

Prudential Borrowing and access to Social Housing Grant

Mark Seaborn
Managing Director

Scheme Overview

- Uses borrowing to facilitate the provision of new housing
 - For sale, shared ownership, market rent, sub-market rent or social rent
- Operate as an “Developing Social Landlord”
 - Either within the HRA, General Fund or a separate company
- Housing at Social rent levels requires subsidy
 - Free land, Capital receipts, S106 contributions, Social Housing Grant
 - SHG is now the ‘prime suspect !’
- Scheme is better VFM than an RSL route
- Scheme accords with (now) Government policy
- Organisational issues...

Borrowing – how ?

- Council can borrow (prudently)
 - CIPFA code on Prudential Borrowing
 - Annual indicators
 - Borrowing capacity – function of ‘income’
 - *That can be used to service debt*
 - *New income = increased capacity to borrow*
- Council could ‘lend’ spare revenue or capital resources
 - HRA balances
- Council can borrow at better terms than RSL’s
 - Cost; PWLB presently 4.3%,
 - Repayment period – now based on depreciation
 - *100 years not unreasonable – RSL typically 30 yr*
 - *In practice – up to 50 yrs*
 - Terms / availability – very few issues

Will borrowing cover all the costs ?

- No !
- Typical RSL new build requires C. £50-60k of subsidy
 - Prudential Borrowing is not ‘free’ or an additional source of cash
 - It’s a tool to achieve an outcome
- Subsidy could come from...
 - Social Housing Grant - now
 - Undertake Sales / Market rent / Shared ownership
 - *To provide cash ‘profit’ which acts as an additional source of subsidy to the social rent units*
 - *Sell the land for a number of units (land value only)*
 - *Build out and sell finished product (land value + developers profit)*

Operating Arrangements

- Within the Housing Revenue Account
- Within the General Fund
- Within an ALMO
- Within a new wholly owned subsidiary of the Council
- Within a new wholly owned subsidiary of either the Council or the ALMO that is charitable

Operating Arrangements

- HRA
 - Simple and straight forward
 - Subsidy impact if in HRA
 - *Recent consultation paper.....*
 - Tax and VAT efficient
 - *Effectively no liabilities*
 - No separation of risk
 - Right to Buy applies
 - *Loss of the stock*
 - *Inadequate cost floor protection*
- Generally – not very attractive (presently) !

Operating Arrangements

- General Fund
 - Legal powers to do this....
 - Simple and straight forward
 - Better than HRA (no subsidy issues)
 - But RTB still applies
 - Tax and VAT efficient
 - *Effectively no liabilities*
 - Right to Buy applies
- Generally – Better, but not fantastic !
 - The ‘Same’ as the recent consultation paper...

Operating Arrangements

- ALMO or new LA controlled company
 - No HRA subsidy cash outflow
 - No Right to Buy
 - Can set rents at ‘appropriate’ levels
 - Can use Assured tenancies
 - Company owns the properties
 - Council can provide services
 - Council ‘onward’ lends its Prudential Borrowing
 - Potential Tax and VAT liabilities
 - Access to SHG

Operating Arrangements

- Charitable controlled company
 - Or subsidiary of the ALMO
 - No Corporation Tax or SDLT on charitable activities
 - Still pays VAT
 - *Extent depends on service delivery arrangements*
 - Regulatory restrictions
- Probably (presently) the best option

What do LA's need.....

- Access to SHG
 - Or a revenue stream through the present HRA subsidy system
- Relief from negative impacts of RTB
- Relief from negative aspects of HRA subsidy system
 - The present proposals....

What should I do....

- Find a site / scheme
- Work up a feasibility model
 - Payback on loan
 - Level of SHG / subsidy being sort
- Submit to HCA / CLG and ask for SHG / revenue subsidy
 - After all, the PM did say ‘all barriers.....’
- We would be happy to support some ARCH ‘pilot’ bids.... At risk

- Gates appear to be ‘open’
 - Pre qualification of 2 star ALMO’s – in addition to 3 star ones
- Some ‘animosity’ about this – existing RSL’s
- Focus is on delivery
- Be proactive
 - Creative solutions
 - *Housing market decline / new provision*

Development practicalities.....

- Initial design by social landlord
 - Site outline, building mix and basic design, scheme standards
- Investigations by social landlord
- Construction cost estimate
- Test against original feasibility
- Planning, approvals and consents
- Procure on a 'Design and Build' arrangement
 - Fixed cost
 - Transfer design risk to 'contractor'
- Supervision of construction phase
- Practical completion and handover

What have we done for others ?

- **Project / Development Manager**
 - Principally Pennington, combined with Employers Agent
 - Work to client officer – Property Services
- **Employers Agent / Quantity Surveyor**
 - Pennington
- **Architect (to tender stage only if D&B)**
 - External appointment
- **CDM Co-ordinator**
 - Principally Pennington, but also client officer or third party
- **Development finance**
 - Pennington, linking to original feasibility
- **At risk – once HCA pre qualified**



**PENNINGTON
C H O I C E S**



- **Multi-disciplinary housing consultancy –**
 - Housing - Private and social housing sectors, Housing Strategy, Supported Housing, Asset Management, Development, Property and Surveying, Gas and Electrical consultancy, Housing Finance, Procurement
- **ALMO / LA development**
 - A niche area
 - *We bring both finance and technical skills together*
- **9 yrs old, 30 staff, £1.8m t/o in 08/09**
- **National coverage**
- **LA, ALMO, RSL's – some private sector**

