

Report to the Council Housebuilding Cabinet Committee



**Epping Forest
District Council**

Report reference: CHB-001-2018/19
Date of meeting: 30-August-2018

Portfolio: Housing – Cllr S. Stavrou

Subject: Bids to MHCLG for additional HRA borrowing

Responsible Officer: Alan Hall – Director of Communities (01992 564004)

Democratic Services: Jackie Leither (01992 564756)

Recommendations:

That the following recommendations be made to the Cabinet:

- (1) That, subject to any minor amendments approved informally with the Housing Portfolio Holder (including bid amounts and borrowing profiles), the Director of Communities be authorised to submit four separate bids to Homes England for additional Housing Revenue Account (HRA) borrowing approvals, for four separate “schemes” totalling £8.052million, with the borrowing profiles set out in the report;**
- (2) That the Council’s Chief Financial Officer reports to a future meeting of the Finance and Performance Cabinet Committee on the most appropriate way to arrange the additional HRA borrowing when required; and**
- (3) That the Cabinet notes that, due to the deadline for bids being 7th September 2018, the Chairman of Council has been requested to determine that the call-in provisions of Rule 21 of the Overview and Scrutiny Rules, contained within the Council’s Constitution, can be disregarded for this decision – the Chairman’s decision will be reported orally.**

Executive Summary:

The Council is unable to borrow money for Housing Revenue Account (HRA) purposes above the amount for which HRA borrowing approval(s) have been granted by the Government (MHCLG).

In 2012, the Council borrowed £185.456million from the Public Works Loan Board (PWLB) to fund the levy that had to be paid to the Government at that time in order to enable all stock-retained councils, and councils with arms-length management organisations (ALMOs), to leave the discredited former HRA Subsidy System. As a result of this transaction, the Council is left with HRA Borrowing Headroom of £31.065million, set by the Government, which is the amount of additional borrowing that the Council can undertake for HRA purposes.

This HRA Borrowing Headroom is sufficient to cover the additional borrowing required by the Council to fund its current Housebuilding Programme, up to and including Phases 4-6

and the purchase of the affordable rented homes to be built by a private developer at the Pyrles Lane Nursery Site, Loughton.

However, the Council is one of a number of councils invited to bid, by 7th September 2018, for additional HRA borrowing approvals from the MHCLG. If the Council submits one or more bids for additional borrowing approvals, and they are successful, these additional approvals could be utilised to cover the borrowing requirements for Phases 4-6 and Pyrles Lane, enabling the Council's existing HRA Borrowing Headroom of £31.065million to be maintained. This would then provide scope to enable the Council to undertake further borrowing in the future if it wanted - to either extend the Housebuilding Programme or to fund expenditure for other HRA purposes.

The Council's HRA Business Planning Consultant has worked with senior housing and finance officers to assess the additional borrowing requirement to fund the remainder of the Council's existing Housebuilding Programme, bearing in mind that 30% of the costs will be funded from One-for-One Replacement RTB Receipts ("141 Receipts").

As a result, it is proposed that four bids covering the three Broad Market Rental Areas (BRMAs) in the District and the development of the Pyrles Lane Nursery site, Loughton, totalling additional borrowing approvals for £8.052million, be submitted to Homes England (which is acting on behalf of the MHCLG), in accordance with the bidding strategy set out in the main report.

Reasons for Proposed Decision:

The Council would benefit from additional HRA borrowing approvals to cover additional borrowing in the future if the Council needed, which could be used to either fund an extension to its current Housebuilding Programme or to fund expenditure on other HRA purposes.

Other Options for Action:

The main alternative options appear to be:

(1) Not to bid – but this would mean that this current opportunity to obtain additional HRA borrowing approvals to cover any additional borrowing required in the future, to fund either an extension of the current Housebuilding Programme or expenditure on other HRA purposes, would be lost – and there are no indications of any further opportunities arising in the foreseeable future.

(2) To submit a different number of bids, and/or for different amount(s) of additional HRA borrowing approvals – although the Director of Communities is of the view that the officers' recommended bid proposal is appropriate under all the circumstances.

Introduction

1. The Committee will be aware that, in April 2012, in order to pay the required levy of £185.456million to the Government - as its contribution to enable all stock-retained councils and councils with arms-length management organisations (ALMOs) to exit the discredited former Housing Subsidy Scheme - the Council took out a number of loans from the Public Works Loan Board (PWLB).

2. The Housing Revenue Account (HRA) Capital Financing Requirement (CFR) at the time became £154.391million, due to the fact that it previously lent capital resources to

the General Fund to finance General Fund capital expenditure – meaning that the HRA still has a Borrowing Headroom of £31.065million available.

3. The HRA Borrowing Headroom is the amount of additional borrowing that the Council is authorised by the Government to undertake for HRA purposes if it wishes. This could be used to fund additional council housebuilding, or expenditure for any other housing purposes (e.g. investment in the existing housing stock).

4. The Council's HRA Borrowing Headroom is sufficient to cover the additional borrowing required by the Council to fund its current Housebuilding Programme, up to and including Phases 4-6 and the purchase of the affordable rented homes to be built by a private developer at the Pyrles Lane Nursery Site, Loughton.

MHCLG invitation to bid for additional HRA borrowing approvals

5. The Government (the Ministry of Housing Communities and Local Government – MHCLG) has recently issued a Prospectus to all stock-retained councils (such as this Council), and councils with arms-length management companies (ALMOs), setting out a criteria for local authorities to bid for additional HRA borrowing approvals over the next three years, from a total amount of £1billion of borrowing approvals, in order to increase their council housebuilding programmes.

6. The £1bn additional borrowing headroom will be apportioned between London boroughs and local authorities across the rest of the country on a 50/50 basis. Outside of London, only those councils determined as being "in areas of high affordability pressures" are able to bid to use the additional £500million of borrowing approvals to build new rented housing. These areas of high affordability pressures have been defined by the MHCLG as those where there is a difference of more than £50 per week between the average social rent and average private rent in their area. A list of 162 local authorities defined as being in areas of high affordability pressures are listed, which includes Epping Forest. Homes England (previously known as the Homes and Communities Agency – HCA) has been asked to oversee the bidding process on behalf of the MHCLG.

7. The deadline for submitting bids is 7 September 2018 and the Director of Communities has been working with colleagues in both the Housing and Finance Services, as well as with the Council's HRA Business Planning Consultant, Simon Smith from SD Smith Consultancy, to assess whether or not a recommendation should be made to members to submit a bid and, if so, for how much additional borrowing approval(s). Following this assessment, it is the view of officers that it would be appropriate to submit four separate bids, hence the reason for this report.

8. It is a requirement of the bidding process that on-line confirmation is provided to Homes England that the Council's Cabinet supports the bid, at least in principle. Since the Cabinet Committee has oversight of the Council Housebuilding Programme, it is being asked to give detailed consideration to the proposal and to recommend to the next Cabinet meeting the submission of bids. It will also enable all the required information for the bids to be input between the Cabinet Committee and Cabinet meetings.

9. The Prospectus makes it clear that bids will be assessed by reference to, and that councils will need to demonstrate, the following 3 key elements:

- **Value for money** - based on unit scheme costs and maximising the number of homes delivered, for example by utilising their own land or offering cross-subsidy where possible.

- **Deliverability** - local authorities must demonstrate that they are ready to start building in relevant years and have the capability and a track record of delivery to time and budget
- **Affordability** - bids will be ranked according to the areas of the highest affordability

10. Councils must also set out in any bid their existing HRA Borrowing Headroom and the extent to which such Headroom is committed for other schemes in their 30-year HRA business plans. In assessing deliverability, factors taken into account will include:

- The stage of planning achieved;
- The status of land ownership;
- Forecast delivery in terms of numbers of units and draw-down of borrowing approval; and
- The council's track record of housing delivery

11. Providing that bids are assessed as demonstrating value for money and deliverability, they will then be ranked according to those local authority areas where there are judged to be the highest affordability pressures - with local authorities with the highest affordability pressures having priority in the allocation of additional borrowing headroom.

Funding the currently-agreed Council Housebuilding Programme

12. In March 2017, the Council's Finance and Performance Management Cabinet Committee, and subsequently the Cabinet, considered Stage 1 of the Council's HRA Financial Options Review Report commissioned by the Director of Communities and produced by Simon Smith. The purpose of the Options Review was to consider whether or not the Council should continue with its Council Housebuilding Programme and to what standard the Council's existing housing stock should be maintained.

13. After consideration of the Review Report, and on the recommendation of the Finance & Performance Cabinet Committee, the Cabinet agreed that:

- The Council Housebuilding Programme should be continued up to at least Phase 6 (i.e. to continue with Phases 4-6) of the Programme;
- The maintenance of the Council's existing housing stock should revert from the Council's own Modern Homes Standard back to the Government's Decent Home Standard; and
- The Director of Resources should report to a future meeting of the Committee on the most appropriate way to arrange the required additional Housing Revenue Account borrowing;

14. Subsequently, the Cabinet agreed that the affordable rented homes to be built by the Council's selected developer on the site of the former Pyrles Lane Nursery, Loughton should be included within the Council Housebuilding Programme and purchased by the Council at pre-specified prices.

15. Based on the estimated costs of the Council Housebuilding Programme at that time, and the estimated savings though reverting to the Decent Homes Standard, the Options Review identified that, although additional HRA borrowing would be required, it could easily be covered by the Council's current HRA Borrowing Headroom.

16. Since that time, a number of changes have occurred that affect the Council's likely borrowing requirements, including:

- Actual RTB sales (and therefore 141 Receipts) have been different from assumed;
- Interest rates have increased;
- Financial contributions received for the provision of affordable housing from Section 106 planning agreements have increased;
- Assessments of works costs and cash flows for the developments on-site and the proposed developments have been able to be firmed-up more, as construction works have progressed; and
- Purchases prices for the affordable homes at Pyrles Lane have been finalised.

17. Simon Smith has therefore undertaken an updated assessment of the Council's borrowing requirements. This has identified the following for the purposes of assessing the level of Bid to be made to Homes England:

(a) If all the existing HRA resources (£14.5million) currently identified as being available within the HRA Financial Plan to re-pay the £31.8million loan that matures in 2021/22 are utilised for this purpose, £17.3million would need to be borrowed to repay the balance of the loan. In order to complete the Housebuilding Programme, and assuming 30% of the Housebuilding Programme costs are funded by 141 Receipts, only an additional £1.352million would need to be borrowed – this can be considered as the "Minimum Borrowing Scenario".

(b) Ignoring the repayment requirements for the existing £31.8million loan, if no existing available HRA resources are utilised to fund the Housebuilding Programme, and 30% of the costs of completing the Housebuilding Programme are funded by 141 Receipts, the Council would need to borrow £15.852million to fund the Programme – this can be considered as the "Maximum Borrowing Scenario".

(c) If the £7.8million of surpluses available within the HRA are used to fund the Housebuilding Programme, the current balance on the Council's HRA Self-Financing Reserve could be maintained at its current level. In this case, in addition to the planned borrowing requirement to pay off the existing loan of £31.8million, an additional £8.052million would need to be borrowed for the Housebuilding Programme – this can be considered as the "Mid Borrowing Scenario"

18. Although the Council already has sufficient HRA Borrowing Headroom to cover the required additional borrowing, the invitation from the Government to submit bids for additional borrowing approvals provides a unique opportunity to cover this additional borrowing requirement with additional borrowing approvals – thereby enabling the Council to increase its current HRA Borrowing Headroom. This could then be used to enable the Council to undertake further borrowing in the future if it wanted - to either extend the Housebuilding Programme or to fund expenditure on other HRA purposes (e.g. investment in its housing stock).

19. There are a number of ways that this additional borrowing could be undertaken, which would be based on the advice of the Council's treasury advisers when required.

Phases 4-6 and the Pyrles Lane development

20. The development sites and property types currently comprising Phases 4-6 are provided at the Appendix to this report.

21. The land for the Council's former nursery at Pyrles Lane is currently being marketed, with the tenders received due to be reported to Cabinet in the near future. Tenderers have been invited to provide two prices for the purchase of the land:

- One price based on 100% of the affordable housing being provided as affordable rented housing purchased by the Council; and
- Another price based on 75% of the affordable housing being provided as affordable rented housing purchased by the Council, and 25% to be provided as shared ownership, to be purchased by one of the Council's Preferred Housing Association Partners

22. The property and tenure mix for Pyrles Lane is not yet known, since it will be determined by the successful tenderer who purchases the site from the Council. Although it is likely to be different from the property mix for which Outline Planning Consent has been obtained, for the purposes of this report, Simon Smith's latest assessment, and the proposed bid, the most prudent assessment is to use the affordable housing mix for which Outline Planning Consent has been obtained, and to assume that all the affordable housing will be provided as affordable rented housing. This property mix is also provided in the Appendix to this report.

23. It should be noted that there are two further Council-owned sites that are planned to be included in Phases 4-6 - at Vere Road, Loughton and St. Peter's Avenue, Ongar - that the Council Housebuilding Cabinet Committee has considered suitable for development, but which have not yet secured planning consent.

The proposed bid to MHCLG for additional borrowing approvals

24. It is stressed that any bid to the MHCLG would only be for additional borrowing approvals and would **not** relate to any commitment to borrow any more money for the HRA than is already required to fund the existing Housebuilding Programme. An analogy often used relates to when a person seeks an increase in their credit limit from their credit card provider; it doesn't mean that they then have to borrow up to their new credit limit – it just enables them to do so if they need to spend more at any time in the future.

25. However, it is clear that the MHCLG would expect a council that has been given additional borrowing approval(s) to then actually borrow additional resources for at least the amount(s) bid.

26. As explained at Paragraph 17 above, the Council could submit (and justify) bids to Homes England for additional borrowing approvals ranging from £1.352million to £15.852million. In view of the overall amount of borrowing approvals available across the country (just £500million), it is suggested that bids totalling £15.852million of borrowing approvals is unlikely to be successful. Therefore, it is suggested that bids totalling £8.052million of borrowing approvals be submitted, based on the "Mid Borrowing Scenario" set out in Paragraph 17.

27. The remaining funding for the Housebuilding Programme would come from 141 Receipts and HRA balances (and any additional Section 106 financial contributions that are received from developers of large sites, in lieu of on-site affordable housing provision). Since the actual works costs and fees for these developments will be far greater than the required borrowing, the borrowing requirement would be a relatively low percentage of the total scheme costs, offering a good value-for-money bid to the MHCLG.

28. As explained earlier, if all the bids are successful, it would enable the Council to not only maintain its current HRA Borrowing Headroom, but also increase it by an additional £8.052million. This increased HRA Headroom could then be used, if the Council wanted to at a later date, to extend the Housebuilding Programme or for other HRA purposes in the future. For example, the HRA Borrowing Headroom could be used to cover additional HRA borrowing to purchase the affordable homes secured under any Section 106 Agreement for Council-owned land – e.g. the existing Waltham Abbey Swimming Pool site at Roundhills or the proposed development site at Jessel Green, Loughton. Alternatively, if the policy ever comes to fruition, it could be used to fund any levy payable to the Government under its Sale of High Value Voids Policy, in order to reduce the number of void properties that actually need to be sold. These are all decisions that would be made at a later date, when required.

29. It is suggested that a number of separate bids be submitted, which – bearing in mind the anticipated number of bids from across the country - would then provide Homes England and the MHCLG with the flexibility to accept either all the bids, or just some of the bids. In any event, separate bids would have to be submitted for sites in different Broad Rental Market Area (BRMAs). These BRMAs set out the towns/villages in the District with different “Local Housing Allowances (LHAs)” – which specify the maximum levels of rent that can be charged for different property types for tenants to be able to receive full housing benefit.

30. There are three BRMAs in the District, and since the relevant LHAs in these BRMAs often dictate the affordable rent to be charged by the Council on new development sites under its Rents Policy – and the MHCLG has specified that sites within “schemes” must have the same level of rents – the Council would need to submit at least three separate bids, since the sites in Phases 4-6 are all located in different BRMAs (Loughton, Ongar and Waltham Abbey).

31. It is also suggested that a separate bid should be made for the purchase of the completed Section 106 affordable rented homes at the Pyrles Lane Nursery site. This is because, unlike all the other sites in the Council Housebuilding Programme, the actual property mix for this site will not be determined until the developer that purchases the site obtains detailed planning permission. Therefore, the bid can only be submitted with an indicative property mix, based on the mix for which outline planning permission has been granted, which would then need to be varied, with the MHCLG’s agreement, at the time detailed planning permission is obtained – and this agreement may not be forthcoming.

32. Therefore, it is proposed that the four bids comprise the following:

- Bid 1 - Ongar
- Bid 2 - Waltham Abbey
- Bid 3 - Loughton (excluding Pyrles Lane)
- Bid 4 - Pyrles Lane, Loughton

33. It is proposed that the two potential development sites without planning permission at Vere Road, Loughton and St. Peters Avenue, Ongar are not included in any bids, since it is not yet known whether or not they will receive planning permission and can be delivered. In any event, the final mixes cannot yet be confirmed, since they are also subject to the planning process.

34. Based on the latest forecast housebuilding cash flows, anticipated 141 Receipts and the Council’s borrowing requirements, the following borrowing profile for the bid is proposed:

	2019/20	2010/21	2021/22	Totals
Bid 1 – Ongar	-	-	£204,319	£204,319
Bid 2 – Waltham Abbey	-	£1,309,613	£187,755	£1,497,368
Bid 3 – Loughton	£3,890,304	£1,993,923	-	£5,884,227
Bid 4 - Pyrles Lane	-	£244,629	£221,539	£466,168
Totals	£3,890,304	£3,548,165	£613,613	£8,052,082

35. The Cabinet Committee is asked to note that, due to the deadline for bids being 7th September 2018, the Chairman of Council has been asked to determine that the call-in provisions of Rule 21 of the Overview and Scrutiny Rules within the Council's Constitution can be disregarded for this decision. The Chairman's decision on this request will be reported orally.

Resource Implications:

If all the bids are successful, they would increase the Council's HRA Borrowing Headroom by £8.052million. If less than the 4 bids are successful, the HRA Borrowing Headroom would not be increased by so much. Although this report only relates to borrowing approvals, obviously, there will be resource implications when the required borrowing is undertaken.

Legal and Governance Implications

Local Government and Housing Act 1989.

Safer, Cleaner and Greener Implications

Many of the Council's proposed development sites will be aesthetically improved, and will also provide a safer environment from crime, if they are developed

Consultation Undertaken

The Council's HRA Business Planning Consultant, Simon Smith from SD Smith Consultancy, has been fully involved with the formulation of the proposed bids.

Background Papers

None

Risk Management

The bid is only for additional borrowing approvals, and not to borrow any additional amount than that already required to fund the Council's existing Housebuilding Programme. Therefore, the risks to the Council of its decision are minimal.

The main risk that arises if a bid is submitted, and is successful, is that if the Council either does not actually undertake borrowing for the amounts bid in the years specified, or does not deliver the number and/or type of new homes specified in the bid, the MHCLG

could potentially reduce or withdraw the borrowing approval(s). However, this would place the Council in no worse position than if it did not submit any bids.

Equality Analysis

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided as an Appendix to this report.

APPENDIX

Sites currently included in Phase 4-6 of the Council Housebuilding Programme (with planning permission)

<u>Site</u>	<u>Property Mix</u>
<u>Loughton</u>	
Chequers Rd (Site A)	3 X 3BH
Chequers Rd (Site B)	5 X 2BH
Chester Rd	3 X 2BH
Lower Alderton Hall Lane	2 X 2BH
Bushfields	2 X 2BH
Etheridge Rd	2 X 3BH + 1 X 2BB
Kirby Close	4 X 2BH
Ladyfields	6 X 2BH
Whitehills Rd	2 X 2BB
Thatchers Close	1 X 2BH
<u>Ongar</u>	
Millfield	2 X 1BB
Queensway	4 X 1BB
<u>Buckhurst Hill</u>	
Bourne House	2 X 3BH
Hornbeam House	2 X 2BH
Hornbeam Close (Site B)	3 X 2BH
Pentlow Way	2 X 2BF + 5 X 1BF
<u>Waltham Abbey</u>	
Denny Avenue	1 X 2BH + 2 X 3BH
Pick Hill	2 X 3BH
Beechfield Walk	4 X 3BH + 1 X 2BH
Woollard Street	9 X 1BF
Wrangley Court	1 X 1BB
Broomfield Court	1 X 1BB
Shingle Court	1 X 2BB
Stonyshotts	1 X 2BH

Indicative Property Mix for Pyrles Lane, Loughton (based on Outline Planning Permission)

7 X 3BH
5 X 2BF
3 X 1BF