Session will look at:-

I am David Gibson (ex councillor who was the finance lead and ex chair of housing at Brighton and Hove City Council). Session will:-

1) **Outline of financial models for new homes (+ other applications)**
2) How changing assumptions can change/deliver the desired outcome for developers, councils seeking to transfer, set up seaside homes, persuade us they are hard up
3) **Brief outline of council finance scope (not so hard up as we are told!)**
4) Using a financial example that improves a budget assumption show how with it can contribute to 100 additional council homes a year
5) **Compare in house vs developer routes to achieve additional affordable housing**
6) Ask “what is to be done?”

Financial models- Assumptions for new homes

- Based on building (+ fees) + building cost inflation
- Land acquisition costs (or building purchase costs)

Ongoing costs

- Rent income + rent rise assumptions
- Management cost + inflation mostly wages
- Maintenance costs
- Major repair costs
- Borrowing interest payments
- How could these be wrong? – **“sensitivity”** to errors….

Financial modelling- assumptions

1) **Assumptions are “best” guesses- concept of “sensitivity” to changes in assumption**
2) Change the assumptions and change the outcome (eg Lewes options appraisal, BHCC seaside homes, BHCC Housing budget 2024)
3) **Sensitivity** testing eg 2024 Housing Revenue Account (HRA) budget assumes rent rises @ CPI, yet govt policy is CPI + 1% and has been the case for 7 out of 12 years. If use the governments self financing model (CPI +1%) instead BHCC business plan no longer predicts a growing deficit of in 2026/7 of 663K but forecasts a surplus £1.41m over only 2 years! (see flip chart)
4) **Business plans good for a couple of years at best (30 years is a joke!)**
5) **Developers assumptions** (can be varied to produce the result that says not viable (cost per sq m, sale price, exceptionals, materials, ground works, **interest rate on (+ how much of) loans** (even if in the end they borrow, levels of contingency, build cost inflation- all can be slanted, profit (at all stages vs overall) need an expert to challenge (+ rate of allowable profit)

How the council finances development

Capital and revenue What is Capital? What is revenue?

Financing additional housing is done by:-

- **2 council funds/accounts** 1) General fund (more tricky) 2) Housing Revenue Account (HRA) has “Loadsa money” (see later)
- Borrowing funded by revenue (£10m only costs 300K a year)

(Note **prudential** borrowing constrained by business plan that works)

- **Capital receipts** (eg Right to buy sales, other sales)
- Revenue contributions (direct or to fund borrowing interest- ongoing)
- **Sec 106/ Community Infrastructure Levy (CIL)**
- Any HRA scheme will be modelled to fund itself over 30,40, 60 years

What is an affordable rent?

- “Social” rent was council/HA govt lates definition around 60% of private rents (grant needed to achieve these by social landlords- see below)
- **Affordable rent is up to 80 % of private rents**
- Affordable is more than Local Housing Allowance (LHA) in Brighton and Hove so council caps at LHA
- **Living wage rents (created by the JV with Hyde) virtually same as LHA (based on 37.5% living wage and assumptions on number of incomes at a living wage indifferent bedroom sized homes.**
- Also is a 27.5% Living wage rent based on above but 27.5% (similar to Living rent below)
- **Living rent based on 30% of household take home income**
- 30% of median living and working in Brighton take home income (working definition)
- **Social housing grant needed to achieve low rents but this saves money for the treasury in the medium and longer term cutting benefit bills**
- £11.7m campaign demand (eg portslade and Coldean JV homes are at social rents thanks to grant)

Looking at this years HRA budget – where the money can be found?

- **Revenue Contribution to Capital Outlay (RCCO) = surplus money from day to day rental income available for capital (new homes) projects**
- 2023/24 HRA budget includes a RCCO (shown in the 24/5 accounts as “major repairs reserve” (previously shown as a revenue contribution to major works on HRA homes) -of **£ 16.516m**
- **24/5 HRA budget achieves borrowing of £60.8m at an apparent cost of £1.743m (3% approx.) so lots more can be borrowed**
- If the rent rise **assumption** (in HRA budget) is wrong and govt sticks to CPI + 1%, as well is its huge RCCO it will have an extra £0.7m in year 1 £1.4m in year 2 enabling borrowing of £20m a year for home buying building @3.5%
- **Usually borrowing pays around 70% to ensure rents aren’t too high and RTB , recipe[ts, other capital receipts sec 106, CIL etc fund the rest**

How many extra new homes could the HRA support?

- **So if our better assumption £0.7m rent increase @ CPI + 1% is used for borrowing (or we use £0.7m (7% ish) of the RCCO) we can borrow £20m (see flipchart)**
- Add capital receipts sec 106, CIL to fund 30% to keep rents down gives £28.6m
- **This is enough to fund 100 home purchase or home builds @ £286K each**
- If the rent is wrong another 100 could be funded the year after and so on yielding **500 homes** over the 5 year rent cap period (on top of existing plans in the budget)

Funding buying or building through the HRA a What has been achieved? *corrected to avoid double counting

Method	Total delivery	Rate of delivery (units per year)
New homes for neighbourhoods	314	29.5
Acquisition of homes/buildings	424	70.66
Joint venture with Hyde	176	22 + (21 shared ownership for Hyde)
Totals	**865***	**116***

So what should campaigners press for?

- Buying vs building (faster greater output)
- Reform of viability assessment
- Ramping up HRA programme
- In house/JV developments on council owned sites to keep control
- Ending the Right to buy
- More social housing grant