

January 2014

Briefing:

Affordable Homes Programme 2015-2018 Prospectus

Summary of key points:

This briefing covers the HCA's announcement for funding of the 2015-18 programme.

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1. Introduction

The Homes and Communities Agency affordable homes Prospectus was published on 27th January 2014. A full copy of the Prospectus can be found here:

<https://www.homesandcommunities.co.uk/ourwork/affordable-homes-programme-2015-18>.

This briefing is intended to draw out the key elements of the new programme to help members think about the implications of participating in the programme and whether they want to bid. We will continue to work with Government and the HCA to raise our concerns and seek clarity where necessary.

We welcome the HCA's response to feedback from the current programme. However, we're concerned that aspects of the new programme may discourage housing associations from making ambitious but deliverable bids for more funding to build homes. Some housing associations may decide not to participate at all as the grant on offer does not warrant the restrictions and expectations set out in the Prospectus.

The confirmation of scheme-specific grant rates, start-on-site payments and that there will be money available for future bidding rounds is good news and will encourage the participation of new social housing providers.

Encouraging local authorities to make available land for affordable homes is positive, but we need clarity on how this will be incentivised. It's also disappointing that there's no mention of how central government land could be used to build more affordable homes.

The focus on value for money and cross-subsidy is expected, but the greater level of scrutiny is concerning. While conversions and disposals will be important, housing associations and their boards are the only ones who can determine the social and economic value of their homes and how this meets their business objectives.

While we agree that building new affordable homes, including one- and two-bed properties, should accurately reflect what is needed in local communities, this must be informed by robust assessments, not Government policy.

Key points:

- There is £1.7bn of funding available for new affordable homes.
- Approximately 75% of the funding will be allocated upfront, with the remainder allocated through future bidding once the programme is underway.
- Grant will be on a scheme by scheme basis with 50% paid at start on site and 50% on practical completion.

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- As part of the other sources of funding, local authorities are encouraged to bring forward housing supply though using their own land.
- There is greater focus on cross subsidy through asset management. Housing associations will be expected to justify decisions where they choose not to dispose of vacant stock, especially in high value areas, or convert to affordable rent.
- In terms of meeting local housing needs, emphasis is given to the delivery of a greater proportion of one and two bedroom properties, in light of demographic change and evidence of a shortage of homes for under-occupying tenants
- An addendum to the Prospectus will be published when the Housing Technical Standards Review is complete but in the meantime providers are asked to take a view on design and space standards in their bids.

2. The programme

The HCA affordable homes Prospectus was published on 27th January 2014. A full copy of the Prospectus can be found here: <https://www.homesandcommunities.co.uk/ourwork/affordable-homes-programme-2015-18>

The HCA has £1.7bn of capital grant funding, outside London, for bids over the three year programme. The HCA seeks to:

- Increase new affordable housing for affordable rent or affordable home ownership.
- Maximise the number of new affordable homes delivered.
- Build housing that meets demographic needs, including more one or two bed properties.
- Maximise delivery within the programme period and deliver new homes by March 2018.
- Encourage providers with the capacity to begin or increase development.

The key changes from the current Affordable Homes Programme (AHP) are:

- The approach towards bidding through either the firm only or the mixed route.
- The retention of a proportion of funding for future market engagement.
- A new focus on ensuring the homes built meet the need of households.
- An increased focus on efficiency and cross subsidy.

3. The Funding Model

The HCA asks providers to fully maximise contributions to reduce grant funding requirements. This includes capacity generated by net rental income, conversions and disposals, other sources of funding and market sale of new properties. The benefits of any discounts on public land should also be considered.

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Income for new properties

In the main HCA grant will be used to fund affordable rent and affordable home ownership.

Active asset management

- The HCA expects providers to take a rigorous approach to how vacant properties can be used to generate capacity to support the delivery of new homes.
- The HCA will require an explanation from providers on the number of properties they are selling as part of the programme, how they identify properties of high value or which are costly to run and why they are not disposing of more.

Conversions to affordable rent

- It is expected that conversions to affordable rent will be integral to proposals for funding new supply. Where there is no potential for conversions this must be explained.
- Consent for conversions will only be given where the provider commits to use the additional financial capacity for new supply.
- Capacity generated from conversions outside of London cannot be used to support additional new supply under the 2015-18 programme inside London, and vice versa.

Other sources of capacity

- Providers are encouraged to use a range of sources to cross subsidise their development programmes.

Other sources of funding

- The HCA encourages local authorities to consider the contributions they can make to support providers to meet local needs through the use of their own land holdings and negotiation of s106 agreements.
- Local authorities are also encouraged to provide other sources of funding such as New Homes Bonus or Community infrastructure Levy (for infrastructure costs) to support new delivery.

Access to guarantees

- Building on the 2013-16 Affordable Homes Guarantees Programme, new supply Affordable Rent and affordable home ownership housing may be delivered through a combination of the various cost contributions, including both grant and guarantees.
- Bidders wishing to access guarantees should apply to Governments Affordable Housing Guarantee scheme delivery partner, Affordable Housing Finance, before March 2016.

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- In order to apply for guarantees alone, it will not be necessary to bid to the Homes and Communities Agency separately.

Federation response

Grant levels are intrinsic to the success of the next programme. Build costs have risen and are predicted to continue to rise after 2015. Some housing associations may also be running out of asset cover and reaching their gearing limits and cannot continue to take on unsustainable levels of borrowing to finance new supply.

The Prospectus places a large onus on cross-subsidy with the emphasis on sale of high value stock and conversion to affordable rent. The lack of specific targets allow providers some freedom to determine the best means of subsidy for themselves, this is welcome, but the HCA must take a realistic view of what is reasonable.

In the 2011-15 schemes both void rates and levels of uplift fell short of expectations. Taking these lessons forward the HCA must take a flexible and realistic approach to what can be achieved through conversions to affordable rent.

The HCA encourages the sale of high value stock, or stock that is costly to maintain. In mixed communities there is a need to provide homes for all incomes across the neighbourhood. A wide variety of stock can answer this need. There are also economic benefits for retaining this stock. For example, high value properties strengthen asset portfolios. This increases housing associations' borrowing capacity. In addition, the retention of high yielding stock can provide long term revenues more beneficial than a one off sale. By careful management of the location of their stock housing associations can benefit from economies of scale and efficiencies. Although it is an important factor, the value of all our members' homes, is in not only the economic value but also the value in terms of delivering the organisation's social purpose. The management of assets is a matter for housing associations to determine in line with their own business strategies.

The level of scrutiny indicated by the HCA will require housing associations to identify all vacant properties individually. We recognise the HCA's need for a high level view of cross-subsidy and the role of disposal and conversions within that. However, it should be left to individual housing associations to determine how that cross subsidy is delivered. As long as the regulator is satisfied that their choices are viable there should be no further micro-management of cross subsidy.

The Prospectus encourages local authorities to work with providers to deliver affordable housing on public land. This is a modest step in the right direction but would benefit from greater clarity over incentives for local authorities to offer land at nil value or discount. The lack of affordable land coming forward is a key barrier to delivery. The Federation has pushed for the HCA to use their

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powers over disposal to facilitate the opening of public land banks for housing associations. The Federation would urge government to incentivise local authorities to provide land for affordable housing.

It is regrettable that no mention is made of how central government's significant land holding could be better used to support affordable housing delivery. Through their enhanced role on land disposal and stalled sites, the HCA should join up the delivery of the AHP with central and local government land disposal. If integrated effectively, housing associations will be able to access more land, keep land costs down and get construction going on derelict public and private sites.

In the matter of the use of public land we would ask HCA and local authorities to consider the wider definition of best value, rather than simply the sales receipt. The development of affordable housing provides economic and social gains which may benefit the community more.

4. Range of Products

Affordable Rent

- Affordable rent is expected to be the main product supported through HCA grant funding.
- In setting rents, the HCA will generally expect providers to charge rents of up to 80% of market rents, inclusive of service charge. In specific circumstances rents at less than 80% may be appropriate but target rent will be the lowest rent possible.
- Bidders should bid on the basis of annual rent increases from 2013-16 onwards being the Consumer Price Index +1% each year for 10 years. Government will confirm its policy on rent following consultation. Landlords are required to rebase rents on each new tenancy agreement that are issued for an affordable rent.

Federation response

The Federation has submitted a response to the Department for Communities and Local Government on their consultation rents for social housing. We welcome the certainty that an index-linked ten year rent settlement provides for housing associations. However we have significant concerns about the consequences and legal implications of removing the flexibility for housing associations to increase weekly rents by an additional £2 per week to achieve convergence with target rent. A full copy of our response can be seen at: <http://www.housing.org.uk/publications/browse/rents-for-social-housing-from-2015-16#sthash.tPpXckSt.dpuf>

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Social Rent

- Social rent will only be supported in exceptional circumstances and providers, with the support of local authorities, must be able to show why affordable rent is not viable.

Affordable home ownership

- Affordable home ownership (shared ownership), will be considered if the scheme has local authority support and fits with the local housing market.
- Funding will also be available for home ownership for people with long term disabilities and older persons shared ownership.
- Bids that only include affordable home ownership but no affordable rent will not be considered.
- The HCA will continue to fund Right to Acquire and Social HomeBuy.

Supported housing and housing for older people

- Bids that include housing for older people or supported housing that meet local needs are encouraged.

Other groups or forms of housing

- There is no separate funding for empty homes, homelessness accommodation (other than the DoH hostels scheme) or provision of traveller pitches. However these can be included in the programme.

Routes and forms of provision

- New building acquisition and works, off the shelf and works only schemes, Rehabilitation and Re-improvement are considered acceptable forms of new supply.
- Works to existing stock should be self-funded by providers except where it is essential to keep the property habitable and the provider has no resources to undertake work.

Homes let at an affordable rent for a fixed term

- More details will be published on a separate £400m fund to support people who need a limited period of support through sub-market rent to achieve home ownership.

5. Bidding requirements

- The programme will offer two bidding routes; a mixed and firm scheme approach.
- Across the programme, the HCA does not intend to allocate to more than 30% indicative units.

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- **Mixed (indicative and firm scheme) approach** is only open to existing partners delivering in the current scheme and will need to be agreed with the HCA in advance. Providers are invited to notify the HCA of their intention to submit mixed use schemes by **7 February 2014**.
- Under the mixed route:
 - Mixed proposals can only be submitted if the total allocation for firm schemes exceeds £5 million of grant funding.
 - Indicative proposals must not constitute more than 50% of total units in the bid.
 - Indicative proposals that receive allocations must be progressed to firm by 30 May 2016.
- **The Firm scheme route** is for firm, named schemes only; any bidder can use this route.
- Dates for start on site and completion will be considered in the HCA assessment of bids. Those with earlier delivery dates will be advantaged.
- The HCA reserves the right to withdraw allocations where there is significant delivery slippage. If funds are available these can be brought back in to the programme when delivery is more secure.
- The HCA does not undertake to allocate to bids in their entirety and may choose to fund firm and indicative schemes from proposals while excluding others.

Federation response

The clarity around fixed and indicative schemes is welcomed and we recognise the need to generate certainty by limiting the number of indicative schemes. The allowance to resubmit schemes which have slipped at of the programme at a later date provides some flexibility for providers.

The HCA approach requires a large percentage of firm, named bids to be put forward from the outset. There is a considerable risk that housing associations will not have a sufficient number of firm schemes immediately available. This will have repercussions for the HCA's goal of a 75% spend up front and may force up the level of grant to be spent through future market engagement. We're concerned that the emphasis for firm bids may discourage housing associations from bringing forward indicative bids which could complete within the programme's time frame. A lack of certainty over funding may result in schemes not being developed.

Grant Payment

- Grant will be offered on a per scheme basis, 50% will be paid at start on site and 50% on practical completion (except for off the shelf schemes).
- Unregistered providers will be paid 100% of funding at practical completion of the scheme.

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Allocation of the available grant funding

- 75% of the available grant funding will be allocated from the outset. The remaining 25% will be held back for future market engagement.
- Once the programme has commenced bids will be allowed for the outstanding 25% on an ongoing basis.
- Proposals will need to achieve allocation by 30 May 2016.
- The market engagement route will be used to allocate any slippage arising from indicative schemes that do not progress.

Federation response

This Federation welcomes the long term commitment to pay part of the grant at start on site; with the Prospectus stating that 50% of grant will be paid at start on site and 50% on completion. Together with the confirmation that payment under the programme will be on a scheme-by-scheme basis this will help improve scheme viability and overall cashflow and reflects a better level of risk sharing. The additional certainty provided may encourage small and medium housing associations to participate in the programme. It will create a level playing field for providers wishing to deliver larger family, rural or specialist homes.

The HCA will allocate around 75% of grant from the outset, through a single bidding round. The Federation argued against a single bid round as it may lead for a “dash for grant” as seen in the current programme, with some providers losing out and others being discouraged from entering the programme if there is a single bidding round.

However the HCA have recognised this concern and taken steps to mitigate this by making about 25% grant available through future market engagement basis. All providers will be able to bid on an on-going basis. This is welcomed by the Federation as it will allow smaller housing associations to gain certainty in schemes before submitting bids and to respond quickly to opportunities as they arise.

Achieving construction and procurement efficiency savings

- The HCA places value for money as one of the key elements of bid assessment. They will expect to see competitive grant levels driven by efficient build costs.

Competing for schemes

- The HCA strongly discourages competition to secure schemes during the bidding process as this drives up cost.
- Where there are overlapping bids for the same firm scheme the HCA will hope to support the bid closest to securing the scheme, subject to meeting their criteria.

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Federation Response

Build costs are predicted to continue to rise after 2015. The HCA expects providers to drive down construction costs and improve procurement. The HCA has stated that competing schemes drive up construction prices in the lead up to bidding rounds and strongly advise against this practice. For the Federation this underlines the need for staggered bidding rounds which will defuse competition amongst providers. While the Federation recognises the need for efficiency we would welcome recognition in the allocation of grants of rising costs that are outside of housing associations' control.

Section 106 schemes

- It is expected that s106 schemes will be delivered at nil grant for both affordable rent and affordable home ownership.
- The price paid for affordable rent is expected to be no more than the capitalised net rent of the homes.
- For affordable home ownership the price paid should include reasonable assumptions on values of homes, initial average share to be offered and rent on the unsold equity.
- It is expected that HCA funding, Recycled Capital Grant Fund and Disposal Proceeds Fund monies on s106 schemes will only be seen in exceptional cases. These will be subject to detailed scrutiny.
- Nil grant Section 106 schemes in the value for money assessment:
 - Providers are expected to record all affordable homes delivered with nil grant.
 - The HCA will only accept nil grant s106 homes that are firm, named schemes.
 - Speculative nil-grant, s106 schemes, should be added when delivery as part of ongoing delivery when they are firmed up.
 - Nil grant s106 schemes in bids will be excluded from assessment of value for money.

Federation Response

The Federation welcomes the clarification around s106. In excluding s106 units from value for money assessment providers without s106 will not be disadvantaged. The separation of s106 schemes from the value for money assessment of bids' will deliver a more accurate reflection of efficiency and allow for a fairer comparison of schemes. This will encourage those providers without s106 schemes to submit bids.

Schemes requiring demolition

- Demolition is expected to be used principally for redundant, non-residential buildings.

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- Where demolition of existing stock is needed it is expected to only be on a small scale and generally to be of single landlord's existing housing stock.

Design and Quality

- An addendum to the Prospectus will be published when further information of the Housing Technical Standards Review is known.
- In the meantime bidders should take their own view of their approach to standards in working up bids.
- It is suggested that they look at the options outlined in the review to inform them. Other sources that should be considered are:
 - Building regulations
 - Where appropriate, good practice such as Housing our Ageing Population Panel and the HCA's non mainstream housing guidance
 - Discussions with local planning authorities should be considered but bidders should bear in mind that the review proposed a national policy expectation that local discretionary standards be limited to those proposed by the review

Federation response

The lack of clarity provided on design and quality will make it difficult for housing associations to know on what basis they are bidding. We urge the HCA should issue an urgent addendum to provide further clarity. In working up their bids members should take account of the proposals in the Housing Standards Consultation and the Federation's response, in particular adopting a fabric first approach to the energy requirements and also limiting the use of water recycling technology since the Government has indicated its intention to wind down the Code. They should also be conscious of what the potential implications of costs and value for money are around their approach to standards, particularly in relation to space standards and the proportion of general needs housing to be provided at 'Level 2' for accessibility and adaptability. The HCA should provide a mechanism for associations to state the basis of their bids i.e. the standards assumed.

Our submission to the housing standards review consultation can be read at:

<http://www.housing.org.uk/publications/browse/housing-standards-review-consultation>

6. Assessment

- Overall, the HCA assessment of bids will seek to make allocations to providers for the supply of new affordable homes that:
 - Meet local needs and priorities and addresses the demographic challenges facing social housing and mismatch between existing stock and household need

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- Offer good value for money
- Have a demonstrable prospect of delivery within the programme
- Confirm registered providers should meet the regulators governance and viability standards

Local Need

- Providers should take into account the local needs identified by local authorities through the housing mix offered.
- The HCA will seek views from local authorities on schemes.
- In areas where there is a shortage of smaller homes for under-occupying tenants to move to the HCA would expect local assessments to reflect this by requiring a higher proportion of one and two bedroom properties. On the other hand local needs may require more family homes or sheltered housing. It is possible that this need can be met through the re-allocation of properties and providing opportunities for households currently under-occupying to move to smaller homes.
- However the HCA expects bidders and local authorities to work closely to ensure the bids offered and the long-term provision of affordable housing is appropriate for the local area and its needs.
- The HCA does not expect that local authorities will prioritise social rent over affordable rent. It is not considered a robust reason not to support a bid if the local authority does not view Affordable Rent as meeting local need.
- The HCA will continue to pay particular attention to delivery in rural settlements of 3,000 or less.

Geography

- The importance of engaging LEPs on an ongoing basis is recognised. It is not intended to split the funding into budgets for each HCA operating area.
- The HCA expect bidders to deliver broadly within the minimum geography for which allocations were originally made.
- Those with allocations in the current programme should consider the geographic delivery and take this into account when deciding where to bid for in the 2015-18 programme.
- The HCA will seek to address gaps in the geographic coverage following initial allocations through ongoing market engagement. Where the gaps arise for a lack of local authority support for Affordable Rent the HCA will not be able to fill gaps. Authorities that put barriers in the way of delivery should expect to see fewer schemes funded in their area.
- Other than the restrictions of using financial capacity in and out of London, the HCA will not support local authorities that ring fence capacity for reinvestment in new supply within a particular area.

Federation response

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In the Federation's submission to the HCA we argued that allowing providers greater freedom to switch schemes in and out of the programme would help to increase the speed and certainty of the programme. The expectation for bidders to deliver broadly within the minimum geography restricts the flexibility of the programme and will limit housing associations from bringing forward the delivery of potential schemes elsewhere.

Whilst we welcome the continued engagement with LEPs, we are mindful of the significant variation in capacity and expertise of LEPs. Each LEP is unique and has a different level of understanding of housing related issues. The Federation would like to see some LEPs be more ambitious in tackling affordability issues and housing supply. Promoting housing development should be a key factor in providing the conditions for local economic growth.

We are concerned the new investment programme will be used as an opportunity to drive housing associations and local authorities to focus their development on one bedroom homes irrespective of any local trends and would welcome a strong steer from Government that this is not the case. New affordable housing supply should be based on robust, long-term housing need, rather than driven current government policy direction. There continues to be a discernible need for family houses. New development must be 'future proofed', so not just in response to the bedroom tax, but capable of responding to the changing nature of housing need. We would welcome further detail from the HCA on how they can assist in the dialogue on this matter with local authorities.

Value for Money (50%)

- The HCA seeks to achieve value for money through a competitive bidding process.
- The primary metric for assessing value for money will be the grant per unit.
- Those with higher grant request will be expected to justify them.

Federation response

We welcome the flexibility provided on costs on delivering different types of homes. This will help those providers willing to deliver supported / specialist schemes or homes in rural locations to participate in the programme on equal terms.

Delivery (50%)

- The HCA seeks to encourage bidders to bring forward schemes that can be built out early.
- Past performance of the provider, planning status and land ownership will be assessed.
- Schemes that use local authority land will be looked on favourably.

Role of the Regulator

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- The advice of the Regulator on registered providers' ability to continue to meet the Governance and Viability standard will be key in the HCA's decision on whether to proceed to contract.

Consents

- Specific properties for disposal do not have to be identified in bids.
- Providers are expected to have discussed plans with local authorities before submitting bids.

7. Provider and programme requirements

Who can bid?

- Where the partnerships have been developed, particularly where these include smaller providers, community, specialist and rural providers, the HCA would encourage these to be maintained and new members identified.
- The HCA encourages community-led organisations to work within a registered provider led development partnership.
- Local authorities with Housing Revenue Account borrowing headroom are able to bid.
- House-builder and private sector developers that are not registered providers may submit bids.

Federation response

If the HCA want to continue to encourage consortia working in the new programme they must take a flexible approach to these arrangements and not impose conditions on how they are run. The indication that the grant rate will be scheme specific should help ensure a sensible approach to the allocation of grant as achieving an average but competitive grant rate across a consortium in the last AHP round was challenging and some associations felt they missed out as a result. We would welcome further clarity on risk and responsibility for development within consortia.

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