
REPORT FOR: CABINET

Date of Meeting:	12 September 2019
Subject:	Update on the Gayton Road Affordable Housing Units-Transfer from General Fund to Housing Revenue Account (HRA)
Key Decision:	Yes
Responsible Officer:	Paul Walker - Corporate Director - Community
Portfolio Holder:	Councillor Philip O'Dell, Cabinet member for Housing Portfolio Holder Councillor Keith Ferry, Deputy Leader of the Council; Regeneration, Planning and Employment Portfolio Holder Councillor Adam Swersky, Finance and Resources Portfolio Holder
Exempt:	No, except for Appendix 1 which is exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information)
Decision subject to Call-in:	Yes
Wards affected:	Greenhill Ward
Enclosures:	Appendix 1 Exempt – Gayton Road Valuation Report

Section 1 – Summary and Recommendations

This report sets out an update on the development of the 72 affordable homes at Gayton Road built out for the Council by Fairview New Homes as part of the wider housing development constructed at the site. This report seeks authority to appropriate these 72 homes from being assets held in the General Fund, into the Housing Revenue Account, to allow them to be added into the social housing stock.

Recommendations:

Cabinet is requested to:

1. Approve the appropriation of 72 Affordable homes at Sharpe House, Gayton Road, Harrow, HA1 2DP and Fielding House, Gayton Road, Harrow, HA1 2DW from the General Fund to the HRA, for the transfer value of £11,525,000.

Reason For recommendation(s)

To enable the new affordable homes to be appropriated for housing use and accounted for in the Council's Housing Revenue Account.

Section 2 – Report

Background

- 2.1.1 There is a shortage of housing generally in the borough, and in particular of affordable housing for those on low incomes. It is a key council priority to deliver 500 new council homes, making a difference in Harrow by increasing the supply of genuinely affordable housing to meet the needs of vulnerable households and families who cannot afford market housing.
- 2.1.2 On the 17th September 2015 Cabinet approved proposals for the development of land at Gayton Road, where the council had a pre-existing freehold property interest in part of the development site, by Fairview New Homes (FNH). The development totals 355 homes of which 230 are owned by FNH, to be sold on the open market.
- 2.1.2 In accordance with the terms of the land transaction agreed with FNH, the remaining 125 homes are owned by Harrow Council on a long leasehold basis. The deal provided for FNH to build out a private block of 53 homes with 36 car parking spaces for the Council in lieu of the Council taking a receipt for its land. The private block also includes

approximately 5,000 sq. ft. of community / commercial space located on the ground floor. Cabinet have approved the transfer to Concilium Assets LLP (LLP), of these 53 units under a 10 year lease and the commercial space will be retained by the council.

- 2.1.3 In addition to the private block of 53 units, the land transaction provided the option to purchase two blocks, Sharpe House and Fielding House, comprising 72 homes. The Council took up this option and purchased the 72 homes through its capital programme. These homes are currently held in the Council's General Fund, let as temporary accommodation, and currently managed by Housing Services. Due to recent changes in funding arrangements for the Housing Revenue Account (HRA), the 72 homes can be purchased by the HRA and let as permanent secure Council homes.
- 2.1.5 The Council has approved a Council House Building Programme which includes the cost of borrowing associated with the appropriation of these 72 homes into the HRA and this is included within the approved HRA business plan. These 72 homes are included in our Building Council Homes for Londoners target agreed with the London Mayor and can only be count towards this target, if they transfer to the HRA.
- 2.1.6 If not transferred into the HRA, then we will need to make up the shortfall in some other way which will increase the risk to successful delivery of the council house programme.

2.2 Options considered

The following options have been considered:

2.2.1 Option 1:

Retention of the homes in the General Fund. This is rejected because the homes cannot be let on permanent secure tenancies whilst in the General Fund.

2.2.2 Option 2:

Transfer of the homes into the LLP. This is rejected because the council cannot use its RTB receipts for homes not held by the council direct. Under the terms of the Right to Buy Retention Agreement entered into with the Ministry of Housing, Communities & Local Government (MHCLG) on 26th September 2012, the Council is able to retain Right To Buy (RTB) receipts from sales received on or after 1st July, 2012 provided those receipts are:

- (i) Used for the provision of social housing;
- (ii) The receipts are used within three years; and
- (iii) The retained sum does not constitute more than 30% of the total development costs of the social housing investment. The remaining 70% of costs must be match funded.

In addition to the above, the retention Agreement also states that the Council cannot use its retained amounts of RTB receipts to pay a body in which it holds a controlling interest. Failure to spend the RTB receipts within 3 years will result in repayment back to Government with interest.

RTB retained receipts have been used to part fund the development costs of the 72 affordable homes in order to ensure that rents can be charged at genuinely affordable levels. As a result, this homes cannot be transferred and held in the LLP as the Council has a controlling interest in it.

2.2.3 Option 3:

Transfer of the homes into the HRA utilising RTB receipts and enabling the homes to be let on permanent secure tenancies. The 72 affordable homes at Sharpe House and Fielding House have now been built and are currently being let as temporary accommodation within the General Fund. The proposal is for the HRA to purchase the units and let as permanent secure Council homes. This will not only increase new Council homes residents need but will also increase revenue streams to the HRA which runs the risk of becoming unviable, unless it can make sustainable savings and/ or attract additional income through increasing its stock. Secure tenants are entitled to Right to Buy. Once transferred into the HRA and let on secure tenancies, the Right to buy would apply. New homes cannot be sold under Right to Buy for less than they cost to build. Right to Buy applications have reduced significantly as house prices have increased despite the significant discounts available.

2.2.4 Option 4:

Sale of homes to generate a capital receipt. This is rejected because they can only be sold as affordable housing under the terms of the S106 agreement and the HRA needs to increase the number of homes it owns. This will generate lower value due to the restriction on the rents that can be charged. Selling the homes to a Housing Association/Registered Provider would raise some capital receipt but this would be at the expense of the long term benefit to the HRA in terms of rental income and future borrowing capacity. Disposal of these homes would also violate the terms of the retention agreement which permitted the use of retained RTB receipts to part finance the construction costs of the 72 homes.

The recommended option is option 3.

Risk Management Implications

Risk included on Directorate risk register? Yes

Risk	Mitigation
<p>Failure to deliver increased level of affordable housing, including Council new build and regeneration programme as HRA is not able to afford the cost of appropriation.</p>	<p>A certified valuation has been reduced by the RTB receipt already contributed by the HRA with the balance funded by borrowing using new HRA borrowing freedoms and these have been included in the approved budget for the HRA . The ongoing impact will form part of the on-going monitoring.</p>

Procurement Implications

There are no direct procurement implications to this report

Legal Implications

1. Section 122 of the Local Government Act 1972 enables the Council, subject to certain limitations, to appropriate land held for one statutory purpose and is no longer required for the purpose for which it is held immediately before the appropriation, to some other statutory purpose for which the Council is empowered by an enactment to acquire by agreement.
2. The restrictions (eg in relation to open space) are understood not to apply in this case.

Because the proposed appropriation would therefore be made pursuant to the Council's powers contained within Section 122 of the Local Government Act 1972, there are no adverse legal implications arising from this report.

Financial Implications

1. Under current regulations, Practitioners' Guide To Capital Finance (2019 Edition) appropriation between the General Fund and HRA (a ring fenced fund) requires a technical adjustment to be made at certified market value with adjustments to the respective capital Financing Requirements of both funds to reflect the change in the underlying need to borrow associated with the asset transfer.
2. The certified market value assigned by the Council's Valuers is £11.525m and this will be reduced by £3.317m for contributions of RTB receipts already made by the HRA yielding a transfer of £8.208m resources between the funds of the balance resulting in a neutral overall impact to the Council.

3. With the debt transferring from the General Fund to the HRA there will be no impact on the General Fund. The working assumption had been that the revenue related cost (capital financing requirement) within the General Fund would be met through future rental streams so cost neutral to the General Fund. Now, as a result of the transfer, the debt associated with these properties is transferred to the HRA so still cost neutral to the General Fund.

Equalities implications / Public Sector Equality Duty

There are no equalities implications for this report.

Council Priorities

Please identify how the decision sought delivers these priorities.

1. **Building a Better Harrow**
 - Increase the supply of genuinely affordable and quality housing for Harrow residents
2. **Supporting Those Most in Need**
 - Reduce levels of homelessness in the borough

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels on behalf of the *
Chief Financial Officer

Date: 19th August 2019

Name: Alan Guy-spratt on behalf of the *
Monitoring Officer

Date: 27th August 2019

Name: Lisa Taylor on behalf of the *
Head of Procurement

Date: 14th August 2019

Name: Paul Walker

Corporate Director

Date: 2nd September 2019

Ward Councillors notified: YES

EqIA carried out: NO*

EqIA cleared by: EQIA not required

Section 4 - Contact Details and Background Papers

Contact: Tasleem Kazmi, Finance Business Partner-Housing & Regeneration, 020 8420 9201 tasleem.kazmi@harrow.gov.uk

Background Papers: Gayton Road Valuation Report

Call-In Waived by the Chair of Overview and Scrutiny Committee NO