy would therefore create headroom within the HRA business plan and increase flexibility in terms of its ability to absorb risk.

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

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

b) **Revenue Interest Cover** – the refreshed business plan ensures that the minimum ratio of interest cover in the revenue budget is 1.20. This is achieved through the inclusion of a flexible revenue contribution to capital (set at £6.86m in 2024/25). This primarily helps to reduce additional borrowing over the life of the plan, but it also provides significant manoeuvrability to manage financial risk. It can be diverted to cover revenue pressures if required, and unlike the HRA reserve can be used to permanently adjust the revenue budget and cover on-going pressures. If risks emerge on the capital programme, it can also be diverted to provide additional borrowing capacity. The £6.86m included in 2024/25 could support £250m+ of additional borrowing if it was all diverted to cover interest costs (although this would have consequences for HRA debt levels and the ability of the HRA to pay down debt in the future).

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

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

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

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

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

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

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

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

13. Sensitivity Analysis

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

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

Table 6 – HRA Sensitivity Analysis

Test	HRA BP Failure Point	Comments
Rent limits	**Lower than CPI** rent uplift ceiling from 2025/26	▪ The HRA BP includes an optimistic income outlook for 2025/26 and 2026/27 (assuming the rent uplift ceiling of CPI+1% will remain for 2 further years). ▪ The plan can tolerate a CPI only increase from 2025/26 onwards (under a new rent policy). However, this adds £36m of additional borrowing and a higher residual debt level at the end of the 30 years. ▪ The plan cannot tolerate a below inflation rent uplift.
Increased interest rates	**>5%** average interest rate (over first 5 years)	▪ 47% of all new borrowing is over the first 5 years of the plan. ▪ The HRA BP could tolerate an average interest rate of 5% on new debt over that 5-year period and remain viable. ▪ This would utilise a large proportion of the revenue contribution to fund capital (which would drive significant additional borrowing). This allowance doubles up as interest cover and can therefore be utilised to manage spikes in interest rates (buying time to restructure the HRA budget in order to manage debt, if necessary).
Capital programme inflation	Planned Maintenance - **>7%** (over first 3 years) Development – **>4.5%** inflation (on existing cost estimates)	▪ The HRA BP could tolerate inflation of 7% on the Planned Maintenance programme over the next 3 years and remain viable (albeit with substantial amounts of additional borrowing required). ▪ With the scheme completions delivered in 2023/24, almost 75% of the remaining HRA development programme is not yet in contract. This means it is exposed to the impact of cost inflation. The programme contingency can support 4.5% of cost inflation on the current scheme estimates. ▪ The HRA BP could tolerate both scenarios above simultaneously (and, by definition, a worse outcome on one where the other is more favourable).

14. Financial Implications

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

15. Legal Implications

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

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

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

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

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

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

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

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

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

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

15 Carbon Implications

15.1 The council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the council by 20230, across Westminster and our communities.

15.2 Significant initiatives supported by the HRA include:

- Retrofit of Council homes - Reviewing the environmental credentials of our portfolio of HRA homes and delivering the retrofit scheme for which the business plan supports total investment of £218m.

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

- PDHU Replacement – The HRA business plan includes earmarked funds to support the investment required to deliver the future PDHU strategy (once a preferred option has been identified). Whilst there are a number of different considerations that will drive the options appraisal, carbon emissions will be a critical part of that assessment.

16 Staffing Implications

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

17 Consultation

17.1 Development of the Business Plan and Housing Investment Plan has involved officers from within the Housing, Regeneration and Finance departments as well as input from the relevant Cabinet Members. The proposals for 2024/25 have also been subject to review by the Budget Scrutiny Task Group. Regard is made throughout to national and local housing policies and objectives which have informed the priorities for investment.

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

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

18 Equalities Implications

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

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

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

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

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

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

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

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

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

Luke Chiverton (lchiverton@westminster.gov.uk)