

## Agenda Item 9

Housing Review Board

10 September 2009

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### East Devon District Council bids for Homes and Communities Agency Social Housing Grant

#### Summary

We have been presented with an opportunity to bid for social housing grant to provide new build council homes. The process has been frantic to meet the deadlines set by the Homes and Communities Agency, but we have quickly pulled together four bids to provide 17 new council homes on land owned by the council.

This report seeks retrospective consent from the Housing Review Board to approve the bids and as a consequence secure funding from the Housing Revenue Account to help facilitate the Council to build its own council housing. For the council to be competitive in bidding for Social Housing Grant from the Homes and Communities Agency it has been necessary for the Council to make our bids as attractive as possible as we will be competing nationally with other Local Authorities.

#### Recommendations

The Housing Review Board -

- (1) support the Social Housing Grant bids made as detailed in the report, and
- (2) approve the necessary funding from the Housing Revenue Account (HRA) to enable the Council to progress the schemes, if grant is awarded.

#### a) Reasons for Recommendation

To provide more affordable housing in accordance with Council and Service priorities.

#### b) Alternative Options

Not to deliver much needed affordable housing in East Devon.

#### c) Risk Considerations

Not meeting Corporate Strategy and Housing Strategy/Service Plan targets.

#### d) Policy and Budgetary Considerations

These are set out in the report. If successful the completion of these schemes will require borrowing to fund the scheme costs alongside the social housing grant element and an element of subsidy from the Housing Revenue Account.

#### e) Date for Review of Decision

After the bid results are announced in late September 2009.

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## **1. Background**

- 1.1 In the 2009 Budget, the Chancellor announced £100 million for local authorities to deliver up to 900 new council homes. The available funding will provide Social Housing Grant (SHG) and allows for the consequential prudential borrowing serviced by rental income from the properties. Following the Communities and Local Government's recent announcement on the Housing Revenue Account (HRA), rental income and capital receipts from homes built through this programme will be outside the current HRA subsidy system.
- 1.2 The Homes and Communities Agency (HCA) expect this programme to be delivered quickly. The funding is available over the next two years- £30 million in 2009-2010 and £70 million in 2010-2011. The HCA expect that a significant proportion of homes that the HCA fund will achieve a start on site in 2009 – 2010 and that all homes funded through this initiative will be completed by the end of 2010-2011.
- 1.3 The figure of £100 million, in real terms, is actually £50 million available as a grant and £50 million from prudential borrowing possibly from the Public Works Loan Board (PWLB).
- 1.4 Sir Bob Kerslake, Chief Executive of the Homes and Communities Agency, wrote to the Council on the 11th May advising us that we could now start to bid for Social Housing Grant. To enable the Council to bid for this funding it was necessary for the Council to meet the Governments minimum criteria (Pre Qualification Questionnaire). This was completed on the 22nd May 2009.
- 1.5 The Council was then expected to register with HCA, thus allowing it to access and ultimately place our bids on the HCA's Investment Management System (IMS) for their consideration. We requested a pack to enable us to register on the 12th May, and access was granted on the 12th June 2009.
- 1.6 The Housing Enabling Officer attended IMS training on the 9th July 2009.
- 1.7 We have submitted four bids in the first bid round, and the results will not be known until the end of September 2009.

## **2. The bids for Social Housing Grant**

- 2.1 The pre-requisites highlighted within the initial documentation from the Homes Communities Agency state that to qualify for available grant projects have to be sufficiently advanced and likely to be completed by March 2011, at the latest. It is also expected that we borrow 50% of the scheme costs from the PWLB / prudential borrowing with expected rental income from the schemes covering the loan repayments.
- 2.2 Unfortunately through the rental income alone we are not able to generate income sufficient to cover a loan at 50% of the scheme costs. To enable the Council to submit competitive bids we had to make an assumption, namely that the HRB consider supplementing our bid submissions to include an element of funding from the HRA. The HRA funding required is approximately equivalent to the management and maintenance cost that would be incurred over the entire term of a Public Works Loan. (On average 33 years approx £763k in total).
- 2.3 The management and maintenance figure is an estimation of the likely costs that would be incurred, based on today's figures. By eliminating these costs (approx. £1,400 per property per annum) from our bid and the HRA subsidising the cost, it means we are able to borrow more, conversely our grant requirement drops by a significant amount, making our bids more attractive. Alternatively, we could 'dip into' some of the Capital Plan provision set aside for housing schemes on the basis that affordable housing is our corporate priority. However, neither of these funding solutions are a long term sustainable position and we will have to consider how if at all we subsidise future bids for new build.

- 2.4 Unless we are able to supplement the scheme costs ourselves the required grant levels are going to be high compared to a Registered Social Landlord and therefore unlikely to be attractive to the HCA sufficient to part fund our schemes.
- 2.5 Assuming that we are successful in securing grant funding, and to meet the deadlines previously mentioned, we will need to 'buy-in' the expertise to progress these projects. This 'buy-in' requires a significant amount of additional funding to cover the 'at risk' costs. These costs include site surveys, Architects, planning submissions and other related work costs. I have been informed by a Registered Social Landlord that they would allow up to approximately £80,000 per development to cover these at risk upfront costs. These costs would hopefully be recoverable from the grant/borrowing should the schemes be successful.
- 2.6 Due to the limited time allowed to prepare these bids, we have had to prepare our submissions on a 'best-guess' scenario so actual costs may differ if the projects secure grant funding and planning consent. The schemes are summarised below:

- **Normandy Close, Exmouth** – comprising one no. 2 bedroom house @ 60 m2 and one no. 3 bedroom house @ 70 m2. The scheme is a small infill site on the edge of a moderate sized residential estate of similar properties. The proposed site is approximately 0.05 of a hectare and is bordered by woodland and residential development. It is situated close to a School, bus route, nearby shops and open space.

Grant required = £127,000 (50% of scheme cost)  
 Borrowing = £127,000 (31yrs at 4.67%)  
**Total scheme cost = £254,000**

Rental income assumptions £72.50p & £77.50p per week producing an annual rental of £7,800.

The grant requirement is £63,500 per unit and land value has been estimated at £70,000.

Approximate 'at risk' costs = £ 50,000 (this figure is deductible from the total scheme costs).

- **Churchill Court, Lympstone** – comprising five no. 2 bedroom houses @ 60 m2 and four no. 3 bedroom houses @ 100m2. The scheme consists of a group of terraced houses adjoining one of our sheltered housing schemes. The proposed site currently comprises an area of open space and an un-surfaced car parking area. It is situated within an estate of Local Authority Housing, although many have acquired their homes through right to buy. It is well placed and has access to Schools, shops and a regular bus service.

Grant required = £586,000 (50% of scheme cost)  
 Borrowing = £586,000 (34 yrs at 4.51%)  
**Total scheme cost = £1,172,000**

Rental income assumptions £72.50p & £77.50p per week producing an annual income of £34,970.

The grant requirement is £65,111 per unit and the land value has been estimated at £335,000.

Approximate 'at risk' = £ 85,000 (this figure is deductible from the total scheme costs).

- **Heals Field, Axminster** – comprising two no. 2 bedroom flats @ 57 m2. This proposed in fill site is situated within the Millwey Estate on the outskirts of Axminster, and is approximately 0.08 of a hectare. It is situated within walking distance of Schools, Shops, bus route and other community facilities.

Grant required = £114,000 (50% of scheme cost)

Borrowing = £114,000 (44yrs at 4.77%)

**Total scheme cost = £228,000**

Rental income assumption £70 per week, producing an annual rental income of £7,280.

The grant requirement is £57,000 per unit and the land value has been estimated at £60,000.

Approximate 'at risk' costs = £ 50,000 (this figure is deductible from the total scheme costs).

- **Waggs Plot, near Axminster** – comprising four no. 2 bedroom houses @ 60m2. This potential development site is situated in a small rural community north of Axminster. It is an infill site located on the edge of a small estate of similar housing and is approximately 0.12 of a hectare.

Grant required = £216,500 (70% of scheme cost)

Borrowing = £216,500 (23yrs at 4.44%)

**Total scheme cost = £433,000**

Rental income assumption £72.50p per week x 4 producing an annual income of £15,080.

The grant requirement is £54,000 per unit and the land value has been estimated at £140,000.

Approximate 'at risk' costs = £ 60,000 (this figure is deductible from the total scheme costs).

We have assumed on-costs of 15% on each scheme and a build rate of £1,350 m2. Management & maintenance assumptions have been based upon a rate of £1,400 per property per annum.

2.7 If we are successful in securing the grants needed to progress these projects, our 'up-front at risk' scheme development costs could be in the region of £250,000. It is proposed that the HRA fund these so called 'upfront' costs, hopefully paying back this amount from any successful bids for grant.

2.8 None of the above proposed projects have planning permission, although discussions with EDDC planning officers have suggested that they may be suitable for development.

2.9 Bids for the funding are likely to significantly exceed available resources so we cannot be overly optimistic about our chances of success. It is important that we have tried to secure funding and we have now got valuable experience of compiling and submitting bids. For future years we are considering a commissioning arrangement with a partner RSL who have the development expertise in-house and for a fee would put our bid submissions together.

### **3. Conclusions**

3.1 Housing Review Board is requested:

- To support the bids for Social Housing Grant to build new council homes.
- To approve the principle of forward funding from the HRA 'at risk' costs incurred whilst working up the schemes, bearing in mind that these costs may not be recovered if we are unsuccessful with our bids.
- To approve in principle to subsidising any successful bids from the HRA, equivalent to the proposed management and maintenance costs.

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#### **Legal Implications**

There are no legal implications highlighted within the report.

#### **Financial Implications**

The financial implications are included in the report. If the 'up front' costs are borne by the HRA and the bids are unsuccessful, the effect on the HRA balance will mean that it will probably fall significantly below the recommended level.

#### **Consultation on Reports to the Executive**

None.

#### **Background Papers**

- HCA Investment Statement 2008-11, issued January 2009.
- Overview/Scrutiny – Communities Committee report on Affordable housing in East Devon, June 2009.
- Local authorities: bidding for Social Housing Grant, HCA, June 2009.
- Budget 2009 and Housing, letter from CLG, 22<sup>nd</sup> April 2009.

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Paul Lowe  
Housing Enabling Officer

Housing Review Board  
10 September 2009

