

BABERGH DISTRICT COUNCIL

From: Head of Housing	Report Number: P23
To: Strategy Committee	Date of meeting: 12 June 2014

NEW BUILD PROGRAMME: ACCESSING HOMES AND COMMUNITIES AGENCY GRANT FUNDING

1. Purpose of Report

- 1.1 To seek a resolution on the proposal to convert some of the Council's dwellings to affordable rents in order to attract Homes and Communities Agency development grant to support the Council's new build development programmes.
- 1.2 In deciding whether to support this proposal, the Committee is reminded that the provision of new affordable homes is a strategic priority.

2. Recommendations to Council

- 2.1 That approval be given to the conversion of sufficient dwellings from social to affordable rents to support the Council's affordable housing development programme within the current Homes and Communities Agency Affordable Housing Programme (2015-18) in accordance with (a) the principles set out within this report and (b) Option 2 in paragraph 12.10 of the report.

Further, that the Head of Housing be authorised to approve on a case-by-case basis the conversion of individual properties which meet the above requirements.
- 2.2 That subject to Recommendation 2.1 above being agreed by the Council, income from rent conversions at £3,000 per unit in accordance with Option 2 in paragraph 12.10 of the report be included in the Council's bid to the Homes and Communities Agency.

3. Financial Implications

- 3.1 Failure to bid successfully for HCA development grant will reduce the Council's development programme for the next 3 years by almost half a million pounds – Table 1. This will mean fewer new homes delivered and a slower pace of delivery.

Table 1 – Potential HCA development grant (2015-18 bid programme)

	No. of units	Predicted average grant rate (per unit)	Total grant
Babergh DC	27	£17,500	£472,500
Mid Suffolk DC	38	£17,500	£665,000
Total	65	£17,500	£1,137,500

- 3.2 The potential grant achievable on its own could build around 5 new dwellings in Babergh. These new dwellings would increase the Council Tax base by approximately £5,600. They would also boost the New Homes Bonus payable to the Council by £42,000 over a 6 year period.

Table 2 – HRA affordable housing investment programme 2014-19

	Babergh DC £Millions
Borrowing headroom	11.5
Capital programme	4.9
Reserve balances	12.9
Total	29.3

3.3 The Council’s reputation as a serious developer may suffer if it does not demonstrate to the HCA that it is able to able and willing to comply with all the expected requirements to secure grant funding.

4. Legal implications

4.1 The Affordable Rent Tenure (ART) regime was introduced by the Localism Act 2011. The Homes and Communities Agency requires all partners in receipt of development grant to sign up to their Framework Delivery Agreement (FDA). The FDA gives providers (local authorities and housing associations) authority to convert existing properties to Affordable Rents where the provider commits to using that additional financial capacity for new supply¹.

4.2 Article 4 2(12) of the Council’s Constitution requires the Full Council to fix council house rents and other service charges. The Committee is therefore asked to make the recommendations in section 2 of the report to Full Council.

5. Risk Management

5.1 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to convert a proportion of existing dwellings to affordable rents will result in the Homes and Communities Agency rejecting all bids for development grant funding.	Medium	Medium	The Council could use commuted sums monies that are paid by developers where on site provision is not made. However the amount and payment of this is unpredictable and cannot be relied upon as a regular source of income.

6. Consultations

6.1 The proposal was presented to the Joint Housing Board on 15 May. The Board was asked to comment in its consultative role on the alternatives available in terms of bidding for Homes and Communities Agency development grant funding to assist with the Council’s development programme. Recommendation 2.1 is made by the Joint Housing Board to Strategy Committee.

¹ Homes & Communities Agency Affordable Homes Programme 2015-18: Prospectus

- 6.2 The Corporate Manager, Strategic Housing met with the Chairman of the Babergh Tenant's Forum on 9 May. The Chairman asked for clarification of the difference between social and affordable rents. He had questions about the impact of rent conversions on existing tenants. The Chairman confirmed that he understood and supported the proposal and the Corporate Manager explained that a Frequently Asked Questions sheet (Appendix A) would be prepared for circulation.

7. Equality Analysis

- 7.1 Although not a legal duty, officers wish to carry out an Equality Analysis Assessment 'Screening' to help us as a local authority demonstrably and consciously consider the three aims of the General Equality Duty (under the Equality Act 2010) so that the Council's decisions treat everyone fairly and equally.
- 7.2 An Equality Analysis Assessment will commence should the Council's Strategy Committee resolve to proceed with the project to convert a proportion of social rent dwellings to affordable rents.
- 7.3 Throughout the duration of the project, the Equality Analysis Assessment will allow the Council to consider the likely or actual effects of the decisions made on those affected the most. We want to ensure that the decisions made within this project are based on good, reliable evidence, which in turn will result in more effectively turning good intentions into good outcomes.

8. Shared Service / Partnership Implications

- 8.1 The two sovereign councils are being presented with similar conversion options. They may make different choices on the issue. The Councils' recently selected development partner, Havebury Housing Partnership (HHP), is prepared to accommodate different approaches and officers will do the same, if required. Members should be aware that HHP are applying for grant on our behalf as part of their overall bid submissions.

9. Background information

- 9.1 The Homes and Communities Agency (HCA) launched its 2015-18 Affordable Homes Programme (AHP) prospectus in January 2014. The AHP will invest £1.7bn to increase the supply of new affordable homes in England by contributing to the delivery of 165,000 new homes by March 2018.
- 9.2 The previous bid round (2011-15) introduced Affordable Rent Tenancies (ARTs) for the first time. This allowed the developing housing association to charge rents at 80% of market rent (compared to around 60% for social rents), thus increasing the rental income stream and freeing up more funds to re-invest in development. Bidding associations were required to commit to a programme of disposing of their high value or low demand assets; the resulting capital receipts to be ploughed into their development programmes. Finally, they were also asked to begin a programme of converting their existing housing stock from social rents to affordable rents, as they became vacant. Housing Associations have all reviewed their stock profiles and their average turnover of properties becoming available for re-letting and in many cases have exempted some of their voids from their conversion calculations – for example, sheltered accommodation and difficult to let properties.

9.3 All three of the key features of ARTs (80% of market rents, disposals and rent conversions) are designed to increase the funds available to Registered Providers for investment in development. The increased income streams enable the HCA to reduce the grant levels available for affordable housing provision (from around £40K per unit under the previous bid round to around £20K per dwelling) and make the pot of money from the Government go further.

9.4 HCA development grant for the 2015-18 Affordable Homes Programme is predicted to be worth approximately £15,000 - £20,000 per unit (of accommodation developed) but this will not be known until the bid round is concluded and contracts are signed with bidding Investment Partners (late summer). These are the best indicative figures we have available because the bidding round is a competitive process.

10. HRA self-financing

10.1 Since April 2012, local authorities who still own housing stock have been free of the long-standing Housing Revenue Account subsidy system in exchange for taking on a proportion of the national housing debt. This has resulted in many authorities having the ability to develop new council housing for the first time in decades.

10.2 Various income streams including: rents, Right to Buy receipts; and capital receipts from disposals have made development not just a possibility for Babergh, but a cornerstone of its strategic priorities for the next few years.

10.3 Babergh's programme for investment in new housing may include: social rented; affordable rented; shared ownership; self-build; and acquisition of empty homes. The grant available from the Homes and Communities Agency would make the pot of money available for developing this range of offers stretch further than it otherwise would.

11. Development partnership

11.1 The Council has neither the expertise nor the capacity within the existing staff team to undertake the full development process. Members therefore agreed to procure a development partner to undertake this work on their behalf. Havebury Housing Partnership (HHP) was appointed towards the end of April 2014.

11.2 The partnership was left with a matter of days to submit development bids to the HCA before the closing date of 30 April 2014.

11.3 Two bids were submitted by Babergh (27 units). However, Havebury and the HCA link officer have advised that these bids may be rejected because the council has not made provision within the bids to include additional income from rents converted from social to affordable. Being able to tick all the funding requirements increases the chance of the bids being successful.

11.4 Alternatively, if the Council is able to follow up its original bids submitted on the 30 April with an offer to contribute to development costs funded by rent conversions before the bid announcements in June, this may enhance the chance of the bids succeeding.

- 11.5 Although not ideal, this does not spell the end of the Council's hopes of receiving development grant. The HCA prospectus for the 2015-18 Affordable Homes Programme states that 75% of the £1.7bn available will be allocated from the outset, the remaining 25% to be made available via Continuing Market Engagement (CME). This will allow bidders, such as Babergh, to bid for the remaining funding for development opportunities as these arise during the programme. In practise the general intelligence expects the amount to be allocated in this first bid round to be below the 75% stated in the prospectus.
- 11.6 Even if the initial bids are successful, the opportunity to bid for further development grant during Continuous Market Engagement will still exist. Members should be aware that further bids will require additional existing dwellings to be converted to affordable rents in order to find the contribution required by the HCA.

12. Rent conversion

- 12.1 The loss of projected HCA grant will clearly have a significant impact on the Council's development programmes. **Table 1** illustrates the potential loss of funding at predicted grant rates.
- 12.2 At this time there is no clear guidance from the HCA on the contribution that rent conversions are expected to make to development costs. The advice received from Havebury is that all potential development partners have to make their own calculations of what is sustainable within their business plans. The HCA will benchmark submissions against each other when awarding grant funding. Based on discussions with Havebury and looking at what they have included in their bids as a helpful starting point, officers have modelled the impact of a £3K and a £4K contribution per unit of new build development to calculate the approximate number of Council dwellings that would need to be converted to raise the additional funding required.
- 12.3 Housing associations have been operating under the Affordable Rent Tenancies (ARTs) regime since the previous bid round (2011-15). It is common practice amongst associations to exclude specialist housing (such as sheltered) and difficult to let properties from conversion because higher rents would only accentuate the difficulty in letting. Affordable Rent levels are still eligible for housing benefit as long as they don't exceed Local Housing Allowance rent levels.
- 12.4 It is suggested that Babergh follows the same principle and restricts rent conversion to general needs 2 and 3 bedroom houses and flats. 4 bed houses should be excluded because the rents would simply be too high if converted and 1 bed properties because the difference in social and affordable rents is minimal and therefore the number needing to be converted would be high. Properties which have oil fired central heating will be excluded from conversion in recognition of the high fuel bills associated with this form of heating.
- 12.5 The introduction of Affordable Rents would not affect the rents paid by existing tenants. If an existing tenant wishes to transfer to another property, they will have to pay the higher rent level if that vacant property has been selected for conversion to an affordable rent. The rent for the new property will be clear to the tenant before they place a bid as it is included in the advert on the Gateway to Home Choice system. For more details, please see the Frequently Asked Questions in Appendix A.

- 12.6 Evidence from Choice Based Lettings of bidding for Housing Association properties at affordable rents suggests that demand for vacant properties converted to affordable rents will remain high. The average number of bids for housing association properties advertised at affordable rents is 31, compared with 41 for similar social rent dwellings. More importantly, 85% of affordable vacancies went to applicants in bands A to C, meaning that those with the highest housing need are still being housed.
- 12.7 The number of dwellings converted to affordable rents will need to be carefully monitored to ensure the £3K (per unit built) is recovered through rents. Equally, the Council's development programme will monitor the provision of new dwellings of all tenures.
- 12.8 Modelling to calculate the uplift required to achieve affordable rents has been undertaken in Table 3.

Table 3 – Calculation of the uplift required to achieve affordable rents

	Uplift to 80% of open market rents	Uplift to 70% of open market rents
1. Average weekly <u>social</u> rent for dwellings in scope (2 & 3 bedroom houses and flats)	£96.50	£96.50
2. Average weekly <u>affordable</u> rent for dwellings in scope	£124.00	£108.50
3. Average weekly <u>uplift</u> required to achieve affordable rents (2-1)	£27.50	£12
4. Average number of in-scope vacancies per annum (past 4 years)	93	93

- 12.9 Tenants in receipt of full housing benefit will be no worse off as the uplifted rents still fall within Local Housing Allowances.
- 12.10 The uplifts calculated in Table 3 have been used to calculate the number of dwellings Babergh would need to convert to achieve different levels of contribution per unit of new affordable housing – Options 1, 2 and 3, below.

Option 1 – Calculation of conversions to 80% open market rent needed to achieve a contribution of £4,000 per unit of new affordable housing (2015-2018)

	Babergh DC
Number of new homes in HCA bid	27
Total contribution required from conversions (number of new homes in bid x £4,000)	£108,000
Number of conversions required (assuming 1 conversion every 2 weeks until target achieved, commencing in week 2 of the 3 year programme)	32
Percentage of average in-scope voids (over 3 years) to be converted – see Table 3	12%

Option 2 – Calculation of conversions to 80% open market rent needed to achieve a contribution of £3,000 per unit of new affordable housing (2015-2018)

	Babergh DC
Number of new homes in HCA bid	27
Total contribution required from conversions (number of new homes in bid x £3,000)	£81,000
Number of conversions required (assuming 1 conversion every 2 weeks until target achieved, commencing in week 2 of the 3 year programme)	22
Percentage of average in-scope voids (over 3 years) to be converted – see Table 3	8%

Option 3 – Calculation of conversions to 70% open market rent needed to achieve a contribution of £3,000 per unit of new affordable housing (2015-2018)

	Babergh DC
Number of new homes in HCA bid	27
Total contribution required from conversions (number of new homes in bid x £3,000)	£81,000
Number of conversions required (assuming 3 conversion every 4 weeks until target achieved, commencing in week 2 of the 3 year programme)	58
Percentage of average annual in-scope voids to be converted – see Table 3	21%

- 12.11 The financial model created to calculate the number of conversions required to achieve different levels of contribution is flexible enough to allow any element of the calculation to be varied. The Committee may wish to consider the impact of uplifting rents to 70% of market rent levels to generate the same contribution – Option 3. Clearly, this will mean more dwellings being converted to a lower rent level to achieve a £3K contribution.
- 12.12 Rent conversion has the potential to be both controversial and concerning to tenants. A list of Frequently Asked Questions is included at Appendix A. This list will be used to assist with tenants’ and other stakeholders’ understanding of rent conversions.
- 12.13 Option 2 provides the opportunity to offer a contribution of £3k per unit towards new build development costs whilst requiring conversion to affordable rents of just 22 existing dwellings. This option will minimise the impact on Babergh’s social housing whilst potentially securing grant funding which will support the strategic priority of developing new council housing across all tenures.

13. Homes and Communities Agency (HCA) bids

- 13.1 Babergh submitted 2 schemes (for a total of 27 units) for grant funding to the HCA via our new partners Havebury Housing Partnership on the 30 April. On 15 May the Joint Housing Board received a report on the proposal to convert some council properties to affordable rents. The Board made the recommendation that appears at 2.1 of this report.
- 13.2 Management Board discussed the proposal on 20 May. Havebury HP and the HCA have been in regular discussion about our bids and Havebury's overall programme and the bids will be taken to an HCA bid clinic over the next week to ten days.

This report explains that one of the required criteria from the HCA is that bids include a contribution in the form of funding from rent conversions when stock becomes empty. Our bids had not included any amount for this – only a contribution from HRA borrowing and some from disposals of stock.

- 13.3 The deadline for any alteration of the bid calculations was May 23. Following a discussion with the Chief Executive and the Strategic Director (Place) on May 22, it was agreed that Havebury should be instructed to amend the bid submissions to include income from rent conversions set at £3k per unit (of new build) per annum. It was made clear that this was subject to formal Member approval. In the event that Member approval is not given, officers will advise the HCA that Babergh would return to the programme being supported by borrowing capacity only.

14. Appendices

	Title	Location
A	Frequently Asked Questions	Attached

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Frequently Asked Questions – rent conversions for Council properties

1. What does rent conversion mean?

Existing Council house rents also known as social rents, are set at around 60% of the open market rent levels. Affordable rents are set at a level up to 80% of the open market rent levels. The conversion of rents means that a proportion of Council properties will be converted from social rent levels to affordable rent levels after becoming empty and prior to re-letting.

2. Will rent conversion affect existing tenants?

The rent for existing tenants will not be affected. If an existing tenant wishes to transfer to another property, they will have to pay the higher rent level if that property has been selected for conversion to an affordable rent. The rent for the new property will be clear to the tenant as it is included in the advert on the Gateway to Home Choice system. See question 5 for details of properties that may be converted.

3. What does it mean for new tenants?

New tenants applying for housing through Gateway to Home Choice (GTHC) will be able to see from the advert if a property is let at a Social rent level or an Affordable rent. The advert will clearly display the weekly or monthly rent (this varies across landlords depending upon whether they charge weekly or monthly rents within their tenancy agreements). If the new tenant is eligible for Housing benefit the Affordable rent will still qualify for housing benefit.

It could mean that tenants living in the same sized properties in the same road could be paying different levels of rents, in the same way as they could have different lengths of tenancy (secure or flexible tenancies).

4. Why do we need to consider converting rents?

The Homes and Communities Agency's Affordable Housing Programme (AHP) for 2015-18 is a key source of capital investment for Babergh and Mid Suffolk's affordable housing new build programme. The two councils have bid for grant to contribute to the development of new properties and as an example for 65 properties, the potential combined grant from the AHP for the two councils is estimated to exceed £1.1million (enough to build around 11 new homes or an average of £17,500 grant per property).

For the 2015-18 bid round, the HCA requires that all development partners will have a programme of converting selected dwellings from Social to Affordable rents. This change was first introduced by the HCA in the 2011-15 AHP. The HCA see this as a way to increase the funds available for investment in new development. The increased income from higher rents will give the Registered Provider more internal funding and enable the HCA to reduce the grant levels paid for affordable housing provision (from around £K per unit under the pre-2011 bid round to around £15 - 20K per dwelling forecast for this current bid round) and make the pot of Government funding go further.

Failure to comply with the HCA's requirements will result in bids being rejected, which in turn will mean fewer new homes and a slower pace of delivery across Babergh and Mid Suffolk.

5. Which properties are in scope for rent conversion?

Having looked at the profile of properties that have become empty over the last four years for both Councils, we are recommending that the following property types are included for conversion: -

- 2 bed flats
- 2 bed houses
- 2 bed bungalows (where demand is good)
- 3 bed houses
- 3 bed parlour houses (often let to families needing 4 bedrooms where a ground floor room could be used as a bedroom)

We have excluded 1 bed flats because the difference between the Social rent and Affordable rent is marginal and won't generate a great deal of additional income; 1 bed and 2 bed bungalows where demand is low and they are difficult to let, 4 bed houses as the difference between Social rent and Affordable Rent levels is in excess of £50.00 per week, and all sheltered accommodation.

6. Will tenants' down-sizing to smaller properties due to loss of the spare room subsidy be affected?

The Government's Welfare Reform measures, introduced in April 2013, removed the spare room subsidy from housing benefit payments. Sometimes known as the "bedroom tax", the effect of this is to reduce housing benefit payments if a tenant is assessed to be under-occupying their home. If a tenant chooses to transfer to a smaller property due to the loss of the spare room subsidy, they are almost certainly in receipt of at least partial housing benefit. If they receive full benefit, the new Affordable rent will be covered in full as Affordable rents fall within Local Housing Allowance (LHA) limits. Tenants will be affected if they receive only partial housing benefit (although they may still be better off because there will be no deductions from benefit for under-occupation) or they cease to receive housing benefit (for example, because they obtain paid work) at a future date.

7. If we choose to convert to 70% of market rents, what impact does this have?

If the Councils chose to only increase rents to a level between Social and Affordable rent levels (i.e. at 70% of market rent levels) the rental difference per week would be an increase of around £15.00 - £20.00 per week).

The impact of this would be that more empty Council homes would have to be converted to the higher rent to raise the same amount of money required to support the new build development programme.