

**North East Derbyshire District Council**

**Cabinet**

**11 June 2014**

**Proposals to Bid for Additional Borrowing for the Provision of new Council Homes**

**Report No: PRK/15/14/KP of Councillor P R Kerry, Portfolio Holder with  
Responsibility for Economy, Finance and Regeneration**

This report is public

**Purpose of the Report**

- To seek Cabinet approval to submit an application for additional Housing Revenue Account (HRA) borrowing to the DCLG Local Growth Fund Housing Revenue Account Borrowing Programme.
- To obtain approval to use this funding to develop additional council homes for rent in the district, on council owned sites, and meet the gaps in provision for smaller units and mobility/wheelchair units locally.
- The HRA borrowing will in effect be an application to extend the HRA debt Cap that was set by the Government when the HRA reforms were undertaken in 2012.
- The proposals build on ongoing work to identify sites and opportunities in partnership with Rykneld Homes Ltd to consider options to increase the number of council rented homes.
- Approval in principle by Cabinet, including indicative numbers and potential sites (subject to planning) is required prior to the deadline for 'expressions of interest' for the Fund which is 5pm on Monday 16<sup>th</sup> June 2014.

**1 Report Details**

- 1.1 The Government announced in the Autumn Statement 2013 that it would raise the Local Authority (LA) HRA borrowing limits by £150m 2015-16 and £150m 2016-17, allocated on a competitive basis to drive value for money.
- 1.2 The Government is looking for local authorities, who need additional borrowing, to bid for the increase in borrowing capacity to deliver new housing schemes 'quickly'. The Government extension of the HRA borrowing limits for Councils is part of the Local Growth Fund, and as such all bids will have to be endorsed by Local Enterprise Partnerships and be in line with their Strategic Economic Plan.

- 1.3 There are two bidding options:
- i) Firm Schemes – to be submitted by 5pm 16 June 2014
  - ii) Expressions of Interest, for schemes that would be required to start in 2016-17, are to be submitted by 5pm 16 June 2014
- 1.4 The Council is not in a position to make a Firm Scheme bid by the required deadline as the Council has not got any schemes to such a position to move forward and deliver at short notice. It is therefore more appropriate for the Council to consider entering an Expression of Interest application for a scheme to start in 2016/17.
- 1.5 The current position within the HRA is that there is headroom to borrow £16.319m as at the end of March 2014, i.e. the HRA debt is £162.665m which is £16,319m below the Council's HRA debt cap of £178.984m set by the Government. The approved MTFP shows that the HRA is to borrow £5.9m in 2014/15 to cover the remaining costs of the Tarran Replacement at Eckington and Killamarsh and to make voluntary debt repayment (VMRP) of £3.4m. Therefore as at 31 March 2015 the HRA debt position will show a net increase of £2.5m to £165.165m and a forecast headroom position of £13.819m.
- 1.6 The Council is anticipated to be financially fully committed to addressing the long term Non- Traditional stock investment programme over the next 5 years. This is expected to utilise the current "headroom" within the HRA which will therefore limit any further development options within the HRA. The proposal within this report is to submit an application to increase the HRA debt cap and secure additional borrowing capacity which could fund the development of additional new council homes, in partnership with Rykneld Homes.
- 1.7 The proposal is that the Council would bid for borrowing approval as an Expression of Interest bid under Option ii. The borrowing approval, if granted, would be utilised on specific schemes to build new council dwellings (up to 66) in the District with an estimated total cost of approximately £6 million. The financing of the build cost would be by way of the HRA prudential borrowing against the increased debt cap with the Council able to determine an appropriate term for debt repayment. In order to submit a bid the Council will need to identify appropriate sites and develop a detailed plan to give time for schemes to be fully worked up and procured to meet the 2016/17 target.
- 1.8 The bidding process requires local authorities to detail the schemes which will be delivered through the additional borrowing, and the assessment of bids will look for schemes that 'have a good and demonstrable prospect of early delivery within the programme timeframe'.

**Assessment will be based on:**

	<b>Criteria</b>	<b>Position at NEDDC</b>
1	Deliverability of site in Planning terms	<i>Sites to be submitted have been assessed for deliverability, but are still subject to the planning process</i>
2	Tender stage reached	<i>We are confident that working with Rykneld Homes and using the HCA panel we could procure the units to the relevant deadlines</i>
3	Whether partnership arrangements are in place	<i>We have a working partnership with Rykneld Homes Ltd , that has been endorsed by Cabinet 5.6.2013 EAH 12/13/PS</i>
4	Inclusion by LA of other contributions e.g. Land in council ownership either HRA or GF to be included at nil cost, commuted sums , cross subsidy from market sales or market rent.	<i>Permission to include HRA or GF sites required , but inclusion of council owned sites will assist the bid</i>
5	Demonstrable Housing need	<i>Draft Housing Mix Completed &amp; available</i>
6	Fit to local economic strategies	<i>Clearly demonstrable as sites will be assessed against the emerging local plan figures and the SCR recent Strategic Economic Plan submission, and JIF (Joint Investment Fund) and SCRIF (Sheffield City Region Investment Fund Bid) submissions from NEDDC.</i>
7	LA support	<i>Cabinet approval sought 11.6.14, Property Rationalisation Group has already supported the site audit and set up a Task and finish group to progress new Council houses</i>
8	Value for money	<i>NEDDC should be able to show a competitive bid if we are using Council land, and potentially some mixed tenure or market rent units.</i>

- 1.9 The DCLG papers annex sets out the Information required to support a bid: Local Authorities who wish to submit an Expression of Interest for additional borrowing for 2016/17 should provide the following information:-
- An outline of the estimated borrowing requirement (per scheme) in 2016/17 including information on the authority's borrowing headroom (as at 31 March 2014)
  - An outline of the scheme (or schemes) including the location(s) and estimated number of proposed new units per scheme;
  - An outline of the funding arrangements including whether the Council will be bringing forward its own land for development or undertaking asset disposal to help subsidise the scheme (or schemes);
  - An outline of the proposed partnership arrangements and whether those are existing arrangements or whether new arrangements are proposed; and to be agreed at a later date e.g. Managed by Rykneld Homes Ltd or an RP for council or transferred to Rykneld Homes Ltd RP arm.
  - Whether the proposed scheme is supported by the Local Enterprise Partnership. NEDDC has applied to both the Sheffield City Region, and the D2N2 LEPS for support.
- 2.0 A recent audit of NEDDC owned sites shows that we have the capacity to bring forward up to 66 new units on Council owned sites, without compromising any planned Long-term Regeneration schemes.
- 2.1 As part of the process of developing this bid Officers have held discussions with Rykneld Homes and the following outline schemes have been put forward for consideration under this proposal:

### **Tupton**

Council owned land with the potential to build upwards of 200 housing units which could include older person bungalows and some accessible units. This scheme is at feasibility stage.

### **Dronfield:**

1. Manor Farm site – Town centre site with potential for a 50 unit mixed tenure scheme which will include 12 x 1 or 2 bedroom apartments. At feasibility and design stage with proposals to be presented to Cabinet in July 2014.
2. Alma site – Land owned by Dronfield Town Council to be transferred to RHL under general consents with potential to build 48 Affordable units which will include 2 and 3 bedroom houses and bungalows. Feasibility and Design completed but requires investment funding to progress.

## **Barlow**

Existing HRA land – this scheme will provide new affordable homes with an option to provide additional older persons bungalows. This scheme is at initial feasibility stage prior to public consultation. If appropriate other schemes can be brought forward in the timescales available.

### **3 Conclusions and Reasons for Recommendation**

- 3.1 Local Growth Fund: An application to increase the HRA debt cap and create additional borrowing capacity would provide an opportunity for the Council to consider the delivery of a new build housing scheme whilst still keeping focus on the need to address the non-traditional housing stock issues within the District.
- 3.2 The proposal would contribute towards the Growth Agenda of the Council.
- 3.3 The proposed sites have already been identified in Site Audit work, have the support of local members, and are deliverable within the timeframes of the bid.

### **4 Consultation and Equality Impact**

- 4.1 The detail of the proposed schemes outlined in 2.4 will be developed to determine the appropriate mix of property types to meet the needs for additional types of housing required in the district, as identified in the 2013 SHMA (Strategic Housing Market Assessment). The list below gives an indication of the types of property that will be considered.

- 2 bedroom 4 person houses
- 2 bedroom 4 person Lifetime homes bungalows for older people
- 3 bedroom 5 person wheelchair standard family homes
- 1 bedroom 2 person flats

The scheme will consider the mixture of Affordable rent, shared ownership and considers an allowance for an element of cross subsidy from market rented (with potential for to be managed by Rykneld Homes Ltd) or sale units, to support scheme viability. Some units could be provided to meet decant needs.

- 4.2 The Derbyshire wide Disability Housing Needs study 2013 identified the need for 132 additional wheelchair standard homes in NEDDC. There are currently 6 units in council stock.
- 4.3 Smaller units will assist with downsizing requirements due to the Welfare Reforms, and the need for Lifetime homes for older people, which will free up larger family homes. There is a shortage of 1 bedroom self-contained flats in the district. Analysis of the 2013/14 Housing Allocations returns showed that 66% of registrations on Choicemove were eligible for 1 bed units.
- 4.4 Consultation on individual schemes will be carried out in the established manner in partnership with Rykneld Homes as part of the pre planning process.

## **5 Alternative Options and Reasons for Rejection**

- 5.1 The ability to borrow monies to develop new NEDDC council homes with financing via the HRA prudential borrowing is likely to be very limited over the next few years due to the investment required in Non traditional stock.
- 5.2 The HRA development reserve has enabled some smaller schemes to be brought forward but this reserve is insufficient to finance larger development schemes.
- 5.3 An alternative option is to encourage development by offering Council land to Registered Providers and/or developers. This would offer nominations to units managed by other RP's, but the properties would not be owned by the Council.

## **6 Implications**

### **6.1 Finance and Risk Implications**

- 6.1.1 The HRA is currently on a firm financial standing as the Council has continued with the Government Rent Convergence policy which provides adequate resources to the HRA to manage the stock via the ALMO and finance the debt taken on under the HRA reforms. This enables the Council to make principal and interest repayments each year. The current capacity within the HRA is used to make contributions to the Development Reserve which is being utilised to finance some of the Tarran Replacements and to finance other smaller Council approved schemes. The MTFP shows an annual contribution to the Development Reserve of £2.5m per year.
- 6.1.2 The use of some of the HRA headroom to address the Non Traditional stock issues will increase the debt charges to the HRA. Each £1m of borrowing over a 40 year period is a cost to the HRA of approximately £0.070m per year. So borrowing £10m will currently cost the HRA approximately £0.700m per year (dependant on interest rates). This increased cost will effectively reduce the amount available to contribute to the Development Reserve. It should also be noted that the work to address the Non Traditional stock issues is not expected to generate additional rent income.
- 6.1.3 It is advisable to retain some "headroom" within the HRA to meet any unforeseen expenditure that requires prudential borrowing. It is therefore proposed that an amount of headroom should be retained of £2.0m.
- 6.1.4 It is also, recommended that the Council continues with the annual voluntary principal debt repayment included with the HRA. This will ensure that the "headroom" is maintained and is sufficient to meet future borrowing requirements to address the longer term plans for the Non Traditional stock issues.
- 6.1.5 The proposal to apply to extend the borrowing cap by £6m to build new council properties has been initially assessed with the borrowing costs, operating costs and rents shown in the **Appendix 1** for the term of the loan (50 years). It can be seen that the scheme is estimated to cost the HRA in each of the first 17 years. The cost is approximately £0.146m in year one reducing each year to £0.006m in year 17. Year 18 is the break-even point of the scheme and the position from year 19

onwards is that a surplus/contribution to the HRA is achieved. The initial costs of the scheme would further reduce the sum available for the Development Reserve. Over the 50 year period it is anticipated that the scheme would generate £3.989m in net income for the HRA.

6.1.6 The detailed work on the proposed schemes will require the above modelled figures to be refined to present a firmer foundation on which to base the business case.

6.1.7 The expression of interest is to access additional borrowing across schemes which will be assessed by DCLG for Value for money. It is possible that not all schemes will be approved for borrowing ,so the expression of interest is for 'up to £6m ' , but could come in at a lower figure depending on which schemes are approved .

## **7 Legal Implications including Data Protection**

7.1 These are accommodated within existing arrangements.

## **8 Human Resources Implications**

8.1 The project can be managed within existing resources and projects will be progressed through current working arrangements.

## **9 Recommendations**

9.1 That Cabinet agrees that the Council submits an Expression of interest to borrow and additional £6m to the DCLG Local Growth Fund HRA Borrowing Programme 2016-17.

9.2 That Cabinet agrees the inclusion of sites detailed at 2.4 and set out in Appendix 2 for the bid.

9.3 That Cabinet notes the position and plans for the existing HRA borrowing headroom and that the Council will maintain a £2m headroom gap to meet any unforeseen circumstances.

9.4 That Cabinet continues with the annual debt repayments as contained within the MTFP to ensure the HRA headroom is maintained for future works on the Non Traditional housing stock.

9.5 That Cabinet notes the estimated costs of utilising the borrowing headroom and the impact that has on the Development Reserve contributions.

9.6 That Cabinet notes the outline costs of the proposed scheme to build new houses based on following assumptions:

- £6m scheme
- Loan - Equal Instalments of Principal (EIP loan) - term 50 years
- Interest rate of 4.0%
- build 66 properties
- rents start at £85.00 per week with rent increase of 1.5% per year
- voids at 2.5%

- doubtful debts 2%
- Management and maintenance cost at £450 per property increasing by £200 every 10 years.
- Major Repairs Allowance £500 per property per year.
- Interest on balances at 2.5%

9.7 That Cabinet receive an update on the result of the bid & proposed programme of work at the appropriate time.

## 10 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
<b>District Wards Affected</b>	All , or dependent on sites selected
<b>Links to Corporate Plan priorities or Policy Framework</b>	Create jobs, build skills and attract capital Investment Increase housing Choice Look after the environment Improve peoples health

## 11 Document Information

Appendix No	Title
1.	Financial Appraisal Model
Link	CLG Local Growth Fund Paper <a href="https://www.gov.uk/government/publications/local-growth-fund-housing-revenue-account-borrowing-programme-2015-to-2016-and-2016-to-2017">https://www.gov.uk/government/publications/local-growth-fund-housing-revenue-account-borrowing-programme-2015-to-2016-and-2016-to-2017</a>
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
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