THE NATIONAL **AFFORDABLE HOMES** AGENCY

Investment Statement 2008-11

April 2008

East Midlands

HOUSING CORPORATION

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1. Foreword from the Head of Investment

This is the beginning of the largest investment programme in the history of the Housing Corporation. The National Affordable Housing Programme (NAHP) of £8.4bn will provide at least 155,000 homes in the next three years, 2008-11. This is almost double the number of affordable homes compared to 2006-8. More than 100,000 of these will be for affordable rent and more than 50,000 for affordable sale through the Government's HomeBuy initiatives.

This is a very different programme to previous. The Housing Corporation has moved to adopt "regular market engagement." This is where available resource is retained to enable providers to access funding in the 2008-11 period. As such this has enabled us to focus on funding bids which are fully deliverable and to obtain the best possible value for money. In this region we have around 45% of our total resource still available to invest.

This statement sets out the initial proportion of new investment for our region. This is drawn down from the total regional funding for new affordable housing in 2008-11 of £316m.

This is a large scale regional programme. It is made up of 195 individual housing schemes, with a typical level of around 17 affordable homes on each site. This is made up of both rent and low cost home ownership (LCHO). Site size ranges from three affordable homes in a village location, through to one hundred and twenty homes on a large regeneration site. Very often there is open market sale in addition.

We can only deliver this programme through our partners including local authorities. Local authority input has been key to the assessment and evaluation of the proposals and will continue to be so, both during our regular market engagement, and during programme delivery.

The programme continues to provide significant inward investment into the region. The grant is levering in £269m of private finance. The grant represents only 30% of the total cost of the new homes.

The draft Regional Plan sets out the challenge for the region in terms of its aspirations for new affordable housing to respond to the region's housing pressures. This statement sets out how we intend to contribute to that task.

Charles Amies

Charles Amies
Head of Investment - East Midlands

2. Introduction

Table 1 - Overall regional allocation

	Rent	Low Cost Home Ownership (LCHO)						
	RENT	**HBYNB**	**OMHB**	**HOLD**	**LCHO Total**	**Sub-total**	**Other**	**Grand total**
Value (£m)	95.1	22.1	8.4	1.0	31.5	**126.6**	1.9	**128.5**
Homes	2,154	1,135	240	24	1,399	**3,553**	75	**3,628**

This allocation leaves significant resource available to be allocated throughout 2008-11 through the regular market engagement process. Taking into account prior commitments there remains around 45% (about £140m) of the total funding still available.

3. Competition

Table 2 - Bids received

		Number of bidders	Value (£m)	Homes	Grant per unit (£k)
RENT	**ALMO/SPV**	1	0.4	10	38.0
	Private Sector Partner	5	10.9	254	43.0
	Housing Association	22	179.9	3,391	53.0
	Total	**28**	**191.2**	**3,655**	**52.3**
LCHO	**Private Sector Partner**	5	2.7	175	15.3
	Housing Association	21	48.4	1,939	25.0
	Total	**26**	**51.1**	**2,114**	**24.2**
Grand total		**29**	**242.3**	**5,769**	**42.0**

Table 3 - Bids accepted (excluding Open Market HomeBuy)

		Number of successful bidders	Value (£m)	Homes	Grant per unit (£k)
RENT	**ALMO/SPV**	1	0.4	10	38.0
	Private Sector Partner	4	8.9	210	42.2
	Housing Association	19	85.8	1,934	44.4
	Total	**24**	**95.1**	**2,154**	**44.1**
LCHO	**Private Sector Partner**	4	1.6	120	13.5
	Housing Association	19	21.5	1,039	20.6
	Total	**23**	**23.1**	**1,159**	**19.9**
Grand total		**25**	**118.2**	**3,313**	**35.7**

The region has a healthy level of provider activity. This has enabled us to achieve a significant reduction in grant per home levels, compared to those bid. The majority of providers bid competitively. A small number of providers misread the market and bid at levels that were not consistent with our efficiency aspirations. We are following this up with the individual organisations.

It was pleasing to see our first allocation to an ALMO, Derby Homes, and also to see Westleigh, a private sector partner, becoming the sixth highest regional grant recipient.

4. Overall allocations

Table 4 - Allocations by sub-region (excluding Open Market HomeBuy)

	RENT		LCHO	
	Value (£m)	**Homes**	**Value (£m)**	**Homes**
Northern	4.9	146	1.2	74
Peak	5.5	96	1.8	64
Rural East	19.3	441	3.9	233
Southern Growth	27.2	546	7.2	305
Three Cities	38.2	925	9	483
Total	**95.1**	**2,154**	**23.1**	**1,159**

The proposed programme broadly reflects the spatial prioritisation proposed by the regional assembly. However the programme is lower in both the Northern and Southern sub-regions than the plan. Regular market engagement presents the opportunity to seek to address this imbalance.

In Northamptonshire there are underlying issues around the volume of affordable housing supply, and the extent to which the rising supply of all housing is being reflected in the proportion of new affordable. The focus of the programme in the sub-region remains on small scale, brown field, infill. It was anticipated that by now the larger urban extensions and significant infill sites would be generating more new affordable supply than they are. Historically the Southern sub-region has been the most expensive in the region and this remains an issue. We are working, in conjunction with local authorities and others, on improving the interface between the use of grant and planning gain and on supply chain activity. This should lead to a change in both the quantity and cost of new affordable homes in this sub-region as we move through 2008-11.

In the Northern sub-region the issue is considered to not be as fundamental. Programme volumes are smaller and there were some specific issues around value for money and a delay to key projects.

The Thee Cities and Eastern and Peak sub-regions had a strong set of bids and are on track. There are some specific value for money issues, in particular, for individual local authorities in the Eastern sub-region. The Three Cities had a particularly strong supply chain and was able to take up slack from the Southern sub-region and this trend may continue.

5. Summary of performance against Regional Housing Board targets

All the regional housing board targets are either now delivered, or are on track to be delivered. There are two exceptions - the sub-regional distribution detailed in 4 above and the overall split between rent and low cost home ownership.

The tenure balance has proved difficult to achieve in this initial programme. The assembly asked providers to deliver to 60% rent : 40% LCHO completions and the bids received in October reflected this. After bids had been made the ratio was adjusted in the further advice to 70% rent : 30% LCHO. Every effort was made to work to this new ratio and good progress was made to achieve 64% rent (excluding 2009-11 Open Market HomeBuy) In reality the overall LCHO proportion is likely to be exceeded in order to ensure we provide a good mix of tenures on schemes yet to be funded.

However the key objective will be to ensure that the challenging rental target is met, recognising that LCHO takes under half as much grant per home and some of these are provided without any grant input. Over 80% of expenditure is already on new rented homes and it is anticipated this will rise further.

6. Regional regular market engagement strategy

In the East Midlands we are seeking the following:

- A significant drive over the period leading to June 2009 to bring into the programme a set of schemes which gives the delivery of rented completions focused not only on 2008-09, but also 2009-10 and 2010-11. In the next 15 months, through regular market engagement, we want to see a set of schemes with assured delivery paths to give completions prior to March 2011. This is to respond to the region's sharply rising targets for new homes completions, particularly for rented.

- A continued focus on the supply of new homes in smaller villages, i.e. those with a population below 3,000.

- A continued aspiration to see new supported housing schemes, particularly for those facing social exclusion including; care leavers (at 19), adult offenders, adults in contact with secondary mental health services and adults with moderate to severe learning difficulties. In order to maximise outputs it is often helpful if funding proposals can be brought with other sources of capital funding, such as that from local authorities.

- A continued focus on larger family homes of three-bed-plus where we are seeking over a quarter of new rented homes to be of this size.

- Given the comments above regarding the relative under delivery in Northamptonshire we are keen that providers focus on bringing in deliverable schemes that also fit within our value for money parameters.

- We are keen to see consideration to the potential for the region to benefit from accessing the Growth Support (Affordable Housing) Fund and are looking to engage the relevant local authorities and providers, particularly in Northamptonshire and the growth points to consider this funding opportunity.

7. Value

Table 5 - Value for grant

	RENT			LCHO		
	Grant per unit (£k)	Grant per person (£k)	Grant as % TSC	Grant per unit (£k)	Grant per person (£k)	Grant as % TSC
Total	**44.1**	**11.9**	**38.1%**	**19.9**	**5.6**	**15.8%**

Table 6 - Costs

	RENT			LCHO		
	Acq cost per unit (£k)	On Costs per unit (£k)	Works cost per unit (£k)	Acq cost per unit (£k)	On Costs per unit (£k)	Works cost per unit (£k)
Total	**14.0**	**13.0**	**88.6**	**20.0**	**16.3**	**89.4**

We will continue our focus on ensuring we are able to work within the regional efficiency targets.

<u>S106 additionality</u>

Table 7 – S106 additionality

	RENT				LCHO			
	Proportion of expenditure		Grant per unit (£k)		Proportion of expenditure		Grant per unit (£k)	
	S106	non S106	S106	non S106	S106	non S106	S106	non S106
Total	**17.4 %**	**82.6%**	**30.1**	**49.0**	**17.0 %**	**83.0%**	**14.9**	**21.3**

There has been significant work undertaken by local authorities working with ourselves around the intelligent use of grant to fit in with section 106 planning gain and we will continue to carry on with this work to ensure we obtain the best possible outcomes.

8. Geographic investment priorities

Rural

Table 8 – Allocations to rural areas

	RENT		LCHO	
	Value (£m)	**Homes**	**Value (£m)**	**Homes**
Population less than 3,000 total	**14.1**	**288**	**3.1**	**164**
Population between 3,001 and 10,000 total	**6.3**	**185**	**1.2**	**95**
Total rural	**20.4**	**473**	**4.3**	**259**

The region has a strong focus and delivery track record on rural. Delivery in settlements between 3-10,000 population is a key focus for the regional assembly and we are keen to maintain delivery in this type of settlement.

The regional share of the national target for new homes, in settlements under 3000 population, is 993. We will be working hard with partners to focus on bringing in additional supply in these villages.

Growth Areas

Table 9 – Allocations to Growth Areas

	RENT		LCHO	
Growth Area	**Value (£m)**	**Homes (8-14)**	**Value (£m)**	**Homes (8-14)**
MKSM (Northants)	27.2	546	7.2	305
Total	**27.2**	**546**	**7.2**	**305**

Growth Points

Table 10 – Allocations to Growth Points

	RENT		LCHO	
Growth Point	**Value (£m)**	**Homes (8-14)**	**Value (£m)**	**Homes (8-14)**
3 Cities and 3 Counties	38.2	925	9	483
Total	**38.2**	**925**	**9**	**483**

We have made significant investment in our growth area and growth points and will continue to do so. In Newark, Lincoln and Grantham we have not, as yet, made specific investment in the defined growth point areas themselves, however we are in discussions with those authorities about how we can assist.

9. Thematic investment priorities

Supported housing

Table 11 – Allocations for supported housing

	RENT		LCHO	
	Homes	**Grant per unit (£k)**	**Homes**	**Grant per unit (£k)**
Specialist housing for older people	23	20.2	6	8.0
Supported housing for older people	16	25.0	0	0.0
Total housing for older people	**39**	**22.2**	**6**	**8.0**
Offenders and people at risk of offending	14	42.4	0	0.0
People with drug problem	6	42.5	0	0.0
People with mental health problems	38	57.2	25	30.1
People with physical or sensory disabilities	17	55.6	0	0.0
Rough sleepers	18	62.4	0	0.0
Young People at risk	39	36.6	0	0.0
Young people leaving care	6	44.0	0	0.0
HOLD allocation	0	0.0	24	39.7
Total other supported housing	**138**	**49.5**	**49**	**34.8**
Total supported housing	**177**	**44.0**	**46**	**23.5**

Larger Homes

Table 12 - Allocations for homes with three or more bedrooms

	Value (£)	Homes	Grant per unit (£k)
RENT Total	**29.4**	**548**	**53.6**
LCHO Total	**4.6**	**216**	**21.2**
Region Total	**34.0**	**764**	**44.5**

Meeting the needs of BME communities

In the context of a more mixed economy of affordable housing provision and with significant new communities emerging, the Corporation has developed a new approach to meeting the needs of BME communities for its 2008/11 programme. We require all Investment Partners working in areas with a significant BME population to produce a BME method statement.

This seeks to ensure all Investment Partners work with community organisations, including BME associations, to engage them in activities such as project design, access to lettings, property management or ownership. All successful bidders have provided statements and we have reviewed these and are providing feedback where further work is required. The Corporation recognises that there may be instances in which specialist BME provision cannot be incorporated within an investment partnership, perhaps because there are no suitable organisations operating in an area. We have therefore retained the specialist investment route to accommodate such projects.

Design & quality

Table 13 - New build units meeting CSH3 and above

	RENT		LCHO	
	% of total	**Homes**	**% of total**	**Homes**
Meeting CSH3	93.4%	1,802	93.8%	888
Meeting CSH 4 or higher	6.6%	127	6.2%	59
Total	**100%**	**1,929**	**100%**	**947**

LCHO affordability

Table 14 – LCHO affordability (New Build HomeBuy)

	Average rent as a % of unsold equity	Average % first tranche sale
Northern	2.86%	50%
Peak	2.76%	48.82%
Rural East	2.74%	45.23%
Southern Growth	2.73%	47.75%
Three Cities	2.80%	49.10%
Regional average	**2.77%**	**47.93%**

We will continue our focus on delivering homes with a maximum rent of 2.75%.

10. Pre-allocations

No pre-allocations have been made in the region.