

## HOWARDS MEAD PROJECT - HOMES AND COMMUNITIES AGENCY (HCA) FUNDING

### 1. PURPOSE OF PAPER

- 1.1 The purpose of this report is to update the Cabinet on the position regarding funding of the Howards Mead project and to seek approval for the funding of the Council's contribution from capital reserves of the Housing Revenue Account rather than prudential borrowing.

### 2. BACKGROUND

- 2.1 In October 2009, the Cabinet approved a bid to the HCA for grant to provide funding of 50% (£700,000) towards a £1.4 million scheme to build 10 new Council owned homes at Howards Mead, Pennington. The balance of funding was required by the Government to be raised by the Council by means of borrowing.
- 2.2 In January 2010 NFDC received notification from the HCA that a funding allocation of £650,000 Local Authority New Build (LANB) programme grant had been approved. The budget report approved by the Cabinet in February 2010 provided for the £50,000 reduction in anticipated grant to be funded from capital receipts. The grant reduction arose because of a need to reduce the bid from a 50/50 basis to make it competitive with other applications.
- 2.3 Over the period from January to May 2010 much has been accomplished; the project has achieved planning permission (for 9 units, which reduced our grant to £600,000), the project team have conducted contractor interviews and selected a contractor to work with on the build, undertaken tenant and resident consultation, worked with solicitors to prepare preconstruction agreement and contracts which are now ready to sign with Mace (our project managers) and RoK, (the contractor). The garage sites have been decanted and technical surveys and tree works undertaken.
- 2.4 Since being chosen Rok has undertaken a thorough pricing giving NFDC enough confidence to move into contract. The project is therefore at mobilisation stage and ready to start on site. It should be noted that to date the Council has incurred expenditure of c £82,000.
- 2.5 In addition to the new build scheme, the Council has also approved expenditure of £200,000 for environmental enhancements on the Howards Mead estate, which is to be financed from the Housing Revenue Account.

### 3. CURRENT POSITION

- 3.1 In January a date for signing the grant agreement was agreed as 15 May 2010. In April 2010 the Government called a General Election and the HCA moved into a period of purdah which stopped any further signing of agreements by the agency. In anticipation of the lifting of the purdah period following the General Election, NFDC

officers prepared the Grant Agreement with the HCA's solicitors and obtained approval from the Project Board to proceed to signing. In order to draw down the first tranche of grant the grant agreement needed to be signed by both NFDC and the HCA before start on site.

- 3.2 Following the election of the new Government all HCA projects were placed on hold while the Government made an assessment of which programmes should be cut to achieve savings. Unfortunately one of the programmes which the Government has chosen to cut is the LANB programme. Any scheme not in contract has been stopped, which is most of the second round LANB, of which Howards Mead is one.
- 3.3 The Council was notified in early July that the funding is no longer available for the Howards Mead project through the LANB programme. However the HCA have now approached the Council to see if there is scope for the project to continue as they are aware of the work which has gone into the project, the high profile nature of it and its importance to members and the local community.
- 3.4 The reason for the LANB being withdrawn is that the Government does not want to add to the deficit by making Councils enter into prudential borrowing, which was the main criteria for the LANB funding. The new offer of National Affordable Housing Programme (NAHP) funding is therefore conditional that the Council funds the remainder of the scheme costs through other means, which would most likely to be through reserves, and from rents payable. An email confirming grant availability has been received.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 Under the initial scheme proposal the Council would have borrowed from external sources and then been required to repay the loan plus interest over a number of years. These repayments would have been financed from the excess of rental income from the dwellings over and above the running costs of those dwellings. Effectively the current proposal operates in the same way except that the build cost will initially be funded from HRA reserves and the net annual rent surplus credited back to the HRA.
- 4.2 Attached as Appendix 1 to this report is a business plan model that estimates the payback period of the initial HRA advance. Using the assumptions set out in the Appendix the advance would be fully repaid in 40 years. Clearly any improvement in the assumptions would reduce the payback period and vice versa. It should also be noted that the Council would hold the properties as assets at the end of the period, having paid back the loan from reserves. It can be realistically assumed that the value of these assets at the end of the period would be in excess of the loan from reserves.
- 4.3 As at 31 March 2010 the HRA balance was £7.810 million. The 2010/11 budget, together with the proposals in this report would reduce this by £3 million, thus still maintaining a healthy financial balance for future years.
- 4.4 Paragraph 2.2 of this report identifies that the latest approved scheme assumes that £50,000 of the scheme cost will be funded from capital receipts. This report removes this source of funding and recommends that the Council's full contribution is made from the HRA reserve. This is because capital receipts can be used to fund a wider range of capital projects and therefore their retention leads to greater flexibility for future capital expenditure.

- 4.5 Officers recommend that the Council funds its estimated contribution of £800,000 towards the initial scheme cost of £1.4 million from the HRA reserve, rather than from the previously approved route of prudential borrowing and capital receipts.

## **5. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS**

- 5.1 This development will alleviate issues of anti social behaviour which have occurred in the past in the garage areas. It should also be noted that this scheme includes significant environmental improvements to the whole Howards Mead area, which would not go ahead without the new build.

## **6. TENANTS COMMENTS**

- 6.1 The minutes of the Policy and Report Group held on 3 August to discuss this proposal minuted,

*'All those tenants present expressed strong approval and support for the funding to be used from the Housing Revenue Account and for the project to go ahead. They all agreed that this was a great opportunity for NFDC to build and retain new homes, which would be of great benefit to both Howards Mead and the Council as a whole'*

## **7. HOUSING REVIEW PANEL COMMENTS**

- 7.1 A special meeting of the Housing Review Panel will be held on 25 August. The views of the Panel, including local members, will be reported verbally at the Cabinet meeting.

## **8. PORTFOLIO HOLDER COMMENTS**

- 8.1 I support this proposal because it once again illustrates the Council's commitment to the development of affordable housing in the district. In addition I am delighted that at a time of economic austerity, when all housing providers are competing for funding, the HCA have seen this development as key to the delivery of affordable housing in the South East by awarding it funding.

## **9. RECOMMENDATION**

- 9.1 That the Council be recommended to approve a proposal to fund the development at Howards Mead from HRA Capital reserves.

### **For Further Information Please Contact:**

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### **Background Papers:**

Cabinet Report  
7 October 2009

**Assumptions**

Initial HRA Advance	£	800,000
Average Initial weekly rent charge	£	90
Initial annual rent income (9 dwellings)	£	41,000
Increase in average maint costs	£	8,000
Initial rent excess per annum	£	37,000
Annual increase in rent excess		2%
Interest rate applied to advance		4.25%

Year	Bal at 1 April £	Coupon rate £	Annual Interest £	Annual Repayment £	Rental Stream £	Bal at 31 March £
		4.25%			2%	
1	800,000	4.25%	34,000	3,000	37,000	797,000
2	797,000	4.25%	33,873	3,868	37,740	793,133
3	793,133	4.25%	33,708	4,787	38,495	788,346
4	788,346	4.25%	33,505	5,760	39,265	782,586
5	782,586	4.25%	33,260	6,790	40,050	775,796
6	775,796	4.25%	32,971	120	32,851	775,916
7	775,916	4.25%	32,976	532	33,508	775,384
8	775,384	4.25%	32,954	1,224	34,178	774,160
9	774,160	4.25%	32,902	1,960	34,862	772,200
10	772,200	4.25%	32,819	2,740	35,559	769,460
11	769,460	4.25%	32,702	3,568	36,270	765,892
12	765,892	4.25%	32,550	4,445	36,996	761,447
13	761,447	4.25%	32,361	5,374	37,735	756,073
14	756,073	4.25%	32,133	6,357	38,490	749,715
15	749,715	4.25%	31,863	7,397	39,260	742,318
16	742,318	4.25%	31,549	8,497	40,045	733,822
17	733,822	4.25%	31,187	9,659	40,846	724,163
18	724,163	4.25%	30,777	10,886	41,663	713,277
19	713,277	4.25%	30,314	12,182	42,496	701,095
20	701,095	4.25%	29,797	13,550	43,346	687,545
21	687,545	4.25%	29,221	14,992	44,213	672,553
22	672,553	4.25%	28,584	16,514	45,097	656,039
23	656,039	4.25%	27,882	18,118	45,999	637,921
24	637,921	4.25%	27,112	19,808	46,919	618,114
25	618,114	4.25%	26,270	21,588	47,858	596,526
26	596,526	4.25%	25,352	23,462	48,815	573,063
27	573,063	4.25%	24,355	25,436	49,791	547,628
28	547,628	4.25%	23,274	27,513	50,787	520,115
29	520,115	4.25%	22,105	29,698	51,803	490,417
30	490,417	4.25%	20,843	31,996	52,839	458,421
31	458,421	4.25%	19,483	34,413	53,896	424,008
32	424,008	4.25%	18,020	36,953	54,973	387,055
33	387,055	4.25%	16,450	39,623	56,073	347,432
34	347,432	4.25%	14,766	42,429	57,194	305,004
35	305,004	4.25%	12,963	45,376	58,338	259,628
36	259,628	4.25%	11,034	48,471	59,505	211,157
37	211,157	4.25%	8,974	51,721	60,695	159,436
38	159,436	4.25%	6,776	55,133	61,909	104,303
39	104,303	4.25%	4,433	58,714	63,147	45,589
40	45,589	4.25%	1,938	62,473	64,410	16,884