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**Executive**

**17 January 2019**

Report of the Corporate Director for Housing and Adult Social Care and the  
Corporate Director of Customer and Corporate Services  
Portfolio of the Executive Member for Housing & Safer Neighbourhoods

## **Building More Homes for York – removal of the HRA borrowing cap**

### **Summary**

1. This report sets out how the Government's decision to lift the Housing Revenue Account (HRA) borrowing cap will enable the council to embark upon an ambitious programme of housing development; delivering a substantial number of additional new homes to meet the needs of our residents.
  
2. Lifting of the cap will enable:
  - a. Accelerated delivery of more than 600 new homes across 8 sites within the Housing Delivery Programme
  - b. The purchase of additional land for housing development
  - c. The acquisition of additional affordable housing through Planning Obligations in S106 agreements
  - d. Opportunities for additional investment in older persons accommodation provision

### **Recommendations**

3. Executive are recommended to:
  - a) Further endorse the proposed means of delivery for the Housing Delivery Programme through the Housing Revenue Account
  
  - b) Approve in principle the appropriation of sites within the Housing Delivery Programme from the General Fund into the HRA, noting the

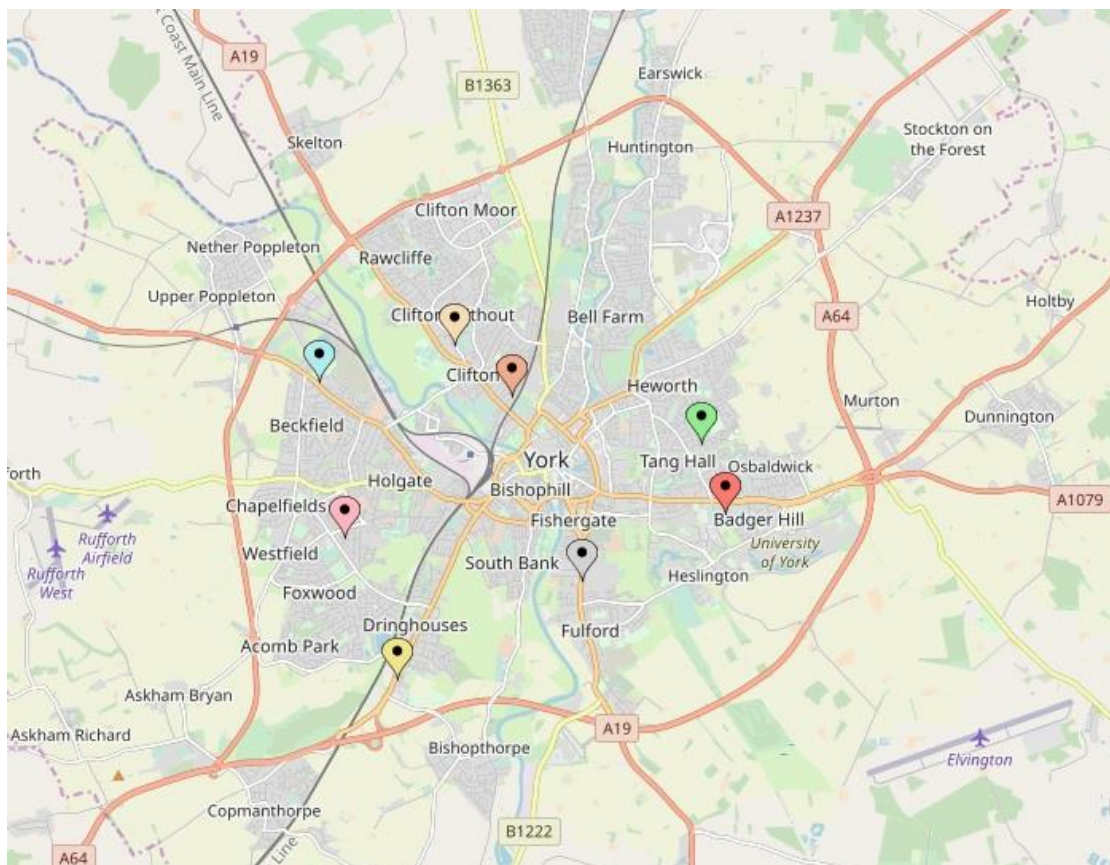
increased debt that would occur, with sites to be appropriated following Executive approval of individual site business cases.

- c) Note the additional opportunities that removal of the HRA borrowing cap brings in respect of potential land acquisitions for new housing developments and the purchase of new affordable housing through S106 agreements, with a business case to be brought before Executive for consideration when such opportunities are available.

**Reason:** To accelerate the construction of much needed homes in the city, allowing the council to build more than 600 homes in the next five years, of which over 250 homes will be council houses and low cost home ownership tenures.

## Background

- 4. On 12 July 2018, the Executive agreed that seven council-owned sites should be developed for housing and delivered through the HRA as part of the Housing Delivery Programme. Since then, the Executive has approved the purchase of part of the former Duncombe Barracks site which will form part of the Programme. These sites are shown on the map below:



5. The Housing Delivery Programme will seek to deliver over 600 new homes over the next five years, including over 250 council and low cost home ownership homes. This represents the largest house building programme undertaken by the council since the 1970s. Recently the government has removed the borrowing cap on the HRA's debt. This will enable an accelerated delivery programme, providing much needed new homes for residents in a variety of financial circumstances.
6. The Executive decision to deliver housing through the HRA, rather than through a separate development company, was informed by a clear purpose and vision to meet housing need and deliver positive social outcomes rather than for revenue generation. As well as meeting housing need and providing double the amount of council and low cost home ownership housing than planning policy requires, the programme will see homes built to higher accessibility and environmental standards. The latter will consist of a fabric first approach to building performance with renewable energy production utilised where viable. Sites will be developed to form healthy and sustainable developments — neighbourhoods that are inclusive, improve the lives of both new and existing residents, and stand the test of time.

### **Delivering homes that meet the needs of residents**

7. The mix of house types and tenures offered through the programme will ensure that the housing needs of a broader range of York residents are met — from those in the most acute need, to key workers and young families looking to get on the property ladder, and older people wishing to downsize.
8. The type and tenure of the homes to be delivered will be determined through identifying housing need alongside consideration of the location and size of the sites. Smaller sites will lend themselves to higher levels of council housing whilst larger sites will benefit from a broader mix of tenure types in order to promote social inclusion and help to create mixed and balanced communities.
9. The programme will significantly increase the number of new council homes being built. These homes will be available at a social rent — the lowest rents set by the government — and let on a secure tenancy, providing much needed housing for those in most acute need. Alongside

this, the programme supports the council's ambition to provide a significant number of new low cost home ownership houses, such as shared ownership. Shared ownership provides residents with the opportunity to purchase a share of between 25% and 75% of their home whilst paying rent on the remaining value. This helps residents who aspire to home ownership but are priced out of the current housing market. Tables that compare the costs of shared ownership and Help To Buy to purchasing on the open market are attached as Annex 1.

10. Residents registered with the council for a shared ownership home include a high proportion of young families with children and NHS key workers. With shared ownership, a young family with a combined income of between £30,000 and £37,000 could buy a 25 to 50% entry share of a new three bedroom house on Lowfield. The family would have the opportunity to buy a greater equity share of their house as their financial circumstances improve. Alternatively they may wish to buy a new home on the open market and sell their share to another family in housing need.
11. Shared Ownership helps individuals with small deposits, such as first time buyers. Based on an entry share of 25%, a one bedroom apartment on Lowfield could be purchased with a deposit of approximately £1750, total monthly payments of £436 and an annual income of £17,000. A two bedroom flat could be purchased with a deposit of £2000, monthly payments of approximately £500 and an annual income of £19,800.
12. The Housing Delivery Programme works collaboratively with the Older Persons Accommodation Programme. One of the key ambitions is to deliver a range of accommodation to allow people to live independently for longer. Shared ownership can aid this ambition by supporting older persons who wish to downsize or whose circumstances have changed. An older person or couple could utilise existing equity held in their home to buy a 50% share in a new two bedroom bungalow on Lowfield for approximately £102,500 with monthly rental payments of approximately £250. Alternatively, using older persons shared ownership they could buy a 75% equity share for approximately £153,750 and pay no rent.
13. The Housing Delivery Programme will also provide homes for open market sale, with a focus on house types which meet priority housing need. Residents will have the opportunity to utilise 'Help to Buy' to purchase a new home. This provides assistance to first time buyers

through a 20% government loan. Under this scheme, based on a mortgage of 3.5x income, a couple with joint earnings of £45,600 could buy a two bedroom house at Lowfield. A joint income of £57,000 would be required for them to purchase the same property without assistance.

## Implications of removal of the HRA Debt Cap

14. HRA debt caps were introduced in April 2012 in order to control overall borrowing levels; with the council being assigned a cap of £146m. This cap has now been abolished, giving authorities greater capacity to borrow in order to build new homes. Instead of a cap, borrowing is now linked to the Prudential Code, which mandates that council borrowing should be affordable, with finances set aside for it to be repaid. York's current HRA debt is £139m with an asset value of £450M. In November 2018, Executive approved a revised HRA business plan which planned for the full £139m HRA debt to be repaid over the 30 year plan period.
15. Whilst the Housing Delivery Programme could have been delivered through the HRA with the cap in place, this constrained the speed at which land could be transferred from the General Fund to the HRA and therefore the speed at which new homes could be provided. Removal of the cap allows for greater acceleration in providing new homes in York.

## Financial Headlines of the Housing Delivery Programme

16. The table below shows the indicative cost of the programme and the indicative funding proposal. The key assumption being that the programme will broadly deliver 20% new council housing, 20% low cost home ownership, and 60% market sale homes. Detailed site business cases and associated budget requests will be presented to Executive/Council as they come forward.

<b>Costs</b>	£'000
Land Costs (appropriation)	31,700
Land Cost (purchase)	2,400
Development Cost	114,100
Project Management	5,700
<b>Indicative Total Cost</b>	<b>153,900</b>
<b>Funding</b>	£'000
Market Sale	98,600

Equity Sale	9,800
HRA – Debt (Appropriation)	31,700
Other HRA Resources	13,800
<b>Indicative Total Funding</b>	<b>153,900</b>

17. The table shows that the overall programme can be significantly funded from market sales and equity sales from shared ownership. The land appropriations are covered through increasing the HRA debt (£31.7m) and the balance funded from other HRA resources. HRA resources will include the use of some Right to Buy receipts. Grant opportunities will be explored with Homes England and other organisations. The aim is to ensure that HRA resources are used efficiently such that the Housing Delivery Programme can be financially sustainable in the long term and expanded as resources and experience grow within the authority.
18. Sales significantly occur in the second half of a development process and after significant costs have been expended. The HRA will need to cashflow this development cycle with borrowing levels fluctuating throughout the programme. The removal of the debt cap provides increased flexibility to allow sites to be delivered in tandem. The table below shows the current level of HRA resources available to support the overall programme.

	£'000	£'000
<b>Investment Reserve</b>		
Approval Nov 2017		20,000
Lincoln Court (March 2018)	-1,100	
Repurchase former HRA homes (Nov 2017)	-620	
Uncommitted Investment Reserve*		18,280
<b>Right to Buy Receipts (at Mar 2018)</b>		
Uncommitted RTB receipts		5,200
<b>Total Resources available</b>		<b>23,480</b>
*Excludes approvals previously provided for Lowfields (£4.5m), Burnholme / Askham Bar development (£0.7m) and Duncombe Barracks (£2.55m)		

19. In terms of affordability, the HRA makes a surplus of c£5m pa prior to debt repayment. Each additional £1m borrowing would result in an increase in debt costs of c£35k which means that the appropriation of land into the HRA would increase debt costs of c£1m which is affordable given

current financial modelling. It will mean that the HRA will continue to carry a level of debt, compared to full repayment, however this at an affordable level.

## **Decision**

20. Approval of the recommendations contained within this report will allow the council to pursue an even more ambitious programme of housing delivery. This will enable:

- a. Accelerated delivery of more than 600 new homes across 8 sites within the Housing Delivery Programme
- b. The purchase of additional land for housing development
- c. The acquisition of additional affordable housing through Planning Obligations in S106 agreements
- d. Opportunities for additional investment in older persons accommodation provision

21. The lifting of the borrowing cap is a further endorsement of the decision made by Executive in July 2018 to deliver the Housing Delivery Programme through the HRA, rather than through the creation of a separate development company. However, the decision to deliver the initial sites through the HRA does not preclude delivery through a development company at a later date, should the scale of the opportunity lend itself better to this approach or when housing need is best met through PRS.

## **Implications**

**Financial** – The financial implications are covered within the main content of this report.

**Human Resources** - In order to deliver over 600 new homes within the next five years, the project team will be expanded. The indicative cost of this project management work is contained within this report.

**One Planet/Equalities** - The development of a wider range of mixed tenure housing in the city will contribute to narrowing the affordability gap which will impact on communities with protected characteristics. The Better Decision Making Tool in respect of this programme was included as an annex within the July 2018 Executive Report.

**Legal** - Section 122 of the Local Government Act 1972 permits the Council to appropriate land held/owned by it for one purpose (“Purpose A”) to another purpose (“Purpose B”) where the land is no longer needed for Purpose A.

If land is appropriated from the General Fund to the HRA (or acquired from a third party) then the consent of the Secretary of State will be required for any future disposals of any part of the land. However pursuant to The General Housing Consents Order 2013 the Secretary of State has given general consent to disposal of HRA land in a wide variety of circumstances.

The Council has the power under section 9 of the Housing Act 1985 to build or acquire housing which includes houses for sale. There are a range of supplementary powers available to the Council which can also assist in delivering this project including powers to borrow. As the Council does not intend to do this for a commercial purpose the Council can act as the developer without the need to do so through a company structure. Disposals of land held under the HRA must be at best consideration unless a dispensation has been granted allowing sales at under value. Tenancies of HRA properties will need to be granted under normal Housing Act provisions including those as to security of tenure and the right to buy unless the tenancy falls within an exception under the legislation.

As with the exercise of any power the Council must ensure it makes decisions in accordance with normal public law principles including as to reasonableness. The report clearly demonstrates a proper rationale for its recommendations. Members are also well aware of their obligations under the Equalities Act including the need to advance equality for those with protected characteristics. That need must be considered now and as the project progresses. An assessment of the equalities implications of the Housing Delivery Programme is included in the Better Decision Making Tool that accompanied the July 2018 Executive Report.

**Crime and Disorder** - None

**Information Technology** - The Housing Delivery Programme will seek to ensure that all housing developments support digital inclusion and our Digital City ambitions by making the best use of existing technology and facilitating future enhancements. This ambition will be supported by utilising existing resources from the ICT team.



**Property** - Covered in this report.

**Risk Management** - There are significant risks associated with housing delivery at scale. There are key programme risks associated with costs and sales values, working with a variety of external contractors, town planning and internal resource requirements. These risks and others will be managed through regular monitoring of a programme and site risk register. Further information regarding the mitigation of programme risks were discussed in the July 2018 Executive report regarding the Housing Delivery Programme.

### Contact Details

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**Report Approved**  **Date** 4 January 2019

**Wards Affected:** *List wards or tick box to indicate all*

**All**

**For further information please contact the author of the report**

### Background papers:

Executive reports:

#### July 2018

- Housing Delivery Programme

#### December 2017

- Housing Delivery Programme – Delivering the Lowfield Scheme

- Housing Delivery Programme – Establishing a Delivery Model and the Scope of the Programme

**November 2017**

- Updated Housing Revenue Account Business Plan 2017 to 2047

**March 2017**

- Strategic Partnership opportunities with the Homes and Communities Agency for the Accelerated Delivery of Housing

**Annexes:**

Annex 1 - Lowfield tenure affordability'