

 Executive 30th August 2018		Agenda Item No. 8
Title	Bid for Local Authority Housing Programme	
For further information about this report please contact	<p>Lisa Barker, Head of Housing Services Tel: 01926 456043 lisa.barker@warwickdc.gov.uk</p> <p>Ken Bruno, Housing Development and Strategy Manager Tel : 01926 456044 ken.bruno@warwickdc.gov.uk</p> <p>Andrew Rollins, Principal Accountant Tel : 01926 456803 Andrew.rollins@warwickdc.gov.uk</p>	
Wards of the District directly affected	All wards	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No – other than Appendices 1 & 3 – see Item 13 (paragraph 3)	
Date and meeting when issue was last considered and relevant minute number	N/A	
Background Papers	<p>Housing Revenue Account (HRA) Base Budget Report 2018/19, 29th November 2017</p> <p>Ministry of Housing, Communities and Local Government HRA additional borrowing headroom prospectus</p>	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes
Equality Impact Assessment Undertaken	No
The initiatives are designed to ensure that new properties are developed to increase the overall stock of Councils housing, enabling more households to be housed at a rent that is affordable.	

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	08.08.18	Bill Hunt
Head of Service		
CMT	13.08.18	Chris Elliot
Section 151 Officer	08.08.18	Mike Snow

Monitoring Officer	13.08.18	Andrew Jones
Finance	08.08.18	Andrew Rollins
Portfolio Holder(s)	13.08.18	Cllr Phillips – Housing & Property
Consultation & Community Engagement		
None in relation to this report		
Final Decision?		No
Suggested next steps (if not final decision please set out below) Council – Once the outcome of the bid is known		

1. **Summary**

- 1.1 This report presents to Members an opportunity to bid to the Ministry of Housing, Communities and Local Government (MHCLG) for additional borrowing headroom for the Housing Revenue Account (HRA).
- 1.2 It provides details on the financial, resource and reputational implications related to bidding and highlight the potential housing opportunities that the bid could assist to deliver.
- 1.3 If successful, it is estimated that up to c400 homes could potentially be provided on various sites across the district.

2. **Recommendations**

- 2.1 That Executive approve the principle that a bid is made to MHCLG for additional borrowing headroom to fund the delivery of up to c340 new Local Authority affordable homes in Warwick District and note that the bid would need to be submitted by 7th September 2018.
- 2.2 That, subject to the approval of recommendation 2.1, Executive agrees in principle to explore purchase of the sites, listed in confidential Appendix One with site plans shown in confidential Appendix Three, that are not currently in the Council's ownership.
- 2.3 That, subject to approval of the above recommendations, Executive delegate authority to the Head of Housing Services in consultation with the Portfolio Holder for Housing and Property Services to finalise the bid including the detail of the individual sites to be included and their delivery proposals.
- 2.4 That, subject to the approval of the above recommendations and a successful outcome to a bid, Executive note that a report will be presented to a future meeting confirming the overall financing arrangements required and recommend to Full Council appropriate amendments to the Housing Investment Programme and Housing Revenue Account Business Plan to fund those requirements.
- 2.5 That, subject to approval of recommendation 2.1, Executive approve in principle, the use of Capital Improvement Reserve to fund any or all of the agreed affordable housing schemes which are not wholly funded by government borrowing approval.
- 2.6 That that Executive delegates authority to the Head of Housing Services, in consultation with the Portfolio Holder for Housing and Property Services, to develop and submit outline planning applications for housing sites and any other statutory consents necessary. Executive are asked to note that any fully costed schemes would be presented to Executive for approval following outline planning permission being granted.
- 2.7 That the Executive approves the allocation of an annual budget of up to £60,000 for consultancy services to provide support for the process and project management for these schemes. It is proposed that this is funded from the Capital Investment Reserve.

- 2.8 That the Executive agrees for the Council to register with Homes England and agrees in principle for bids to be made to them for grant assistance to fund the development of affordable housing where it is deemed prudent to do so.
3. **Reasons for the Recommendations**
- 3.1 Recommendation 2.1
- 3.1.1 Since the reform of the council housing finance system, with the introduction of the self-financing settlement in April 2012, local authorities have had freedom and flexibility to develop new homes within their Housing Revenue Account (HRA). At that time, limits were placed on the amount of borrowing that each local authority could undertake for housing expenditure. The government is inviting local authorities to bid for additional borrowing headroom to finance the building of new council housing or to replace homes sold under the right to buy.
- 3.1.2 Government are nationally making available up to £1bn additional borrowing headroom from 2019/20 to 2021/22 to councils that are ready to start building new homes in areas of high affordability pressure. A bidding prospectus has been issued with a closing date of 7th September 2018.
- 3.1.3 The available borrowing has been apportioned between London boroughs and local authorities in the rest of the country on a 50/50 basis with the allocation profile for outside London authorities being: 2019/20 -£200m, 2020/21 - £150m, 2021/22 - £150m.
- 3.1.4 Within this scheme, local authorities can combine the additional borrowing secured through the programme with other funding sources such as retained capital receipts from the sale of council homes sold under the Right to Buy.
- 3.1.5 The Government is targeting funds to local authorities in areas of high affordability pressure which is defined as where there is a difference of £50+ per week between average social and private rents. Government produced a list of authorities where the affordability criteria applies and has invited those to bid, which includes Warwick District.
- 3.1.6 The evaluation criteria for the programme includes: value for money, and deliverability of the bids. Although there are other opportunities, schemes have been identified across the district which could qualify for the additional headroom under the governments bid criteria. These are detailed in confidential appendices one and three. This is confidential as it contains details of sites not currently in the Council's ownership where confidentiality is necessary to ensure any negotiations are not compromised. All but five of the sites comprise of land which is already owned by the HRA (garage sites). Government considers that developments on council owned land have the potential to offer better value for money. Sites are included which are deliverable within the three year timeframe of the programme. This will enable us to demonstrate deliverability and for us to develop a clear track record.
- 3.1.7 If the bid is successful, the additional borrowing headroom would support the build costs on 13 HRA owned garage sites, shown on the site plans in non-confidential Appendix Two, producing around 64 new homes of which 100% are proposed to be affordable. These sites provide the greatest level of confidence as they are already within the Council's ownership. Two other sites, not currently in the Council's ownership (listed as numbers Site 1 and Site 2 in the confidential appendix) have been progressed to a level where there is a good level of certainty of delivery. Together, these are estimated as capable of

producing a further 94 affordable homes. A further 3 sites (numbered 16-18 on the appendix) are also being considered but are at an earlier stage of the development process and as a consequence there is a lesser degree of surety for deliverability and costs. Nevertheless, these sites could deliver a further estimated 240 new homes, of which an estimated 180 would be affordable. If all sites are progressed then c400 new homes could be developed with the additional HRA borrowing headroom used to bring forward c340 of them as affordable homes.

3.1.8 Results of the bidding will be announced in the autumn with local authorities able to draw down on additional borrowing from April 2019 onwards.

3.2 Recommendation 2.2

3.2.1 The largest potential development site (numbered 17 on the confidential appendix) will require further work to determine if it is feasible to develop the whole site as affordable housing. It is currently assumed that c40% of this site would be developed for market housing. Further discussion will be required with MHCLG to understand if they would permit the purchase of whole site within the HRA in such circumstances. It is probable that a site with a mix of both affordable and market housing may not be capable of being wholly funded through the additional headroom.

3.2.2 In the event that MHCLG would limit HRA financial support to affordable housing development costs, there is the potential to purchase the market housing element of the site (40%) through the use of General Fund reserves or borrowing so site 17 is still considered to be a viable option for the proposed bid.

3.3 Recommendation 2.3

3.3.1 Given the timeline set by the Government it has not been possible to finalise the proposed bids sufficiently for them to be considered in full by Executive. Although the proposals are in an advanced state, some of the detail is yet to be finalised with some questions posed to MHCLG outstanding at the time of writing. It is possible that some relatively minor amendments may be required up until the date of submission. The proposal for delegated authority to finalise the detail of the bid enables last minute revisions to proposals to be included.

3.4 Recommendation 2.4

3.4.1 Following the announcement of successful schemes in the autumn, a further report will be presented to the Executive confirming the overall financing arrangements required to deliver the schemes, and proposing recommendations to Council appropriate amendments to the Housing Investment Programme and Housing Revenue Account Business Plan to fund those requirements.

3.4.2 This process will be used to address the issue raised at 3.2.1.

3.5 Recommendation 2.5

3.5.1 It is not known if the Government will support any or all of the schemes or, if they will fully fund those supported. The Executive may wish for these schemes to be taken forward even if Government funding is not forthcoming in full or part. There is currently sufficient funding available in the Capital Investment Reserve to support the delivery of these schemes, but its use has an

opportunity cost that has yet to be analysed. The confirmed financing arrangements for the scheme will be presented to members once the outcome of the bid is known.

3.6 Recommendation 2.6

- 3.6.1 The proposed delegated authority will aid efficiency and timeliness in the delivery of schemes if the Head of Housing Services has the delegated authority to submit outline planning applications to establish the principle of development on individual sites. This applies as much to other sites as to those listed in appendix one and so a general delegation is proposed. Fully costed schemes will then be brought to Executive once both the initial planning outcomes and financial arrangements are clarified.

3.7 Recommendation 2.7

- 3.7.1 Delivery of these sites will require additional capacity and skills currently not available and therefore it is proposed that external consultancy services are sought to support the process and project management for these schemes. It should be noted that costs for professional services in relation to these developments are included within the overall scheme development costs.

3.8 Recommendation 2.8

- 3.8.1 Homes England provides grant funding for the development of affordable housing. Whilst it is not proposed to seek Homes England funding for the schemes in Appendix 1, it may be a useful funding source for other future developments that the Executive may wish to bring deliver.
- 3.8.2 Grants can be sought to complement local authority investment. The homes that Homes England fund include affordable homes for rent and sale, and homes for rent or sale at market prices and are therefore wider than the Housing Revenue Account Borrowing Programme.

4. Policy Framework

Fit for the Future (FFF)

- 4.1 The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.
- 4.2 The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u>	<u>Intended outcomes:</u>	<u>Intended outcomes:</u>

Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal		
Supporting the delivery of new homes for sale and for rent will enable more people to live in a home of good standard and will support the work of the council to meet housing need.		
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The project could give rise to significant opportunities for Council staff to enhance skills around communication, planning and negotiation	Services will be improved by ensuring that the housing product offered is of a good standard.	The proposals will enable income to be maximized as our properties will be more desirable.

Supporting Strategies

- 4.3 Each strand of the FFF Strategy has several supporting strategies and the relevant ones for this proposal are explained here.
- The HRA Business Plan contributes to the Fit for the Future transformation programme and assists the Council to deliver its Vision
 - The Council adopted the current Housing and Homelessness Strategy in April 2017. This includes objectives around providing suitable accommodation for the homeless in an effort to prevent and reduce homelessness and meeting housing needs through new provision.
 - The Housing Revenue Account (HRA) budget and the HRA Business Plan are the financial expressions of the Council's housing policies.

Changes to Existing Policies

- 4.7 There is nothing in this report which seeks to change existing Council policies. It does however set out opportunities for the delivery of new council housing.
Impact Assessments
- 4.8 An impact assessment has not been completed because the proposals provide for a good standard of product to residents and also to offer to households registered with Homechoice.

5. Budgetary Framework

- 5.1 The additional borrowing can be financed by rental income achievable on the properties over their lifetime.

The table below is a hypothetical example demonstrating how rental income can finance borrowing over time. In this model, the projected build cost would be financed by borrowing at 3%. The weekly social rent income is based on the assumption that rents will increase by 3% (see 5.2) per annum from 2020. This produces a payback period of 34 years. Taking management fees, average repairs, void cost, bad debt and capital maintenance into consideration, the payback period would be 40 years. This is within the standard expected lifetime period for new properties.

Build cost	Current Social Rent per Week	Borrowing Payback Period
£100,000	£105.42	34 years

- 5.2 From 2020 Local Authorities are able to increase rents by up to the Consumer Price Index +1% for 5 years. The borrowing costs will be fixed. These factors provide some security and certainty to plan investment and provide greater confidence about future rental income which underpins housebuilding plans.
- 5.3 Any shortfall in funding can be met through the Capital Investment Reserve.

6. Risks

- 6.1 Deliverability is a key component of the requirements of this programme. Whilst there are no financial penalties for agreed sites not coming forward, there is the potential for reputational damage which could influence the outcome of other future government programmes.
- 6.2 The timeline to complete these works is challenging and there are risks in terms of the capacity of any developer and the priority awarded by them to sites where small numbers are planned.
- 6.3 There is a risk in applying to Homes England to obtain complementary funding as this will be subject to the requirements in the Shared Ownership and Affordable Homes Programme 2016-2021. Any bid to Homes England will be subject to independent assessment, on its own merits, within the terms of that programme.
- 6.4 Whilst there is some experience of bidding for government funding within the Council, there is no experience of doing similar with Homes England.

7. Alternative Option(s) considered

- 7.1 The Council could decide not to apply for additional headroom however; this would constrain the numbers of new homes that the council could afford to build.
- 7.2 The Council could decide to submit a bid to MHCLG for the entire cost requirement rather than to apply to Homes England for grant. This option would increase the debt repayment requirement and presents a risk of not being viewed as being value for money at the point of assessment.

8. Background

- 8.1 In the autumn budget the Chancellor announced that the Government would make up to £1bn additional Housing Revenue Account borrowing headroom available in areas of high affordability pressure for local authorities that are ready to start building new homes.
- 8.2 The primary objective that the Government want to achieve through this Housing Revenue Account borrowing programme is to increase the supply of new council and affordable homes delivered by local authorities.
- 8.3 The Government also wishes to increase the number of new homes that local authorities build to replace homes sold under the right to buy scheme and boost housebuilding skills and capabilities across the local government sector.
- 8.4 local Authorities are able to consider a number of bidding routes most suited to their needs. Local authorities can bid for:
- Additional borrowing headroom only;
 - Additional borrowing headroom use alongside grant funding from Homes England (subject to the requirements in the Shared ownership and Affordable Homes Programme 2016-21: Addendum to the Prospectus)
 - Additional borrowing headroom can be used alongside unspent Right to Buy receipts.
- 8.5 Attracting Homes England funding would have the effect of reducing the borrowing requirement by replacing it with grant which in turn would reduce the payments required to service the additional borrowing. There are risks and consequences of bidding to Homes England at this time particularly because there is no guarantee that funding would be provided. The bidding process is significantly more complicated (including the requirement to submit individual bids for each of the 14 sites and the monitoring requirements are onerous given the number of properties involved in all but one of the sites).
- 8.6 The Government has noted the concerns that local authorities have raised in relation to the provisions within the 2016 Housing Act that would, if enacted, require payments to be made to the Secretary of State in respect of vacant properties of high value. As this report was being drafted, the Government has announced that it will not proceed with the "High Value Void" levy and legislation will be brought forward to repeal the relevant part of the 2016 Housing Act which introduced this provision. This has removed one of the major uncertainties for authorities in areas of high affordability pressure.
- 8.7 Local authorities are required to ensure that schemes undertake the necessary capital expenditure in the specified years. Officials will arrange quarterly monitoring arrangements including progress on starts and completions. If there is slippage, the additional borrowing headroom approval may be reallocated.