



Cabinet
12 September 2018

**Report from the Strategic Director
of Community and Wellbeing**

Housing Revenue Account Borrowing Headroom

Wards Affected:	All
Key or Non-Key Decision:	Key Decision
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	N/A
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	<p>Phil Porter Strategic Director Community Wellbeing Email: phil.porter@brent.gov.uk Tel: 020 8937 5937</p> <p>Hakeem Osinaike Operational Director Housing Email: hakeem.osinaike@brent.gov.uk Tel: 020 8937 2023</p>

1.0 Purpose of the Report

- 1.1.1 To outline the current opportunity the Council has to apply for additional borrowing headroom for the Housing Revenue Account (HRA) via the GLA, as well as new grant available to build new council housing.

2.0 Recommendation(s)

- 2.1 To agree for the Council to bid for additional headroom borrowing to build new Council homes at social rent level.
- 2.2 Should negotiations with the GLA alter the proposed amount of borrowing, to delegate the decision to progress to the Strategic Director, Community Wellbeing in consultation with the Chief Finance Officer (s.151 Officer).

3.0 Detail

- 3.1 Changes to the HRA regime in 2012 gave stock-owning local authorities full control of their housing income and expenditure and, in return, each was allocated a share of the national housing debt. Each local authority can borrow money to support new development or other priorities, subject to a cap intended to limit total borrowing in line with public spending restraint. The difference between the cap and the proportion of debt allocated to each authority

represents the authority's borrowing headroom. Brent's current estimated headroom is £62.670m but this is essentially fully committed to identified development and improvement and repair schemes. In 2013 the Government announced an additional borrowing programme of up to £300 million. Following a competitive bidding process, local authorities only took up around 50% - £145 million of that borrowing. A number of local authorities felt that the conditions attached to the government's programme were unnecessarily restrictive.

- 3.2 The changes since the 2013 borrowing programme are significant. Brent will be able to combine the additional borrowing secured through the new programme with other funding sources. Brent will be able to use either grant funding from the Shared Ownership and Affordable Homes Programme 2016-21 or retained capital receipts from the sale of council homes sold under the Right to Buy, together with the additional borrowing, to fund new housing.
- 3.3 In November 2017 the Chancellor Philip Hammond announced as part of the new budget that the borrowing caps attached to local authorities HRA will be lifted in areas with high affordability pressures. The government made this pledge of £1 billion pounds to encourage and stimulate local authorities to start building Council homes again. The criteria for bidding was finally released in June 2018, delegating the decision on London authorities to the GLA.
- 3.4 The GLA's new 'Building Homes for Londoners' prospectus formally announced the opportunity to increase borrowing headroom for London Councils in July 2018. This was amongst a raft of other beneficial changes, including freezing Right to Buy receipts and enhanced grant rates of £100,000 for new build affordable rent properties and £68,000 for new shared ownership.
- 3.5 The government's primary objective is to increase the supply of new Council and affordable homes delivered by Local Authorities, as part of its plans to replace the Council homes lost through the Right to Buy scheme.
- 3.6 The opportunity to increase the borrowing headroom alongside enhanced grant rates for building new homes with less restrictions is a helpful opportunity to support the Council to start building out its pipeline of housing sites (1000 units). However, it should be stressed that London's share of the national total is still well below the amount needed to make a significant impact on demand for new homes. A successful bid at £54 million as set out in paragraph 4.4 has the potential to deliver around 250 new homes.
- 3.7 The GLA will assess bids on the following key elements:
 - 3.7.1 Value for money – bids will need to demonstrate reasonable per unit scheme costs and should seek to maximise the numbers of units delivered, for example by bringing forward their own land for scheme development to reduce costs or offering cross subsidy where possible.
 - 3.7.2 Deliverability - in light of the annual profiles attached to this additional borrowing programme, it is important that local authorities are ready to start building in relevant years and have the necessary capability to deliver to time and budget, as well as a track record of delivery.
 - 3.7.3 Affordability – the additional borrowing programme is targeted at areas of high affordability pressure, in order to help local authorities to build more of the right homes, in the right places, and ensure that the housing market works for all parts of the community. We will rank bids according to the areas of the highest affordability pressure.

4.0 Pipeline of HRA Sites

4.1 Below is a table listing sites that Housing are aiming to build out, in order to increase supply of affordable housing in the borough.

Table 1 - HRA Pipeline of Sites and anticipated/estimated year of construction

Site Name	19/20	20/21	21/22	Planning approval	No of units	Indicative Project Cost (m)
Wyatt Court		£1753000		N	5	£1.8
Mason Court	£800,000			Y	4	£0.8
Hindhurst Court	£675,000			Y	3	£0.7
Gloucester Close (A/B)	£1,025,000			N	5	£1.0
Kings Drive	£1,620,000			N	6	£1.6
Frontenac	£940,000			N	4	£0.9
Ellersie Gardens		£2,336,797		N	8	£2.3
Claire Court(TMO)			£22,680,000	N	84	£22.7
Lidding Road		£2,160,000		N	8	£2.2
Windmill Court			£13,500,000	N	50	£13.5
Seymour Court	£1,350,000			N	5	£1.34
Pharamond	£2,000,000			N	8	£2.0
Anuerin Bevan Court	£1,000,000			N	4	£1.0
Chalfont House		£500,000		N	2	£0.5
Hargood Close		£300,000		N	1	£0.3
Longley Avenue		£500,000		N	2	£0.5
Minterne Road		£300,000		N	1	£0.3
Sutherland Court		£300,000		N	1	£0.3
Sycamore Grove		£300,000		N	1	£0.3
Townsend Lane		£300,000		N	1	£0.3
	£9,410,000	£8,749,797	£36,180,000		203	£54.4

4.2 This pipeline demonstrates the Council's ambition to do all it can to meet the housing needs of its residents and to honour our commitment of supplying homes with rents that are truly affordable to Brent residents and in line with the

Mayors new housing policy. A successful bid to increase the HRA borrowing headroom, will contribute to fulfilling this ambition.

- 4.3 Based on currently held Right to Buy receipts and capital budget, our intention is to bid for approximately £54.4m. This figure may change, subject to further discussions with the GLA.

5.0 Financial Implications

- 5.1 The self-financing settlement in 2012 imposed a cap on future levels of debt for all authorities, the debt cap for Brent was set at £199.3m. Currently our projected headroom is £7m after accounting for earmarked investment in our housing stock and existing infill developments, this could change following the stock condition survey which is being undertaken in this financial year.
- 5.2 In London there is a combined fund of £500m split across three years from 2019-20 to 2021-22. Brent intends to bid for £54.34m additional headroom alongside a bid for the Affordable Housing Grant on offer for £100,000 per unit. Assuming the bid for grant is successful, we will require minimum additional headroom of £34.04m to undertake the pipeline projects listed in this report. The estimated additional financing cost of this will be £0.85m (assumed 2.5% current PWLB borrowing rates), and will be a charge to the Housing Revenue Account.
- 5.3 If £34.04m is awarded, the overall debt to Brent will be £233.34m by the end of 2021/22. The total debt financing cost to the HRA is estimated to be £8.71m per annum (based on current interest rates in portfolio). It will be an added pressure which will require mitigating plans.
- 5.4 The HRA business plan will need to consider options for repayment of principal, it will be possible to make some repayments gradually if funds are accumulated in reserves, this means future investment in major works to properties will need to be re-profiled over the 30 year plan.
- 5.5 There is a possibility that properties built through the pipeline could be sold under Right to Buy scheme, this will result in loss of asset to the Council while increased debt levels remain. However, the Social Housing Green Paper includes proposals to relax current restrictions on the use of RTB receipts. It is proposed that local authorities will be able to retain receipts for longer than the current three year limit without penalty, allowing more flexibility around their use, and that there could be greater flexibility over the proportion of RTB receipts used to fund replacement homes (the current limit is 30% of the overall cost). If brought into effect following consultation, these changes could mitigate to impact of stock loss to RTB.
- 5.6 The restrictions on the additional headroom states that accepted bids must meet the annual borrowing allocation targets set by the GLA, or risk losing access to the additional borrowing. Therefore it will be crucial that Brent can realistically undertake the necessary capital expenditure in the specified years, and have contingent projects to cover potential slippages.

6.0 Legal Implications

- 6.1 The increase in the borrowing headroom for the council will need to agree to the GLA's grant conditions and legal requirements. Any successful bids will require the council to agree to the grant conditions that will need to be formally adhered to.

6.2 If the council is successful it will receive a new indebtedness determination (in writing) to reflect the additional borrowing and in which years.

6.3 The GLA requires any bid to be formally signed off and certified by the Council's Chief Finance Officer (section 151 officer).

7.0 Equality Implications

7.1 The council by borrowing additional money on the HRA will be able to build more council owned properties and therefore supply more affordable housing to general needs and NAIL users.

7.2 The building of council homes again directly will have a very positive equality impact and allow people whom are currently housed in temporary accommodation the opportunity to live in a more permanent residence in a council property.

8.0 Consultation with Ward Members and Stakeholders

8.1 Members are aware of the current infill programme and the position on the HRA as this was presented to members at cabinet in February this year. Member's involvement in the decision to increase borrowing headroom is key to fulfilling the council's ambition of building more affordable housing in the borough.

8.2 The Housing Partnerships team will set out a regular communications strategy to consult members on an ongoing basis with regards to the new council housing pipeline.

9.0 Human Resources/Property Implications (if appropriate)

9.1 The Property team's resource to deliver this programme will be monitored by the Housing Partnerships team to ensure the correct resources are in place to deliver as promised.

Report sign off:

Phil Porter

Strategic Director of Community Wellbeing