
Decision Maker: LEADER
COUNCIL

**For pre decision scrutiny by the Renewal, Recreation and Housing Policy
Development and Scrutiny Committee on 4 November 2020**

Date: 25th NOVEMBER 2020

Decision Type: Non Urgent Council Key

Title: HOUSING FINANCES

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Chief Officer: Sara Bowrey, Director of Housing, Planning and Regeneration

Ward: Plaistow and Sundridge; Crystal Palace; Chislehurst

1. Reason for report

- 1.1 This report provides an update on the finances for 3 housing schemes the Council is currently developing, Burnt Ash Lane, Bushell Way and Anerley Town Hall overflow car park.
- 1.2 The report also includes a review of utilising GLA grants for developing Affordable Housing, which will have an impact on the rent levels charged.

2. RECOMMENDATION(S)

The Renewal, Recreation and Housing PDS Committee are asked to:

- 2.1 Review the content of this report and provide their comments to the Executive.

That Members of the Executive:

- 2.2 Approve the utilisation of £1,256k Section 106 contributions for the three housing schemes.
- 2.3 Recommend that Executive approve the rent levels of the three housing schemes at London Affordable Rent (LAR) levels to support the GLA Building Homes for Londoners Grant.
- 2.4 Delegate authority to the Director of Housing, Planning and Regeneration in consultation with the Director of Corporate Services and the Director of Finance at the relevant time to

appropriate each site from planning purposes to housing purposes to be accounted for within the Council's Housing Revenue Account.

- 2.5 Recommend that Council approves a supplementary estimate of £1,764k to the Capital Programme for these three schemes.
- 2.6 Recommend that Council approves the revised financing of the schemes as set out in paragraph 10.7, including an internal loan from the General Fund to the Housing Revenue Account of £7,453k.
- 2.7 Delegate authority to the Director of Housing, Planning and Regeneration in consultation with the Director of Finance to apply for GLA grant funding under the Building Council Homes for Londoners Programme and to enter into grant agreement with the Greater London Authority.

That Council:

- 2.8 Approve a supplementary estimate of £1,764k to the Capital Programme for these three schemes.
- 2.9 Approve the revised financing of the schemes as set out in paragraph 10.7, including an internal loan from the General Fund to the Housing Revenue Account of £7,453k.

Corporate Policy

1. Policy Status: Existing Policy: Further Details
 2. BBB Priority: Excellent Council Supporting Independence:
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Financial

1. Cost of proposal: Estimated Cost: £1,764k
 2. Ongoing costs: Estimated net savings of £377k (General Fund) and £10k surplus (HRA) p.a.
 3. Budget head/performance centre: Capital Programme
 4. Total current budget for this head; Burnt Ash Lane - £3,786k, Bushell Way & Anerley - £4,959k
 5. Source of funding: Affordable Housing Section 106 contributions, Investment Fund and Housing Investment Fund earmarked reserves and GLA Grant
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Staff

1. Number of staff (current and additional): Existing staff
 2. If from existing staff resources, number of staff hours:
-

Legal

1. Legal Requirement: Statutory Requirement:
 2. Call-in: Applicable:
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected):
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments?

3. BACKGROUND

- 3.1. In August 2019, subject to planning consent, the Council approved £ 3,786k for the development of 25 residential units at Burnt Ash Lane as Temporary Accommodation. In February 2020, the Council approved, subject to planning consent a further £1,491k and £3,468k for residential developments at Anerley Town Hall overflow car park and Bushell Way, Chislehurst for further Temporary Accommodation.
- 3.2 The reports presented to Members in August 2019 and February 2020, were for the full Design and Build of the schemes, and so it was acknowledged there were likely to be some amendments to costings, arising through the design and planning stages. In addition to this, the Council in July 2020 has decided to reopen the Housing Revenue Account (HRA) and it is proposed that some of these residential schemes will no longer need to be temporary accommodation but will provide secure affordable housing under the HRA.
- 3.3 The establishment of the HRA gives the Council access to GLA grant funding through Homes for Londoners. Part 2 provides an update and refinancing on the accurate build costs as well as the recommendation to use grant funding.
- 3.4 The residential scheme for Burnt Ash Lane (Brindley Way), was granted planning consent in July 2020, and will commence works on site in January 2021. This scheme provides 25 residential units, with some remaining use of the car park underneath the residential scheme.
- 3.5 The schemes for Anerley and Bushell Way are being considered by Planning currently and are due a decision in November 2020 by the Development Control Committee, subject to any planning matters that arise in the meantime.
- 3.6 All schemes have had some minor delays due to the impact of Covid-19, and all schemes as with most construction works have had some increase in costs as supplies have been more challenging to source. However, officers have worked with the contracts to value engineer the schemes as much as possible. Bromley Capital schemes have always worked with a tight contingency of 10%, given the uncertainties we continue to face, we are now recommending that all schemes have a contingency of at least 15- 20%.
- 3.7 Following the decision to re-open the HRA, the Council has the option to apply to the GLA for grant funding. Discussions with the GLA, indicate that Bromley could apply for the Homes for Londoners Grant, which would be £100k per dwelling built and managed using London Affordable Rent (LAR). This is a lower rent than the Local Housing Allowance (LHA). However, it is also important that this lower amount is considered in context of what is truly affordable and likely to be needed.
- 3.8 Having a more realistic rent level means additional tops ups are not required or are at least minimised, collections are more likely and rent levels likely to match with benefit allowances.

- 3.9 Officers' view is that over time a portfolio of properties with different rent levels will maximise the Council's ability to meet the needs of all households to whom the Council has a statutory duty to assist, allow for differing needs to be met and will help to provide balanced and sustainable communities. Given the potential to attract a high grant subsidy on these initial properties, it is recommended that these schemes are offered using the LAR rate and that as the property portfolio grows different rental models are introduced in order to ensure that an appropriate spread of rental levels is maintained.
- 3.10 Furthermore, if the Council continues to charge LHA rents that are not affordable for tenants, this may result in the Council lowering rents to make them affordable. As a result, the Council would not be able to reap the benefit of using the GLA Grant to fund housing schemes therefore it is prudent to set the rents at a more affordable level from the beginning and additional benefit.
- 3.11 With the current numbers in temporary accommodation exceeding 1700, over 900 of which are in expensive nightly paid accommodation this scheme would address the needs of a number of high priority households and who would be able to afford a rental product at this level.

4 RECOMMENDATION(S)

- 4.1 The recommendations seek to ensure the delivery of the housing schemes as previously approved by Executive by applying for GLA Grant Funding since the opening of the HRA; and supplementary funding from the Capital Funds due to increased costs incurred through the development of the design of the housing projects, partly due to Covid-19.
- 4.2 The recommendations also outline appropriating the sites for planning purposes. For Burnt Ash Lane, this has already been completed as planning permission has been granted; for Bushell and Anerley, officers can undertake the relevant steps to appropriate the sites following a decision by Planning.
- 4.3 The recommendations outline the use of section 106 contributions received from other developments to fund affordable housing delivery in the borough. Officers recommend using £1,256k to support the delivery of the three proposed schemes.

5. STAKEHOLDER ENGAGEMENT

- 5.1 All proposals have been subject to public engagement and formal public consultation as part of the formal Planning process. Ward Members have also been briefed about the proposals and local residents have been sent letters.

6. PROCUREMENT AND PROJECT TIMESCALES AND GOVERNANCE ARRANGEMENTS

- 6.1 The projects are in contract and proceeding as identified in paras 3.4. and 3.5. No further procurement arrangements are required as this was undertaken and approved through Executive for each of the schemes separately using the LHC, NH2 Framework.

7. IMPACT ON VULNERABLE CHILDREN AND ADULTS

- 7.1 The proposed recommendations support children and vulnerable people through the provision of affordable housing supply.

8. POLICY CONSIDERATIONS

- 8.1 The Council has published a Homelessness Strategy which sets out the approved strategic policy in terms of homelessness. This includes the increased provision of temporary accommodation and reducing the reliance on nightly paid accommodation.

9. PROCUREMENT RULES

- 9.1 The recommendations in this report, and the accompanying Part Two report, can be enacted in accordance with the Council's Contract Procedure Rules.

10. FINANCIAL CONSIDERATIONS

- 10.1 A summary of the revised capital cost of these schemes and the supplementary capital estimate requested is set out in the table below, with a full breakdown provided in the part 2 report:

	Burnt Ash Lane	Anerley	Bushell Way	Total
	£'000	£'000	£'000	£'000
Total capital cost	4,262	1,948	4,299	10,509
Approved estimate	3,786	1,491	3,468	8,745
Supplementary estimate requested	476	457	831	1,764

- 10.2 Following the decision to re-open the HRA, the Council has the option to appropriate these sites from the General Fund into the HRA. There are various rent levels that could be used, but the two main ones are the London Affordable Rent, a social rent which is currently eligible for £100k grant per unit from the GLA, or Local Housing Allowance levels, an affordable rent which is not currently eligible for GLA grant.

- 10.3 In order to let at affordable rent levels rather than social rent, the Council would also need to meet one of the following requirements:

- (a) a housing supply delivery agreement between that provider and the Homes and Communities Agency (now known as Homes England) or the Greater London Authority and the accommodation is permitted by that agreement to be let at an affordable rent;

(b) an agreement between a local authority and the Secretary of State and the accommodation is permitted by that agreement to be let at an affordable rent; or

(c) the Secretary of State, Homes England or the Greater London Authority has agreed that it is appropriate for the accommodation to be let at an affordable rent.

10.4 The table below summarises the financial implication of keeping each scheme as temporary accommodation (which is not eligible for any GLA grant), or appropriating them into the HRA at either of the two rent levels above, using current 40 year Public Works Loan Board (PWLB) rates for comparative purposes:

	Burnt Ash Lane			Anerley			Bushell Way		
	London Affordable Rent £'000	Local Housing Allowance £'000	Temporary Accommod ation £'000	London Affordable Rent £'000	Local Housing Allowance £'000	Temporary Accommod ation £'000	London Affordable Rent £'000	Local Housing Allowance £'000	Temporary Accommod ation £'000
Capital									
Build cost	4,262	4,262	4,262	1,948	1,948	1,948	4,299	4,299	4,299
Land appropriation value	1,750	1,750	0	700	700	0	1,750	1,750	0
Section 106	-523	-523	-523	-210	-210	-210	-523	-523	-523
GLA grant	-2,500	0	0	-1,000	0	0	-2,500	0	0
Total capital financing requirement	2,989	5,489	3,739	1,438	2,438	1,738	3,026	5,526	3,776
1 beds	10	10	10	4	4	4	8	8	8
2 beds	15	15	15	6	6	6	17	17	17
	25	25	25	10	10	10	25	25	25
Average net cost per unit	120	220	150	144	244	174	121	221	151
Revenue									
Annual rent	-214	-305	-207	-86	-122	-83	-215	-309	-210
Annual management costs	85	85	85	34	34	34	85	85	85
Annual loan repayment *	102	187	151	49	83	70	103	188	153
Total annual surplus (-) / deficit (+)	-27	-33	29	-3	-5	21	-27	-36	28
Annual savings on temporary accommodation	-156	-156	-156	-62	-62	-62	-159	-159	-159
Total net revenue impact	-183	-189	-127	-65	-67	-41	-186	-195	-131
Payback period (excl. TA savings)	31 years	34 years	50 years	38 years	38 years	57 years	32 years	34 years	49 years
* 40 year PWLB annuity rate at 21/10/20 is 1.59% for HRA borrowing, and 2.59% for non-HRA borrowing									

- 10.5 For each scheme, setting rents at LHA results in the highest net capital cost, but also results in the highest annual revenue surplus (assuming build costs and land transfer is repaid over 40 years). However, as set out in paragraphs 3.8 to 3.10, it is recommended that rents are set at LAR for these schemes. This will allow the Council to benefit now from GLA grants which may not be available in the future (or at the same level). LAR would also result in the shortest payback period for these schemes.
- 10.6 It should be noted that by appropriating the land into the HRA, the market value of the land is charged to the HRA. Although this is not an actual capital receipt, it does mean that the General Fund can incur more capital expenditure without needing to borrow through an adjustment to the Capital Financing Requirement. This would not apply for temporary accommodation, although as the land would remain in the General Fund, it could later be disposed of to generate a capital receipt. At present, the land transfer value is assumed at £70k per property; however the actual figure will be set by an independent valuation, which is currently being carried out.
- 10.7 With the GLA grants, and additional Section 106 contributions, it is recommended that the revised financing for each scheme (including the land appropriation value) is as follows:

	Burnt Ash	Anerley	Bushell Way	Total
	£'000	£'000	£'000	£'000
Previously agreed capital cost	3,786	1,491	3,468	8,745
Financed by:				0
Section 106 contributions	500			500
Housing Investment Fund		1,491	3,468	4,959
Investment Fund	3,286			3,286
	3,786	1,491	3,468	8,745
Revised scheme cost (incl. land value)	6,012	2,648	6,049	14,709
Financed by:				
GLA grant	2,500	1,000	2,500	6,000
Section 106 contributions	523	210	523	1,256
Internal borrowing	2,989	1,438	3,026	7,453
	6,012	2,648	6,049	14,709

- 10.8 As the Investment Fund and Housing Investment Fund are General Fund earmarked reserves which have been allocated for long term investments, it is proposed that these are used for the £7,453k internal loan from the General Fund to the HRA, and that interest is charged at 2.59%, which is the 40 year rate that the Council could borrow from the PWLB. This internal borrowing could be refinanced in future, for example when considering the financing of future housing schemes.
- 10.9 LAR can be increased annually by up to CPI + 1%. Prudently assuming net rental inflation of 2% per annum for each of the rent levels, the total costs and net rental income for the three sites over 40 years is set out in the table below:

	Burnt Ash	Anerley	Bushell Way	Total
	£'000	£'000	£'000	£'000
Total net capital cost	2,989	1,438	3,026	7,453
Interest	1,846	882	1,869	4,597
	4,835	2,320	4,895	12,050
Net rental income (40 years)	-7,792	-3,141	-7,852	-18,785
Total net surplus	-2,957	-821	-2,957	-6,735

10.10 The surplus above will be ringfenced within the HRA for major repairs and future capital expenditure.

10.11 The table below summarises the first full year financial impact for the HRA and General Fund of appropriating these sites into the HRA and letting at LAR levels:

	HRA	General Fund
	£'000	£'000
<u>Capital</u>		
Build cost	10,509	
Land appropriation value	4,200	-4,200
Section 106	-1,256	
GLA grant	-6,000	
Total capital financing requirement	7,453	-4,200
<u>Revenue</u>		
Annual rent	-515	
Annual management costs	204	
Temporary accommodation savings		-377
Annual loan repayment *	301	
Total annual surplus (-) / deficit (+)	-10	-377
* 2.59% annuity repayment on internal borrowing over 40 years		

11 PERSONNEL CONSIDERATIONS

11.1 There are no LBB staff implications for the recommendations.

12. LEGAL CONSIDERATIONS

12.1 This Report provides an update on the finances for 3 housing schemes the Council is currently developing, namely for Burnt Ash Lane, Bushell Way and Anerley Town Hall overflow car park. The Report also provides a review of utilising the GLA grants for developing Affordable Housing. In relation to the Building Council Homes for Londoners Programme, which will have an impact

on the rent levels charged and also provides an update and refinancing on the accurate build costs as well as the recommendation to use grant funding.

- 12.2 While it is acknowledged that all Grant Agreements impose terms and conditions and obligations on the Grant recipient, the Council will nevertheless need to adhere and comply with all the requirements accordingly. The terms and conditions of this GLA Grant would appear to be manageable and not unduly onerous. It is important to understand how the grant terms and conditions and processes operate including the Affordable Housing Capital Funding Guide. The legal department is to be contacted with any specific issues that are not clear and for any clarification sought.
- 12.3 It is recommended that the Leader/Executive delegates authority to apply for and make the decision to enter the GLA Grant for developing Affordable Housing in relation to the Building Council Homes for Londoners Programme to the Director of Planning, Housing and Regeneration.
- 12.4 By virtue of section 122 of the Local Government Act 1972 the Council has the power to appropriate for any purpose land belonging to the Council which is no longer required for the purposes for which it is held immediately before the appropriation.

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	

APPENDIX 1

The Site

Burnt Ash Lane, Bromley, BR1 4QT



Aerial view from southeast



Aerial view from south



Aerial view from north



Aerial view from northwest







Summary of Information

- 25 Residential Units, broken down as follows:

1 bedroom, 2 person, 2 storey	11
1 bedroom, 2 person, 1 storey	1
2 bedroom, 3 person, 2 storey	4
2 bedroom, 4 person, 1 storey	9

- Reduction in car Parking from, 93 spaces to 73 spaces.
- 15 of which will be allocated to the new residential units.