

READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	POLICY COMMITTEE		
DATE:	29 OCTOBER 2018	AGENDA ITEM:	7
TITLE:	LOCAL AUTHORITY NEW BUILD HOUSING PHASE 3 - APPROVAL OF FUNDING BID		
LEAD COUNCILLOR:	CLLR JOHN ENNIS	PORTFOLIO:	HOUSING
SERVICE:	HOUSING	WARDS:	BOROUGHWIDE
LEAD OFFICER:	SARAH GEE	TEL:	0118 372973
JOB TITLE:	HEAD OF HOUSING & NEIGHBOURHOODS	E-MAIL:	sarah.gee@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 At the end of June 2018 the Ministry of Housing, Communities and Local Government (MHCLG) announced a programme aimed at supporting local authority new build housing through additional borrowing capacity within the Housing Revenue Account (HRA) and with supporting grant funding from the Homes England Affordable Housing Programme.
- 1.2 This report summarises bids submitted on 30th September 2018 to develop up to 170 new additional affordable homes in the Borough and illustrates the financial implications these bids would have, if successful, on the Housing Revenue Account.
- 1.3 The report seeks retrospective approval to submit these bids as the tight timescales from announcement to bid deadline meant bids were still being developed and the financial implications being assessed right up to the submission deadline, which precluded securing prior approval.
- 1.4 In total the submitted bids are for an additional £33,180,400 of borrowing capacity within the HRA and £7,920,000 of Affordable Homes Programme Grant Funding to support a £47,916,000 development programme.
- 1.5 If successful, the bids will enable delivery of Phase 3 of the Council's new build homes programme. Phase 1 of that programme will provide 148 new affordable homes (including a small number of acquisitions) through a capital spend of £26.6m - 78 homes have been built to date with 57 homes under construction currently. Phase 2 will deliver circa 100 affordable homes on Council owned land over the next three years with a budget of £19.9m.
- 1.6 MHCLG have stated that successful bids will be announced in 'Autumn 2018'. Acceptance of any funding offers is subject to approval by this Committee with the individual scheme proposals subject to community consultation and Planning approval.
- 1.7 However, further to the submission of these bids the Prime Minister has announced the intention to remove the HRA borrowing cap for local authorities. The Government's aim is to remove the cap as soon as possible with further details to be provided in the upcoming budget. This means that the Council would be able to develop out these schemes, regardless of the outcome of this bidding round, subject

to affordability within the HRA and securing supporting grant funding from the Homes England Affordable Housing Programme or an alternative form of subsidy.

- 1.8 Section 9 of this report sets out the currently projected annual financial impact on the HRA, including the impact on HRA reserves, were all bids to be approved and schemes delivered. Due to the significant scale of the proposed development and its potential impact on the Council's wider responsibilities to maintain existing housing services and stock, the Council has commissioned an external validation of the current HRA Business Plan to ensure that our appraisal of the impact of these proposals on the Plan is robust. A further report will be presented to this Committee with a recommendation on the final rental mix once this exercise has concluded.

2. RECOMMENDED ACTION

- 2.1 That Policy Committee retrospectively approve the submitted bids for additional HRA borrowing capacity totalling £33,180,400 and Affordable Homes Grant of £7,920,000 to finance the development of 170 new additional affordable homes in the Borough and delegate authority to the Director of Environment and Neighbourhood Services, in consultation with the Director of Resources, to accept any subsequent offers of funding.
- 2.2 That Policy Committee note a further report will be presented to a future meeting of this Committee with a final recommendation on the rental mix (Social Rent and/or Affordable Rent) following the current independent review of the Housing Revenue Account Business Plan.

3. POLICY CONTEXT

The Housing Revenue Account

- 3.1 The Housing Revenue Account (HRA) deals with all finances associated with the housing stock in the ownership of the Council. The HRA is 'ring-fenced' from other Council activity and all expenditure relating to housing, including repayment of any borrowing is charged to that account.
- 3.2 In April 2012 council housing finance moved to a 'self-financing' regime nationally with councils taking on full responsibility for the long-term financial management of council housing. The Council prepares and keeps up to date a 30 year financial plan for its housing operations. The plan shows estimates of rent and other income set against day to day management and repair costs, any long term major investment needed to maintain the stock and the costs of servicing any borrowing debt. The plan is predicated on a number of agreed assumptions around interest rates, rental levels, right to buy and borrowing repayments.
- 3.3 The Council has considered it prudent that the HRA retain minimum net reserves of between £5m and £10m as contingency against any unforeseen financial pressures.
- 3.4 In developing or acquiring new homes, the Council must assess the financial viability of new housing being brought into the HRA over the long term, taking into account both initial capital outlay, on-going revenue costs, and the financial impact on the HRA business plan.

HRA Borrowing:

- 3.5 The amount which the Council is able to borrow within the HRA is currently subject to a 'debt cap' set by Government as part of the transition to self-financing.

- 3.6 At the end of June 2018 the Ministry of Housing, Communities and Local Government announced a programme aimed at supporting local authority new build housing through inviting bids for additional borrowing capacity within the Housing Revenue Account and with supporting grant funding from the Homes England Affordable Housing Programme.
- 3.7 The Prime Minister announced in her speech at the Conservative Party Conference the intention to remove the HRA borrowing cap for local authorities - subsequent to submission of these bids. The Secretary of State for Housing, Communities and Local Government confirmed this in his letter of 18th October when he stated the Government's aim is to remove the cap as soon as possible with further details to be provided in the upcoming budget. This would suggest that the Council would be able to develop out these schemes regardless of the outcome of this bidding round - subject to affordability within the HRA and securing supporting grant funding from the Homes England Affordable Housing Programme or an alternative form of subsidy.

4. THE PROPOSAL

Current Position:

- 4.1 The 2016 Berkshire wide Strategic Housing Market Assessment indicated that Reading needed to provide an additional 699 homes per year of which 406 needed to be affordable. The Council works with private developers and housing associations to secure on-site affordable housing provision or financial contributions through Section 106 agreements as part of the Planning process for new developments. However, whilst our joint working with neighbouring authorities will hopefully help us meet the overall housing numbers needed there is likely to be a significant shortfall in the proportion of affordable homes delivered.
- 4.2 This is in part due to the tightly constrained urban nature of the Borough and a history of pro-actively developing available sites - meaning that any remaining opportunities are few and far between and those that do come forward are often difficult and expensive to build out. This therefore reduces the opportunities to secure a reasonable proportion of affordable housing.
- 4.3 To help address the shortfall in affordable housing, in 2014 the Council launched its own new-build affordable housing programme on Council-owned land and using a combination of HRA borrowing, Right to Buy receipts and Section 106 receipts. 78 new homes have been completed and are now tenanted and a further 57 will be completed over the next 12 months. Phase 2 of that programme has also been approved to provide an additional 100 new affordable homes.

Option Proposed:

- 4.4 A bid was submitted to Government on 30th September 2018 to enable development of up to 170 new additional affordable homes on a number of HRA sites across the Borough. These proposals take advantage of the bidding opportunity announced by MHCLG for councils to increase their current HRA borrowing cap, allowing them to raise additional capital to finance new affordable Council-owned homes.
- 4.5 The report seeks retrospective approval to submit these bids as the tight timescales from announcement to bid deadline meant bids were still being developed and the financial implications being assessed right up to the submission deadline, which precluded securing prior approval.

- 4.6 The total cost of all proposed schemes is estimated at £47,916,000. To finance this the Council has bid for an additional £33,180,400 of HRA borrowing and £7,920,000 of Affordable Homes Grant. In addition the Council will use £3,915,600 of existing HRA borrowing capacity and £2,900,000 of Section 106 receipts.
- 4.7 The financial implications of this additional borrowing are set out in Section 9 of this report.
- 4.8 The Council has already committed the majority of available Right to Buy receipts, as well as remaining HRA borrowing capacity within the current debt cap, to fund Phases 1 & 2 of its new build affordable housing programme. Some Right to Buy receipts are also earmarked to support housing associations on other sites. Therefore the Council could not fund these new affordable homes without additional borrowing capacity and grant funding.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 Reading Borough Council's Corporate Plan 2018-21 has, as one of its 6 priorities, 'Improving access to decent housing to meet local need'. The Corporate Plan highlights the increasing demand for housing across the Borough and in particular for affordable housing. It also confirms the Council's commitment to use its own land and resources to provide new affordable housing to meet that need and the plans and funding already approved to develop new affordable homes within the HRA.
- 5.2 All schemes will be subject to the usual planning approval process to ensure they make appropriate contributions to local priorities as well as meet Borough-wide requirements. For example the energy efficiency measures that will form part of the design for all new build properties will help meet the Council's sustainability agenda.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 A detailed community engagement plan has been developed in consultation with relevant ward councillors and Lead Councillors. Initial engagement will begin during the week commencing 5th November and will ensure residents potentially affected by the proposed schemes will have an opportunity to find out more about the plans and feed in their views prior to the drawing up of more detailed proposals.
- 6.2 Further consultation and engagement will take place on the more detailed plans in the new year before any formal planning application is submitted - at which point there will be a further opportunity for residents and other interested parties to make comments.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7.2 An Equality Impact Assessment for this proposal is not relevant to this decision.

8. LEGAL IMPLICATIONS

- 8.1 Reading Borough Council's constitution states that a 'Key Decision' is one which will *'result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates'*
- 8.2 The constitution states that a decision shall be regarded as significant if the value to the Council in terms of income or expenditure exceeds £500k, except where such expenditure has already been approved as part of the Council's revenue or capital expenditure budget or plan.
- 8.3 This includes the submission of a bid for funding where the Council is lead partner and/or accountable body, the total costs of the scheme for which the Council will accept liability are more than £500k over the length of the scheme. It also includes the submission of a bid for funding where the Council does not have budget provision for it to make its contribution the costs of the scheme
- 8.4 The constitution states that such bids must be approved by the relevant Committee before submission and should be made in consultation with the Director of Resources and responsible Lead Councillor. As stated in paragraph 1.3 of this report it was not possible to seek approval prior of the bid submission because of the short time between the announcement and bid deadline.

9. FINANCIAL IMPLICATIONS

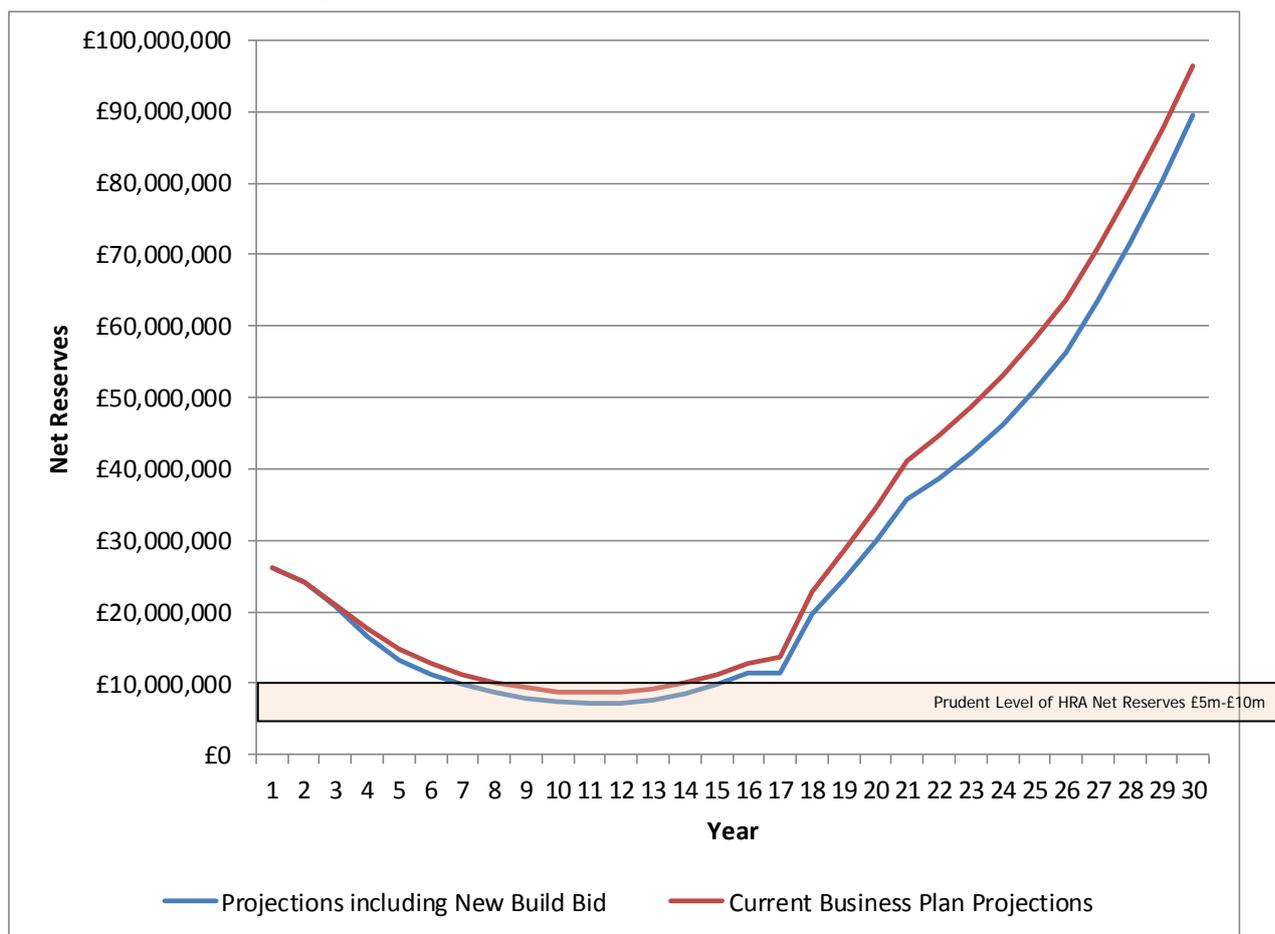
- 9.1 The proposed funding of the schemes (as included in the submitted bid) is set out in the table below:

	2019/20	2020/21	2021/22	TOTALS
Proposed Capital Expenditure	£5,358,000	£30,965,000	£11,593,000	£47,916,000
Funded by:				
Affordable Homes Grant	£0	£5,940,000	£1,980,000	£7,920,000
Section 106 Receipts	£0	£2,900,000	£0	£2,900,000
HRA Borrowing (within current cap)	£2,800,000	£1,115,600	£0	£3,915,600
Additional HRA Borrowing	£2,558,000	£21,009,400	£9,613,000	£33,180,400
Total Funding	£5,358,000	£30,965,000	£11,593,000	£47,916,000
<i>Total HRA Borrowing</i>	<i>£5,358,000</i>	<i>£22,125,000</i>	<i>£9,613,000</i>	<i>£37,096,000</i>

- 9.2 The draft development programme and detailed costing of the proposed schemes were independently estimated by the asset management and construction consultancy, Currie & Brown (who have costed other Council housing new build schemes recently). They were then reviewed and challenged by officers to ensure that the programme was deliverable and the costings realistic and included the Council's own project management and monitoring costs.
- 9.3 The schemes have been modelled to review their financial implications on the current HRA Business Plan, taking into account both initial capital outlay as well as on-going revenue and interest costs.
- 9.4 Due to the significant scale of the proposed development and its potential impact on the Council's wider responsibilities to maintain existing housing services and stock, the Council has commissioned an external validation of the current HRA Business Plan to ensure that our appraisal of the impact of these proposals on the Plan is robust.

- 9.5 As a working assumption, the submitted bid proposes that new flats be let at a mix of Social Rent and Affordable Rent levels (at no higher than Local Housing Allowance, the amount up to which Housing Benefit will cover) and all 2 bed and larger houses let at Social Rent levels. This split is in line with the Council's Tenancy Strategy (2013) as highlighted in Appendix 3 of the Affordable Housing Supplementary Planning Document and seeks to balance the financial viability of the schemes against the affordability for future tenants. However, following the HRA Business Plan validation, a further report will be presented to this Committee with a recommendation on the final rental mix and setting out other options.
- 9.6 The table at Appendix 1 shows the overall revenue impact of the combined schemes on the HRA on both an annual and a cumulative basis for the submitted bid. With the inclusion of the additional new build schemes included in the bid, the annual revenue deficit caused by the new development peaks at £1.016m in Year 17 and the overall cumulative deficit peaks at £8.127m in Year 27.
- 9.7 In the current HRA Business Plan the principal balance of any borrowing is paid back by a Minimum Revenue Provision (MRP) of 2% throughout the 30 year life of the plan (although this will not fully repay the principal balance in the 30 years). However, there is no requirement that repayments are spread evenly throughout the term.
- 9.8 Our current HRA Business Plan shows a 'pinch point' on reserves around years 8-12 with net reserves falling to £8.6m in year 10. The Council considers it prudent that the HRA retain minimum net reserves of between £5m and £10m as contingency against any unforeseen financial pressures. To ensure that these additional schemes do not adversely affect our net reserves the Council is proposing that MRP for the additional borrowing will not be charged for years 0-15 but then charged at the higher rate of 3% from year 15 onwards. The figures in the revenue impact table appended and the net reserves graph below reflect this change.
- 9.9 The graph below shows the overall impact that the proposed schemes will have on the net HRA reserves (total reserves net of Housing PFI 'smoothing' reserves). It compares the projected level of net reserves in the current HRA Business Plan against the projected net reserves when the additional new build schemes in the submitted bid are included. This shows that net reserves are projected to fall below £10m but will remain over £5m should the bid succeed and schemes developed.

Impact of Options on projected HRA Net Reserves



- 9.10 Under the current HRA Business Plan reserves are projected to fall to £8.665m in year 11 of the plan before rising back above £10m in year 14. Under the submitted bid model if all the new schemes were to go ahead then in year 11 of the Business Plan net reserves would drop to £7.301m before increasing back above £10m in year 16.
- 9.11 The current HRA Business Plan includes the projected costs identified as part of the Council’s long term HRA asset investment plan. To ensure this plan is robust, 20% of all the HRA stock is surveyed every year (so each property is surveyed every 6 years) and the investment plan updated accordingly. The 30 year plan has been independently validated on a number of occasions - the latest being carried out by Ridge and Partners approximately 3 years ago when they agreed with the approach and programme assumptions.
- 9.12 One of the bidding requirements is that Councils need to show they are making full use of their existing HRA borrowing capacity before any additional borrowing will be offered. Under our current Business Plan we have £3,915,600 of existing borrowing capacity available (once Phase 1 & 2 of our current new build programme have been taken into account) and our bid reflects this. However additional borrowing capacity becomes available in future years mitigating any potential risk raised by the lower level of reserves as well as potentially offering further opportunities for new development.

10. BACKGROUND PAPERS

- 10.1 Additional Housing Revenue Account Borrowing Programme - Prospectus to Bid

APPENDIX 1

Total Revenue Impact (£,000s) for submitted bids on HRA Business Plan from 2018/19 (Yr 1):

Year	1	2	3	4	5	6	7	8	9	10
Annual	0	-178	-921	-448	128	13	25	32	41	-58
Cumulative	0	-178	-1,098	-1,546	-1,418	-1,405	-1,380	-1,348	-1,308	-1,365

Year	11	12	13	14	15	16	17	18	19	20
Annual	-50	-41	-31	-20	-9	-809	-1,016	-924	-831	-737
Cumulative	-1,415	-1,456	-1,487	-1,507	-1,516	-2,325	-3,341	-4,265	-5,096	-5,833

Year	21	22	23	24	25	26	27	28	29	30
Annual	-633	-532	-430	-329	-227	-125	-17	81	162	240
Cumulative	-6,466	-6,998	-7,428	-7,757	-7,985	-8,110	-8,127	-8,045	-7,883	-7,643

Year	31	32	33	34	35	36	37	38	39	40
Annual	317	394	469	544	619	692	765	838	911	982
Cumulative	-7,326	-6,932	-6,463	-5,919	-5,300	-4,608	-3,843	-3,005	-2,094	-1,112

Year	41	42	43	44	45	46	47	48	49	50
Annual	1,054	1,125	1,197	1,268	1,338	1,409	1,480	1,551	1,622	1,693
Cumulative	-57	1,068	2,265	3,532	4,871	6,280	7,760	9,311	10,932	12,625

Year	51	52	53	54	55	56	57	58	59	60
Annual	1,764	1,835	1,907	1,979	2,051	2,123	2,197	2,270	2,344	2,419
Cumulative	14,388	16,224	18,130	20,109	22,160	24,283	26,480	28,750	31,094	33,513