

Report to Council
22 September 2020
Report of Director of place
Subject Future Housing Commissioning

Item

8

Purpose

To consider an adjustment to the 2020/21 HRA capital programme, to increase the budget allocation to support the development of new council housing.

Recommendation

Council are asked to approve:

- 1) An increase in housing capital budget provision of £180,000 to support design, technical studies, project management and planning consultancy for the Mile Cross Depot site.
- 2) An increase in housing capital budget provision of £2.74m to support development of the Mile Cross Depot; and
- 3) Rents for properties designed and constructed to deliver an enhanced environmental performance are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.

Corporate and service priorities

The report helps to meet the corporate priority Great neighbourhoods, housing and environment

Financial implications

£2.92m to support the Mile Cross Depot Site to be funded from:

- £0.18m Business Rates Pooling 2020
- £0.822m Retained RTB one for one receipts
- £1.918m HRA borrowing or reserves.

Ward/s: Multiple Wards

Cabinet member: Councillor Harris - Deputy leader and social housing

Contact officers

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Background documents

None

Report

Background

1. The relaxation of the Housing Revenue Account (HRA) borrowing cap gives the council opportunities to consider increasing the provision of new council homes. Since 2012 Government refinancing of Housing Revenue Accounts (HRA) the council has embarked upon a programme of council house building.
2. To date 191 new council homes have been provided. These have included the purchase of dwellings required under S106 agreements at Rayne Park and Brazen Gate, development of small sites at Eglington Mews and Riley Close, our first Passivhaus development at Hansard Close, the conversion of a former area housing office at Bullard Road and the award winning Goldsmith Street development
3. In November 2019 Cabinet approved the Norwich council housing strategy 2020-2026 that stated our council housing ambition to:

“provide good quality, well maintained affordable homes to meet local housing needs within a safe, clean and well cared for neighbourhood.

We want to make a difference to peoples’ lives by promoting independent living and to build sustainable communities, where people take responsibility for their own lives and those of their families”.

One of the primary goals of the strategy is to meet housing need through the delivery of new homes.

4. On 29 July 2020 Cabinet considered a report on future housing commissioning and approved to
 - a. Note the appraisal for the delivery options and agree next steps:
 - i. Further work to model the financial capacity of the HRA to deliver an on-going pipeline of sites; and
 - ii. To procure specialist advice to assist determination of preferred delivery option and provision of tax and legal advice as needed.
 - b. Approve the outline business cases, programmes and funding required for 2020/21 for progression of three sites including:
 - i. Agreeing a virement of opportunities fund for design on Three Score phase 3 and Argyle St as detailed in the exempt appendix to this report. A virement for Mile Cross design costs were approved by cabinet in June;
 - ii. Recommending to Council to agree capital expenditure of £2.74m on the former Mile Cross depot and also an increase in the budget of £0.18m for design fees in order to utilise funding from business rates pooling as detailed in the exempt appendix to this report.
 - c. Appropriate the land at Three Score phase 3 from the General Fund to the HRA under the Housing Act 1985, part ii, Section 19 (1) for the purposes of providing social housing, subject to a full valuation of the land.

- d. To approve that rents for properties developed to enhanced environmental standards are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.
 - e. Approve the procurement of a registered provider partner to develop additional affordable homes on city council sites for a 5-year period. The first tranche of sites is expected to deliver approx. 25 homes.
5. Officers have identified a number of city council owned sites in both the HRA and General Fund that are suitable for development. Three key sites have been identified to take forward immediately that can deliver approx. 260 new homes over the next 5 years. These are:
- a. Mile Cross depot site (approved at cabinet in June 2020) - 156-200 homes
 - b. Argyle Street, former housing subsequently demolished – 14 homes
 - c. Three Score Phase 3, adjacent to the Rayne Park development – 90 homes

HRA Business Plan

6. The HRA business plan models the long-term financial viability of the HRA. The two key outputs from the business plan are the period over which the HRA would have the ability to repay all of its borrowing; and the maximum level of debt held at one time.
7. Historically, the ability to repay all borrowing over a 30 year timescale was utilised as a measure of the financial viability of the HRA. This is a notional measure as there is no requirement to repay borrowing over that period, but it acts as a measure of the payback period on the investments made. However, councils and registered providers are now considering extending their borrowing periods well beyond 30 years to better reflect the lifespan of the assets, and in some cases they have no plans to repay any borrowing in the foreseeable future. To reflect this, the council has extended the business plan projections to 60 years to enable further investment opportunities to be explored, such as additional new build schemes and the consideration of renewing rather than upgrading some housing stock.
8. Additionally, total HRA borrowing was restrained by a government imposed borrowing cap (£237m). However, in 2018, in order to facilitate an increased level of new social housing, the government's borrowing cap was removed. The borrowing capacity therefore now falls within the remit of the Prudential Code.

Key assumptions within the business plan

9. The 'base' 2020/21 HRA business plan, includes all estimated costs of maintaining and upgrading the current housing stock over the next 60 years and forecasts that existing borrowing could be repaid within 24 years.
10. Given the length of time over which the business plan is based, there are a number of key assumptions and a degree of estimation uncertainty. The key assumptions included in the 'base' business plan include:
11. The HRA will only borrow when necessary and will first seek to utilise existing reserves as set out in the Capital Strategy. The HRA holds £207.5m of existing borrowing, of which £179.6m is historic and placed externally at rates varying

from 2.92% to 9.63%. As it is impossible to predict future interest rates, a prudent assumption of 4.5% increasing to 5% is applied throughout the plan.

12. Future rental income assumes that existing government policy will continue to be applied (CPI as at preceding September plus 1%); Rental income for new dwellings is assumed to reflect that of existing dwellings of a similar property size and type.
13. In order to maintain a prudent approach and mitigate against the risk of real costs (building, maintenance & management) increasing at a higher rate than the recorded CPI of the preceding September, the model assumes a difference of +0.75% for the first 10 years, reducing to +0.5% thereafter throughout the plan.

Borrowing Capacity

14. Although the government removed the HRA borrowing cap in 2018, and the council may now determine how much it will borrow to fund HRA capital expenditure, it still has to demonstrate that the overall borrowing of the council (HRA & GF) is affordable, prudent and sustainable as required by CIPFA's Prudential Code. It is important to note that because the prudential code applies to total borrowing, the capital ambition of both the HRA and general fund need to be considered in tandem. The current level of borrowing in the HRA is £205m and £116m for the general fund.
15. For the purposes of the modelling, a guideline HRA borrowing limit of £350m has been applied. In setting this level, consideration has been given the level of interest payments, the gearing ratio (borrowing level to the HRA asset value of £809m) and current general fund borrowing. This level will continue to be reviewed in light of the general fund capital ambition, forecast interest rates and the changing HRA asset base.
16. Any long-term financial forecast will include a number of risks and uncertainties and the HRA business plan is no exception. As already explained, a number of assumptions are made, but some elements can change, such as unforeseen upgrade and maintenance costs, increases in development costs and changes in government rent policy. It is important these risks are considered when looking at borrowing levels and repayment periods.

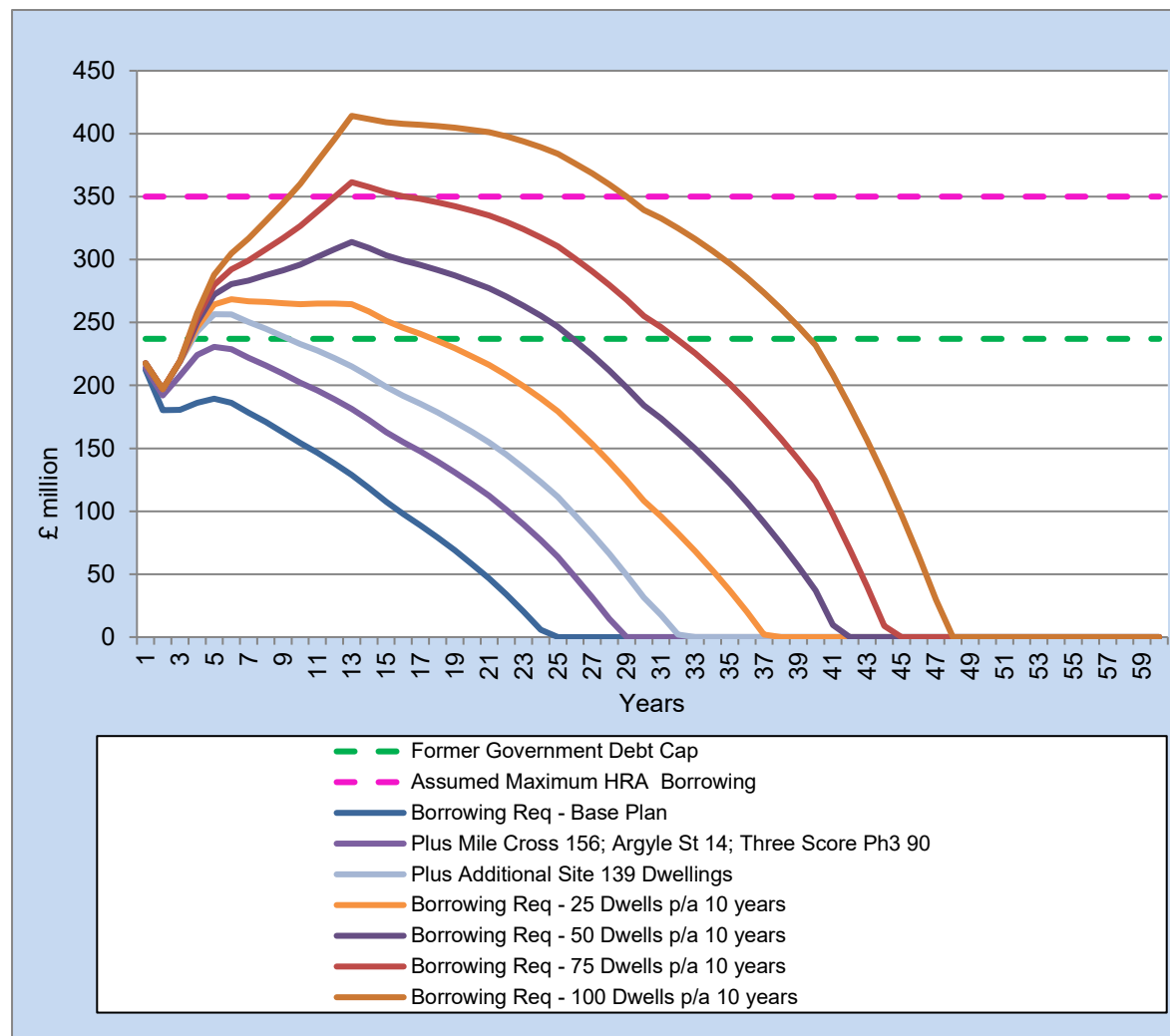
Modelling

17. The chart below sets out a number of potential scenarios and the associated impact on the repayment of HRA borrowing. The outputs from the model show that the proposed schemes at Mile Cross, Argyle Street and Threescore would increase the borrowing of the HRA to £231m (which remains below the previous debt cap) and extends the repayment period to 28 years. These schemes are therefore considered affordable by the HRA. Adding a further potential scheme of 139 dwellings into the plan, increases the borrowing to £257m and further extends the repayment period to 32 years.
18. When further pipelines of sites are included, the model shows that in order to maintain HRA borrowing below the assumed limit of £350m, between 50 and 75 new homes per year could be delivered over a 10-year period, once the development of 399 new homes included within existing schemes is complete.

However, the repayment of HRA borrowing would extend to between 41 and 44 years.

19. The chart also highlights the impact of building 100 new homes per year over a 10-year period, which would increase borrowing well beyond the assumed £350m limit to £414m, with the repayments period extending to 47 years (The graph shows reaching zero in year 48 but the debt is paid off in the year before). However, the potential exists to increase the number of new dwellings, if savings can be identified elsewhere within the HRA.

HRA Borrowing Requirement Scenarios



Recommendations

20. In order to progress the three sites at pace Cabinet approved the virement of budgets for design services to take forward Three Score Phase 3 and Argyle Street and had previously approved a budget for Mile Cross.
21. For the Mile Cross depot site a bid was made in late 2019 for Business Rates Pooling (BRP) funding to provide 50% of the £360,000 costs for design, project management, technical studies and planning advice, which has now been approved. Cabinet approved match funding in June through a virement from the opportunities fund, however the BRP element needs to be approved as an

adjustment to the council's budget. It is therefore requested that Council approves the recommendation from cabinet an uplift in the council's housing capital budget of £180,000 in order to utilise the BRP funding.

22. In addition, through the work undertaken to date to demolish buildings on the site and de-contamination works, we are aware that there are further issues with the ground at Mile Cross. In order to de-risk the site for redevelopment further technical studies will be undertaken and it is recommended that a package of ground works be brought forward in the programme to inform the foundation strategy of the development. In the cost plan £2.74m is included for these works and Council are asked to approve an uplift in 2020/21 housing capital budget for this amount.
23. Within the MHCLG guidance on rent setting for local authorities there is flexibility to set rents at up to 5% above formula rent for individual properties.
24. In July 2016 cabinet and council approved that rents for Passivhaus properties are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.
25. Council are asked to approve that we take advantage of this flexibility for the development of any new homes that meet enhanced environmental standards as well as Passivhaus (equivalent to an average £4 per week additional rent). This will assist with offsetting the additional development cost, and bring down the payback period of the individual scheme, particularly as the evidence shows that residents would make significant savings on fuel bills.

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with the completion of the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Council
Committee date:	22 September 2020
Director / Head of service	Graham Nelson, Director of Place
Report subject:	Future Housing Commissioning
Date assessed:	11 September 2020

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of more council homes will improve overall affordability of the housing stock. This represents a prudent use of financial resources to meet corporate priorities. A balance will need to be found for the delivery of additional homes against the overall costs within the HRA that doesn't impact negatively on the council's overall borrowing and prudent financial management of the HRA.
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The delivery of new affordable housing will provide employment opportunities, opportunities for local contractors and businesses and will generate local spending for the benefit of the wider economy. Providing more housing is important in supporting sustainable economic growth and prosperity.
Financial inclusion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Providing additional social rented housing at enhanced environmental standards will advance financial inclusion by helping to improve housing affordability and reduce fuel poverty.
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Building more council homes to meet changing needs will help provide accommodation for vulnerable adults and children.

	Impact			
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The provision of sufficient and decent quality housing is essential to ensuring decent levels of health and well being.
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of high quality new homes will enhance the built environment.
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Sustainable procurement	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Procurement of design and construction services will include opportunities for local contractors and suppliers. We would also seek opportunities for local apprenticeships and training.
Energy and climate change	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There is opportunity for the new homes to be designed and built to a higher environmental standard than building regulations, which will bring benefits to both the environment and tenants, when compared with standard build types. The focus will be on reducing energy and water demands to help reduce fuel bills for residents and to assist the council with meeting the commitments to the climate change agenda
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>There are risks with all developments around cost, quality and time but these will be carefully managed throughout delivery and minimised or mitigated wherever possible.</p> <p>Ground conditions on developments are always a major risk, but these can be mitigated and a significant sum has been included within appraisals to deal with these issues along with a contingency.</p>

Recommendations from impact assessment

Positive

Overall this report will provide more council homes which will improve overall affordability of the housing stock. The investment priorities represent a prudent use of financial resources to meet corporate priorities and will provide local employment opportunities.

Negative

Overall borrowing of the council will increase and extend the payback period of the HRA business plan. This will be managed in conjunction with the S151 Officer to keep within recommended prudent levels and programmes of delivery amended accordingly. Site risks will be mitigated wherever possible and contingencies included within cost plans.

Neutral

Issues