COUNCIL

16 JULY 2020

HOUSING REVENUE ACCOUNT: ADDITIONAL BORROWING TO INCREASE HRA HOUSING STOCK

Portfolio Holder:	Councillor Howard Doe, Deputy Leader and Portfolio Holder, Housing and Community Services
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Summary

This report recommends Council to agree to borrow additional funds to explore the purchasing of housing sites, at varying stages of development, as and when a financially viable development opportunity presents itself, following Cabinet's consideration of the report on 7 July 2020.

1. Budget and policy framework

1.1. In accordance with the Constitution, Cabinet approval is required for the acquisition by the HRA to meet housing need (see section 4 of the report) and Council approval is required for the associated additional budget requirement into the HRA capital programme.

2. Background

2.1 The council has a housing register which identifies over 1,362 families in need of an affordable rented home. On an ongoing basis, the HRA team is identifying sites to help meet the demand for affordable housing in Medway.

2.2 Medway Council's ongoing regeneration programme is set to benefit future generations and provide growth for all, as well as helping Medway's town centres thrive. Medway Council aspires to become a leading waterfront university city by 2035.

2.3 The Council has indicated that 28,500 new homes need to be built by 2035. The HRA has a part to play in contributing to this figure.

2.4 The HRA loses, on average, 15 properties per year through Right to Buy (RTB). The loss of these units puts additional pressure on the HRA's business plan due to a reduction of rental income as well as reducing the overall number of available homes.

2.5 In 2017/18, 12 properties were sold under the RTB scheme with an average value of £184,584. Applying the average discount for RTB of £76,625 meant that an average of £107,958 per property was returned to the council to build replacement properties.

2.6 The HRA received 30 RTB applications in 2019/20, and 17 transactions were completed. RTB receipts will provide significant one-off sources of funding, additional to the rental surplus-income calculated in the HRA Business Plan.

2.7 The HRA's new-build programme will take account of these additional receipts to make sure that maximum use of the receipts can be utilised for new housing, while keeping the use of the net receipts to below 30% of spending on new homes.

2.8 The HRA is proactively looking at ways of increasing our housing stock to help meet demand in Medway.

2.9 The HRA is currently out to tender for phase 4 development which will deliver 28 new units at a cost of around £7m. These units are due to commence on site late autumn 2020.

2.10 The HRA has developed a cash flow modelling tool which determines if a scheme being considered is deemed as being financially viable or not.

2.11 The cashflow model considers both social and affordable rental income over a 30-year period which is in line with the HRA's business plan. Allowances are made for projected repairs, planned work, statutory works such as gas, void works and void rent loss expenditure over the same 30-year period along with the build or acquisition costs. It then calculates the projected interest and borrowing rate after applying a 30% RTB receipt contribution and provides an indication on if the scheme will make a profit or loss over a 30-year period.

2.12 The HRA exhausted all further options to build on existing pieces of land or garage sites. To further increase housing stock the HRA needs to explore:

I. Any potential RTB buy back opportunities.
II. Options to appropriate land and/or assets to the HRA from the general fund. This could include but is not restricted to areas of underutilised green space, car parks or any other general fund building or asset that may be better suited to delivering affordable housing units.
III. Acquiring/purchasing private land to develop on.
IV. Purchasing units from the open market.
V. Major estate regeneration.
VI. Joint ventures with developers or Registered Providers (RP's)

2.13 This paper brings forwards option IV above to enable the HRA to respond quickly to opportunities to purchase sites that fit the profile of the existing stock.

3. Options

3.1. Option 1 – Agree to the HRA obtaining additional borrowing as and when a financially viable development opportunity becomes available.

3.2. Option 2 – Do not approve any additional borrowing.

4. Cabinet – 7 July 2020

4.1. The Cabinet considered this report on 7 July 2020 and agreed the following:

4.1.1. The Cabinet approved the acquisition by the HRA to meet housing need of suitable housing units (decision no. 78/2020 refers).

4.1.2. The Cabinet agreed to recommend Full Council the addition of £10m to the HRA Capital Programme, in order to increase the stock of HRA affordable housing. This funding to be met from borrowing against HRA rents, HRA reserves and Right to Buy 1-4-1 receipts or grant funding, where available (decision no. 79/2020 refers).

4.1.3. Subject to this addition being agreed by Full Council, the Cabinet agreed to delegate authority to the Director of Place and Deputy Chief Executive, in consultation with the Deputy Leader and Portfolio Holder for Housing and Community Services to agree expenditure on increasing the HRA affordable housing stock, as and when a financially viable development opportunity becomes available (decision no. 80/2020 refers).

5. Advice and analysis

5.1. As highlighted earlier in the report the HRA intends to increase stock levels to help meet housing needs. To do this the HRA needs to establish a pipeline of potential sites and a range of delivery options as well as establishing viable options for financing.

5.2. The cash flow model forecasts whether the scheme being appraised will make a profit or a loss based on the HRA charging affordable or social rents on an individual basis. If a scheme is forecast to make a profit or to break-even at a total scheme level, then it demonstrates that the purchase of units is a viable option for the HRA to increase its Housing Stock.

5.3. If the cash flow model forecasts that the scheme will make a loss, then this does not necessarily mean that it cannot be brought forward. Consideration would need to be given to the wider social benefit, value for money and the capacity of the HRA business plan.

5.4. The HRA is actively engaged with one developer who has two potential sites that the HRA could purchase. An initial budget of £10,000,000 would allow the Council to purchase both schemes, providing 42 new affordable rented units and cover associated valuation and surveying costs. Drawing down of funding would be subject to financial viability being agreed. More details for the two developments are available in Exempt Appendix one.

6. Risk management

Risk	**Description**	**Action to avoid or mitigate risk**	**Risk rating**
Not approving any additional borrowing for HRA development.	Will restrict the HRA from increasing housing stock to meet targets and demand.	Grant approval for any financially viable schemes.	B2
Delays in approving any additional borrowing	Developers could negotiate the sale of units to someone else.	Delegate authority up to an agreed value to grant approval for any financially viable schemes.	B2
Errors made in cash flow model assumptions	An error could deem a scheme financially viable when it is not.	Finance and property teams to review all cash flow models prior to additional borrowing being requested.	B2

7. Climate change implications

7.1. The building regulations set minimum standards for the performance of buildings, with Part L specifically regulating the conservation of fuel and power. The building regulations are increasingly strict, with a long-term goal under the Energy Performance of Buildings Directive to move towards ‘nearly zero energy buildings’.

7.2. The HRA will, where possible, request energy efficient elements such as low energy fans, boilers and lighting be fitted in any unit that might be acquired.

8. Financial implications

8.1. As detailed earlier in the report, the HRA is seeking additional capital funds as and when opportunities detailed in item 2.12 arise. Other than the HRA redeveloping existing garage sites or greenspace that currently sit within the HRA, these are the only other options the HRA has to increase the stock.

8.2. In order to establish if a scheme is viable, the HRA will need to demonstrate if each opportunity that presents itself via one of the 6 categories in item 2.12 makes a profit or a loss based on its individual merits via cashflow modelling. The HRA will then need to evidence that the business plan can sustain the extra borrowing.

8.3. If a scheme is forecasting to make a profit then it should be deemed as being self-sustainable and therefore viable.

8.4. If the scheme is forecasting to make a loss then depending on the forecasted level of loss and providing the HRA can sustain the debt then these can still be deemed as viable. This will be on the basis that the HRA consults with the Deputy Leader and Portfolio Holder for Housing and Community Services, DMT and colleagues in finance.

9. Legal implications

9.1 Councils, through their HRA, can meet housing need by acquiring houses, under provisions within the Housing Act 1985. Any agreement to acquire housing units for the HRA should be in format agreed by the Chief Legal Officer.

10. Recommendation

10.1 The Council is recommended to approve the addition of £10m to the HRA Capital Programme, in order to increase the stock of HRA affordable housing. This funding to be met from borrowing against HRA rents, HRA reserves and Right to Buy 1-4-1 receipts or grant funding, where available.

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Appendices

Exempt Appendix 1 – Development opportunities summary
Appendix 2 – Diversity Impact Assessment

Background Papers

None