



Ministry of Housing,
Communities &
Local Government

Additional Housing Revenue Account Borrowing Programme

Housing Revenue Account Borrowing Programme (2019/20,
2020/21, and 2021/22)

Prospectus for local authorities in England outside London

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Foreword from the Secretary of State

Everyone deserves a safe, secure and affordable place to call home. It is the foundation on which everything else is built. But the stability previous generations took for granted is being denied to today's families and young people.

Successive governments – all the way back to the Wilson era – have failed to get new homes built. The result is a broken housing market and a generation of people being held back through no fault of their own. The crisis of affordability has been a brake on social mobility. As a result, our country is being held back.

We must ensure the housing market works for all parts of our community.

This Government understands what is needed – we must build more homes and build them quickly. It is our ambition to deliver 300,000 net additional houses a year by the middle of the next decade – the biggest annual increase in housing supply since 1970.

Council houses are an essential part of this mix. Like the Prime Minister, I want to see a new generation of council house building.

Historically, local authorities have been a driving force in council house building in this country. You have the land, the planning responsibilities and you know what your communities need.

Crucially, you also have the ambition. Local authorities often say they would build more houses, if only they could borrow more money. There are also repeated calls for greater flexibility when it comes to using this money.

You have been keen to build, but held back for too long. We are listening and taking action.

Last year the Chancellor said we would lift the Housing Revenue Account (HRA) caps for councils in high-demand areas. Today, I am also enabling councils to combine borrowing with AHP grants or Right to Buy Receipts, so the money goes even further.

This prospectus outlines a long-awaited chance for local authorities to show the government what can be achieved when money is there.

Ambitious councils can now compete for these funds, and I want to encourage

you to do so. For this reason we have made the process as straight-forward as possible.

I encourage local authorities to take a bold approach and seize this chance. Together we have an opportunity to deliver the homes our country so badly needs.

A handwritten signature in blue ink, appearing to read 'James Brokenshire', is positioned above a horizontal line.

The Rt Hon James Brokenshire MP
Secretary of State for Housing, Communities and Local Government

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Chapter One: Why should local authorities bid to this programme?

A new generation of council homes

1. Local authorities used to play a very significant role in house building. At the high point, they were building more than 120,000 homes per year. But in the 1970s and 1980s this fell to an average of about 60,000 completions each year and to an all time low of just 50 dwellings in 2000. Delivery has since increased and local authorities are now building around 3,000 homes per year.
2. In October, the Prime Minister set out the Government's vision for local authority house building:

“Whether you're trying to buy your own home, renting privately and looking for more security, or have been waiting for years on a council list, help is on the way. A new generation of council houses to help fix our broken housing market”¹.
3. To support this generation of new council houses, the Government announced two important measures to make it easier for local authorities to build new homes:
 - a longer term rent deal. Local authorities and housing associations will be able to increase rents by up to the Consumer Price Index +1% for 5 years from 2020. This will provide the security and certainty they need to plan investment, and provide greater confidence about their future rental income to underpin their house building plans; and
 - grant for social rent. The Shared Ownership and Affordable Homes Programme 2016-21 will support housing for social rent, and provides £2 billion extra funding on top of the £7 billion grant funding already available to build homes to be let at an affordable rent. Local authorities, as well as housing associations, will be able to bid for Shared Ownership and Affordable Homes Programme funding, recognising that they have high demand for social rented housing.
4. In addition, at Autumn Budget the Chancellor announced that the Government would make up to £1 billion additional Housing Revenue Account borrowing headroom available in areas of high affordability pressure for local authorities that are ready to start building new homes. Local authorities would be able to bid for a proportion of this £1 billion additional borrowing headroom from 2019/20 to 2021/22.
5. Together these measures will give local authorities the tools they need to increase the supply of council housing for their communities, and deliver a new generation of council houses. The new council homes that local authorities will build will contribute to an

¹ Prime Minister's speech to the Conservative Party Conference 2017.

increase in delivery, and will help to put Government on track to raise housing supply to 300,000 homes per year by the mid 2020s.

How the additional borrowing will help

6. Since the reform of the council house finance system, with the introduction of the self financing settlement in April 2012, local authorities have had freedom and flexibility to develop new homes within their Housing Revenue Account. At the same time, limits were placed on the amount of borrowing that each local authority could undertake for housing expenditure. The Government introduced these limits to control public sector borrowing in the context of tackling the financial deficit.
7. Local authorities collectively had £3.5 billion borrowing headroom in 2016/17, but this is not spread evenly. Some local authorities, with little or no borrowing headroom, have found it difficult to finance the building of new council housing or to replace homes sold under the Right to Buy scheme.
8. Consequently, a number of local authorities have asked for additional borrowing headroom to enable them to build new homes. Government has listened to these requests. This bidding prospectus enables local authorities to bid to increase their borrowing headroom so that they can finance the delivery of new council housing in their area.
9. All local authorities in high affordability pressure areas of England can apply. This prospectus is for local authorities outside London. Local authorities in London should refer to a parallel prospectus which will be issued by the Greater London Authority.

The objectives of the programme

10. The primary objective that the Government wants to achieve through this Housing Revenue Account borrowing programme is to increase the supply of new council and affordable homes delivered by local authorities.
11. Additionally, the Government wishes to increase the number of new homes that local authorities build to replace homes sold under the Right to Buy scheme; and boost housebuilding skills and capabilities across the local government sector.

Changes since the last borrowing programme

12. In 2013 Government announced an additional borrowing programme of up to £300 million. Following a competitive bidding process, local authorities took up around £145 million of that borrowing. A number of local authorities felt that the conditions attached to the programme were unnecessarily restrictive. We have used the learning from that programme to develop this new £1 billion additional borrowing programme, which includes a number of flexibilities designed to make it easier to bid and get building.
13. First, local authorities 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, local authorities will be able to use either grant funding from the Shared Ownership and Affordable Homes Programme 2016-21 (subject to the requirements in the Shared Ownership and Affordable Homes Programme 2016-21: Addendum to the Prospectus) 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.

14. Second, we have streamlined the bidding requirements, removing the requirements in the previous borrowing programme to report on progress in disposing of existing stock including the most expensive vacant housing, and requirements to demonstrate growth impacts and innovative partnership work.
15. Third, alongside this programme we are publishing an addendum to the Shared Ownership and Affordable Homes Programme 2016-21, which invites local authorities and housing associations in areas of high affordability pressure to bid for grant funding for affordable housing, including for social rent.

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Chapter Two: How the additional borrowing programme will operate

Annual profiles

16. The annual profiles for this £1 billion additional borrowing programme are set out below. These profiles can not be exceeded.
17. To balance the need for new council housing in areas of high affordability in London and elsewhere, and to encourage a high level of bidding, the available borrowing is being apportioned between London boroughs and local authorities in the rest of the country, as set out below. The precise allocation of borrowing between London and the rest of the country may alter in light of bids.

	2019/20	2020/21	2021/22	Total
Total maximum additional Housing Revenue Account borrowing available	£400m	£300m	£300m	£1bn
of which:				
Additional Housing Revenue Account borrowing available to London Boroughs	£200m	£150m	£150m	£500m
Additional Housing Revenue Account borrowing available to local authorities outside London	£200m	£150m	£150m	£500m

Features of the borrowing programme

18. Local authorities in areas of high affordability pressure will be able to bid for additional borrowing to build social rented housing, affordable rented housing, sheltered housing or supported housing. High affordability pressure areas are defined as those where there is a difference of £50, or more, per week between average social and private rents at the local authority level. A list of local authorities in high affordability pressure areas in line with this metric is at Annex A. Local authorities that are not included at Annex A will not be eligible to bid.
19. We have introduced flexibilities to allow local authorities to consider a number of bidding routes most suited to their needs. Local authorities can bid for:
- additional borrowing headroom only;

- additional borrowing headroom to be used alongside grant funding from Homes England (subject to the requirements in the Shared Ownership and Affordable Homes Programme 2016-21: Addendum to the Prospectus);
- additional borrowing headroom to be used alongside their own unspent Right to Buy receipts.

20. Local authorities can submit bids just to increase their additional borrowing headroom. In their bids local authorities must set out the additional homes that they can be build from increased borrowing headroom.
21. Local authorities will also be able to submit bids that combine additional borrowing and affordable housing grant funded through Homes England's Shared Ownership and Affordable Homes Programme 2016-21 (subject to the requirements in the Shared Ownership and Affordable Homes Programme 2016-21: Addendum to the Prospectus). Local authorities must indicate in their bids for additional borrowing whether or not they intend to use grant funding, and must make a separate bid for grant from Homes England that will be assessed independently, on its own merits, within the terms of Homes England's Shared Ownership and Affordable Homes Programme.
22. Alternatively, local authorities may submit bids for additional borrowing which they would use alongside their unspent Right to Buy receipts to build new homes. This will help those local authorities that have little, or no, borrowing headroom and are experiencing difficulty in financing replacement homes. Additional homes built as a result of bidding through this route will need to be clearly flagged at bid stage to be counted separately from homes built purely with additional borrowing or homes built with additional borrowing and grant funding.
23. Bids that combine additional borrowing alongside unspent Right to Buy receipts and the Shared Ownership and Affordable Homes Programme grant will not be accepted, because this would not represent value for money for the public purse. Local authorities may bid for additional borrowing as part of a regeneration scheme but we would need to be reassured about the additionality of such bids, and that they represented value for money. A list of housing that is ineligible for additional borrowing is at Annex B.
24. There will be no limit on the amount of additional borrowing that a local authority may seek, though bids will need to confirm the authority's Chief Finance Officer accepts that, if approved, the additional borrowing sought would be affordable.
25. Bids will need to demonstrate 3 key elements summarised below, with further detailed information at Chapter 4:

value for money – bids will need to demonstrate reasonable per unit scheme costs and should seek to maximise the numbers of units delivered for example by bringing forward their own land for scheme development to reduce costs or offering cross subsidy where possible.

deliverability - in light of the annual profiles attached to this additional borrowing programme, it is important that local authorities are ready to start building in

relevant years and have the necessary capability to deliver to time and budget, as well as a track record of delivery.

affordability – the additional borrowing programme is targeted at areas of high affordability pressure, in order to help local authorities to build more of the right homes, in the right places, and ensure that the housing market works for all parts of the community. We will rank bids according to the areas of the highest affordability pressure.

Effective asset management

26. As landlords, local authorities are responsible for managing their assets effectively, and considering how best to use their existing housing stock. They will want to continue to ensure effective stock management, alongside exploring opportunities for developing new housing. We are aware of the interest that local authorities have in the legislation requiring local authorities to make a payment to the Secretary of State in respect of their vacant higher value housing. Government is considering the implementation of the vacant higher value local authority housing legislation. In the meantime the Government has confirmed that local authorities will not be required to make a payment in respect of their higher value vacant housing in 2018/19.

How the additional borrowing will be issued

27. Local authorities that make successful bids will receive a new indebtedness determination to reflect the additional Housing Revenue Account borrowing up to the agreed amount, to finance capital expenditure on approved schemes during 2019/20, and/or 2020/21, and/or 2021/22.
28. Local authorities that receive additional borrowing must ensure that schemes undertake the necessary capital expenditure in the specified years. We will agree quarterly monitoring arrangements with local authorities including progress on starts and completions. It will be essential that local authorities deliver to the agreed timetable. If there is slippage the additional borrowing headroom may be reallocated.

Chapter Three: How can local authorities bid for additional borrowing?

The bidding options

29. Local authorities can bid to draw down additional borrowing in 2019/20, and/or 2020/21, and/or 2021/22, subject to the annual profiles set out above.
30. Bids will need to identify individual housing schemes separately.
31. Local authorities can submit bids on their own or with partners, including joint bids with other local authorities, for example Combined Authorities, where they see advantages in unlocking additional housing at scale. However, bids will need to identify a single 'lead' local authority, and local authorities will be expected to carry out due diligence on any partners that they propose to work with to ensure viability and delivery of the scheme. Homes England will assess joint bids will be assessed at scheme level.
32. The additional borrowing is available for local authorities in England with a Housing Revenue Account or who are intending to set one up. Local Authorities building new homes as a result of the additional borrowing provided through this programme must account for them in a Housing Revenue Account.

Bidding requirements

33. 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 schemes or projects in their 30 year Business Plan.
34. In addition, for each scheme, the bid should include the data specified at Annex C.
35. Where approval is given to increase additional borrowing, we expect that:
 - local authorities will drawdown the borrowing for the specified year;
 - development must start as soon as possible and at the latest within the year that the borrowing is drawn down;
 - schemes that involve a bid for Shared Ownership and Affordable Homes Programme grant alongside additional borrowing must ensure that starts on site take place by March 2021; hence they may wish to use grant in 2020/21 and additional borrowing in 2021/22.

Making a Bid

36. Local authorities will be able to submit bids when the Homes England electronic bidding system opens towards the end of June 2018.

Other criteria

37. Bids for additional borrowing will need to be signed off, and certified by, the local authority's Chief Finance Officer (section 151 officer). Bids will also be expected to confirm that (aside from Shared Ownership and Affordable Homes Programme grant, where applicable) schemes are not expected to receive other Government grant funding.
38. A scheme may facilitate the additional provision of market tenure housing, including for cross-subsidy purposes. Local authorities should clearly state this to allow consideration of wider value for money issues. Similarly, if additional borrowing will support associated infrastructure, in addition to enabling the delivery of council housing, this too should be clearly stated.
39. Under this programme, local authorities 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 Shared Ownership and Affordable Homes Programme grant.

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Chapter Four: Bid Assessment

Overview

40. Local authorities in high affordability pressure areas in line with Annex A will be eligible to bid. The bid assessment will involve two stages:

Stage I

We will assess schemes to ensure that they:

- represent value for money for the public purse; and
- are deliverable within the programme timeframe.

Stage II

We will rank bids according to the extent to which the local authority is in a high affordability pressure area, as measured by the difference between average social and private rents, at local authority level.

41. Assessment will be at scheme level. So if a local authority submits a bid for additional borrowing for more than one scheme, it is possible that some or all scheme bids may not be successful.

Stage I

Value for money

42. We will consider whether bids deliver reasonable value for money in terms of the extent to which they deliver new homes. The primary metrics that we will use for assessing the value for money of each bid will be: the overall per unit scheme costs; and the level of additional Housing Revenue Account borrowing local authorities are requesting to deliver the scheme as a whole, per new affordable home, and as a percentage of total scheme costs. Local authorities 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.
43. It is important that we have evidence that local authorities are able to finance the scheme development, and bids will need to confirm that the local authority's Chief Finance Officer agrees that the borrowing is affordable.
44. In considering value for money we recognise that, in some cases, there may be reasons why scheme costs or the resources available to bidders may vary and will seek to take this into account where local authorities make this information clearly available.

Deliverability

45. We will consider whether bids clearly demonstrate that they are deliverable. Factors which we 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; and
- the local authority's track record of housing delivery.

Stage II

Affordability

46. Providing bids demonstrate that they meet the value for money and deliverability requirements, we will rank them according to affordability pressure. The metric that we will use to measure affordability pressure at the local authority level is the difference between average social and private rents.

47. We will rank and prioritise bids according to local authority areas where there are the highest affordability pressures in line with the above metric. If two local authorities put forward bids for the same amount of borrowing, the local authority with the highest affordability criteria would have priority.

Additional criteria for bids seeking Shared Ownership and Affordable Homes Programme grant

48. We will assess bids for Shared Ownership and Affordable Homes Programme grant separately under the existing continuous market engagement processes operated by Homes England.

49. Any bid for additional Housing Revenue Account borrowing will not be included in the assessment of value for money for Shared Ownership and Affordable Homes Programme grant.

50. Access to Housing Revenue Account additional borrowing headroom does not automatically secure access to Shared Ownership and Affordable Homes Programme grant. However, bids for additional borrowing relying on confirmation of grant funding

from Homes England, will be assessed in isolation of grant funding requirements. We will therefore conditionally approve a bid for additional borrowing that relies upon Shared Ownership and Affordable Homes Programme grant, subject to the grant bid being approved.

Additional criteria for bids using unspent Right to Buy receipts

51. All bids for Housing Revenue Account additional borrowing will be assessed equally – regardless of whether the bid is seeking additional borrowing on its own, or additional borrowing to be used alongside Shared Ownership and Affordable Homes Programme grant, or additional borrowing to be used alongside unspent Right to Buy receipts. In other words, we will not assess bids as having more or less value for money for the purposes of the additional borrowing entitlement.

The assessment process

52. Bids will be open to local authorities in England outside London. The expectation is that local authorities will account for new homes built as a result of the additional borrowing provided through this programme in a Housing Revenue Account.
53. Homes England will assess schemes. Homes England and the Ministry of Housing, Communities and Local Government will moderate the assessment.
54. Government Ministers will take final decisions on which schemes will be supported. If the programme is over-subscribed with high quality bids, a reserve list may be prepared setting out the schemes that could be taken forward quickly in the event of another scheme suffering significant slippage.

Conditions

55. Local authorities will be responsible for ensuring that they use the additional borrowing in accordance with all applicable legal requirements. Local authorities must not use the additional borrowing to displace other sources of available funding or for purposes other than the building of new housing.

Chapter Five: Where to send bids, timetable, and further information

Where to send bids

56. Local authorities must submit bids using Homes England's online bidding platform. The bidding platform is currently in development and will be made available towards the end of June 2018. We will notify local authorities when the system is ready to accept the submission of bids. The deadline for receiving bids is 30 September 2018. Annex B sets out the information which will be required.

Timetable

57. The timetable is as follows:

Timing	Action
26 June 2018	Prospectus published inviting bids from local authorities
30 September	Closing date for the submission of bids
Early Autumn	Bids are assessed and moderated, and decisions are taken
Autumn	Results of bidding are announced. Following consultation, local authorities will be issued with revised indebtedness determinations
April 2019 onwards	Local authorities with revised indebtedness determinations will be able to draw down additional borrowing from April 2019 onwards

Further information

58. If you have any questions about the bidding arrangements, please email:

HRAbidding@homesengland.gov.uk

59. If you have any questions about Government's approach to a local authority's Housing Revenue Account, please email: HRABorrowing@communities.gsi.gov.uk

Annex A: Local authorities in high affordability pressure areas

The following local authorities are in high affordability pressure areas, as measured by the difference between social rents and private rents, where the difference is £50 or more per week. These authorities will be eligible to bid for the additional borrowing programme.

Adur	Christchurch	Huntingdonshire
Arun	Colchester	King's Lynn and West Norfolk
Ashford	Cornwall	Leeds
Aylesbury Vale	Cotswold	Lewes
Babergh	Crawley	Lichfield
Basildon	Dacorum	Luton
Basingstoke and Deane	Dartford	Maidstone
Bath and North East Somerset	Daventry	Maldon
Bedford	East Cambridgeshire	Malvern Hills
Birmingham	East Devon	Manchester
Blaby	East Dorset	Medway
Boston	East Hampshire	Mendip
Bournemouth	East Hertfordshire	Mid Devon
Bracknell Forest	East Northamptonshire	Mid Suffolk
Braintree	Eastbourne	Mid Sussex
Breckland	Eastleigh	Milton Keynes
Brentwood	Elmbridge	Mole Valley
Brighton and Hove	Epping Forest	New Forest
Bristol, City of	Epsom and Ewell	Newcastle upon Tyne
Broadland	Exeter	North Devon
Bromsgrove	Fareham	North Dorset
Broxbourne	Forest Heath	North Hertfordshire
Bury	Gosport	North Somerset
Cambridge	Gravesham	Northampton
Canterbury	Guildford	Oadby and Wigston
Castle Point	Harborough	Oxford
Central Bedfordshire	Harlow	Plymouth
Chelmsford	Harrogate	Poole
Cheltenham	Hart	Portsmouth
Cherwell	Havant	Purbeck
Chichester	Hertsmere	Reading
Chiltern	Horsham	Redditch

Reigate and Banstead	Southend-on-Sea	Uttlesford
Ribble Valley	Spelthorne	Vale of White Horse
Rochford	St Albans	Warwick
Rother	St Edmundsbury	Watford
Rugby	Stevenage	Waverley
Runnymede	Stockport	Wealden
Rushcliffe	Stratford-on-Avon	Wellingborough
Rushmoor	Stroud	Welwyn Hatfield
Rutland	Suffolk Coastal	West Berkshire
Salford	Surrey Heath	West Devon
Sevenoaks	Swale	West Dorset
Slough	Swindon	West Oxfordshire
Solihull	Tandridge	Weymouth and Portland
South Bucks	Teinbridge	Wiltshire
South Cambridgeshire	Tendring	Winchester
South Gloucestershire	Test Valley	Windsor and Maidenhead
South Hams	Tewkesbury	Woking
South Lakeland	Thanet	Wokingham
South Norfolk	Three Rivers	Worcester
South Northamptonshire	Thurrock	Worthing
South Oxfordshire	Tonbridge and Malling	Wychavon
South Staffordshire	Trafford	Wycombe
Southampton	Tunbridge Wells	York

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Annex B: Types of housing that is excluded

The following categories of housing are ineligible for additional borrowing:

- housing at intermediate rent/ Rent to Buy;
- market housing for sale or rent;
- conversions;
- acquisitions;
- housing that will be owned by a Local Housing Company, joint venture or other type of housing vehicle.

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Annex C: Bidding information

In advance of the Housing Revenue Account Borrowing Programme bidding system being made available by Homes England, below are the main items of information and data that will be required.

Main items of information	Data required
General scheme details	<ul style="list-style-type: none"> - scheme description, address and X-Y co-ordinates - whether bid for HRA Borrowing only; HRA Borrowing plus RTB receipts; or HRA Borrowing plus Homes England grant - land ownership status - tenure
Characteristics of the homes to be provided	<ul style="list-style-type: none"> - number of units - type of buildings (flat, house, etc) and number of bedrooms - whether it is a section 106 site - number of beds - prospective rent per week (including service charges) - average market rent per week (for the house type and size)
Financial details	<ul style="list-style-type: none"> - total cost of the scheme broken down by acquisition costs, works cost and on costs - funding breakdown including HRA Borrowing requested and any existing HRA headroom available and to be used - funding from other sources (RTB receipts or Homes England grant) - other local authority funding sources
Deliverability, key milestones and track record	<ul style="list-style-type: none"> - actual or forecast planning consent date - forecast start on site and completion dates (between 01/04/2019 and 31/03/2022) - planning status - brief commentary on next steps and timetable to achieve planning consent (where relevant) - commentary on any recent track record of delivering affordable housing, together with any evidence

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