

**Bolsover District Council**

**Executive**

**16 June 2014**

**HRA Development**

**Report of the Head of Housing (Portfolio Holder: Cllr K Reid)**

This report is public

**Purpose of the Report**

- To make members aware of the opportunity to use headroom borrowing within the Housing Revenue Account to build new properties and to make a major contribution to growth targets of the Council.
- To note that Officers are currently undertaking work aimed at developing a further phase of building new houses within the HRA in order to meet housing need within the District.

**1 Report Details**

**1 Introduction**

Historically, many Councils have supported the delivery of new affordable housing by transferring land at a nil or nominal value to a registered provider, which has then delivered the affordable housing, owned and managed it, normally in return for nomination rights to the council. Councils are now opting for direct delivery, and there are a number of reasons for this change of approach:

- Prior to self-financing the subsidy system took away the resources required to finance new affordable housing development. It was therefore not a viable option for local authorities to retain a financial interest in new affordable housing development. As part of the approach of localising the HRA, which has been progressed by both the previous and the current government, these financial constraints on building new housing have been removed and the new localised system is supportive of new build providing it can be demonstrated that this is financially sustainable within the context of the HRA 30 Year Business Plan. To date Bolsover District Council has constructed – or is in the process of constructing – some 55 new properties.
- Councils must retain a critical mass of housing stock to ensure that they can continue to provide cost effective services to tenants. . An increase in levels of Right to Buy, encouraged by recent changes to the national policy, has meant that many local

authorities are looking at opportunities to own new affordable housing and replenish lost stock.

- Registered providers (RP) are finding it harder to raise finance to deliver new affordable housing, in particular given the higher cost and short term nature of bank lending in the current economic climate.
- The reductions in grant from the Homes and Communities Agency under the affordable homes programme, and the scarcity of grant support within our region, make the transfer of land to an RP less attractive as the scheme economics are no longer as advantageous. Furthermore, RPs appear to be focussing their efforts on areas with higher rental values (linked to affordable rent), to help make schemes viable and keep required grant rates down.

Through the recent redevelopment of the Tarran estates, the Council has demonstrated that it can successfully deliver new build council homes, with 55 new properties already built or in progress. Building on this success, and recognising a need to replenish lost housing stock and deliver affordable housing that meets local housing needs, routes to delivering further new build council housing schemes have been considered. The Council intends to adopt a Growth Strategy in June 2014, and this will be supported by a Housing and Economic Development Strategy. This will allow detailed consideration of the delivery of three strategic objectives:

1. Increase the amount of new affordable good quality housing in the short, medium and long term;
2. Contribute to the regeneration of the district and deal with issues associated with areas of 'problem' housing, as identified in the recently completed stock condition survey; and
3. Assist in unlocking larger development sites through acquisition of affordable housing, acting as a catalyst to bring them forward for development.

## **2 Background**

### Self Financing and the HRA Business Plan

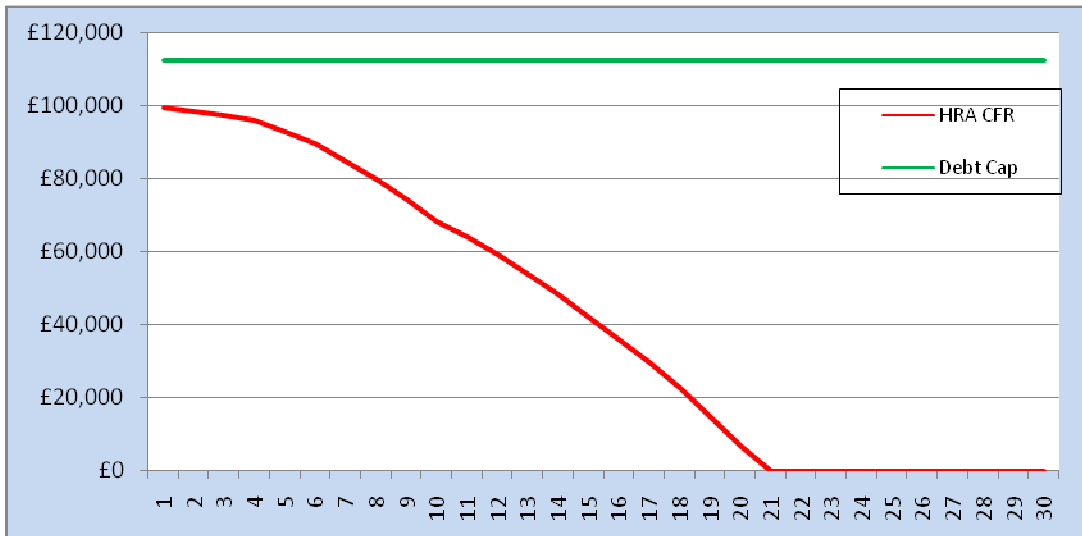
The move towards self financing and the debt settlement was intended to allow each council, from rental income, to manage its stock and maintain it in a good state of repair for 30 years, or replace it where necessary, with enough finance left over to meet debt interest and repay the debt over the same period.

For Bolsover - with a history of reaching the Decent Homes Standard, maintaining stock at good levels and offering a housing service at lower than average cost - this means that there is significant 'headroom' between the investment needs for the existing stock and the borrowing cap set by Government. This position has been confirmed by the outcome of the recent Stock Condition survey. While further work needs to be undertaken on analysing the outcomes of that work it is clear that Bolsover District Council is in a good position in terms of being able to generate the funding over the next 30 years which will maintain existing housing stock at the Decency Standard.

The current business plan has shown that the HRA is viable for the full 30 year period, and there remains significant headroom which will enable additional borrowing to finance the

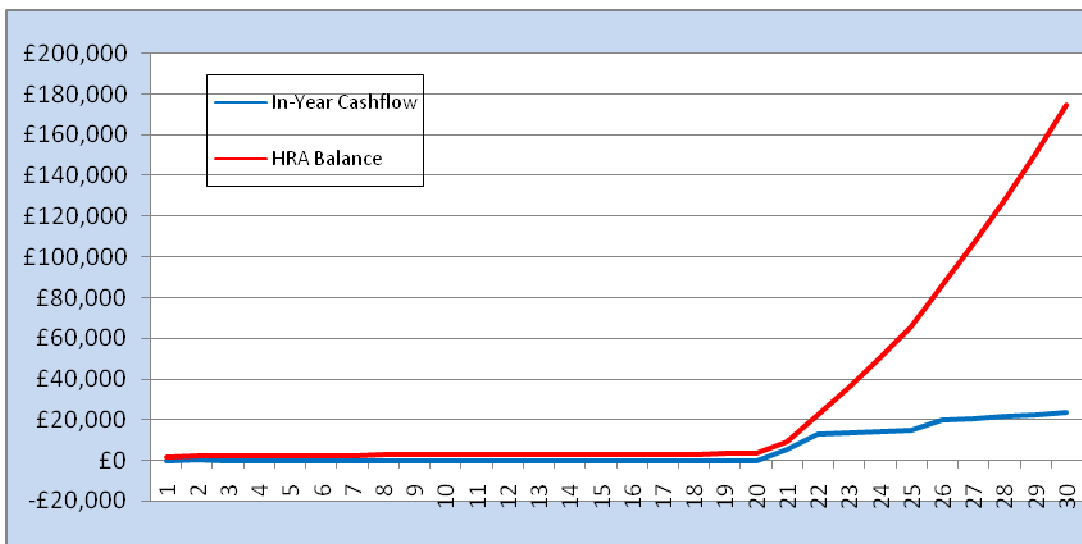
costs of developing new housing. The following graph illustrates the debt profile against the debt cap. This suggests that debt could be repaid by year 21 if all surpluses were used to reduce debt.

**Figure 1: Extract from HRA business plan showing debt cap and debt (shown in 000s)**



However, as the plan assumes that any surplus generated from within the HRA is used to reduce debt, once the debt is repaid, this will result in a large surplus within the HRA, as illustrated on the following graph. Figure 2 in Appendix 1 illustrates that on the basis that the projected level of surpluses are utilised to repay debt then the surpluses within the HRA would increase significantly at that stage.

**Figure 2: Debt Repayment and Surplus (000's)**



An alternative would be to make use of the headroom and undertake additional borrowing to fund the delivery of new housing within the HRA. This would mean that as the original debt is repaid, the council would make new borrowing to develop additional new build properties. This approach would have the clear advantage of ensuring the stock numbers – which otherwise would be reduced by Right to Buy - are maintained, while it will also

help ensure that local residents can continue to seek Council House Tenure as one of the means of securing affordable housing to meet their needs.

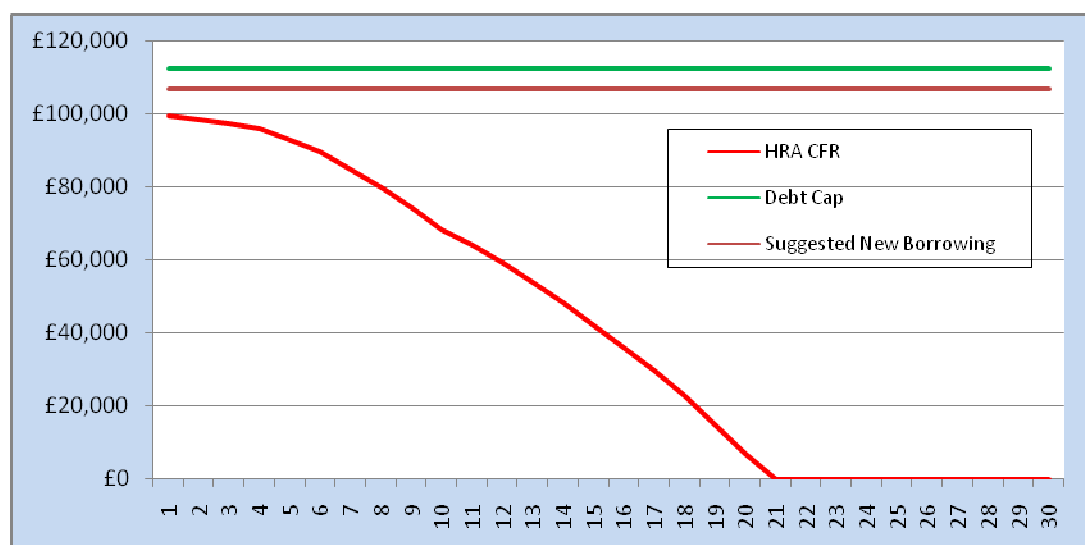
### 3 Development within the Housing Revenue Account

This is the preferred route to delivering new council housing, either through building new properties or acquisition of existing properties. Most authorities with available borrowing and revenue headroom will be developing some form of HRA build programme. There are financing reasons for this:

- HRA borrowing can only be used for HRA assets
- Generally speaking, revenue surpluses generated within the HRA can only be used for HRA purposes
- If a council wished to reinvest additional RTB receipts (under the local agreement arising from the extension of discounts), the only properties with a local authority financial interest are HRA properties. If there is not the opportunity to invest in HRA properties then part of this locally generated financial resource will be lost to central government.

To deliver new housing within the HRA, additional borrowing would be undertaken to fund development. This would mean that as the original debt is repaid, the Council would undertake new borrowing to deliver new build schemes. Borrowing is via PWLB at low current interest rates but is subject to the debt cap imposed under self-financing. It is recommended that total borrowing does not exceed 97.5% of the debt cap limit to allow for any currently unforeseen circumstances which arise within the existing stock. This can be seen in figure 3 below, with the difference between the HRA CFR and the 'suggested new borrowing' being the potential additional borrowing for any unforeseen circumstances. Or This would provide the HRA with what is in effect an additional financial reserve amounting to almost £3m.

Figure 3: Proposed Additional Borrowing (000's)



For 2014/5 this approach would allow the Council to borrow up to £15m within the HRA to invest in new build council housing, with the potential to increase this by around £3m per year as existing historic debt is repaid on an annual basis. To ensure that development

does not undermine the HRA business plan, each new development will need to undergo a viability assessment, to confirm whether it is financially sustainable and that it will make a positive contribution to the HRA. Detailed modelling will need to be undertaken to assess the scope to undertake new build and acquisitions, and the impact of undertaking this work. This modelling will be undertaken within the context of the 30 year HRA Business Plan which is currently being updated to reflect the outcome of the stock condition survey and also to amend the level of future rental streams in the light of the Government's recent changes to the rent convergence model.

Development of HRA properties can also be financed by all usual local authority and HRA routes:

- RTB receipts from both non-pooled and RTB-agreement sources
- Other receipts from disposal of HRA properties and other sites, this will include existing stock that is unviable.
- Section 106 commuted sums
- HRA Revenue and reserves
- Affordable Homes Programme grant funding from the Homes and Communities Agency.

The Council has a number of HRA sites with the potential to deliver housing. These are in the process of being identified and prioritised based on their scale and the ease of delivery. However, building in the HRA will also allow council homes to be built on General Fund (GF) land, where there is a need for affordable housing and the land values make it an attractive option. In order to do this within the HRA a valuation would need to be undertaken which may result in a shift of resources between the HRA and the General Fund in which the Capital Financing Requirements for each account would be adjusted; this would increase the level of debt in the HRA, therefore eating into borrowing headroom. In both cases, there would be no taxation (Stamp Duty Land Tax) implications. There is also the opportunity to address some 'regeneration targets' through the purchase of smaller private sites that would otherwise not be developed.

The additional HRA borrowing can also be used to increase council housing stock through the acquisition of existing properties. This may be through the opportunity to repurchase previously sold RTB properties. While this does not add to the overall stock in the district, these properties are often cheaper to purchase (in most cases) than to build new. Secondly, there may be the opportunity to purchase s106 properties direct from developers where other Registered Providers are unable to take the units and hence the development is stalled, although Bolsover currently has few such sites.

Development in the HRA could be for rented, shared ownership or other forms of affordable housing tenures. Development of housing for sale, from which profit is generated to subsidise affordable housing, is also deliverable within the HRA. This may help the Council to deliver housing that is less financially attractive, but may meet an identified need within the District .

Properties for rent in the HRA are normally let on 'secure' tenancies which carry the Right to Buy. The recently updated rules on the RTB mean that discounts potentially available to tenants of new properties are large over time. However, the 'cost floor' mechanism was also changed to extend to 15 years – effectively meaning that a new property cannot be sold for less than its build-plus-maintenance-cost for 15 years. Application for S80B exemption from the pooling of RTB receipts on any new HRA property built since April 2012 should be able to be secured (application to HCA) which means that any receipt

generated from the sale of a new build property would be retained locally, rather than being partially repayable to central government.

#### 4 **Proposal**

There are two other potential routes to the delivery of new build council homes:

1. *Development in a Special Purpose Vehicle (SPV)* – owned and managed wholly by the Council, with the general finances and accounting sitting within the General Fund, rather than the HRA.
2. *Development in a Joint Venture Company (JVC)* – a JVC is established with the private sector to bring in expertise, and private finance from banks and institutional investors.

Due to lengthier implementation timescales, set up costs, increased risk, and higher costs of borrowing these are not considered to be the most effective or appropriate route for delivery at this time. Currently the HRA self financing system provides the Council with an affordable, straightforward and effective route to deliver new council housing. However, as development is brought forward and borrowing capacity and council land assets become depleted, the Council may wish to revisit other potential delivery routes to enable an ongoing programme of delivery to be undertaken. This could see an indicative three phase programme to delivery new council housing, with options in phases 2 and 3 needing to be considered in more detail at a later time:

Activity	Phase 1 (2014/15 – 2016/17)	Phase 2 (2016/17 – 2018/19)	Phase 3 (2019/20 onwards)
Build within the HRA on HRA land	Yes	Yes	
Repurchase of previous RTB properties	Yes	Yes	Yes
Build within the HRA on GF land*	Yes	Yes	
Build within HRA on purchased land**	Yes	Yes	Yes
Acquisition of S106 properties	Yes	Yes	Yes
Regeneration of HRA sites		Yes	Yes
Develop outside the HRA in SPV		Consideration	Possible
JV with other partners			Consideration

\*Pending sites being considered as part of the Development Fund process.

\*\* Pending consideration and approval

#### 5 **Next Steps**

On the 3<sup>rd</sup> February 2014, Executive agreed a report setting out proposals to establish a Development Fund to bring forward council owned land for housing, commercial and mixed use development. Executive agreed to the creation of the Fund, using £70,000 of the Council's Efficiency Grant as the initial capital. The Fund will be used to finance options appraisal, viability and other works needed to successfully bring forward council owned sites for development, regeneration and to generate capital receipts.

Although the Development Fund's role is to bring forward sites within the General Fund, in order to streamline the process and ensure a consistent council wide approach, a single process for identifying potential land for development has been applied to sites within both the General Fund and the Housing Revenue Account. This has been a joint approach involving officers from Housing, Regeneration, Planning and Economic Growth. A shortlist of potential sites was presented to the Asset Management Group (a working group with officers and the Deputy Leader) in May 2014, and an initial tranche of prioritised sites was agreed by the Group.

Some of the sites, especially those owned by the HRA, are more suited for the development of Social Housing and it is therefore proposed to progress HRA sites through the same mechanism as the General Fund sites, whereby consultants are appointed to undertake options appraisal and viability work on HRA sites to assess the potential of sites to deliver new social housing. The costs associated with this piece of work will require additional funding, which will be met from within the HRA.

If the decision is taken to build new Council Housing, there will be a need to identify a contractor to build the properties. Officers are currently considering an appropriate route for the procurement of both consultants and contractors. Given the Council's experience of developing new homes and the desirability of maintaining the momentum in building new properties it is considered likely that officers will look towards pre-tendered framework agreements which should allow a start on site within the next 12 months. This procurement process will be subject to a separate report as part of the consideration of a detailed scheme.

## **6 Conclusions and Reasons for Recommendation**

A decision to develop new properties within the HRA is an opportunity for the Council to improve the quality of housing within the District, to increase the number of affordable homes to meet identified local needs, and to contribute to the wider growth aspirations of the Council.

## **7 Consultation and Equality Impact**

At this stage there has been no specific consultation on this proposal. Likewise there has been no specific equality impact assessment carried out. These issues will be considered as part of the detailed development of the scheme.

## **8 Alternative Options and Reasons for Rejection**

These are covered in the main report before recommending that the option of development within the HRA was the most appropriate option at this point in time.

## **9 Implications**

### **9.1 Finance and Risk Implications**

This report proposes additional borrowing within the HRA up to 97.5% of the borrowing cap as an in principle decision. Further work will be undertaken on both the overall HRA Business Plan and on appraising each individual scheme to ensure that any proposals are financially sustainable. The outcome of this work will be reported to a future meeting of this Committee as part of the process of approving detailed schemes.

The costs of the initial viability work which will be up to £100,000 will be met from within the HRA Development Reserve which has been created to promote new build.

## 9.2 Legal Implications including Data Protection

Not directly, however a viability assessment for a site may identify specific legal issues, which would be subject to separate reporting.

## 9.3 Human Resources Implications

None directly arising out of this report.

## 10 Recommendations

It is recommended that Executive make the following recommendations to Council:

- 10.1 Agree, in principle, to increase the borrowing within the HRA to up to 97.5% of the debt cap to allow new build properties to be provided from within the HRA.
- 10.2 Endorse the process for identifying HRA sites with the potential to deliver new housing, and agree to options appraisal and viability assessment work being undertaken on these to assess the potential for them to deliver new social housing within the HRA.
- 10.3 Agree the establishment of a HRA fund, similar to the previously agreed Development Fund for the General Fund, to allow HRA sites to progress through viability assessment, options appraisals and planning.
- 10.4 To give delegated authority to the Head of Housing, in consultation with the Portfolio Holder for Housing and the Joint Executive Director of Operations to spend up to £100,000 from the HRA Development Reserve in order to progress scheme viability work.
- 10.5 That the Head of Housing, with agreement of the Joint Executive Director of Operations and in consultation with the Portfolio Holder for Housing, is given delegated authority to appoint consultants for works as identified through the Asset Management Group.
- 10.6 That the Head of Housing progresses detailed work including the development of procurement arrangements which will facilitate an early commencement on site. The approach adopted will be subject to a further report to Executive as part of the process of agreeing a detailed scheme.

## 11 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
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<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	<p>Maximise the supply of affordable housing in the District and deliver an average of 20 units per annum by March 2015.</p> <p>Deliver £100,000 of New Homes Bonus per annum in the District as part of the Local Investment Plan through the delivery of new affordable housing, empty properties brought back into use and mortgage assistance schemes.</p>

## 8 Document Information

Appendix No	Title
<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number

Report Reference –