

CABINET
20 OCTOBER 2009

**HOMES AND COMMUNITIES AGENCY GRANT FUNDING TO DELIVER
ADDITIONAL AFFORDABLE HOUSING**

Executive Summary

The Government has invited bids for a £200m pot specifically aimed at local authorities to increase the amount of Council housing.

Proposal

That the Cabinet:

- a) Notes the bid submitted in July with the approval of the Housing Portfolio Holder
- b) Notes the allocation made by the Homes and Communities Agency and approves the funding conditions
- c) Gives authority to complete the grant Agreement in respect of the existing allocations
- d) Gives authority for a Building Contract to be progressed in respect of allocated site Southview 1 in accordance with legal and procurement requirements and
- e) Approves the submission of a further bid to deliver 17 new affordable homes in Trowbridge in line with the Bid guidance, giving Officers the discretion to continue improving the bid, provided that any amendments are approved by the Portfolio Holder before submission takes place. Officers will report back to the Cabinet following bid submission of any amendments made

Reason for Proposal

- At the July Cabinet, Members approved submission of a bid to the Homes and Communities Agency, with final discretion delegated to the Housing Portfolio Holder to agree the final bid, provided that the results of these amendments were reported back to Cabinet, together with the result of any allocations made.
- The allocated sites cannot be progressed until funding conditions have been accepted, a grant agreement completed and the first of the building contracts entered into.
- The provision of new affordable housing is a very high priority for the Wiltshire Assembly and this is reflected in the Local Area Agreement target to deliver at least 590 new affordable homes per year by 2011
- The recession is having a severe impact on the progress of existing open market residential sites to final development and therefore the residential

housing market is becoming increasingly reliant on public sector interventions to ensure that houses are built and to kick start residential developments enabling the open market housing to follow on.

- The funding provides a unique opportunity to deliver additional affordable housing in Wiltshire without a cost to the council tax payer
- The bid, if successful, will bring in additional Government funding into Wiltshire, this will be an important injection into the local economy.

Author: Kathy Green M.R.I.C.S., Interim Head of New Housing (until 2nd October)
Janet O'Brien, Head of New Housing (5th October onwards)

Contact Details: 0794 059 0173 kathy.green@wiltshire.gov.uk or
janet.obrien@wiltshire.gov.uk

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Purpose of Report

1. To report on the bid finally submitted to the Homes and Communities Agency (HCA) for the October bid round
2. To advise on the result of the bid
3. To obtain authority to progress the allocations
4. To obtain authority to submit a further bid for the October bid round.

Background

5. This opportunity was announced by the Government as a means of increasing the affordable housing on council owned land, and is in addition to the funding available for housing associations through the Homes and Communities Agency's Approved Development Programme for 2008-11. It seeks to make use of land which Councils may own and are prepared to contribute towards the scheme.
6. There were two bid rounds associated with this grant - one in July and a second in October

Main Considerations for the Cabinet

7. July bid round

Members gave approval to the submission of a bid at the July Cabinet, together with delegated authority to the Portfolio Holder to approve amendments to the detail. Following Cabinet, further information became available in relation to costings and consideration was given to the level of grant to be sought in order that the bid should be competitive. As a result, the HRA "mortgage" funding would need to be increased. However, with the uncertainties surrounding the future of the HRA the overall commitment was reduced, with the result that only 4 of the sites were submitted providing a total of 47 units. The details are set out in Appendix A

8. Allocations

I am delighted to advise Members that the Council was successful in its bid and was able to obtain £3.2m grant funding. Wiltshire Council was one of only 6

local authorities which were successful and we achieved over a third of the allocation for the south west. In total £127m was allocated nationally.

9. Future action required to deliver the allocations

a) The Council is required to formally accept the grant funding conditions set by the Homes and Communities Agency. These are set out in Appendix B. The funding conditions are a normal requirement for all grants given and is a standard requirement for Housing Associations, and un-registered bodies such as the Council.

b) The Council is also required to complete a Grant Agreement in line with the terms set out in the previous report. These terms have been considered by Legal but a full draft agreement has not yet been received. This will be a standard document with little opportunity for amendment, although any legal views expressed will be referred back to the HCA.

c) The Government requires that the grant will be spent by 31st March 2011 and this requires early completion of building contracts to ensure that a prompt start on site can be achieved. The Council's procurement rules require that every contract in excess of £1m requires Cabinet approval. The first of the sites for which a contract needs to be completed is in relation to Southview 1, and details of the arrangements are set out in Appendix C

10. October bid round

A second bid round is now open with another £73m available funding. Competition is likely to be tougher, with many local authorities not having bid in the first round and using the time to prepare their bids in time for the October deadline. However, the HCA will be keen to allocate to those local authorities which can deliver and, with the allocations having already been made to the Council, we should be in a good position to secure further funding.

11. Resources

I am aware that our own resources are limited, not least in staff time, and this was why we appointed GreenSquare to provide the development agency function. However, I recommend that we submit a modest bid in this round on the following bases: -

- To maintain the momentum with the HCA and demonstrate our ability to perform as a full partner in the provision of affordable housing. Now we have access to the bidding system, the Council is well placed to make future bids (outside of bid rounds) and our reputation as a delivering partner is important.
- The site I recommend we submit is Southview 5, details of which are contained in Appendix D. It follows on from Southview 1, which has already been allocated and for the reasons set out in the appendix would be a good prospect for grant funding
- The staff resources needed for a single site bid will not be unduly onerous

- A further site in Trowbridge works towards a reasonable critical mass which will assist with the housing management in the town.

12. Subsidy arrangements

- a) The grant will not cover the whole cost of the schemes, and usually a housing association scheme (with which this can be compared) would expect to borrow in the commercial market to fund the shortfall. This mortgage is serviced out of the rental income of the units created; the rent at affordable levels should be capable of providing a surplus after management and maintenance costs have been covered.
- b) The HRA is subject to Government review and we do not know at this time what the effects will be. It could enable a wider use of this resource, but until the final review is available, I am not recommending that we use further HRA resources to part fund the development.
- c) The surplus on the annual rental stream can be used to service borrowing and the difference between the total scheme costs and the borrowing represents to amount of grant needed.
- d) The market cost of finance is between 6% and 8% per annum. However, finance have advised that internal resources could be available at considerably below this figure. At a lower rate of interest this will make our bid considerably more competitive than, for example, those of Housing Associations.
- e) I am therefore recommending that we use these internal resources to fund the difference but Member should note: -
 - The rental income will repay the capital over a 25 year period, just like a mortgage would do
 - It will provide a return on the capital invested
 - It will provide a higher return than is necessary to meet finance minima criteria and therefore the Council will make a "profit" on every house constructed through this process. This will be an income stream throughout the life of the building - considerably longer than the 25 year term.
 - The capital is secured against the assets (dwellings) which will be created

13. Effect on land value

The bid site is within our ownership, but its use is limited to affordable housing. Therefore the Council is not conceding a land value for market housing by agreeing to this proposal.

Environmental Impact of the Proposal

14. There are no more environmental impacts than would exist if the sites were developed for market dwellings. In fact, the quality of construction proposed would be at least 25% better than that required by the Building Regulations in relation to the energy efficiency of the housing.

Equality and Diversity Impact of the Proposal

15. There are no such impacts in relation to the bid itself
16. Equality and diversity are inherent components of the Council's Housing Allocations Policy which will be applied to the completed dwellings. The provision of additional affordable housing adds to the diversity of our towns and villages by ensuring that the social demography is balanced and that our communities are sustainable and vibrant places to live and work.

Risk Assessment

17. Cost risk

This risk becomes less as the schemes progress. As can be seen by the difference between the bid cost and the building contract for Southview 1, we have actually been able to negotiate something better than anticipated on feasibility costings.

18. Timescale risk

As with the previous bid, we will be expected to perform in line with the timescales set out in the bid. However, Southview 5 can follow close behind the building contract for Southview 1 and the risk of this element failing is considered to be small.

19. Planning risk

The site already has planning consent and a signed section 106 agreement

20. Capacity Risk

Limitations of capacity have resulted in only one site being put forward in this bid. Greensquare have confirmed that they are able to project manage this additional scheme.

Financial Implications

21. See above - the investment proposed to be made by the Council will be repaid out of rental income and will provide both a and a surplus as well as being secured against the properties constructed
22. The revenue budget of the HRA should be improved over time - the resulting efficiency savings on the average maintenance cost show a better than expected impact on the agreed Business Plan.

Legal Implications

23. There are no legal implications at this stage - the Council has the power to build additional affordable housing and to receive grant funding.
24. Consent is sought for completion of the necessary grant agreement

Options Considered

25. Officers have considered the alternative, which is not to bid. The results of that inaction are as follows: -
 - Either the Council will need to find additional capital to replace the lost grant. The New Housing team currently has no capital budget or
 - The additional affordable homes will not be built and
 - The Council will not benefit from the increased annual income "profit"

Conclusion

26. This opportunity comes at an inopportune time and with very tight deadlines for submission. However, it is an excellent opportunity to bring an extra grant funding into the Council's control from central Government, providing much needed affordable housing in the county.
 27. It also sets the scene for where we want to be as a new Authority - able to respond quickly to change and opportunities, and forging the relationship with the Homes and Communities Agency for future grant funding for the Council or our Housing Association Partners. It will also demonstrate to our local communities that affordable housing, a consistently top 10 priority for Community Action Plans, is being actioned by the new Council.
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Background Papers

The following unpublished documents have been relied on in the preparation of this report: None

Appendices

- A. Bids submitted in the July bid round
- B. Funding Conditions
- C. Southview Construction Contract - confidential item – agenda item 16 refers
- D. Notes on site selected for bid - confidential item – agenda item 16 refers

APPENDIX A

Bids submitted in the July bid round

	Pembroke Road, Salisbury	Site 1, Southview, Trowbridge	Southwick Road, North Bradley	St Thomas Road, Trowbridge	Total
Estimated dates Start on site	Mar-10	Feb-10	Mar-10	Mar-10	
Practical completion	Mar-11	Mar-11	Feb-11	Mar-11	
No of units	22	13	4	8	47
Expenditure:					
Contract sum	2,466,352	1,787,092	407,570	788,445	5,449,459
VAT	-	-	875	5,250	6,125
	2,466,352	1,787,092	408,445	793,695	5,455,584
Fees, etc	544,392	345,745	126,351	197,142	1,213,630
Total scheme costs	3,010,745	2,132,837	534,796	990,837	6,669,214

Funded by:					
Grant	1,496,000	903,500	267,472	495,600	3,162,572
Loan	1,514,745	1,229,337	267,324	495,237	3,506,642
Other funding needed	0	0	0	0	0
Total receipts	3,010,745	2,132,837	534,796	990,837	6,669,214

Grant per unit	68,000	69,500	66,868	61,950	67,289
Grant rate	49.69%	42.36%	50.01%	50.02%	47.42%
Build cost per unit	112,107	137,469	101,893	98,556	115,946
Total scheme costs per unit	136,852	164,064	133,699	123,855	141,898
On-costs per scheme	22.1%	19.3%	30.9%	24.8%	22.2%

Funding Conditions

These Funding conditions set out the requirements that must be met by a Registered Social Landlord (RSL) when using Social Housing Grant (SHG), Purchase Grant VPG/RTA/SHB provided by the Housing Corporation (HC).

Grant conditions applied to all programmes

1. All funding is subject to the provisions of the Housing Act 1996 (or any amendment or re-enactment thereof) and any determinations made under that Act by the HC.
2. All Grant applications and other scheme submissions relating to the achievement of forecast milestones must be made, and all Grants provided must be used, in accordance with the HC's published criteria, procedures and audit arrangements. Non compliance with the HC's procedural requirements could result in the withdrawal of allocations and recovery of Grant.
3. Grant funding is conditional upon the RSL meeting the HC's Regulatory Code; this will be monitored through regulatory engagements and will be assessed through the Housing Corporation Self Assessment Compliance Statements. Our judgements are recorded in Housing Corporation Assessments. (HCA). The code includes standards for the housing and related services that RSLs should provide to their residents and communities.
4. Where the RSL is undertaking the role of Employer/Client on developments for which Grant is requested, funding is conditional upon the RSL undertaking grant funded projects in accordance with the principles set out in the '2012 Construction Commitments - Affordable Housing Provider version'. The HC will exercise discretion in relation to RSLs undertaking small or occasional projects with insignificant construction activity.
5. All Grant paid must be applied to the provision of housing and must be used as prescribed in HC guidance. RSLs should ensure appropriate financial appraisal of schemes to confirm their viability both during the development period and in the long term. Where RSLs have specified that schemes are to be developed to higher standards and/or incorporate Modern Methods of Construction (MMC) the schemes must be developed to incorporate these features unless specific prior approval to waive certain aspects is granted by the HC. The dwellings produced should meet the HC's Design & Quality Standards (April 2007) or, in limited exceptional circumstances as agreed in advance by the Corporation, the HC's Scheme Development Standards (April 2003). Housing Quality Indicators (HQI) assessments should be carried out at Feasibility, Scheme Design and Practical Completion stages and recorded within the HQI section of IMS.
6. Funding is conditional on the RSL either possessing a legal interest in

the property already, or having entered into or an intention to enter into a binding legal agreement to acquire such an interest as part of a scheme, prior to drawing down Grant. Where the RSL is acquiring an interest in the property or where works are to be done, the property must offer good title. Property already in the RSL's ownership must comply with this condition. Where a leasehold interest is to be acquired, the outstanding term should be at least thirty years for rehabilitation schemes, sixty years for new build schemes, and at least 99 years for New Build HomeBuy schemes at the date of purchase completion.

6a Under the Programme Partnering Agreement (PPA) route Grant can be paid via the Lead Partner to other RSLs within the partnerships. In this case, the Lead Partner is simply a conduit for payment and not a grant recipient. Lead Partners do not, therefore, need an interest in the site to enable this transaction.

7 No member, employee, agent or consultant of the RSL or any partner organisation should have any interest in the proposed vendor, contractor or the land or property to be acquired, including properties purchased by individuals under Homebuy or other such schemes. This includes any firm, partnership or organisation in which they or their families are involved.

8. There should be consistency between the rents, including Housing Benefits (HB) eligible service charges specified by RSLs at the time of Grant allocation, with those agreed at confirmation of Grant stage and those charged from first letting or point of sale onwards. The RSL will therefore charge rents, including HB eligible service charges, on first letting or point of sale which are no higher than those agreed at confirmation of Grant; and thereafter it will only change its rents in compliance with rent restructuring guidelines specified by the HC. The HC guideline limits also apply to HB eligible service charges, we expect service charge increases to be within the guideline limit for annual increases. Where this is not the case, the RSL must be able to demonstrate that the service charge increase is based on cost recovery. In the case of intermediate rent projects rents charges will be between market rents and social rents. Any rent increases will be restricted to a maximum of RPI + 0.5%.

9. Where a scheme is to be developed by a different RSL from that which will ultimately own or manage the scheme, there must be a written agreement between the RSLs on the Terms of Transfer and the rents including HB eligible service charges to be charged for the scheme.

10. All funding is subject to RSLs complying with the EU Procurement Rules in relation to Works (Works Directive 93/37/EEC) and Services (Services Directive 92/50/EEC), where applicable.

11. RSLs must ensure that house builder warranties suitable for mortgage purposes together with the accompanying 'cover note' as required under the Council of Mortgage Lenders (CML) initiative are available upon completion of homes.

12. A sole RSL or single Group RSL following the PPA route is required to commission an appropriately qualified independent consultant or auditor to undertake a programme of self-assessment procedural compliance audit.

13 RSLs undertaking delegated development activities in partnership with a 'Lead' RSL under the PPA route shall fully co-operate with the Lead RSL in order to enable the Lead RSL to discharge its functions on behalf of its partner RSLs.;

14 Where the RSL is acting as the 'Lead' for a group of other RSLs that are participating in the delivery and/or management of homes included within a PPA, then the RSL will be deemed responsible to the HC for the following additional responsibilities and obligations on behalf of any of the participating RSLs:

- monitoring programme delivery by all RSL members of the partnership and taking appropriate action to avoid slippage;

- maintaining an acceptable performance as 'Lead' to be evidenced by the Housing Corporation Assessment;

- ensuring that the principles of the '2012 Construction Commitments AHP version' are understood and followed within the partnership;

- appraising risk and financial status of individual projects and the overall programme;

- determining the individual RSLs that will carry out development functions for specific projects;

- usage of suitable legal and procedural documentation for all partnership members including an appropriate and binding agreement between the Lead RSL and the other participating RSLs that sets out the roles and responsibilities of all parties and details arrangements for resolving disputes within the partnership;

- actively and effectively undertaking the role of Design Champion and promoting good design within the partnership; ensuring that relevant staff are trained in the use of 'Housing Quality Indicators' (HQIs) and in the assessment of projects using the 'Building for Life' criteria ensuring that house builder warranties suitable for mortgage purposes together with the accompanying 'cover note' as required under the Council of Mortgage Lenders (CML) initiative are available upon completion of homes;

- where necessary, providing staff training and/or skills assistance to other partner RSLs participating in development activities;

- where a development is carried out on behalf of another RSL within the partnership, ensuring that the build contract is assignable to the other RSL on completion, together with warranties from all design consultants and sub-contractors and where relevant, obtaining section 9 consent for the transfer;

- arranging regular progress review meetings involving all members of the partnership;

- agreeing and facilitating a programme of Quarterly Review meetings with the HC's lead investor and financial appraisal and lead regulation representatives as appropriate;

- commissioning appropriately qualified independent 'auditors' to undertake a programme of self-assessment procedural compliance performance tests across the partnership in accordance with the HC's published standardised terms of engagement

Additional requirements for:

RENT

15 All properties developed for letting at social rents with SHG funding will be subject to the "Right to Acquire" provisions of the Housing Act 1996 (or any amendment or re-enactment thereof), unless they are exempted by Part V of the Housing Act 1985 as amended by the Housing (Right to Acquire) Regulations 1997 or under one of the Housing (Right to Acquire or Enfranchise)(Designated Rural Areas) Orders 1997 or because they are properties funded as part of a Temporary Social Housing scheme. In this context "developed for letting at social rents" includes NewBuild, rehabilitation, off the shelf, existing satisfactory purchase, purchase and repair, re-improvement schemes.

Properties developed for letting at intermediate rents should be let on an assured shorthold tenancy basis and will therefore not be subject to the Right to Acquire. Rent levels should be set at sub-market levels, which should be no more than 80% of market rent.

SHARED OWNERSHIP SCHEMES (Including NewBuild HomeBuy and Social HomeBuy)

16 The shared ownership lease used by the RSL must include the Fundamental Clauses detailed in the HC's Capital Funding Guide. Failure to include, a breach of, or variation (without the explicit consent of the Corporation) of the fundamental clauses may be considered a Relevant Event under clause 7(e) of the HC's The Recovery of Capital Grants and Recycled Capital Grant Fund General Determination 2006, or its replacement, for Grant recovery purposes.

OPEN MARKET HOMEBUY

17 The RSL must hold a valid Consumer Credit Licence and have received a Direction under section 60(3) of the Consumer Credit Act 1974 [as amended] as required by the HC's Homebuy procedures.

PROGRAMME MANAGEMENT / SYSTEM MANAGEMENT

18 The RSL must join and fully participate in the "Continuous Recording of Lettings System" (CORE); if it has a current development programme and if the RSL owns or manages:

- more than 250 self contained homes; or
- more than 250 hostel/shared housing bedspaces;

Should this be the case, the RSL must join and fully participate in recording both:

- any lettings made; and
- any sales of RSL stock, including outright sales and shared ownership schemes, but excluding sales of additional equity shares purchased by existing shared owners (known as 'staircasing').

19. The RSL must follow the processes for re-forecasting milestones and for proposing any Grant variation as set out in the HC's Capital Funding Guide. Decisions on accepting proposed variations will be made in the light of the HC's available resources and the organisations' progress towards meeting its targets.

20. The HC may impose penalties including amendment or withdrawal of allocations if forecast milestones are not met.

21. In the event of the RSL failing to comply with these Funding Conditions or if there is any cause for serious concern about the RSL's performance or financial viability, the HC reserves the right to suspend funding.

22. If an RSL should fail to comply with these conditions specified under sections 18 (3), 20 (4) and 21 (4) of the Housing Act 1996, the HC may recover all or part of the Grant in accordance with its determinations made under that Act and its published guidance - including the HC's Capital Funding Guide.

23. RSLs must review their security arrangements in accordance with the Security Administrator and Good Practice Guide available at www.housingcorp-online.org. In particular, RSLs must:

- ensure that the Corporation is notified immediately if a Security Administrator leaves or changes posts and responsibilities;

- ensure that the list of IMS users and their authorities is regularly reviewed to ensure they are correct and appropriate;

- ensure that users are removed from IMS immediately they leave the organisation or are no longer required to work on IMS; and

- ensure that IMS passwords are not shared and that RSL users are prevented from entering IMS under a UserID other than their own.

24. Failure to comply with the above and with the conditions set out in Annex 2 of the Security Administrator and Good Practice Guide may result in the withdrawal of the RSL's IMS access.

25. The HC reserves the right to issue additional conditions in year as deemed appropriate and necessary.

26. A copy of the relevant Committee minutes of the decision to agree to comply with the Funding Conditions must be retained by the RSL for Compliance Audit/Regulatory purposes.

RSLs following only the Specialist route need not adhere to clauses

1. 12-14