

“Affordable Homes Programme”: an offer that should be refused

The government Prospectus for the second round of its “affordable homes programme” has recently been published. Councils and Housing Associations will be able to bid for grant from the Homes and Communities Agency in order to build new homes. The first round of grants, for 2011-15, was based on a massive reduction of grant, from £60,000 (in the previous government's programme) to an expected £20,000 per property built. As a result the providers had to accept that they would have to raise a much greater proportion of the money necessary, in the form of converting 'social rent' homes to the “affordable rent model”, up to 80% of private rents (See [“What is the “affordable rent model?”](#)¹ and [“More evidence of the need for “affordable rent to be abandoned”](#)²), and increased borrowing. The second round was expected to provide even less grant, estimated at around £17,000 per property. In fact the Prospectus says that there will be *no specific grant per property*.

"We do not intend to set a grant rate for the programme and no such grant rate can be extrapolated from dividing the capital grant available to the number of homes which it is the Government's aspiration to deliver (as set out in the Spending Round announcements), given that the total number of homes includes a proportion that are expected to be delivered without capital grant funding."

This can only lead to a bidding war, in which bidders attempt to outdo each other in delivering what the government wants. Since there is no definite grant per home then bidders have to guess how low a grant request will give them a chance of winning a bid. How low that will be remains to be seen. However, the government gives them a clear steer.

"The primary metric for assessment of value for money will be grant per unit compared to the Homes and Communities Agency Operating Area Average (and the national average) of the bids received."

Obviously anything less than the national or area average is in with a good chance. In its report on the 'programme position' published by the HCA in November of last year we see that the average grant per home was lower than the expected £20,000. It was just £18,838 and in the 'operating area' of the South & West, the grant was even lower at £17,545. Clearly the message is, ask for as little grant as possible, and certainly less than these averages. At any rate the government “will expect providers to bring forward ambitious plans for maximising their own financial contribution”.

Prior to the publication of the Prospectus there were doubts expressed as to the numbers of bidders there would be, given the low level of grant. Since it was published last Monday, the response has been somewhat less than enthusiastic. 'Inside Housing' reports that “scores of landlords” are threatening to reject the government's programme if they are

1 <http://keepourcouncilhomes.wordpress.com/2013/07/26/801/>

2 <http://keepourcouncilhomes.wordpress.com/2013/10/14/more-evidence-of-the-need-for-affordable-rent-to-be-abandoned/>

forced to build large numbers of one and two bedroom properties. The government says that where there are shortages of smaller properties "we would expect local assessments of needs and bids to reflect this, by including a high proportion of one and two bedroom properties." This is directed at getting more tenants affected by the 'bedroom tax' moved into smaller properties.

The Chair of the Placeshapers group of 100 housing associations said, "We aren't going to build homes that are going to be difficult to let in 5 or 10 years just because of this government's welfare policy. If that's what we have to do to get grant then we won't apply. The grant levels are so low, they're not that valuable when they come with so many strings attached."

The Chief Executive of the New Charter Housing Trust said: "We won't be doing any one bedroom stuff. It's barking mad to build homes for 100 years in response to a temporary state welfare reform. We would just borrow the money and build without grant if the HCA insisted on one beds."

A spokesperson for the National Housing Federation said: "Some housing associations may decide not to participate at all as the grant on offer does not warrant the restrictions and expectations set out in the prospectus."

A Director of the Northern Housing Consortium said: "If the under-occupancy charges were repealed, we would be setting in train developments that would immediately become obsolete."

So how do they pay?

Given the low level of grant how do bidding organisations raise the money to build new homes? The government is saying that providers will have to "widen the methods of raising funds themselves". The "funding model" means they will have to have some combination of the following:

- Borrow on the basis of the extra rental income (because of the higher rents)
- Take out additional borrowing capacity generated by conversion of 'social rent' properties to "affordable rent"
- Raise cash through the sale of existing stock
- Raise other sources of "cross subsidy" including surpluses from existing stock
- Raise income from building new properties for sale.

So in order to win a bid a Council will have to sell off some existing Council homes, convert some of their existing stock to "affordable rent" and, possibly, build homes for sale on the private market. Fundamentally, proposals will be paid for by Councils taking on more debt and squeezing higher rents from tenants.

The use of Housing Revenue Account surpluses is questionable to say the least. HRA money is meant to be for the upkeep of tenants' homes. Yet the government is saying that it can be used to cross-subsidise the programme. That means that tenants rent could be used, for instance, to subsidise the building of homes for sale on the private market. It's

debatable whether this would be legal, but it's certainly morally repugnant. Money used for these purpose could not be used for the existing stock, hence, participation by local authorities could lead to a decline in the quality of existing stock.

Don't use your own land!

Any Council using their own land will be expected to apply for /less HCA grant.

"Where public land is being provided for free or for minimal consideration, providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as HCA funding!"

In fact the government expects "a proportion" of homes to be delivered with nil grant! If that's the case then why would providers apply to the "affordable homes programme" in the first place?

"Affordable rent"

The consequence of this programme will be *a decline in Council housing numbers and homes charging Council rents*. We can see the impact of 'conversions' of existing stock from 'social rent' to "affordable rent" from the first round of the programme. A Statistical Release by the Department for Communities and Local Government last October showed that in 2011/12 there were 928 "affordable rent" homes completed. The number of lettings at AR by Registered Providers was 4,679, meaning that for each home completed 4 'social rent' homes were converted to AR. As the programme speeded up, in 2012/13 there were 6,856 AR homes completed, and 27,715 properties let at AR, suggesting a conversion rate of 3 to 1. The more AR homes then the more 'social rent' homes will be lost. The average difference between AR and a 'social rent' in 2012/13 was £40, or around £64 for London. This will, of course, drive up the national housing benefit bill.

For the second round of the programme Councils and Housing Associations will be expected to increase the rate of 'conversions' and sell off homes that become 'void' (i.e. those that are empty when a tenant leaves or dies). Back in June of last year the then Housing Minister Mark Prisk was quoted as saying in a speech:

"In considering bids for grant, we will expect providers to bring forward ambitious plans for maximising their own financial contribution. And we will expect this to include a rigorous approach to efficiency, along with ambitious plans to maximise cross-subsidy from the existing stock...Under the next programme we expect providers to take a rigorous approach in looking at every re-let and asking how it could best help build more homes to help families. *I expect the result to be a significant change in the numbers of homes that are either converted to Affordable Rent or sold when they become vacant.*"

This statement is quoted in the Prospectus. So the rate of conversions will be expected to be higher than 3 or 4 to 1, and bidders will have to decide on the number of homes they will sell off when they become void.

"...we will expect all registered providers to take a strategic and rigorous approach to

considering vacant properties, as part of their active asset management strategies, and whether they can be used to support the generation of capacity through sales and conversions which can be applied to the delivery of new homes, in order to help more people in need."

And "we would expect local assessments of needs and bids to reflect this, by including a high proportion of one and two bedroom properties."

The less grant you ask for, the more 'social rent' homes that are converted to "affordable rent", the more void homes you sell, then the more chance you have of winning a bid. But, of course, the lower the level of grant the higher the funding that the bidder has to find for themselves. The prospectus even says that any bidder with a 'low' number of conversions or sales, will have to explain why they have not set higher figures.

"We will...expect bidders to explain how many properties they are expecting to sell to fund the programme and why they have decided not to dispose of more."

So the way to "help more people in need" is, apparently, to increase rents towards market levels and to cut the number of 'social rent' homes in your area!

Clearly the policy can only result in the loss of more Council housing and Housing Association homes, increasing the shortage of 'social rent' stock. This is an extraordinary policy for tackling the housing crisis. It will, in fact, make the housing crisis worse by cutting the availability of genuinely affordable homes for rent.

Do not bid!

Given the consequences of this "programme", a decline in the number of genuinely affordable homes for rent, any local authority which wishes to tackle the housing crisis, rather than make it worse, *should reject participating in this bidding process*. Tenant and trade union organisations need to press their local authorities to *reject participating*. The loss of Council homes through this programme, combined with 'right to buy' sales, will increase the shortage of available stock. The housing crisis which we face requires an increase in 'social rent' homes, but the "affordable homes" programme will cut their number.

Considering that one of the aims of the government is to cut the housing benefit bill, replacing 'social rent' homes with AR is an extraordinarily short-sighted and stupid policy. It can only increase the outlay on housing benefit.

Bids have to be sent in by April 30th. This is a very tight time-scale, and the government has added to the pressure by saying that they expect bidders to submit their "best bid" at the initial stage. They add that if there are any subsequent shortages of funding bidders will have to find it themselves.

"It will not be possible at any stage during the programme period to respond to changes in contract parameters by increasing the amount of funding for a scheme or for an indicative proposal. If additional funding is needed – for whatever reason – such additional funding

would have to be generated from a provider's own resources or capacity (where that is achievable without adversely impacting their financial viability.”

Borrowing for what?

Councils that own housing stock have a borrowing cap set by the government. This was determined as part of the 'one-off debt settlement' associated with the introduction of the 'self-financing' system in April 2012. To take the example of Swindon, which was given a debt of £138.6 million, it was given 'borrowing headroom' of around £21 million. (As the debt is paid off the 'headroom' increases.) In other words that was the most they could borrow. Any borrowing under the Housing Revenue Account will be counted against the 'borrowing headroom'. What this means is that if Swindon or any other local authority puts in and wins a bid under the “affordable homes programme” then the debt taken on by the HRA (ultimately paid for by tenants' rent) will produce AR homes instead of homes with Council rents. Depending on the structure of the bid, they may also produce homes for sale, or part-ownership.

This would be a complete waste of money. In contrast, if a Council decides to use its 'borrowing headroom' to borrow money from the government's Public Works Loan Board then it has no conditions imposed on how it uses it. It can use it to build Council homes with Council rents set for the new homes. This is a much more productive use of borrowing which gives a Council control over what it does instead of having central government conditions imposed on it. Moreover, it enables a Council to increase the number of 'social rent' homes available for people on its waiting list. It also has the merit of not pushing up the housing benefit bill, in contrast to AR.

Any Council bidding for grant under the conditions which the government has set for the second round of its “affordable homes” programme *will be accepting AR, accepting selling off scarce Council homes*. It will also be tantamount to accepting a decline in 'social rent' homes and a worsening of the housing crisis. That's why we need to press Councils to boycott such a programme.

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