Subject	HRA Borrowing	
Report to	ELT Housing & Neighbourhood Committee	11/10/19 14/11/19
Report by	Finance Director and Housing Director	

SUBJECT MATTER/RECOMMENDATIONS

This report sets out a summary of the Housing Revenue Accounts (HRA) current financial position following the removal of the debt cap.

The report recommends that:

1. Subject to normal budget approval processes, the repairs and maintenance budget is reduced by £500,000 in 2020/21 and the subsequent two years.
2. The released revenue funding is used to support borrowing to fund a programme of acquisition or development of new Council homes within the HRA as set out in the report.
3. A review of further opportunities to fund new affordable housing is undertaken following the completion of the next stock condition survey in 2022.
4. Opportunities for sites and are identified and a programme of delivery including numbers and timeframes is developed and reported back to Member as set out in the report.

1. Background - Housing Revenue Borrowing Cap

1.1 Local authority housing is contained within the Housing Revenue Account (HRA). The HRA is a ring-fenced account that funds the council's activity as a landlord. The HRA records all the income and expenditure associated with the provision and management of council owned homes in the borough, effectively operating as a business of its own separate from the councils' other operations.

1.2 In April 2012 the HRA moved to a Self-financing model which accompanied a limit on the amount of housing debt that an authority could hold within an HRA. In a treasury attempt to control public borrowing levels, this limit was based on a calculation of the level of debt that a landlord/council could support. The calculation was based primarily on the valuation of each authority's current housing stock along with income and expenditure assumptions. A total borrowing limit was therefore set for each landlord, which for Great Yarmouth Borough Council was £89m.

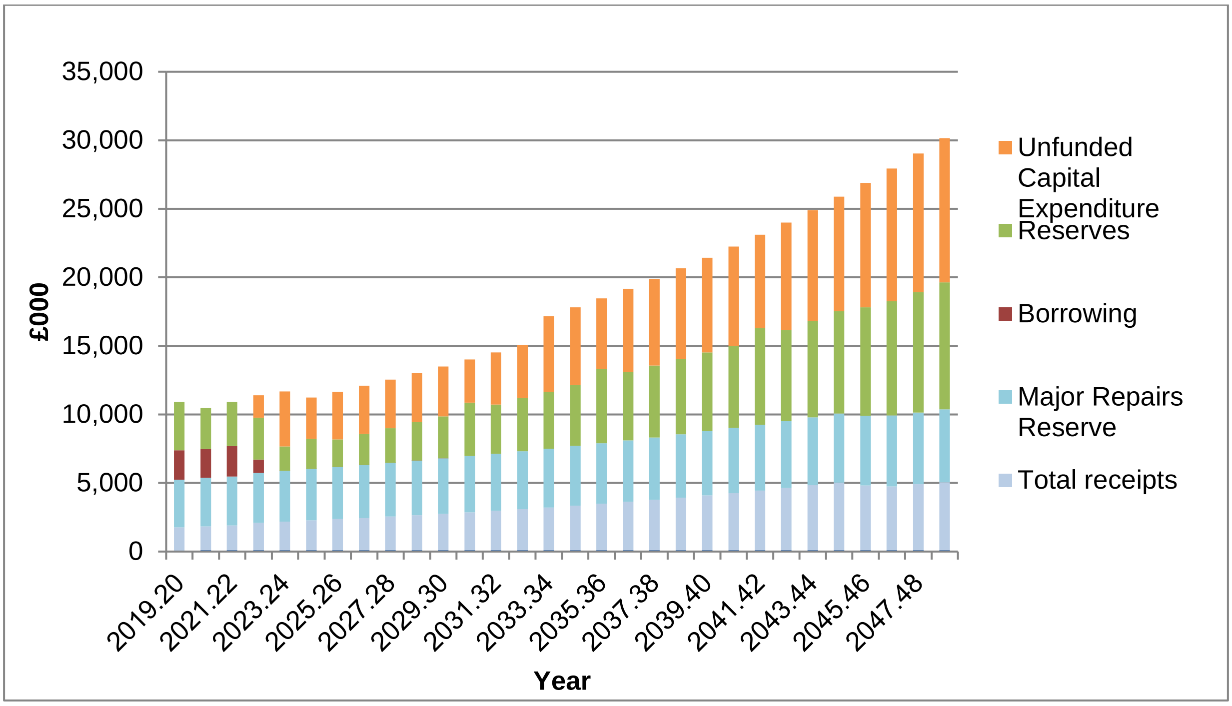
1.3 Councils borrow within their HRA’s in order to invest in the housing stock. This includes programmes such as building more homes to provide further income, or even to refurbish or regenerate existing homes. However, due to each council being limited to how much they could borrow, the debt cap greatly restricted local authorities’ ability to invest in building much-needed new homes.

1.4 One of the biggest constraints on public sector house building is the ability to finance development. The vast majority of local authorities were at or above 80% utilisation of the original available debt cap, with many above 90%. GYBC was included within the higher percentile. Any remaining debt cap held by local authorities, was not really ‘available’ as it was used by most, as a form of reserve within a system of prudent financial management.

1.5 Table 1 below demonstrates a high-level forecast as part of the 2018/19 budget, using the HRA 30 year business plan model prior to the removal of the £89m debt cap.

1.6 This shows the profile of borrowing and use of the HRA reserve balances to finance the overall capital programme, including the affordable housing programme. The model uses reserves before borrowing to finance the capital programme and highlights the limitations of the original debt cap which meant that the Council would exhaust its ability to borrow by 2022/23, leaving future capital expenditure unfunded and providing only very limited ability to increase the supply of affordable homes – limited to one to one Right to Buy replacements. As per the CIPFA guidance, the viability of the self-financing regime depends ultimately on the council acting prudently and safeguarding against financial risk. In doing so, within the HRA budget sufficient sums have been set aside to meet any unforeseen liabilities that may arise. This is in the form of our maintained minimum reserve balance, which in 2019/20 is £2m.

Table 1 – Original 30 year plan – with original £89m debt cap



1.7 In order to help solve the 'housing crisis', the Government announced it would scrap the debt cap limitations on how much councils can borrow against their HRA Assets. The HRA debt cap was removed with immediate effect and the new determination came into force on 30th October 2018.

1.8 Authorities are now able to borrow above their original debt cap, to meet their spending requirements and take advantage of interest rates while they remain low.

1.9 Local authorities will now have to reconsider what this means for housing in their areas. The challenge for councils is how to take advantage of the removal of the borrowing cap and building up their capacity and developing the necessary skills and knowledge to deliver new housing on a much larger scale than has previously been possible.

1.10 The flexibility of this will not be the same for all authorities, as each authority will take an independent review of financial resources available. Factors such as reserves, existing stock conditions, land availability and rent income levels will have varying impacts on the scale of new development which can be supported, along with how quickly this can be realised.

2. Current Programme and Delivery

2.1 In 2017/18, a full stock condition survey took place across the Council's dwelling stock, resulting in 5,580 dwellings and 531 blocks/communal being successfully surveyed.

2.2 Survey data highlighted that at the time 865 properties, representing 16% of the stock, were classified as non-Decent. The industry average for a survey of this type would expect approximately 5-7% being classified as non-decent.

2.3 Following the results of the stock condition survey, a significantly increased Major Works Capital programme was introduced within the 2018/19 HRA budget, to ensure that both the homes identified as non Decent as a result of the Stock Condition Survey and future homes, which become non Decent were addressed over a five year period. Overall ensuring that all homes within the dwelling stock are Decent.

2.4 As a result, overall capital investment into the stock has remained high to ensure progress in meeting the Decent Home standard is maintained. Investment into the stock for the last financial year, 2018/19 to 2023/24 is forecast to be approximately £49 million on just under 5800 dwellings, an average of £8,500 per dwelling.

2.5 The HRA also maintains a Repairs & Maintenance programme, which ensures the planned cyclical upkeep to the specific areas of heating, lighting, lifts, smoke alarms, garden maintenance and minor neighbourhood planned works. It also includes the day to day costs of repairs for tenants and refurbishment of empty properties in between tenant occupancy.

2.6 As a result of the number of non Decent Homes, revenue planned cyclical spend on the housing stock is high, although this is starting to reduce. Benchmarking of repair costs is expected to show that this level of revenue expenditure is high compared with other landlords.

2.7 The 2018/19 HRA Outturn report detailed that the Repairs & Maintenance budgets resulted in an £1.161 million underspend. Despite this, the 2018/19 outturn resulted in an approximate spend of £1,416 per dwelling (excluding any capital expenditure). The underspend has been largely delivered due to increase capital investment within the stock, therefore reducing the number of day to day repairs required.

2.8 In 2019/20, budget monitoring to period 6 shows that expenditure on day to day repairs is forecast to continue to decline. This trend is expected to continue in future years until expenditure stabilizes as the current capital programme brings all of the housing stock to the Decent Home standards and maintains it at this level.

3. Capacity To Support & Deliver A New Build Council Homes Programme.

3.1 Funding

3.2 The forecast trend of repairs and maintenance expenditure reductions allows the Council to utilize further revenue funding to support additional borrowing. The additional borrowing capacity can then be used to fund the provision of new affordable homes within the HRA, beyond the level required to meet Retained Right to Buy receipt replacements. Reducing the repairs and maintenance revenue budget by a forecast £500k per annum in 2020/21, along with the following two years will have no negative impact on the ability to maintain the Council's housing stock, this only reflects the expected ongoing reduction in spend of this budget.

3.3 If a forecast £500k saving is achieved, this budget could be used to service approximately £20 million of additional borrowing raised from PWLB on a 50 year loan basis. Assuming an average build cost of £150k per unit, this would deliver around 133 new homes. With additional homes being added to the stock and re-let at affordable rents, it could be estimated to generate a further £720,000 per annum within the HRA.

3.4 The new homes example quoted above assumes no use of 1-4-1 Retained Right to Buy Receipts and no use of external grant funding. If additional funding was factored in, the number of new Council homes which could be developed is expected to increase above the estimated 133 homes, providing increased rental income.

3.5 Increased numbers of homes within the HRA would have wider benefits to the Council, such as an increase Council Tax income and a potential reduction in need for temporary accommodation.

3.6 Land

3.7 Potential development land for new Council homes is usually linked to existing estates, whether this is redevelopment of obsolete property or use of spare land such as underused gardens and garages. Councils are in the best position to release such land, taking into account residents' views and aligning the developments with the council's objectives.

3.8 Within the council's HRA there is limited available land. A number of small infill potential developments have been identified which could contribute towards an extended new build programme, although infill sites have proven more expensive to develop than larger sites. In order to maximise the number of new homes delivered, an ongoing pipeline of new developments is required to be developed containing a mixture of smaller and larger developments sites.

3.9 In order to develop a continuing pipeline of schemes, the council will need to review the opportunities for development on land held within both the HRA and General Fund and this will be a priority area of work over the next six months so that by early 2020/21 the council will have identified the number of potential sites and homes which could be delivered (subject to planning) on both HRA and General Fund land. As part of this, options to include nearby/adjacent stalled sites (where planning permission has been granted but not yet started) will be considered to ensure development opportunities are maximized. Where General Fund land or property is used, a regeneration approach may lead to mixed use developments being brought forward and appropriate committee approval will be sought where General Fund land will be required to deliver homes within the HRA

3.10 In order to ensure that there is a sufficient supply of land to deliver new homes, the council will need to consider a range of options and opportunities such as purchasing land to create a land bank for ongoing development of homes. A further report on how the council will deliver an increased housing development programme will be presented to committee within the first quarter of the 2020/21 financial year. This report will set out the expected development potential of HRA and General Fund sites and how acquisition of homes and land will provide the required ongoing pipeline of schemes to ensure the additional funding capacity to deliver new HRA homes is maximized.

3.11 Land identified within the General Fund for potential development will require a land transfer to the HRA. This is completed by adjusting the Council's Capital Financing Requirement (CFR). In effect this increases the HRA and reduces the General Fund borrowing and generates no capital receipt for the General Fund.

3.12 Development Skills and Experience

3.13 A potential obstacle to delivery of a new council house building programme is that local authorities have limited experience and expertise in building homes. It is a complicated business acquiring appropriate sites for development, securing planning consent and procuring design and construction. The council has limited existing capacity in this area due to the limits imposed by the debt cap historically.

3.13 In order for the Council to fully utilize the lifting of the debt cap, a number of approaches will be considered to address the skills gap, whilst also ensuring that new Council homes can be delivered:

- Purchasing homes from developers through Section 106 Agreements
- Purchasing homes from developers (additional homes above Section 106 Agreement requirements)
- Exploring opportunities for joint developments with Equinox Enterprises
- Purchasing homes from Registered Providers (new or existing homes).

3.14 These opportunities will require early engagement of the Council to ensure that the homes being acquired meet the Council's requirements in terms of quality and specification and also best meet identified housing need.

3.15 The Council will also explore the best way to develop in house expertise and capacity in developing new Council homes. This will include considering whether it can buy in the required skills from a Registered Provider, to bring forward an ongoing programme of new build schemes. Such an approach would need to ensure that the learning from the Registered Provider's involvement is captured to develop the necessary skills, experience and expertise within the Council to ensure in the future the Council does not need external support in this area.

3.16 It should be noted, that due to the need to identify land opportunities for new build homes and develop an ongoing pipeline of schemes, the build timescales for the development of new homes as well as the need to ensure the Council has access to the required skills and resources, that the delivery of additional Council homes is likely to commence towards the end of 2020/21. The identified additional borrowing will result in the delivery of the largest programme of Council house building that the Council has seen since in recent years. Subject to approval of the report, the Council will look at the most effective way to deliver the required in house skills and resources to deliver this extended programme.

4. Financial implications and Risks.

4.1. The report highlights that following the removal of the borrowing cap there is still prudence around how much a council can borrow against its HRA housing stock. The HRA's present social use value will be very different from its open market use value in terms of credit risk.

4.2. Council borrowing is governed by the Chartered Institute of Public Finance & Accountancy's prudential code, this binds authorities to the principle of borrowing within their means. The code does not give guidance on the upper limit of borrowing as it is "down to local determination" and largely set by housing income.

4.3. Additional borrowing capacity to support new affordable housing delivery can be supported by utilizing the £500k reduction in the demand for revenue Repairs & Maintenance spend, whilst maintaining existing capital spend to meet the Decent Homes programme.

4.4. The additional borrowing capacity will be drawn down as required to fund capital expenditure on new homes rather than in advance each year. Borrowing will be undertaken in accordance with standard procedure and at appropriate rates to ensure value for money in borrowing this additional funding is achieved.

5. Legal Implications

5.1. The additional borrowing recommended by this report will solely be used to meet the costs of increasing the number of council homes within the HRA, in accordance to all relevant legislation and financial practice code.

6. Conclusions

6.1. The Council's capital expenditure on the housing stock has resulted in a reduction in revenue expenditure on repairs and maintenance. As a result, as part of the 2020/21 budget setting process it will aim to reduce its Repairs & Maintenance spend by £500k for 2020/21, and for the following two financial years. This then creates revenue capacity which can then be used to fund new additional borrowing to support an acquisition or development programme of new Council homes.

6.2. To effectively utilise the additional borrowing capacity, the Council will need to use a blended approach of acquisitions and new build homes, whilst the Council builds the required capacity in terms of land availability and skills and expertise to deliver the expected number of new homes. As part of this the Council will need to keep under review a schedule of development sites within the HRA, General Fund and any potential development sites from the open market.

6.3. The Council needs to engage with both Registered Providers, to explore the possibility of temporarily buying in the required skills and Homes England, to discuss the potential for grant to support the council's new build aspirations.

7. BACKGROUND PAPERS

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against? Area for consideration	Comment
Monitoring Officer Consultation:	Sent for information
Section 151 Officer Consultation:	Agreed
Existing Council Policies:	N/A
Financial Implications:	Included within detail of the report
Legal Implications (including human rights):	N/A
Risk Implications:	Included within detail of the report
Equality Issues/EQIA assessment:	N/A
Crime & Disorder:	N/A
Every Child Matters:	*N/A*