

# MUNICIPAL YEAR 2018/2019 REPORT NO. 63

## MEETING TITLE AND DATE:

Cabinet – 12<sup>th</sup> September 2018

## REPORT OF:

Executive Director of Place – Sarah Cary

Agenda – Part: 1

Item: 10

**Subject: Building Council Homes for Londoners – Funding Opportunities**

**Wards:**

**Key Decision No: KD4747**

**Cabinet Members consulted: Cllr Lemonides, Cllr Maguire, Cllr Caliskan**

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## 1. EXECUTIVE SUMMARY

1.1 In May 2018 the Mayor launched the Building Council Homes for Londoners programme which makes funding available to enable councils to deliver more housing particularly for social rent. Bidding guidance was issued in July 18 and included the following announcements.

- 1.2 The programme comprises of four areas
- Developing in-house skills and expertise within councils
  - Increasing the affordable housing grant available to build new homes
  - Ring-fencing Right to Buy receipts and
  - Managing additional Housing Revenue Account (HRA) borrowing headroom

The Council will be submitting bids for HRA Additional Headroom and Affordable Housing grant on identified sites

1.3 This report seeks approval to bid for additional HRA borrowing headroom to enable the council to build new affordable homes, to enter the ring fenced Right to Buy offer and to recommend a programme of housing developments to put forward for Greater London Authority (GLA) Affordable Housing Grant.

1.4 Deadline for submitting bids on the GLA's system is 30<sup>th</sup> September 2018. Once the outcome of the bids is known a further Cabinet report will be submitted outlining evaluation of the sites and seeking approval to deliver the programme.

## **2. RECOMMENDATIONS**

It is recommended that Cabinet;

### Additional HRA Headroom

- 2.1 Approves the council submitting a bid to the GLA requesting an increase in the HRA borrowing headroom by no more than £150m.
- 2.2 Notes and approves the impact on the 30-year HRA Business Plan and Loan repayments of increasing the HRA headroom of no more than £150m.
- 2.3 Note that final determination of the council's overall revised indebtedness position (i.e. the Prudential Indicators) will be submitted to Council for agreement, once the position on the funding bids is known.

### Affordable Housing Grant

- 2.4 Approves the Building Council Homes for London Affordable Housing grant bid for up to £30m on affordable housing schemes to be confirmed.
- 2.5 Delegates the approval to enter into the GLA Grant Funding agreement as outlined in 2.3 to Executive Director of Resources in consultation with Executive Director of Place and the Cabinet for Housing
- 2.6 Notes that, once the outcome of the bids is known, a report outlining the programme for both funding opportunities will be submitted to Cabinet for approval.

### Right to Buy Ring Fence offer

- 2.7 Approves the GLA Right to Buy Ring Fence offer delegating entering the proposal as outlined in Appendix 1 to the Executive Director of Resources or the Director of Law & Governance.
- 2.8 That Cabinet delegates to Cabinet Member for Finance & Procurement in consultation with Executive Director of Place and Executive Director of Resources and Cabinet Member for Housing to authorise the transfer of sites from the General Fund to the HRA in accordance with the Property Procedure Rules and undertaking appropriate Due Diligence. Such delegation is only in the event of the council being successful in securing an increase in the HRA Borrowing Debt cap.

## **3 BACKGROUND**

In May 2018 the Mayor launched the Building Council Homes for Londoners programme which makes funding available to enable councils to deliver more housing particularly for social rent. We have been lobbying Central Government and the GLA for an increase in our HRA Headroom and they have been very supportive and keen for us to bid for both opportunities.

Outlined below is the timetable for bidding, each bid will be assessed by the GLA and proposals will prioritise proposals which demonstrate early delivery including planning, a good track record of housing delivery and land ownership.

## Bidding Timetable

<b>Milestone</b>	<b>Timing</b>
Bidding for Additional Funding Deadline	30 <sup>th</sup> September 2018
Results of Bidding announced	November 2018
Councils with revised indebtedness determinations drawdown date	April 2019 onwards

**The funding opportunities include;**

### **Additional HRA Headroom**

- 3.1 The Localism Act 2011 introduced a system of self-financing for local authority housing. This came into effect from 1<sup>st</sup> April 2012. The implementation of the new system included a one-off settlement and redistribution of existing housing debt requiring each local authority to either take on new debt or to have some of its existing housing debt repaid.
- 3.2 Following the settlement, local housing authorities were free to either repay debt or take on new borrowing (up to a government determined cap) taking account of local priorities and housing investment needs. The cap was imposed as a tool to keep overall public borrowing down and there was no consideration of the ability to service debt.
- 3.3 LB Enfield are currently at their debt cap of £198m and Councils have been lobbying for some time that the restrictions on borrowing should be lifted arguing that the account cap should be removed giving boroughs the ability to build new housing.
- 3.4 There are increasing pressures on housing supply in Enfield, pressure on temporary accommodation as it has increased significantly.
- 3.5 Through the Building Council Homes for Londoners programme the mayor has successfully negotiated a £500 million additional HRA borrowing for councils across London.
- 3.6 To access HRA headroom borrowing the GLA require a list of sites that must be able to draw down funding by March 2022, and only new build affordable homes can be funded.
- 3.7 Before the release of the Building Council Homes for London prospectus we undertook a modelling exercise to consider the additional amount the HRA Business Plan could afford to borrow. The exercise demonstrated that we could afford £150m over 30 years.
- 3.8 We are currently building a pipeline of development opportunities that can deliver spend if central government raise our borrowing cap on a permanent basis or future funding opportunities become available from the GLA.

## **Right To Buy Ring Fenced Offer**

- 3.9 Current rules for spending Right to Buy receipts are enforced through legislation and agreements between councils and central Government. If the receipts cannot be spent in accordance with the terms in these agreements – councils must return receipts to central Government with interest who then redistribute to the GLA in London. The agreements also allow councils to voluntarily return funding to central Government.
- 3.10 Enfield has actively sought to avoid returning RTB receipts to Government and to date we have spent and match funded £55m. However, the amount of receipts that we need to spend is increasing and the match funding 70% of the expenditure from the HRA Business Plan is becoming more difficult with the imposed debt cap.
- 3.11 As part of the *Building Council Homes for Londoners* programme the GLA is offering councils the opportunity to opt-in to its Right to Buy Ring-Fence Offer. For councils accepting the offer, the GLA will ring-fence any Right to Buy receipts that a council collects and returns to the GLA (via central Government) for use by that council in accordance with a standard agreement between the two parties.
- 3.12 Benefits of opting-in to the offer include the opportunity to ring-fence receipts plus any interest paid specifically for the council to spend on new affordable rented housing projects for an additional 3 years.

## **Capital Funding – Affordable Housing Grant**

- 3.14 Additionally, through the Building Council homes for Londoners programme the GLA has increased grant funding of £100k per rented unit to enable local authorities to bid for grant to develop more housing for social rent and shared ownership.
- 3.15 We have had extended liaison meetings with GLA who have given us support and technical advice on the bid programme. They are encouraging LBE to maximise the scale opportunity within the Borough and to be ambitious in the bid for HRA increased borrowing and GLA grant and are keen to work with LB Enfield as a strategic partner. Politically there have been several high-profile meetings supporting the increase in the HRA Headroom to deliver more affordable housing
- 3.16 The GLA is asking for grant bids to support new council homes for rents at or below 'London Affordable Rent' caps, since these caps are based on social rent levels.
- 3.17 A pipeline of schemes has been identified that can start by March 2022 and include a mix of rented and shared ownership. The bid for funding is likely to be up to £30m. Those schemes that will not be included in the HRA headroom bid will be included in the affordable housing grant bid as this programme only requires start on site before March 2022.

## **Risk – Deliverability**

- 3.18 Housing Development and Estate Renewal will require resources that address the barriers to delivery, this will include:

- Additional resources to conduct technical and legal due diligence and feasibility studies to reduce risk and increase the deliverability of the programme
- dedicated urban design and planning support
- experienced development managers to take the programme forward.
- decision making on procurement and contractual commitments to be delegated to officers.
- Officers to update Executive Director's and portfolio holders (assuming delegations as requested) with definitive figures for additional budgets once the grant allocation and the HRA headroom is confirmed post bid.

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

##### **4.1 Not seeking the additional borrowing headroom**

Bidding for the additional HRA headroom will give the council the opportunity of building new homes for the HRA and using our RTB receipts. If Enfield does not bid for additional headroom we will lose the ability to develop new homes and risk returning our Right to Buy receipts including interest to the government.

##### **Not seeking the additional grant**

The extra funding is intended to empower councils to 'get building' again. The primary mechanism to achieve more supply in the new prospectus is an increase in GLA grant of £100k per unit. Additional funding will provide a potential opportunity to increase the percentage of affordable housing on some key sites. Not bidding for grant will mean we will lose out on this additional grant.

##### **Not seeking the RTB flexibility**

If the Council decides not to opt in to the GLA offer any Right to Buy receipts and interest that need to be returned to the government will be lost to the borough. By opting in we are ensuring we have longer to spend the receipts on replacement homes.

#### **5. REASONS FOR RECOMMENDATIONS**

- 5.1 Along with other local authorities the council has been asking central government to increase the HRA debt cap to enable the council to borrow more money to deliver good quality affordable homes replacing those lost through the Right to Buy programme. This funding opportunity will enable us to build more council homes.
- 5.2 Not entering the Right to Buy Ring Fenced Offer would reduce the opportunity to deliver new schemes using RTB receipts. This offer from the GLA extends the time the council must spend receipts and any interest that is returned.
- 5.3 Affordable Housing Grant gives the local authority the ability to maximise new supply and unlocking extra homes on our key sites in our programme.

## 6 COMMENTS OF THE EXECUTIVE DIRECTOR RESOURCES AND OTHER DEPARTMENTS

### 6.1 Financial Implications:

#### Additional Headroom

The current HRA borrowing cap is £198m and Enfield is currently at the debt cap. This has meant that the HRA has been financially restricted in developing new build properties. The GLA are now proposing that Councils can bid for additional headroom in the rules set out in the Building Council Homes for Londoners prospectus,

The available headroom as shown in 'Table 1' is available for all London authorities over a 3-year period starting in 2019-20, Councils need to demonstrate that the schemes they are bidding for demonstrate value for money and are deliverable. Each scheme will have a proval assessment completed to assess viability.

Potential development opportunities have been identified as being eligible for bidding for additional headroom.

Enfield will be bidding for a maximum of £150m additional borrowing capacity over the next 3 years which will increase our HRA borrowing debt cap to£348m. This additional borrowing along with other sources of funding including RTB receipts and grant funding will deliver c 900 additional units.

The impact of the additional borrowing on the HRA Business Plan is shown below.

Additional Borrowing	Additional Interest (per annum) £m	Reduction in HRA Business Plan (30 years) £m
£150m	5.2	150.8

These assumptions are based on the additional loan being repaid within the 30-year HRA business plan.

The Council will need to ensure that the Chief Finance Officer (S151 officer) has signed off and certified the bid for additional headroom and is affordable within the current HRA business plan. The additional borrowing will be funded by Public Works Loan Board (PWLb).

#### RTB Ring Fenced Offer

Currently the RTB receipts must be spent within 3 years of receipt and any unspent receipts are returned to the Government with a 4% compounded interest rate.

The GLA is proposing that Councils enter into an agreement which will allow Councils to ring-fence unspent RTB receipts plus any interest paid for a further 3 years.

Enfield's current plan is to spend all RTB receipts within the current criteria but by opting in to the agreement this will give the Council additional time to

spend receipts and work with the GLA to take a more strategic approach to utilising the spending of receipts.

Currently for every £1m returned to the Government the interest is C. £133k, this would still be applicable if we opt into the agreement, but this would be ring-fenced and not returned to the Government.

### **Affordable Housing Grant**

The GLA Affordable Housing grant will enable Enfield to deliver affordable homes that start by March 2022. Grant allocation criteria is set below.

£100k per home for social and affordable rent. Rents can be at social rent or the London Affordable Rent. The new London Affordable Rent cap will be introduced from April 2019 to ensure the Council's Affordable Rent policy is in line with the London Affordable Rent cap.

£38k per home for shared ownership in 2019-20 and £28k in 2020-21 and 2021-22.

This grant will be used in conjunction with the additional HRA borrowing and will also support general fund affordable housing schemes. Additional resources to conduct technical & legal due diligence along with feasibility studies to reduce risk and increase the deliverability of the programme is required

It is anticipated that Enfield will bid for £30m of grant. However further grant applications will be accepted by the GLA under the continuous market engagement process for schemes not able to be delivered by the HRA Additional Headroom programme

## **6.2 Legal Implications**

6.2.1 Under Part 1, Chapter 1 of the Local Government Act 2003 local authorities have a general wide-ranging power to borrow for any purpose relevant to their functions or for the prudent management of their financial affairs

6.2.2 The total amount a Local authority may borrow is governed by CIPA's Prudential Code for Capital Finance. However, there is a separate total national cap on HRA borrowing which is a tighter limit than would apply if the Prudential Code was applied to Council's borrowing against their HRA.

6.2.3 Apparently the GLA has designed their Building Council Homes for Londoners funding scheme to be State Aid compliant.

6.2.4 The Housing Act 1985 (Part V), gives secure tenants the Right to Buy their council home from their council. The Council must pool RTB receipts centrally under section 11 of the Local Government Act 2003 and regulation 12 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 unless the Secretary of State agrees otherwise. The Council has entered into an agreement with the Secretary of State that permits it retain part of the receipt from Right to Buy sales for the provision of social housing, provided this is invested within three years of the receipt and does not exceed 30 per cent of the full development cost of replacement homes. Any surplus Right to Buy receipts are returned, with interest, to the

GLA (via central Government) to grant fund additional affordable rented housing in London.

6.2.5 The Council must continue to comply with the provisions of its retention agreement with the Secretary of State and the provisions of any agreement entered into with the GLA arising from the recommendations in this report. All contracts or agreements arising out of the matters outlined in this Report will need to be approved in advance by Legal Services.

### **6.3 Property Implications**

Should the council be successful in attracting funding from the Mayor from the Building Council Homes for Londoners initiative any land transfer from the councils General Fund land holdings to the HRA would need to be compliant with the Councils Property Procedure rules including a requirement for market value to be paid for the land.

## **7 KEY RISKS**

There is no risk bidding for additional HRA headroom or Affordable Housing Grant as this is an opportunity to attract additional budget to build new affordable homes, entering into the Right to Buy opt in letter also carries no financial risk. However, if the bids are successful, then the funded projects will need to be carefully managed to ensure they are kept within budget and on time, Failure to do so will result in the funding opportunity being withdrawn

- . No current programmes such as major works or fire safety will be affected by these proposals

## **8 IMPACT ON COUNCIL PRIORITIES**

Increasing affordable and social housing in Enfield will make a strong contribution to the Council's priorities by providing better quality accommodation, empowering residents which fosters community cohesion and improving life opportunities.

### **8.1 Fairness for All**

Increasing the provision of affordable housing will enable older people and people with disabilities to live independently, and support the delivery of other aims

### **8.2 Growth and Sustainability**

Increasing the provision of quality, affordable housing is a specific objective of Enfield Council.

### **8.3 Strong Communities**

The project will see investment into the borough to provide much needed housing.

## **9 EQUALITIES IMPACT IMPLICATIONS**

The affordable homes will be allocated via the Council's Choice Based Letting system. No individual EIA has been undertaken for this proposal



Individual housing development and estate renewal projects are monitored in relation to their equalities impact. Providing additional affordable housing has the potential to benefit individuals with protected characteristics and people who are economically disadvantaged.

## **10 PUBLIC HEALTH IMPLICATIONS**

Housing is a fundamental determinant of health as evidenced by that those without homes have a life-expectancy some 30 year lower than the national average. Good quality homes are associated with higher life expectancies and better health.

## **11 HR IMPLICATIONS**

Additional resources to deliver comprehensive developments is a requirement and if successful key staff will be required for the Housing Development & Estate Renewal Team.

*Attached – Appendix 1 Right to Buy Ring Fenced Offer letter*  
**2.**