

Why Swindon Council should reject bidding under the “affordable homes programme”

Swindon Borough Council will shortly have to decide on whether or not to apply for grant from the Homes and Communities Agency under the coalition government's "affordable homes programme". The decision is especially important as the government is imposing a number of conditions on housing providers applying for grant. To make an application a Council will have to agree, at the very least, to:

- convert existing stock from Council rents to "affordable rent" (AR), i.e. up to 80% of private rent
- sell off void stock (when a tenant dies or leaves a property and it is empty)

A bid will have to say exactly how many conversions will be made and how many properties will be sold. In addition Councils may be able to turn voids into part-ownership homes and build new properties for sale on the market. They may also include surpluses from the Housing Revenue Account in their bids.

Clearly, if SBC put in and won a bid, the consequence would be

- the loss of scarce Council housing stock
- the loss of homes charging Council rents.

Councils will not be allowed to build new homes and charge Council rents as part of the “affordable homes programme”.

The number of conversions and stock sold will depend on the scale of new building proposed. In the first round of the “affordable homes programme” for every home built and charging “affordable rent”, 3 or 4 of the existing stock have been converted from Council rent to “affordable rent”. The Prospectus which was recently published quotes the last Housing Minister Mark Prisk as saying that they expect bidders to increase the number of 'conversions' to new build and/or sell off of void stock. (See [“Affordable Homes Programme”: an offer that should be refused](http://keepyourcouncilhomes.wordpress.com/2014/02/03/affordable-homes-programme-an-offer-that-should-be-refused-2/) ¹)

A housing crisis

As Councillor Wayne Crabbe said at a recent Council meeting “we don't have a housing situation in Swindon, we have a housing crisis”. “The picture out there is quite dismal,” he added. He was certainly right. Swindon Borough Council has estimated that each year there is a shortfall of 800 "affordable homes". In other words the situation is worsening year on year. We have, what Rob Buckland has described as "an acute social housing

¹ <http://keepyourcouncilhomes.wordpress.com/2014/02/03/affordable-homes-programme-an-offer-that-should-be-refused-2/>

shortage". If the crisis is to be addressed then we need to find a means of building *more* 'social rent' homes. There is no shortage of private rented accommodation. Between the two Censuses, 2001 and 2011, the number of private rented homes more than doubled, from 5,638 to 14,169 households, and the number of people living in the sector nearly tripled, from 11,359 to 32,811. It has certainly increased since then with much speculative activity in providing private rented accommodation. The problem is that private rents are up to double council rents, and there is less security of tenure. 'Buy to let' mortgages, for instance, usually have restrictions on tenancies of six months or a year. The number of private tenants in receipt of housing benefit in Swindon nearly doubled from November 2008 to February 2013, from 2,660 to 4,686. In part this is the result of the decline of the value of wages and the rise in private sector rents.

The government purports to want to cut the housing benefit bill yet their introduction of "affordable rent" can only serve to increase the bill given the fact that AR is on average £40 a week higher than 'social rent'. In fact, AR rents can be higher still than Council rents. For instance, in the case of Sussex Square AR would be around £79 a week more for a four bedroom property than a Council rent.

"A bidding war"

In the second round of the "affordable homes programme" the government says that there will be no definite amount of grant per home. This means that there will be a bidding war between providers, in which, in order to win a bid they will have to apply for as low a level of grant as they can, maximise the number of conversions from Council rent to AR, and maximise the number of voids that are to be sold. It will be 'a race to the bottom'.

How low to set the grant request? There is a steer from the government. They say that the value for money of each bid will be judged by comparing the amount of grant that providers apply for, with the national and area average of the first round of the programme. What are they? From a report by the HCA late last year we know that the national average was only £18,838, and the area average for the South and West (which we are in) was only £17,545. The clear message is that the government expects bidders to bid for less grant than this. They "will expect providers to bring forward ambitious plans for maximising their own financial contribution". If Councils propose to use your own land for building, the government expects them to apply for *less* grant. Indeed they say some some homes will be delivered with *no* grant.

In areas where there is a shortage of smaller homes for tenants who are 'under-occupying' to move to, the government (notwithstanding its expressed desire to give power back to the localities) will insist on "a high proportion of one or two bedroom properties".

The overall consequence of bidding on the basis of the conditions imposed by the government would be that in return for some new homes charging "affordable rent", you would have to agree to 'conversion' and stock sales. Indeed the Prospectus says that bidders will have to justify low conversion and sale rates (though it doesn't explain exactly

what is a 'low' number). It could well be that the number of new homes that a Council was able to build would be nullified by the number they have to sell. At any rate even *if* the number built was greater than the number sold, it would be at the cost of a cut in the number of Council homes with Council rent. The whole trend of government policy is to replace 'social rent' homes with AR.

It is no surprise that the programme has not been met with enthusiasm. The small amount of grant comes with many strings. Stock lost under RTB is not being replaced. To add further sales on top would exacerbate the year on year decline in stock numbers.

In response to the Prospectus the Chair of the Placeshapers group of 100 housing associations said:

"We aren't going to build homes that will be hard 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 head of policy at 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."

Get it right first time

Given the lateness of the Prospectus, which should have been published before Christmas, the time-scale for bids is to say the least tight. They have to be in by the end of April. The government doesn't appear to have taken any account of this because it expects bidders to get the detail right in a rush. The Prospectus says that bidders are expected 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)."

Hence mistakes will be costly.

Borrowing for what?

Swindon, like other Councils that still own housing stock, has a borrowing cap imposed by Westminster. The 'borrowing headroom' which we were given when the new housing finance system was introduced in April 2012, was around £21 million. The 'headroom' rises

by £5 million a year, as 'debt payments' are made.² It will be £31 million this April. Any borrowing associated with a bid for the "affordable homes programme" will be counted against this 'borrowing headroom'. This means that tenants, who pay the cost of borrowing in their rent, will be paying for the building of homes at rent levels which are unaffordable for many, and possibly for the building of homes for sale.

The government's idea of using Housing Revenue Account surpluses as part of a bid for this programme is scandalous. Annual surpluses are supposed to be used for the upkeep and improvement of our homes. Yet under this scheme, if surpluses are included as part of the bid, it would mean that there would be less money available for maintenance. The idea that surpluses, which ultimately come from our rent, would be used to support private ownership is questionable legally, but in any case morally repugnant.

Swindon Tenants Campaign Group is strongly of the opinion that there is no benefit in applying for grant under the conditions being imposed by Westminster. We would frankly be better utilising some of our 'borrowing headroom' to borrow money from the Public Works Loan Board, under our own steam. This would enable us to build some new Council housing, charging Council rents. It would have the merit of at least counteracting the loss of homes under RTB sales.

An "acute social housing shortage" cannot be addressed by cutting the amount of 'social housing' at our disposal. Whilst AR homes would still be formally considered 'social housing', driving up rents towards market levels will not help the situation. Indeed, given the fact that the Council has set earnings thresholds it is doubtful that anybody would be able to afford the higher rents other than those people on housing benefit.

For these reasons we think that it would be a mistake, and certainly counter-productive, for Swindon Council to bid for grant under the second round of the "affordable homes programme". The Council will be launching a consultation on updating its housing strategy shortly. If it decides to put in a bid to the HCA on the conditions imposed by the government then it will have taken some strategic decisions prior to that discussion taking place. In any case, the very act of putting in a bid means acceptance of the loss of homes paying Council rent, their conversion to AR and the selling of void stock. This would be a strategic mistake which would increase the shortage of genuinely affordable homes for rent. That's why the Council should not put in a bid.

Martin Wicks
Secretary, **Swindon Tenants Campaign Group**

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² No debt payments have actually been made to the Public Works Loan Board. £5 million a year is transferred to the Council's General Fund and marked as a 'future debt payment'.