

STRATEGY AND RESOURCES COMMITTEE

TO COUNCIL ON 18 OCTOBER 2018

7b(ii)

This is a copy of Agenda Item 8 report to Committee on 4 October 2018

This report was also presented to Housing Committee on 11 September 2018.

Report Title	Additional Housing Revenue Account (HRA) Borrowing Programme (2019/20, 2020/21 and 2021/22)
Purpose of Report	To provide the Committee with details of the proposed bids to Homes England for the Additional HRA Borrowing Programme.
Decisions	<p>The Committee RECOMMENDS to Council:</p> <p>To approve the bids to the Ministry of Housing, Communities and Local Government (MHCLG), through Homes England, for additional borrowing from the 'Additional HRA Borrowing Programme (2019/20, 2020/21 and 2021/22)' for the following schemes:</p> <p style="text-align: center;">Broadfield Road, Eastington Orchard Road, Ebley Queens Drive, Cashes Green Ringfield Close, Nailsworth Southbank, Woodchester Summersfield Road, Minchinhampton Tanners Piece, Nailsworth The former Ship Inn site, Bridgend</p>
Consultation and Feedback	Consultation has taken place with the relevant ward councillors, with the Chair and Vice Chair of Housing and the proposal was discussed at Housing Review Panel on the 14 August 2018 and Housing Committee on 11 September.
Financial Implications and Risk Assessment	<p>This is an opportunity for the debt cap of the HRA to be increased, which would open up available headroom and allow the HRA to borrow to build new affordable housing.</p> <p>Any additional borrowing would have associated interest costs, and although not compulsory in the HRA it would be recommended that provision is made from the rental income to repay the additional borrowing.</p> <p>The net rental income from the new housing would need to be sufficient to fund these costs so that it doesn't negatively impact the overall position of the HRA over the medium and long term. The funding mix included in this report is such that it is supportable by the rental income and so doesn't materially impact the HRA. Once the borrowing is repaid (modelled at 30 years), and interest payments cease, the rental income would be expected to positively contribute to the HRA.</p>

	<p>Should SDC be successful in securing additional borrowing capacity, careful management of the schemes would be necessary to ensure deliverability within the timescales. Any major slippage could result in the borrowing being reallocated to other councils.</p> <p>If the additional borrowing bid is not awarded by the Ministry of Housing, Communities and Local Government (MHCLG), these schemes would not all be able to go ahead within these timescales as the funding is not currently fully available within the HRA.</p> <p>Any new schemes would need to be included in the capital programme for 2019/20 – 2022/23 and be approved by Council.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p>
<p>Legal Implications</p>	<p>The government has produced a prospectus, FAQ's and online submission guidance, any bid will need make sure it adheres to those. Bids for additional borrowing will need to be signed off, and certified by the section 151 officer who will also need to confirm in the bid that the borrowing is affordable. Bids will need to confirm that (aside from Shared Ownership and Affordable Homes Programme grants, where applicable) that schemes are not expected to receive other Government grant funding (this does not stop the use of developer contributions secured through the planning regime).</p> <p>The bids will have been submitted (as there is a deadline of 30th September 2018) in advance of this committee, the FAQ's note that <i>"...local authorities can submit bids ahead of formal sign-off and use the 'additional information' free text box to explain the extenuating circumstances."</i> Should formal sign-off not be received the bids will need to be withdrawn.</p> <p>The Government anticipates that successful authorities will be permitted to vire additional borrowing between one agreed project and another within an individual year (subject to SDC's Scheme of Virement), but not be able to vire additional borrowing between projects across different years, as such the financial implications in respect of careful management and slippage are reiterated. It is essential that the affordability of the payments of any loan is adequately considered before the loan is entered into and a risk assessment should be conducted prior to any bid being submitted.</p> <p>Craig Hallett, Solicitor & Deputy Monitoring Officer Tel: 01453 754364 Email: craig.hallett@stroud.gov.uk (Ref: r11.09c13.09d20.09)</p>

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Options	The alternative option is to not bid for additional borrowing through this Homes England's programme and to limit the development of new homes to those that can be contained within the existing MTFP.
Performance Management Follow Up	The outcome of the bids will be contained in the next update to members on the New Homes and Regeneration Programme following the announcement of the allocations from Homes England due in the autumn 2018
Background Papers/ Appendices	None

1.0. Introduction

- 1.1 In October 2017, the Government announced that an additional £1bn of HRA borrowing headroom would be made available to areas of high affordability pressure and on 26 June this year the prospectus was launched. The guidance shows that this is expected to be split with £500m for London councils and £500m for authorities outside of London. This is over a three year period from 2019/20 to 2021/22.
- 1.2 The Council is currently at its debt cap and is unable to borrow further money in the HRA. The increase in headroom would allow further borrowing to take place to enable a further programme of new council homes to be delivered and the council has been lobbying central Government to allow it to do this
- 1.3 The benchmark for 'high affordability pressure' has been determined as being a difference of £50 or more per week between social and private rents. On this basis the Council has been assessed as being eligible to bid for the £500m additional headroom, along with 165 councils outside of London, of which approximately 90 have HRAs.
- 1.4 The deadline for bids is 30 September 2018. A bid must be made for each specific scheme and therefore we would not be able to group together schemes, but are able to bid separately for each one. Bids will be assessed individually and therefore the Council may be allocated funding for none, one or more, or all of the schemes.
- 1.5 Additional borrowing can be combined with Right to Buy (RTB) receipts or grant funding through the Homes England SOAHP 2016-21 programme, but not a combination of both. The affordability of additional borrowing must be signed off by the Section 151 Officer.
- 1.6 Bids need to demonstrate, and will be ranked on, three key elements:

Value for money – looking at unit scheme costs and the amount of additional borrowing per unit, and as a percentage of total scheme costs. Supplemented by reducing costs through bringing forward own land and procurement efficiencies.

Bids may include regeneration schemes, but there must be reassurance on the additionality of housing, as well as value for money.

Deliverability within programme timescale – it should be shown that the Council has the skills and resources for schemes to be started in the relevant year (as per the bid) and delivered on time and on budget. This would include for example the position of any planning applications, ownership of required land and the track record of the Council in delivering new housing. The Council has Investment Partner status with Homes England and received a ‘green’ compliance audit in 2017/18 with no breaches and therefore is in a good position in this regard. If there is slippage the additional headroom may be reallocated.

For schemes that involve a bid for the SOAHP grant alongside additional borrowing the Council must ensure that starts on site take place by March 2021.

Affordability – Schemes meeting the above requirements will be ranked on the difference between average social and private rents with areas with a higher differential attracting the additional headroom. It should be noted that there are a large number of local authorities eligible to bid for the funding and where we stand in the rankings is not known.

1.7 Results of the bidding process will be announced in the autumn.

2.0. The Proposed Bids

2.1. The Council has been aware since last autumn that this opportunity was to be launched and therefore has been preparing for this eventuality on the assumption that it would fall within the affordability eligibility criteria for bidding.

2.2 A programme of schemes and indicative funding has been prepared as detailed in the table below.

	No Of Units			Costs						NPV £000s
	Rented	Shared Ownership	Total	Total Scheme Costs £000s	HE Grant £000s	RTB receipts £000s	Sales Income £000s	Other HRA Funding £000s	Borro wing Bid £000s	
Former Ship Inn Site, Bridgend	6	3	9	1,500	198		194	225	883	-236
Southbank, Woodchester	3	2	5	1,202	60	225	128	260	529	-80
Tanners Piece, Nailsworth	11		11	1,794		538		896	360	-47
Queens Drive, Cashes Green	7		7	1,040		310			730	39
Orchard Road, Ebley	5		5	715		212			503	24
Ringfield Close, Nailsworth	16	5	21	3,213	150	708	378		1,977	365
Broadfield Road, Eastington	7	2	9	1,115	60	235	144		676	-28

Summersfield Road, Minchinhampton	7		7	920		274			646	77
Totals	62	12	74	11,499	468	2,502	844	1,381	6,304	114

Net Present Value (NPV) is the difference between the present value of income and expenditure over a period of time, in this case 30 years.

- 2.3 These sites are considered to be those that will meet the deliverability criteria with all of the sites already having had pre application planning advice and ground investigations, ecology and topographical surveys have been commissioned.
- 2.4 It is proposed that for schemes for rent the borrowing is mixed with the Council's Right to Buy (RTB) Receipts, subject to available receipts. For the shared ownership homes (as RTB receipts can only be used to fund rented homes), it is proposed that grant funding is secured through the Homes England's 2016-21 SOAHP programme, subject to available funding within this programme.
- 2.5 Members resolved at the Housing Committee on 28 June 2018, to authorise the Head of Property Services, in conjunction with the Section 151 Officer and the Chair of Housing to sign the Homes England Grant Agreement for the 2016-21 SOAHP and to submit bids. This agreement has now been received and is in the process of being reviewed and signed. This will then give the Council access to the grant funding for the shared ownership properties that form part of this bid.
- 2.6 As the deadline for the submission of bids is the 30 September the bids will be made on the clear understanding that the application is subject to Council approval. If approval is not confirmed SDC can withdraw its application.
- 2.7 Housing Committee, in June 2017, approved that Affordable Rents be charged on properties built or acquired using RTB receipts. As we are proposing to mix RTB receipts with this borrowing for rented homes then affordable rents will be charged for this programme of council homes.
- 2.8 Homes England has announced that bids for social rents under the SOAHP can now be made. However, it is also a condition of this bid for borrowing that each scheme demonstrates that the net rental income is sufficient to support the cost of the additional borrowing (any schemes that do not meet this criteria will put further pressure on the HRA 30 year position). This is already difficult to achieve with affordable rents and, therefore it is not possible when charging lower social rents, without the contribution of significant internal subsidy. Internal subsidy means that the Council's existing residents would be subsidising these new homes as savings would need to be found across existing HRA spend.
- 2.9 Members will note that three of the schemes already form part of the current New Homes and Regeneration programme, namely The former Ship Inn site, Southbank and Tanners Piece. The funding for these schemes is already contained within the MTFP. It has been confirmed in the FAQs circulated by MHCLG that existing schemes can be included in the Council's additional borrowing bid. The remaining funding contained within the MTFP for these schemes can then be used for other schemes that are less advanced and may not pass the deliverability test for this bidding round.

3.0. Recommendation

- 3.1 In view of the increasing need to provide affordable homes, the current cap on further HRA borrowing and the council's desire to deliver as many new affordable homes through its New Homes and Regeneration programme as possible it is proposed that this Committee recommends to Strategy and Resources Committee that the bids, (as detailed in this report) to Homes England for additional borrowing from the 'Additional HRA Borrowing Programme (2019/20, 2020/21 and 2021/22)' are approved.