



MAYOR OF LONDON

Building Council Homes for Londoners

FUNDING PROSPECTUS

Addendum with updated guidance for additional Housing Revenue Account borrowing programme, 2019-20 to 2021-22

July 2018

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Introduction

1. This addendum to the [funding prospectus](#) for the Mayor's *Building Council Homes for Londoners* programme provides updated guidance on the additional Housing Revenue Account (HRA) borrowing programme, 2019-20 to 2021-22. It should be read in conjunction with the main *Building Council Homes for Londoners* programme prospectus.
 2. All other aspects of the published programme prospectus remain unchanged.
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Background

3. The *Building Council Homes for Londoners* programme was launched in May 2018. Through the programme, the Mayor is inviting councils to develop ambitious proposals for delivering new council homes. In return, the Mayor is making substantial levels of new funding available and is assisting councils to develop the skills and expertise required to expand their homebuilding capacity.
4. The programme comprises four main elements. These are:
 - developing in-house skills and expertise within councils;
 - increasing the affordable housing grant available to councils to build new homes;
 - ring-fencing Right to Buy receipts; and
 - managing additional HRA borrowing headroom.
5. This programme will support delivery of 10,000 new council housing starts by March 2022, with an emphasis on early delivery.
6. The Mayor wants to see the removal of Government-imposed HRA borrowing caps because these artificially reduce councils' ability to finance new homes. They also fail to respect the localist principles of council housing self-financing. The Mayor will continue to lobby Government for unconditional removal of borrowing caps.
7. At Autumn Budget 2017, the Chancellor announced that the Government would make up to £1 billion additional HRA borrowing headroom available in areas of high affordability pressure for councils that are ready to start building new homes.
8. The Mayor has secured a minimum of half of the available additional HRA headroom for councils in London.
9. In 2013, Government announced an additional borrowing programme of up to £300 million. Following a competitive bidding process, councils took up around £145 million of that borrowing. A number of councils felt that the conditions attached to the programme were unnecessarily restrictive. The Mayor has successfully lobbied Government to make this programme more flexible in three key ways.
10. First, councils will be able to combine the additional borrowing secured through this programme with other funding sources which they could not use in the previous borrowing programme. In order to finance the development of new homes, councils will be able to use either affordable housing grant funding or retained capital receipts

from the sale of council homes sold under the Right to Buy, together with the additional borrowing, to fund new housing.

11. Second, the bidding requirements have been streamlined, removing the requirements in the previous borrowing programme to report on progress of existing stock disposals, including councils' most expensive vacant housing. Further, councils will not be required to take on the additional burdens of having to specifically demonstrate growth impacts and innovative partnership work through this programme.
12. Third, while Government requirements mean that councils will need to submit project-level information alongside their bids for additional borrowing, the GLA will work with councils to manage programmes flexibly, with the option to substitute projects.
13. Despite these flexibilities, the additional HRA headroom is limited in resources and only available over a fixed three-year period. A larger, long-term expansion of HRA borrowing headroom is needed to unlock London's councils' capacity to build many more council homes for Londoners.
14. The Mayor encourages councils in London to submit ambitious bids, at least equal to the capital's £500 million share of the programme. Government has committed to keeping London's share under review in light of the strength of bids from London councils and councils in the rest of England. Showing the strength of demand and capabilities of London's councils will help to make the case for a larger, longer-term settlement.

Operation

Annual profiles

15. The Mayor has successfully negotiated a minimum £500 million additional HRA borrowing for councils in London. This is half of the total additional borrowing made available nationally by Government.
16. Table 1 sets out the indicative annual London profile of this additional HRA borrowing. These allocations cannot be exceeded or moved between years.
17. The Mayor strongly encourages councils to be ambitious in their bidding. This will help to build a strong case for future borrowing programmes.
18. Given that the profile of this additional borrowing is front-loaded, bids that draw down additional borrowing in 2019/20 are particularly encouraged.

Table 1: Additional HRA borrowing available to councils in London, by year

	2019/20	2020/21	2021/22	Total
Additional HRA borrowing available to councils in London	£200m	£150m	£150m	£500m

Features of the programme

19. The additional HRA borrowing made available through this programme will be subject to the rules set out in the *Building Council Homes for Londoners* prospectus. This includes not combining Right to Buy receipts and affordable housing grant to fund the same home.
20. Councils are encouraged to consider the funding and support available through *Building Council Homes for Londoners* in their entirety in order to submit ambitious bids. Councils can also bid for additional borrowing headroom alone.
21. Councils are required by Government to submit an indicative list of projects to be delivered by this programme. This should be submitted at bidding stage.
22. Councils that make successful bids will receive a new indebtedness determination to reflect the additional HRA borrowing up to the agreed amount, to finance capital

expenditure on projects brought forward during 2019/20, and/or 2020/21, and/or 2021/22.

Reporting requirements and amending determinations

23. Quarterly monitoring arrangements will be arranged with councils, to include progress on starts and completions.
24. It is important that councils demonstrate they can undertake the necessary capital expenditure in the specified years.
25. There will be flexibility for the GLA to agree substitutions to councils' indicative project list to ensure their annual allocations are met. Councils are strongly encouraged to have contingent projects to cover potential slippage in expenditure.
26. Where councils are unable to identify substitute projects to meet their annual borrowing allocation, it is likely that they will lose access to the additional borrowing. Any slippage of borrowing allocation is subject to agreement by Government, which will only be granted in exceptional circumstances.

Bidding for additional HRA borrowing

Eligibility

27. This additional HRA borrowing is targeted at councils with an HRA, or those wishing to set one up. New homes built by councils as a result of the additional borrowing provided through this programme must be accounted for in their HRA.
28. This does not preclude mixed-tenure development, but homes which will not be accounted for within a council's HRA cannot be funded by additional borrowing. Homes for market sale, private rent and intermediate rent cannot be held within an HRA, nor can homes owned by subsidiary companies.
29. Councils can bid to draw down additional borrowing in 2019/20, and/or 2020/21, and/or 2021/22.
30. Government rules do not permit the conversion or acquisition of second-hand properties through this programme.

Bidding requirements

31. Bidding authorities must set out their borrowing headroom (using the most recent data that is available), and indicate the extent to which any such headroom is earmarked for other projects in their 30-year Business Plan.
32. Bids should also include project-level information. Bidders with contingent schemes which could take up slippage of capital expenditure will be advantaged and are therefore strongly encouraged to present a full list of potential projects which could utilise expenditure.
33. Where approval is given to increase additional borrowing, the GLA expects that:
 - councils will draw down the borrowing for the specified year;
 - development will start as soon as possible; and
 - delivery profiles agreed as part of *Building Council Homes for Londoners* will remain unchanged.

Bidding process

34. Councils should submit bids for additional HRA borrowing through the GLA's Open Project System (OPS). Further information on using the OPS system, including registering as a new user, is available in the *Building Councils Homes for Londoners prospectus*.

35. OPS is currently open for bids. Functionality to upload further information on named projects will be available from the end of July 2018. In line with the *Building Council Homes for Londoners* programme, the deadline for bids for additional borrowing will be 30 September 2018, but earlier bids will be welcomed. There are currently no plans for continuous bidding for additional borrowing after this deadline.
36. Bidders for additional borrowing will need to provide the following information through OPS:
 - profile of additional borrowing;
 - number of additional homes funded through additional borrowing;
 - confirmation that, aside from affordable housing grant, where applicable, projects are not expected to receive other Government subsidy;
 - confirmation that the council's Chief Finance Officer (section 151 officer) has signed off and certified the bid, and the additional borrowing is affordable and will not displace other sources of available funding; and
 - project-level information required by Government.
37. Initial bids submitted on OPS may prompt further discussions and exchanges of information between the GLA and councils about delivery programmes, current capacity and GLA support (both financial and non-financial) before the GLA completes its assessment.

Other criteria

38. Under this programme, councils can use commuted sums arising from a developer contribution secured through a section 106 agreement generated on other sites. Commuted sums can be used alongside additional borrowing and, for specific units, either affordable housing grant or Right to Buy receipts.
39. There is no limit on the amount of additional HRA borrowing that a council may seek through this programme. However, as set out above, bidding councils will need to confirm that their Chief Finance Officer has certified the bid.
40. Councils will be responsible for ensuring that they use additional borrowing in accordance with all applicable legal requirements. Councils must not use the additional borrowing for purposes other than delivering affordable homes.

Bid assessment

Overview

41. The following criteria will be used to assess bids for additional HRA borrowing:
- **value for money:** bids will need to demonstrate reasonable per unit development costs and should seek to maximise the numbers of units delivered, for example by bringing forward their own land for development to reduce costs, or offering cross-subsidy where possible; and
 - **deliverability:** in light of the annual profiles attached to this additional borrowing programme, it is important that councils are ready to start building in relevant years, have contingent schemes which could utilise any slippage in capital expenditure and have the necessary capability to deliver to time and budget.

Value for money

42. The primary metrics that will be used for assessing the value for money of each bid will be:
- the overall per unit development costs; and
 - the level of additional HRA borrowing that councils are requesting to deliver the project as a whole, per affordable home, and as a percentage of total project costs.
43. Councils will be able to enhance the value for money of their proposals where they bring forward land, and can demonstrate procurement efficiencies in the delivery of new supply.
44. The GLA recognises that, in some cases, there may be reasons why development costs or the resources available to bidders may vary, and will seek to take this into account where councils make this information clearly available.

Deliverability

45. The GLA will prioritise proposals which demonstrate early delivery and draw down additional borrowing in the first year of the programme. Factors which the GLA will take into account in assessing deliverability include:
- the stage of planning achieved;
 - the status of land ownership;
 - forecast delivery in terms of numbers of units and draw down;
 - the council's track record of housing delivery; and
 - the council's wider housing delivery plans through *Building Council Homes for Londoners*.

Bids involving affordable housing grant

46. Many councils will be bidding for additional HRA borrowing and *Building Council Homes for Londoners* grant simultaneously. The GLA appreciates that bids for additional HRA borrowing may be contingent on the success of bids for affordable housing grant, and vice versa. Given that the GLA will likely be in a position to confirm affordable housing grant allocations before the additional HRA borrowing, the GLA may conditionally approve a bid of affordable housing grant, subject to the additional borrowing bid being approved.

Assessment process

47. The GLA will assess bids and recommend council allocations of additional HRA borrowing for approval by the Ministry for Housing, Communities and Local Government.
48. The GLA also expects to submit to Government a reserve programme underpinned by an indicative pipeline of projects that could come forward if further HRA borrowing headroom were made available to councils in London.

Next steps

Timetable

49. Following the outcome of the assessment process, additional HRA borrowing allocations are expected to be announced in November 2018. Table 2 sets out the indicative timetable for the bidding process.

Table 2: Indicative bidding timetable:

Milestone	Timing
Addendum to <i>Building Council Homes for Londoners</i> prospectus published	11 July 2018
Bidding for additional borrowing opens on OPS	End of July 2018
Bid deadline for additional borrowing	30 September 2018
Ongoing discussions with councils and assessment	July – November 2018
Results of bidding announced. Following consultation, councils issued with revised indebtedness determinations	November 2018
Councils with revised indebtedness determinations will be able to draw down additional borrowing	April 2019 onwards
Quarterly monitoring commences	July 2019

Questions

50. Any questions relating to this funding guidance should be submitted to affordablehomes@london.gov.uk. A compilation of questions and clarifications will be published on the GLA's website and updated on a regular basis.

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