

Islington Council New Build Prog Finances

Housing Scrutiny Committee 18th April 2024

A Summary of Islington council's New Build budget, funding and challenges

Fundamentals of New Build Capital Programme Funding

Costs of New Build Schemes:

- Construction
- Fees (design, pre-construction services)
- On-costs (Marketing, CIL)
- Risks, Contingency, Optimism Bias

Sources of Funding:

- PWLB borrowing
- RTB 1-4-1 receipts
- CIL/S106
- Open Market Sales

Ongoing Costs:

- Repairs and Maintenance;
- Major Works
- Management
- Capital financing/ Debt repayments

Ongoing Income:

- Rental income (to fund on-going costs)
- Potential Future sales/ Staircasing of Shared Ownership

Financial Challenges of funding New Build Schemes

Traditional Scheme Viability = Positive Net cash flows (should be self-financing)

Funding + Rental Income **greater or equal to** Construction + Ongoing Management and Maintenance

- **Cost of borrowing:**
 - **PWLB 40-year maturity rate** - rose from 2.06% to 5.49% between Dec 2021 to Nov 2023
 - **HRA concession** – 40bp discount ends in 2025, too soon for many pipeline developments
- **RTB receipts:**
 - Spring budget – From 24/25 can use receipts to fund up to 50% of eligible spend incurred; BUT finite receipts available.
 - From 24/25 - Treasury keep 20-25% of receipts
 - Restrictions on using RTB receipts with other external funding (GLA grant/ DLUHC grant)
- **Viability** – Government rent caps impacting ability to fund future debt, management and maintenance.
- **Requirement to subsidise New Build borrowing** to detriment of Major Works/ Decent Homes.

New Homes Commitment

Despite challenges, Islington council is committed to delivering new Homes:

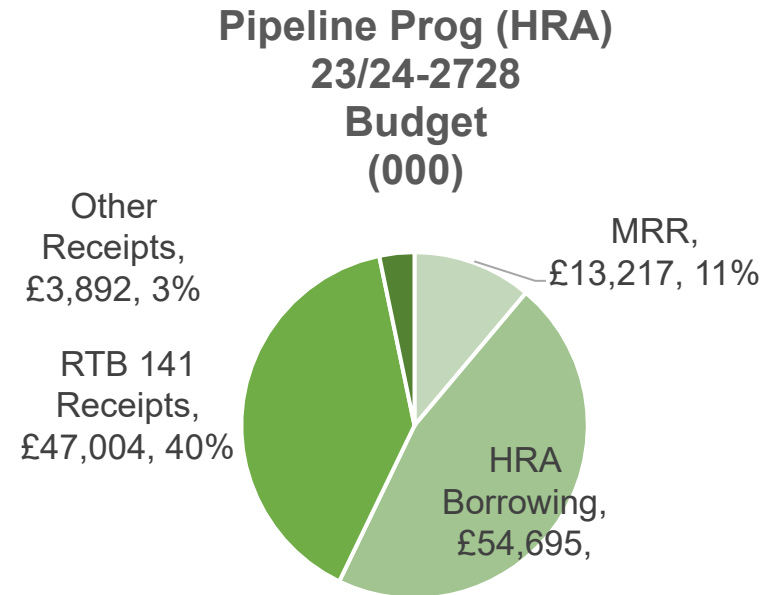
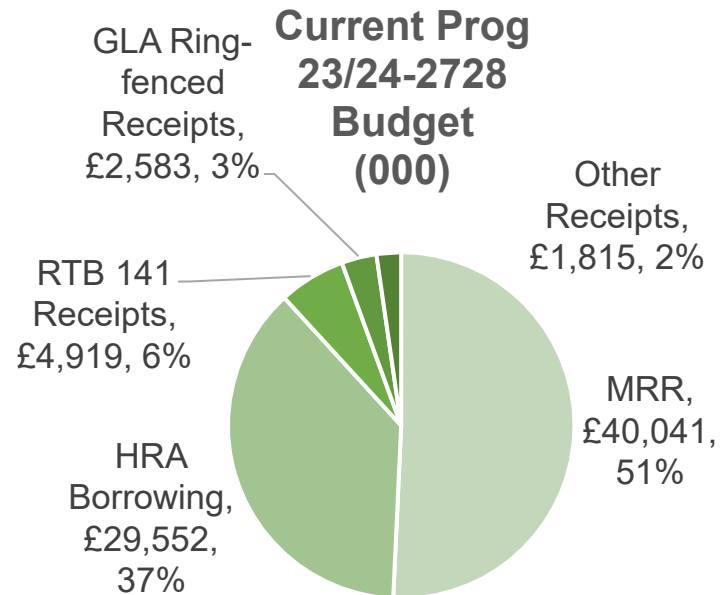
- **Current Programme** – delivering 162 Homes (including Shared Ownership) currently on site.
- **Existing and New Pipeline** – target of 750 new social rented homes
- Comprehensive review of New Homes programme over last 12 months
 - Reallocating constrained funds on most viable schemes.
 - Ensuring we can continue building new affordable homes to meet council target.

New Build Capital Programme	Social Units	Shared Ownership Units	OMS Units	Total Residential
Current Programme	154	8	44	206
Pipeline Schemes	180	7	168	355
New Pipeline	570	0	533	1,103
	904	15	745	1,664

2023/24 – 2027/28 HRA New Build Funding

HRA New Build budgets reflect latest approved programme (29th Feb 24 Full Council)

- **Current Programme – £78.910m** remaining funding for existing schemes on-site
- **Major Pipeline schemes - £118.808m** Finsbury Leisure Centre, Bemerton South and Vorley Road
 - Additional OMS units - £118.609m short-term borrowing until sales complete.
- **New Pipeline - £20.2m** budget to bring various schemes to planning funded from HRA reserves.



Challenges to delivering New Affordable Homes

- **Complexity of schemes** – planning and building restrictions in Islington, availability of land, site access.
- **Changing Legislative issues** - Fire safety and building safety – Michael Gove announcement in July 2023 (2nd staircase above 18 metres) – consequential construction cost inflation whilst re-developing schemes
- **Impact of depressed housing market** - reduced private sales values and falling demand – (used to fund GF element of mixed GF/HRA schemes).
- **Inflationary Pressure** – rising build costs exacerbated by scheme delays
- **Historic lack of Central Government investment** in council house building.

Overcoming challenges

Sector-wide Actions

- **Lobbying Central Government** - greater flexibilities on funding:
 - **Simultaneous use of RTB and GLA grant** - Ensure scheme affordability
 - **Retaining 100% of receipts** - RTB reduces affordable housing stock. Treasury receives c.20-25% share, reducing councils' ability to replace stock numbers.
 - **Long term rent policy** – impacting scheme viability (rents fund on-going costs of new builds)

New Build/ Islington council Actions

- **Continual review of scheme affordability**; stop unviable schemes, re-direct resources.
- **Identifying alternative funding sources** – private debt funding, comparable with PWLB rates
- **Consider opportunities across GF assets** - increase housing supply; mixed and residential schemes
- **Assigned dedicated PMO** to lead on designing and implementing programme assurance framework.
- **New scheme of delegations** – clear responsibilities and thresholds for programme decision-making.
- **Updated Gateway process** and additional capital programme financial scrutiny