Strategic Housing Panel – 7 October 2009
Homes & Communities Agency and Local Authority New Build

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EXECUTIVE MEMBER: Councillor Clements
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Summary and Recommendation:
This report describes the local housing authority challenge fund for new build Council homes. Officers make no recommendation on the scheme and members views are sought.

The issue is whether this challenge fund or the pre-existing programme for building new affordable housing association homes provides the better development model. Your officers are not persuaded that the challenge fund presents significant advantages.

1 INTRODUCTION

1.1 Earlier this year the government announced a challenge fund for local housing authorities to build new Council homes for rent. Initially the challenge fund was for a national capital pot of £100m for up to 900 new homes delivered through the Homes and Communities' Agency's (HCA's) affordable housing programme.

1.2 The bidding round was tight with deadlines of 31 July 2009 for round one and 30 October for round two. The funding model is for local authorities to contribute land they own at nil value with an approximate mix of 50% capital from Social Housing Grant (SHG) from the HCA and the other 50% financed by local authorities from their prudential borrowing regime, with the loan element being raised against the future rental stream.

1.3 The HCA will assess bids against their standard criteria, as follows.

1.4 **Value for money:** in light of the broad 50/50 split between grant and local authority borrowing it should be noted that the interest payable is to be serviced out of the net rental income from the resultant homes. Given that both SHG and the need to service prudential borrowing will score against the available pot of £100M, to achieve value for money it is a requirement for the Council-owned land to be contributed at nil value.

1.5 **Deliverability:** This is very demanding, with schemes that can start on site in 2009/10 being at an advantage in the competitive bidding process. All homes built under this challenge fund must be completed by March 2011.

1.6 **Strategic Fit**: The homes will be developed under the 2008/2011 National Affordable Housing Programme and, as such, must conform to local, regional and national strategic priorities.

1.7 **Design & Quality:** all new homes funded by the HCA from SHG must meet the HCAs high design and quality standards. These include, at a minimum, compliance with the Code for Sustainable Homes Level 3 and there is a strong hint that Level 4 compliance would put the bidder at a competitive advantage.

2 Process and Method

2.1 A local authority that chooses to bid must

a) work up and submit its bid by 30 October 2009
b) pre-qualify as an investment partner with the HCA. The pre-qualification questionnaire alone runs to 33 pages.

2.2 There are four elements in satisfying the HCA to qualify as an investment partner:
c) details of the organization
d) confirmation of good standing
e) assessment of financial viability
f) assessment of technical capacity

2.3 Given that the Council transferred its stock in 2004 it clearly no longer has the technical capacity to manage and maintain a housing stock for rent. In the case of Copeland and other authorities no longer retaining a stock it is expected that management and maintenance would be outsourced to an accredited manager such as a Registered Social Landlord on an agency basis. The homes must, however, reside in the Council's ownership.

2.4 Legal implications include the fact that local authorities can only provide secure tenancies with all the rights that accompany this tenure, including the statutory right to buy (RTB) with agreed RTB discounts (unless a successful application was made for an exemption). If Copeland were to bid the Council would have to enter into a management contract with an RSL which must comply with UK and EU procurement regulations.

2.5 Risk considerations: workload implications in the housing, legal and finance teams present a real risk that the March 2011 deadline for the completion of the homes would not be met. . An RSL partner would have to be selected and procurement regulations complied with which, depending on the value of the contract, may be a lengthy process. Once a suitable site has been identified there would need to be a ground conditions survey, a scheme designed and a planning application made. The HCA's supporting documentation implies that it expects the majority of bids to come from authorities who have retained large numbers of stock.

2.6 47 local authorities were successful bidders in round one, including 7 from the North West Region. They were: Bolton, Wigan, Manchester City, Salford City, Blackpool, Warrington and West Lancashire,

2.7 A long established alternative exists through the HCA's National Affordable Housing Programme by which Registered Social Landlords (RSLs) bid for grant to develop new affordable homes in their ownership for rent and intermediate tenures such as equity sharing (also known as shared ownership). The role of the local authority in this process is strategic, by which the Council enables the provision of new affordable homes and supports RSL bids for appropriate schemes which fit local, regional and national priorities. Your housing manager has supported two such bids since April 2009 and there are more in the pipeline.

3 FINANCIAL AND HUMAN RESOURCES IMPLICATIONS (INCLUDING SOURCES OF FINANCE)

3.1 The Council no longer has a Housing Revenue Account (HRA) but so long as the proposal does not raise the number of homes owned by the Council to above 50, they can be held outside of the HRA. Following the Department of Communities & Local Government's (CLGs) recent consultation on the future of the HRA, homes built under these proposals will be outside of the current HRA subsidy system (the existing system has been widely criticised for perceived unfairness).

3.2 Rents must be kept within HCA target rent levels.

3.3 The major financial implications are that local authority land must be contributed at nil value and that broadly 50% of the total development costs must be financed by the Council's own prudential borrowing. The comments of the Head of Financial Services will be reported at the meeting.

3.4 The fee costs for outsourcing housing management and maintenance to an RSL must come from the rental stream, thereby reducing the net revenue that will be used to service the debt incurred by the Council's prudential borrowing.

3.5 At the time of writing the assumption has been made that the Council's housing capital programme will have to contain long-term provision for planned maintenance since it is thought unlikely that the rental stream alone will be sufficient to cover major costs arising from the lifetime of the dwellings.

3.6 All pre-construction work on a proposed scheme, such as surveys, remediation work (for example to remove contamination) and any consultants fees would be funded by the Council at its own risk regardless of whether the funding bid succeeded and the scheme progressed to a start on site

6. IMPACT ON CORPORATE PLAN

6.1 The need to develop new affordable homes is consistent with the housing objectives of the Corporate Improvement Plan. The issue is whether this challenge fund or the pre-existing programme for building new affordable housing association homes provides the better development model.