

<b>Subject:</b>	<b>HRA Borrowing Cap</b>		
<b>Date of Meeting:</b>	<b>13 March 2019</b>		
<b>Report of:</b>	<b>Executive Director for Neighbourhoods, Communities &amp; Housing</b>		
<b>Contact Officer:</b>			
	<b>Name:</b>	<b>Diane Hughes, Sam Smith</b>	<b>Tel: 01273 293321, Tel: 01273 291383</b>
	<b>Email:</b>	<b>diane.hughes@brighton-hove.gov.uk, sam.smith@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>(All Wards);</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Housing & New Homes Committee on 14 November 2018 considered a 'Housing Supply Update' report that provided an update on the delivery of new affordable housing by the council, and future plans to escalate delivery by utilising the recently announced HRA borrowing flexibilities and revenue underspends in the HRA.
- 1.2 At December's meeting of full council a Notice of Motion was agreed which asked for the following:
- (1) To call upon the Chair of Housing to bring a report to the next meeting of the Housing & New Homes Committee, on 16th January 2019, that details a revised policy in the light of changes to HRA Borrowing Cap and the failure of current policies to achieve replacement of truly affordable social rents lost under the 'Right to Buy' (RTB);
- (2) Since LGA research reveals councils have only been able to replace 1 in 5 homes sold under the RTB since 2011/12, to ask that the Chief Executive writes to the Secretary of State, requesting the option for councils to suspend RTB sales in areas where there is a shortage of affordable homes;
- (3) That the Chief Executive writes to the Secretary of State asking that the 30% limit on investment of RTB receipts in affordable housing be lifted; and that councils are able to include the full value of council land in the cost of building, thereby enabling scope for providing new homes at living and social rents."
- 1.3 In response to point (1) of the Notice of Motion, this report updates on progress on removing barriers to accelerate delivery of new homes agreed with the approval of recommendations of the Housing Supply Update Report considered at Housing & New Homes Committee in November 2018. This report provided information on capacity and resources to expand delivery of housing following lifting of the HRA cap.

- 1.4 In response to point (2) a letter has been sent to the Secretary of State regarding RTB sales and the council is awaiting a response.
- 1.5 In response to point (3) in August 2018 the Government launched a consultation regarding the options for reforming the rules governing the use of RTB receipts. The council responded to this consultation, welcoming both an increased flexibility on the amount of RTB receipts that can be used and also an extension of the deadline for when existing receipts must be spent. The government have not yet announced the outcome of this consultation or any changes to the current rules.

## **2. RECOMMENDATIONS:**

- 2.1 That the committee note the contents of this report.

## **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The Government announced on the 3 October 2018 the borrowing restrictions on the Housing Revenue Account (HRA) will be removed enabling councils to play a key role in delivering the homes their communities need. Following this announcement the Minister for Housing, Communities and Local Government has now issued a determination – The Limits on Indebtedness (Revocation) Determination 2018. This came into force on 29th October 2018, removing the borrowing cap on the HRA.
- 3.2 Housing & New Homes Committee on 14 November 2018 considered a ‘Housing Supply Update’ report that provided an update on the delivery of new affordable housing by the council, and future plans to escalate delivery by utilising the recently announced HRA borrowing flexibilities and revenue underspends in the HRA. Committee agreed to recommendations to: note the work programme to date to increase the supply of affordable housing in the city and proposals to increase cross council resources to support expansion of the programme to realise the council’s ambitions to increase housing supply; agree (subject to government guidance) for the council to utilise HRA borrowing flexibilities to deliver future New Homes for Neighbourhoods Schemes; note that as a result of current forecast underspend in the HRA, the month 7 Budget Monitoring report to Policy Resources & Growth Committee will propose that £1.5m will be used as a revenue contribution to the capital programme to support further housing delivery via the Home Purchase Scheme for 2019/20.
- 3.3 The lifting of the cap is welcomed. HRA borrowing can be used to improve our existing stock as well as building new homes. This enables the council to respond to a range of current and future pressures on the HRA including;
- Increasing the supply of new homes
  - Changes to the Decent Homes Standard announced through the Housing Green Paper
  - Post Grenfell actions required to be undertaken by councils
  - Increasing investment in council owned homes
  - Undertaking a new stock condition survey on council owned homes and
  - The cost of delivering works under new repairs and maintenance arrangements.

## **Removing barriers to accelerate delivery of new homes**

- 3.4 In light of this change the council has been looking at the range of initiatives it has to deliver additional housing and how it can respond to the change in legislation to accelerate delivery and increase the amount of housing delivered in the city.
- 3.5 The council has bid for the recently announced Local Government Association grant programme relating to building new council homes, and unlocking the skills to deliver ambitions for the HRA. We applied for the full £50,000 grant with the bid focused on a resource to develop our pipeline of sites. We expect to hear soon if we have been successful. The bid included the following outcomes:
- Accelerated delivery, including looking at the meanwhile use on sites to meet housing pressures pending approval for redevelopment;
  - Increased supply of affordable housing compared with the current baseline pipeline of sites, over the next two years
  - evaluation of Modern Methods of Construction options including modular, system build and timber frame to speed up construction delivery;
  - Maximise existing land density and understand the full development potential of existing assets and land holdings;
  - The creation of a “rolling” pipeline balancing the need for existing project delivery and new project identification.

## **New Homes for Neighbourhoods – accelerated pipeline development**

- 3.6 The council has developed an innovative ‘New Homes for Neighbourhoods’ programme. The programme has been successful and since summer 2015 has completed 172 new council homes in 11 projects and has another 12 council homes under construction at Kensington Street. It has sites currently identified for a total of around 500 homes including 30 at Eastergate Road, 12 at Buckley Close, 4 at Rotherfield Crescent, 30 at Selsfield Drive and 46 at Victoria Road which all have committee approval to proceed. In addition, there is potential for redevelopment of some existing council housing.
- 3.7 An accelerated pipeline of New Homes for Neighbourhoods projects is currently being developed to take advantage of the lifting of the HRA cap and to ensure 1-4-1 RTB receipts are spent within the required deadlines. This includes a detailed review of potential development sites including due diligence checks. Initial assessment work on this pipeline increases the number of homes the programme will deliver from 500 to 650 homes.
- 3.8 Projects that can be progressed will be brought to Housing & New Homes Committee for approval. It is also key for the new programme to replicate the successful public consultation process held throughout the delivery of the New Homes for Neighbourhood programme (NHFN). It is important the approach is tailored appropriately and communities are fully consulted on any proposals.
- 3.9 The following table provides an overview of the programme and projected next phases:

Programme phase	No. homes	Date
Phase 1 (completed homes)	172	Complete June 18
Phase 2 (on site/with agreement to progress)	124	All homes complete 2021
Phase 3 (next phase of projects)	c.130	Committee Autumn 2019
Phase 4 (medium term pipeline)	c.125	Committee Spring 2020
Phase 5 (longer term pipeline)	c.85	Committee Summer 2020

- 3.10 This follows the work completed on the bid applications, which were made for the delivery of New Homes for Neighbourhoods schemes for the three years 2019–2022, but these were not processed due to the HRA borrowing cap being lifted.

### **Moulsecoomb Hub**

- 3.11 Following initial proposals for the development of a neighbourhood hub in Moulsecoomb and Bevendean the scope of the project has been extended to include the neighbourhood hub with access to co-located services and to maximise the potential for new affordable housing in the area. The revised project scope would release sites for housing which would be developed by the council's New Homes for Neighbourhoods programme, maximising opportunities presented by the recent removal of the borrowing cap for the HRA.

### **Additional Resources**

- 3.12 In the November 2018 committee report it outlined a range of additional resources that would be created to support housing supply projects for the council. An update on progress is included in the table below:

Role	Progress
3 x Project Managers	1 x Project Manager in post, 2 x Project Manager out to external recruitment with a closing date of 25 February 2019.
1 x Architect	Additional architect now in post in Property & Design creating further capacity to support housing projects.
Legal support	A number of legal services positions will now support housing supply projects creating additional capacity to deliver. To be kept under review and a further post may be considered if required.
Financial Support	A number of finance positions will now support viability modelling and budget management support creating additional capacity to support housing supply projects. To be kept under review and a further post may be considered if required.

Planning Support	Discussions underway to agree a Pre Planning Application Agreement for council led housing initiatives.
1 x Technical Surveyor	To be accessed on a consultancy basis as required.
1 x Commercial Asset Surveyor	Currently being recruited to.
Customer Liaison	Currently being recruited to.
Consultation and communications support	Communication support continues to be provided by the corporate Communications Team. Currently reviewing options for consultation support.

### **Other initiatives**

#### **Homes for Brighton & Hove (Living Wage Joint Venture)**

- 3.13 The council will continue working in partnership with Hyde Housing Association (Hyde), as part of our innovative joint venture to provide combined additional investment of over £100m to deliver 1,000 new lower cost homes for rent and sale in the city. The first sites have been identified and two planning applications are currently being considered, which will deliver 360 new homes. Further sites are being assessed and it continues to work with public sector partnerships to make best use of public sector assets. The Homes for Brighton & Hove initiative gives the council a method of increasing the supply of affordable homes which does not use HRA funding or land. This ensures HRA land can be prioritised for council led development. It includes investment of approximately £60m in affordable housing from both the Council's General Fund and Hyde Housing and uses Hyde's expertise in development management to take forward these sites without impacting on the capacity of council teams.

#### **Hidden Homes**

- 3.14 The lifting of the borrowing cap provides an opportunity to increase the programme to refurbish and convert under used or unused spaces within our existing council stock into new homes. Work continues with nine new homes delivered to date, with a further six due to be delivered in 2018/19. A pipeline of potential sites has been developed to deliver approximately 30 further units, with current applications in planning for eight proposed new homes on the Bristol Estate. Once the new Project Managers are in post we will be able to accelerate delivery of these homes and review the pipeline to identify new opportunities.

#### **Home Purchase Policy**

- 3.15 This scheme has allowed the council to buy back homes that have been sold under right to buy which will now be used for general needs or temporary accommodation. To date nine properties have been purchased and are back in council ownership, the purchase of a further 11 properties are underway with legal services and 12 other applications are being assessed. Housing & New Homes Committee agreed to the expansion of the scheme in September 2018 allowing the council the option to look at purchasing affordable housing units

supplied as part of new housing developments in the city (typically known as S106 sites). The council is now actively looking at these opportunities. The council is assessing one scheme at present with another scheme not progressed due to another housing provider coming forward to deliver the homes. The lifting of the borrowing cap also provides an opportunity (with committee agreement) to purchase more homes under this scheme.

### **Council owned temporary/emergency accommodation**

- 3.16 The council has been delivering projects to create a supply of council owned temporary accommodation. This includes completing 10 new homes at Stonehurst Court in 2018. The council has also purchased and is currently refurbishing Tilbury Place to create 15 new homes and work has started on site at the former Oxford Street Housing Office. This allows the council to achieve savings against the costs of procuring more expensive accommodation from the private market either through existing frameworks or spot purchase. The lifting of the borrowing cap provides an opportunity to increase the number of refurbishment projects delivered. The council is looking into the viability of increasing its programme and a report into the wider viability of the council providing emergency temporary accommodation in-house will be brought to Housing & New Homes Committee in June.

### **Wholly Owned Housing Company**

- 3.17 The council has agreement to progress a Wholly Owned Housing Company to deliver additional homes in a range of ways if required e.g. buying properties off plan. We have reviewed this option on sites such as Preston Barracks. Suitable opportunities will continue to be assessed to determine if a company should be set up.

### **Specialist housing**

- 3.18 Cross directorate working continues with Adult Social Care and Children's Services to identify specialist schemes for providing housing for vulnerable households. This housing can create savings on social care, children services and health budgets, with Homes England grant funding opportunities available to support delivery of schemes. A successful bid for £750,000 by the council to Homes England has been made under the Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 for the development of a move-on housing scheme to provide medium level support and settled accommodation for vulnerable households typically blocking high support accommodation places in the city.

### **Community Led Housing**

- 3.19 Working in partnership with the Brighton & Hove Community Land Trust who deliver the community led housing programme in the city the council continues to support initiatives to develop community led housing in the city with support of £465,000 of enabling funding to build their capacity. A pathway has been developed for council owned sites to ensure there is clear route for considering when land or building opportunities may be considered for community led

housing. At present two sites have been identified which could be used for housing schemes. Business cases are currently being produced for both sites and will be considered by the Estate Regeneration Members Board prior to going to relevant committees for decisions. We are currently reviewing options for further bids for capital and revenue funding.

### **Partnership working with Government and other public sector bodies**

- 3.20 We continue to work in partnership to enable delivery of new affordable homes through:
- Our Affordable Housing Development Partnership with Homes England and Housing Associations to enable delivery of new affordable homes to meet City Plan & Affordable Housing Brief priorities.
  - Seeking continued funding – capital & revenue through our bids to and work with Government, Greater Brighton & Local Enterprise Partnership.
  - Work with public sector partnerships to make best use of public sector assets including through One Public Estate, our Public Sector Property Group and discussions we are currently having concerning sites such as Brighton General Hospital.

### **Borrowing plans**

- 3.21 The 2018/19 TBM 9 forecast for the HRA capital programme assumes that new borrowing of £4.789m is required. Alongside this the HRA Capital Programme and Funding 2019/20 – 2021/22 appendix approved by Policy Resources & Growth Committee assumes further borrowing of £35.964m. With plans to accelerate the new pipeline schemes, with initial pipeline schemes being brought forward for committee approval between September 2019 – June 2020 this is likely to increase. The Estates Regeneration Members Board will monitor the delivery of the new pipeline schemes in order to approve early feasibility studies and drawings and monitor the use of Right to Buy Receipts to ensure the deadline for using the receipts is met.
- 3.22 The removal of the cap will enable substantial growth in the numbers of homes that can be built or purchased within the HRA alongside the continued investment in existing homes, however any borrowing undertaken will need to be prudent, affordable and sustainable. Work is being undertaken on the 30 year HRA financial plan to provide assurance to the Chief Finance Officer that the borrowing is affordable for the HRA.
- 3.23 Although the restrictions on borrowing have been lifted, the delivery of viable schemes and therefore the levels of future borrowing are likely to depend on the availability of RTB receipts and other forms of grant funding available. Without this funding, the council's ability to deliver viable schemes will still be restricted. Current rules only allow RTB receipts to pay for 30% of build costs. The Government has consulted local authorities on the use of receipts and the results of this consultation are expected soon.
- 3.24 The HRA 30 year financial plan and capital strategy need to be updated and aligned to ensure that a clear strategy on how the impact of the removal of the HRA borrowing cap can help deliver the number of new homes required and maintain existing homes. Part of this capital strategy update will need to factor in

a full stock condition survey to assess what work is required to existing homes to keep them maintained to the required decent homes standard.

## **Rent Policy**

- 3.25 At its meeting on 15 November 2017, the Housing and New Homes Committee agreed a new 'rent policy' for new council houses. This agreed principles for setting rents for new council homes and a policy that rents for proposed new schemes of new build council homes will be modelled as below, with the option of a mix of rents to achieve a spread of affordability on any one scheme to be available:
- Affordable rents capped at LHA rates
  - 37.5% Living Wage Rent
  - 27.5% Living Wage Rent and
  - Target social rent levels
- 3.26 For each scheme officers will recommend rent levels as appropriate for that scheme and based on the rent principles above, for Housing and New Homes Committee to agree the rents when it approves the scheme. If rents are set at a level where the costs of borrowing are not met, then this will require a subsidy from the current resources in the HRA. Members will have to consider the affordability and other opportunities foregone of any such 'subsidy' to a new build scheme. Full financial implications of the various rent options will be included in the individual report for each scheme.
- 3.27 It is still considered prudent to follow this policy with the lifting of the HRA borrowing cap as each scheme must still be affordable for the HRA to ensure that the whole of the HRA remains viable meaning that the costs of the management and maintenance of all council homes can be met from its rents.

## **4 ANALYSIS & CONSIDERSATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 The range of housing delivery initiatives enables the council to increase the delivery of new homes through the HRA, but also maintaining existing homes to the required decent homes standard and utilising investment and capacity of key partners such as Hyde Housing Association.

## **5 COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Local residents and ward councillors will be consulted about individual schemes. Furthermore tenants and leaseholders are engaged on a range of HRA investment options and initiatives including the HRA budget, Estate Development Budget and Home Purchase Policy.

## **6. CONCLUSION**

- 6.1 The council is aiming to maximise what we can deliver and the lifting of the HRA borrowing cap will enable the council to increase the delivery of homes across the range of HRA funded initiatives discussed in this report. In response to point (1) of the Notice of Motion, this report updates on progress on removing barriers

to accelerate delivery of new homes agreed with the approval of recommendations of the Housing Supply Update Report considered at Housing & New Homes Committee in November 2018. This report provided information on capacity and resources to expand delivery of housing following lifting of the HRA cap.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The lifting of the HRA borrowing cap will enable the potential for substantial growth in the number of homes that can be built or purchased within the HRA and continued investment in the existing housing stock. However, the HRA remains subject to the Prudential Framework and as such all new HRA borrowing decisions will need to be affordable, prudent and sustainable and therefore will be subject to business cases and viability tests. The viability and affordability of schemes is likely to depend on the availability of RTB receipts and other grant funding.
- 7.2 In order to determine whether new borrowing is affordable for the HRA, prudential indicators need to be set which would effectively set a new cap on HRA borrowing to maintain the viability of the HRA's 30 year financial plan. A range of indicators are being considered and discussed with other authorities and housing experts as well as the council's treasury management team. One potential indicator being considered is to measure the capital financing costs of the HRA as a percentage of the gross budget and/or the HRA revenue surplus.
- 7.3 The expectation is that there would still need to be a 10% margin maintained between actual borrowing and the cap to ensure there is a contingency of funding in place to use in case of emergencies.
- 7.4 From 2018/19 – 2021/22 the estimated level of new borrowing is £40.753m. This is a result of the delivery of new affordable housing over that period of time. The revenue cost of this borrowing will be met by the rental income generated from the new homes. New borrowing is only one element of funding for the delivery new homes, other sources of funding which are considered, are RTB receipts, grant funding and Direct Revenue Funding (DRF).
- 7.5 A stock condition survey is being commissioned by the council to provide an up to date needs assessment of maintenance and improvements required to current council homes. The results of this survey will be used to update the HRA Asset Management Strategy and the 30 year financial plan and capital strategy for the HRA. It will then inform the level of borrowing available for new build, acquisition and regeneration.

*Finance Officer Consulted: Monica Brooks/Craig Garoghan Date: 21/02/19*

### Legal Implications:

- 7.6 As this report is for noting, there are no significant legal issues to draw to Members' attention.

Equalities Implications:

- 7.7 All current housing supply programmes support the delivery of the city's Housing Strategy and an increase in housing supply will extend opportunities to accommodate households on the Housing Register who are on housing need.
- 7.8 The New Homes for Neighbourhoods programme builds at least 10% of new council homes to full wheelchair user standard and the rest to accessible and adaptable standard, which can be easily adapted for people with disabilities. An Equalities Impact Assessment has been completed on the programme and is supplemented for individual projects.
- 7.9 As outlined in paragraphs 3.22 and 3.23 rent levels will be set for each individual scheme with the option of a mix of rents to achieve a spread of affordability on any one scheme to be available. The equality implications of setting different rents within a scheme should be considered to ensure fairness and equity.

Sustainability Implications:

- 7.10 New Homes delivered under the programme are built to high sustainability and energy efficiency standards, including photo voltaic panels on roofs where feasible and communal boilers in larger schemes.
- 7.11 Existing council owned homes are required to meet the Brighton & Hove Standard and seek to be energy efficient, minimise carbon emissions and reduce water usage. The HRA Energy Strategy takes a two-fold approach to improving energy efficiency in its homes through integrating energy efficiency into works and supporting residents with energy saving projects e.g. Your Energy Sussex and the SHINE project.