



Derby City Council

## **COUNCIL CABINET** **2 April 2014**

Report of the Cabinet Member for Housing and Advice

# **ITEM 9**

### **Authorisation to bid for Homes and Communities Agency grant funding**

#### **SUMMARY**

- 1.1 The report details the 2015-2018 Affordable Housing Programme Prospectus and sets out the bid implications and requirements for the City Council and Derby Homes.

#### **RECOMMENDATION**

- 2.1 To approve the submission of bids by Derby City Council, Derby Homes and any consortium including Derby City Council and/or Derby Homes to the Homes and Communities Agency for grant funding under the 2015-2018 Affordable Homes Programme.
- 2.2 To delegate to the Strategic Director of Adults, Health and Housing in consultation with the Cabinet Member for Housing and Advice Services, authority to settle the final detail of the schemes to be included within the bid, and the preferred bidding route and structure including as part of a bidding consortium.
- 2.3 To agree that the Council and Derby Homes collectively and individually or as part of a consortium may enter into agreement with the Homes and Communities Agency (HCA) to receive grant funding under the HCA 2015-2018 bid round subject to the scrutiny and approval of the Director of Legal and Democratic Services.
- 2.4 To agree that grant funded dwellings be let at affordable rent.
- 2.5 If required as part of the bidding process, to agree that the Strategic Director of Adults, Health and Housing in consultation with the Cabinet Member for Housing and Advice Services may approve the conversion of a limited number of existing properties from social to affordable rents, and the application of **non-Right to Buy** receipts from housing disposals as appropriate, to provide ring-fenced financial support for the grant bid as required by the Prospectus.

#### **REASONS FOR RECOMMENDATION**

- 3.1 HCA grant funding will assist the delivery of affordable housing in the city. Delivery of affordable housing is a key priority for the Council and delivery is measured through

National Indicator 155.

- 3.2 The letting of properties at an affordable rent level, rather than social rent, is part of the HCA's bidding criteria.
- 3.3 The Prospectus requires that Registered Providers demonstrate their contribution to their bid programme through ringfencing additional revenue generated through conversions from social to affordable rent, and capital receipts generated from land or asset disposals. Advice on the implications for local authorities is being sought.
- 3.4 Bidding as part of a consortium may enhance the City Council and Derby Homes' bidding profile.



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Report of the Strategic Director for Adults, Health and Housing.

#### **SUPPORTING INFORMATION**

- 4.1 The Homes and Communities Agency (HCA) is the Government agency responsible for funding and enabling the delivery of affordable housing and regeneration, and the regulation of Registered Providers. It falls under the authority of the Communities and Local Government (CLG) Department.
- 4.2 In line with the majority of Government capital expenditure, HCA funding will be set out over a programme period through the relevant budget following a Comprehensive Spending Review (CSR). The HCA's capital programme for 2015-2018 was set out in the 2013 Budget. Following consultation with the CLG and its Ministers, the HCA launched its Prospectus which details the bidding criteria and funding breakdown for the programme. The 2015-2018 Prospectus was released in January 2014. This sets the available funding for England and Wales at £1.7bn, not including Greater London which falls under auspices of the Greater London Assembly.
- 4.3 The current Government's mantra for this bid round and the previous bid round (2011-15) is to deliver more housing with less grant. The Ministerial Forward within the Prospectus states the country now delivers twice as many affordable dwellings for the same grant rate money as under the 2008-2011 bid round. Obviously that is a political statement and there are other implications to a lower grant rate, which we will not dwell on here. However, it needs to be noted that the direction of travel is for lower grant rates (capital subsidy) per dwelling and a lower overall funding programme than under the last Government.
- 4.4 The HCA will not state its anticipated grant rates within the Prospectus, but judging from the previous bid round it is anticipated that competitive bid rates for general needs affordable housing will need to be around 20k per dwelling. This will not fully subsidise the development of an affordable dwelling and it is expected that Registered Providers (RPs) meet the remaining subsidy requirement from their own resources. This additional subsidy could be generated from the conversion of rents of other existing stock from social to affordable rent, use of recycled capital grant or cross subsidy from sales. In summary, it is up to the RP applicant to demonstrate how they bridge the gap between the borrowing supported by the net rental stream and the grant funding from the HCA.

- 4.5 From Derby City Council's perspective, any additional subsidy requirement on new build is met from the surplus borrowing capacity with the Housing Revenue Account and/or revenue reserves. Derby Homes have committed in their business planning to support the Council's objectives to deliver new homes through utilising their own resources accrued over many years of reducing their own costs. While such capacity is limited, sufficient funds are likely to be available to support some homes delivered with part HCA funding. In spite of the fact that the Council has the headroom within its HRA to support the bid programme, the Prospectus states that bidders need to demonstrate revenue support from conversions from social to affordable rent and the capital support through the application of non-Right to Buy receipts.
- 4.6 The Council also has reusable Right to Buy (RtB) receipts at its disposal which it needs to spend on affordable housing in the city within three years of receipt (on a quarterly basis). If RtB receipts are not spent in the city within that time period, and this can be by the Council or private Registered Providers, but not by a subsidiary of the Council (i.e. Derby Homes), then the receipts are reclaimed by central Government.
- 4.7 Under the recycled RtB provisions, if an affordable dwelling has HCA grant applied to it, the Council cannot allocate RtB receipts to that dwelling. Therefore the Council has to be careful that its HCA grant bid, if successful, does not compromise its ability to absorb RtB receipts within its programme. This balance will be drawn by officers in consultation with the responsible Cabinet Member. However Members should be aware that it may not be possible to bid for HCA grant on every firm scheme without compromising the absorption of RtB receipts.
- 4.8 It is critical that the Council utilises its full amount of RtB receipts rather than lose them, so the extent of the overall bid to the HCA will be constrained to those schemes that might be most easily delivered. Depending on the success of the bid, alternative proposals for the use of RtB receipts may then need to be drawn up for further developments within Derby delivered by the Council or other Registered Providers.
- 4.9 The Prospectus indicates that the intention is to allocate 75% of the available funds at the outset of the programme, although this could be allocated to a scheme that will not start until later on in the programme. Unlike previous bid rounds, the HCA's aspiration is to allocate the majority of funds to what it describes as 'firm schemes' which are schemes with a certainty of delivery - that is the applicant has ownership and planning permission, or relative certainty of permission following pre-application advice. Some funds will be available for non-firm schemes, but only RP applicants with a significant programme and track record will be able to bid for grant on non-firm schemes. In reality this will be limited to large Registered Providers with national coverage. The position for the Council and Derby Homes is that we will need to submit firm schemes. The remaining 25% of funds will be available during the programme, referred to as continuous market engagement.

- 4.10 The Council and Derby Homes have worked up a proposed firm programme to bid for funds at the outset of the bid round, although there a number of outstanding queries to be clarified by the HCA, the outcome of which will determine the final submission. Development officers will work with Planning and Estates to identify further opportunities to submit through the continuous market engagement process.
- 4.11 Bidding as part of an established consortium may present some advantages, as it is expected that the Homes and Communities Agency nationally is likely to favour established Registered Providers and consortia. The merits of this approach will be considered by officers. Joining a consortium will have no material impact on the City Council's receipt of grant funds.
- 4.12 The Prospectus itself sets out the following key requirements for our bid:
- All dwellings submitted as part of the bid programme will be required under the grant agreement with the HCA to be let at affordable rent level ie 80% of the equivalent market rent for that property;
  - All schemes submitted will need to be submitted as firm schemes;
  - Affordable dwellings provided as part of a S106 agreement will not be eligible for grant funding in normal circumstances; and
  - Bids for specialist funding streams, for example care and specialised housing, and empty homes funding, will be included within the main bidding process.

## OTHER OPTIONS CONSIDERED

- 5.1 There is no benefit to the Council in not applying for grant.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Property/ Estates Officer</b> <b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Olu Idowu Toni Nash  Brian Frisby Ian Fullagar
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<b>For more information contact:</b>  <b>Background papers:</b> <b>List of appendices:</b>	James Beale, Housing Development Team Leader- 01332 640316 None Appendix 1 – Implications
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<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 HCA grant will provide additional capital subsidy to support and extend the existing new build and acquisitions capital programme. Additional homes supported through the bid will generate New Homes Bonus at the higher affordable housing rate.

**Legal**

- 2.1 None arising directly from the report.

**Personnel**

- 3.1 None directly arising from this report.

**Equalities Impact**

- 4.1 Any homes supported through this bidding process and subsequently developed will be let to potentially vulnerable people who are registered on the Council's Housing waiting list.

**Health and Safety**

- 5.1 None directly arising from this report.

**Environmental Sustainability**

- 6.1 None directly arising from this report.

**Asset Management**

- 7.1 None directly arising from this report.

**Risk Management**

- 8.1 The financial management relating to the construction of any properties resulting from this bid will be overseen by the HRA Capital Board and the Council's Strategic Asset Management Board.

**Corporate objectives and priorities for change**

- 9.1 A strong community.

