



ARCH Member Briefing: May 2009

HCA proposals for local authority new build

Key proposal issues

£100m pot available to help build new council homes.
Tight deadlines to be met to qualify for grants.
Streamlined bidding process put in place.
Funding expected to deliver 900 new homes for social rent built to high environmental standards.

Key ARCH comments

£100m pot is not significant compared to the scale of the problem.
Recent proposals to allow councils to retain rent and RtB income from new, purchased or refurbished homes should be given to councils to support this proposal.
ARCH members must use all new powers and resources available.

1. Introduction

The role of councils as providers of new housing for rent has diminished drastically since the 1970 when councils built many thousands of homes across the UK. The impact of the Right to Buy and the transfer of many council homes away from councils to registered social landlords (RSLs) or to arms length management organisations (ALMOs) has reduced the stock of houses under direct council control. A number of councils have

increased their own stock through building council homes in recent years, or have plans to do so, although the numbers built and planned are relatively small.

However there remain long waiting lists for council houses and the prediction is that the combined list will reach 5 million people in the short term. As the supply of affordable homes reduces and demand increases, the call for councils to be given a more prominent role has grown.

In the Chancellor's budget statement on 22 April an allocation of £100m was made available for good quality local authority new build. The allocation of funds was to be split between £50m for Social Housing Grant (SHG) and £50m from prudential borrowing cover. The money is to be made available in 2009/10 (£30m) and 2010/11 (£70m). There is no regional allocation of funds and available resources will be allocated on the basis of deliverable schemes. The Homes and Communities Agency (HCA) will be responsible for the bidding process.

In the guidance for bidding, the Homes and Communities Agency acknowledges that "there is considerable appetite from some local authorities to develop affordable housing". It is this appetite, promoted by ARCH on behalf of its members, which has helped to prompt numerous initiatives from Government including the recent budget announcements.

2. Timescales

The delivery timetable for schemes is very challenging. Starts on site are expected by the end of the financial year 2009/10 and completions in 2010/11. Guidance was issued by the HCA on Friday, 8 May (web link <http://www.homesandcommunities.co.uk/page.aspx?pointerid=f4e70ebaf22741f2a044c3b868b55302>).

There will be 2 opportunities to bid for funding, the first round of bids (early adopters) will need to be submitted by the end of July 2009 with announcements on the successful bidders in September 2009. The second round of bids will be submitted by the end of October 2009 with announcements on successful bids in December 2009. Confirmation will be given in advance of the amount of funding remaining for the second round of bids.

3. The basis for bid submissions

There are a number of requirements which will need to be in place for successful bids which are as follows:

- Funding will be available to unlock local authority land which is unlikely to be suitable for others to develop such as small infill sites

(e.g. in fill or ex-garage sites). It will not cover existing schemes which are already likely to proceed through for instance, a Registered Social Landlord (RSL)

- Land will need to be provided by the local authority at nil consideration and all schemes will need to be rebuild (funding is highly unlikely to be available for refurbishments)
- Purchase of properties is not ruled out for funding, but it is the view of the HCA that this is unlikely to achieve VFM since both the grant and borrowing will come from the £100m allocation
- Local authorities will not need to have a Special Purpose Vehicle (SPV) or ALMO in place to bid for funds, but can if they so wish work with their ALMOs/SPVs to deliver schemes
- Funding will only be available for social rent (e.g. target formula rents). Intermediate rents will not be eligible and the potential impact of Right to Buy (RTB) discounts will be taken into account.
- Low Cost Home Ownership (LCHO – new build homebuy) will not be eligible for funding since that is considered a high risk in current market conditions.
- It will apply to secure tenancies with formula rents (see above) and will operate within the Housing Revenue Account (HRA) but outside of the subsidy system.

4. Managing the stock

It is required that ownership of properties funded with SHG will be retained by the local authority.

The main thrust of the scheme is aimed at stock owning and managing local authorities who will not require accreditation under the National Affordable Housing Programme (NAHP) programme as it is assumed that local authorities are a good risk and unlikely to go bankrupt.

Where a local authority owns and directly manages its current stock, it is expected that it will directly manage the new homes. Where the local authority owns but does not directly manage all of its current stock, it is anticipated that either the local authority or ALMO or RSL will manage the new properties. If the local authority owns but does not manage any of its homes, the current manager (ALMO or RSL) will manage the new homes. In all cases the managing organisation must be an accredited manager.

It is unlikely that non-stock owning local authorities will be allowed to manage newly built stock under the scheme since the HCA feel that it would be very difficult for such councils to be able to demonstrate value

for money. This does not preclude bids by such councils, but the assumption is that the stock will be managed by an accredited provider.

In order to be an accredited manager, an organisation must gain accreditation under the HCA's housing management accreditation scheme or any applicable successor scheme, see www.tenantservicesauthority.org/server/show/nav.13792.

5. Bid Assessment

The assessment criteria for the funds will be based on the following:

- Value for money - this will include the grant required (per unit) compared to other similar bids and whether any loan is supportable through prudential borrowing
- Deliverability - this will look at the planning status and timescales of suitable sites, the expected start on site and completion dates. Bids will be prioritised for schemes which demonstrate that they can achieve an early start on site. Schemes must deliver completed homes by March 2011.
- Local/strategic fit – it is assumed that bids will contribute to local and regional housing priorities being met (Sustainable Communities Strategy, etc.)
- Design and quality standards – the standards required of new affordable housing schemes can be found at www.homesandcommunities.co.uk/design_quality_standards ; minimum Housing Quality Indicator scores (HQI) where proposals that exceed the HQI will be advantageous; the requirement to meet level 3 of the Code for Sustainable Homes is a mandatory standard and those which exceed it will be advantaged.
- Local labour and apprenticeships - the announcement by the Chancellor was intended to generate economic activity by creating jobs in construction and associated professions. The HCA will expect local authorities to submit a statement with their bid outlining how the proposals will use local labour in construction and create apprenticeships. Local authorities will be strongly encouraged to build this into contractual arrangements and to demonstrate how this might be delivered. Bids which are able to demonstrate higher numbers of local labour jobs and apprenticeships created will be advantaged.
- Regional split – bids will be allocated on the criteria noted above and deliverability within timescales. No assumptions have been made about regional distribution of funding.

6. Pre-qualification

Local authorities will be expected to pre-qualify, but the Pre Qualification Questionnaire (PQQ) process will be streamlined in order to reduce the burden. The PQQ process will cover:

- Organisational details
- Good standing
- Financial viability – this will be assessed on the most recent audited accounts of a local authority signed off without qualification.
- Technical capacity - the HCA will be looking for examples of for instance how a local authority has managed its Decent Homes programme, any recent schemes that have been built, or work with a partner/developer to deliver projects. With regard to technical capacity local authorities are urged to apply for pre-qualification in parallel with the bidding process to speed things up. Any allocations will be subject to pre-qualification if necessary.

7. Process

Local authorities will have to work up and submit a bid and achieve pre-qualification to receive funding under the NAHP. These two processes can be undertaken concurrently.

Bids must be submitted via the HCAs Investment Management System and local authorities wishing to access IMS should contact hconline.registration@hca.gsx.gov.uk .

Guidance on accessing IMS and submitting bids is available at www.homesandcommunities.co.uk/ims. Training on the use of IMS will be available.

Details of the pre-qualification process can be found at www.homesandcommunities.co.uk/bidding_for_new_build.

Assessment of pre-qualification and confirmation of the outcome will normally take up to 8 weeks. The outcome of the pre-qualification application will not be dependent upon the outcome of the bid.

8. What next?

The guidance was published on the HCA website on 8 May (web link http://www.homesandcommunities.co.uk/public/documents/LA_new_build_guidance.pdf). It includes contextual information on the funding model, a local authority guidance document about bidding for Social Housing Grant and local authority PQQ documentation to become an

approved investment partner through the National Affordable Housing Programme. The heads of terms and a frequently asked questions section will also be available on the HCA website in the near future.

Councils interested in submitting bids are urged to talk to the HCA regional investment teams at the earliest opportunity and to work up schemes. The HCA will provide high level advice on procurement but not detailed guidance (e.g. the use of community benefit clauses). Local authorities will need to register for IMS (on line) and IMS training in due course.

The HCA's contract with local authorities will be a standard agreement, taking into consideration the status of local authorities and the statutory obligations in their role as landlords. Each will be bespoke to the individual local authority.

They will include details of what is to be built, agreed standards and timescales. There will be a conditions precedent for claiming SHG which will include start on site and project completion and a standard agreement for all successful bidders. The agreement will cover such matters as substitution, grant recovery and termination.

For schemes which start on site in 2009-2010, the start on site tranche payment will be 60% with the completion tranche in 2010-2011 being 40%.

In order to secure the long-term use of new build as affordable rented housing and to minimise the impact of possible future sales (there will be no moratorium on Right to Buy), there will be restrictions on title at Land Registry so that no title registration will be permitted unless the purchaser agrees to use properties as affordable housing secured by a rent charge. The exceptions will be RTB and RSLs.

Where properties are not in continuing use as affordable rented housing local authorities will be required to repay grant to the HCA.

9. Issues

There are a number of issues which need to be addressed by HCA and those local authorities intending to bid for the funds and subsequently build homes.

- Timescales - tight timescales mean that local authorities will have to bring forward schemes in the very near future. With lead in periods for the bidding process, additional planning consents, consultation, ground condition surveys and other legal procedures to go through it appears unlikely that schemes will commence on site until the very

end of the current financial year, if at all. If schemes cannot commence the funding will not be carried forward into the new financial year

- Skills and capacity – many local authorities have not built houses for over 20 years and there is a lack of core skills and capacity which cannot be easily accessed. This may mean that councils will need to subcontract design and project management to RSLs or developers to progress schemes. However there are examples of councils who have built houses and councils should take the opportunity to pool expertise and learn from those who have recent experience.
- Risk profiling and borrowing – there is concern that some local authorities may not be prepared to take on the financial risk or that repayment of the principal loan will not represent value for money because of the possibility of grant clawback if RTB kicks in for new build after a period of time. This might mean that schemes would only be supported over a 10 year period as opposed to 30 years
- Comparability – there is no maximum grant threshold (as in Scotland) but all schemes will be expected to be affordable based on regional comparators (cost per unit/person, etc). There is some concern that there may be additionality costs in some areas because of the condition of land, etc. which would increase overall costs of schemes.
- LGA/HCA Reference Group – it is intended that there will be a further meeting of the reference group in late May or early June in order to evaluate progress and address any problems/issues.

10. ARCH Comment

ARCH welcomes the additional funds made available to encourage local authorities to build council houses again. This is another step forward in the move to make it easier and more effective for councils to make a contribution to the national housing crisis. ARCH feels that councils can play a substantial role in tackling the national shortage of homes if given the resources, powers and support to do so.

The recent proposed moves to enable councils to retain income from new build, properties brought back into use or purchased homes is also welcomed by ARCH. However these proposals would go hand in hand with those noted above and help to promote the role of councils. The decision for councils about whether to build homes is heavily influenced by long term financial stability and the threat of the sale of the home is clearly not an element which can be planned for with any certainty. The retention of the capital receipt by the council makes planning for building homes an easier job but if councils were to lose this receipt it would all but scupper plans to build new council houses. This is why it is vital to

make the changes to allow councils to retain income from new build, properties brought back into use and purchased homes.

This is a major issue for local authorities as the two sets of proposals support each other. The effect of losing the capital receipt in the event of Right to Buy would be highly significant and be sufficient to negate any positive effects that would result from the creation of the £100m fund.

ARCH is also concerned about losing the land that it may put forward as part of any scheme to build houses in the event of Right to Buy on new homes. In such a case, the new property will be lost to the stock with a reduced opportunity to replace it because some of the available housing land has been taken up in the development of the house which has just been sold.

The bidding guidance notes that HCA expects proposals on local authority owned land “for example on infill sites which it would be inefficient and potentially unattractive to other providers to own and manage”. Much progress has been made from the position just a short time ago when councils were discounted as providers of houses. It would be a shame if they are seen now to have a role only where other providers are unable to deliver homes. Difficult sites are difficult for all organisations. Local authorities must not be restricted to building homes only where others are not able or interested. Enabling local authorities to operate on a level playing field has long been a call which is finally gaining airtime. It would be a shame to see this call fail. Where they have access to resources, local authorities must be seen as equal partners to RSLs in the as providers of homes.

The criteria to be met to identify successful bids must be as clear as possible to speed up the whole process. This includes what qualifies as ‘starting on site’ and ‘completion’. This becomes an important point due to the tight schedule and the chance that some local authorities may not get the funding which has been agreed as a result of delays which may be very short periods of time.

The willingness by Government to reduce time spent on the bureaucratic element of the bidding process raises further questions. Any reductions in time spent on the bidding process should be carried over to bidding in ‘normal’ conditions i.e. when there is not a tight schedule. A lot of resource is used in applying for grants and any savings identified should be replicated to all grant procedures.

The allocation of this £100m pot has come as a result of a number of factors. The inability of the market to provide adequate numbers of houses, a reduction in the number of council properties, the economic downturn and demographic changes have all had an impact.

Throughout the period since councils as a whole were large scale house builders, individual councils have been building small numbers of properties and others have called for the resources to do so. It now appears that the Government is putting in place arrangements and resources to support councils in their wish to build homes. However, it is worth noting that it has been estimated that the £100m fund will provide 900 homes. The direct grant element (£50m) will therefore cover 450 which equates to about 4 and a half homes for each retaining council. The spirit of the change is laudable but the scale is insignificant.

Although the resources made available here will have only a minimal impact in terms of the overall housing problem across the UK, the responsibility is now firmly back with councils to provide deliverable schemes and take advantage of the funds available.

Members of ARCH have come together to promote stock retention as an effective method of managing the stock for the benefit of tenants. They must now be willing take the next step and use any new powers or resources made available to them to ensure Government appreciates that ARCH member councils are serious about addressing these issues. If ARCH members can show that they have the enthusiasm, plans and initiative to deliver homes for local communities we will move towards one of the main objectives established when the Association was formed. We would encourage councils to consider whether they are in a position to bid for the funds available and if necessary to work with other councils to do so. The ARCH Executive is willing to help in any way it can.

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