THE NATIONAL **AFFORDABLE HOMES** AGENCY

Investment Statement 2008-11

April 2008

West Midlands

HOUSING CORPORATION

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1. Foreword from the Head of Investment

The 2008/11 National Affordable Housing Programme (NAHP) in the West Midlands is a very different one from previous programmes. The level of investment available through our programme has been increased at the recommendation of the Regional Housing Executive to an unprecedented level of £467m over the next three years. The target for the completion of new affordable homes is consequently higher than ever before. Given that just under half of all expenditure will flow from schemes that have not yet been included in the programme, we will be building up the programme through what we are calling the regular market engagement (RME) process where the Housing Corporation will be commissioning new deliverable schemes on a quarterly basis until we have allocated all of the remaining resources.

Our initial approach has enabled the Housing Corporation to focus on investing in bids which are fully worked up in terms of deliverability, strategic fit, and to obtain the best possible value for money. These principles will continue to guide our approach to commissioning new schemes as we move into the RME process. We are keen to begin talking to our delivery partners, local authorities, Housing Market Area groups, Advantage West Midlands, English Partnerships and the Regional Housing Executive about how we can work together to deliver the much needed affordable homes over the next few years.

Partnership working has seen us deliver and exceed targets in recent years, and that is the expectation which I am sure all of our partners will share, but we should also remember that it is also the communities we all serve which are also expecting that we will continue to be successful.

The Housing Corporation has no doubt that the target to deliver around 11000 new homes by 2011 is the most significant challenge we have been asked to meet in recent times.

Peter Jones

Head of Investment
West Midlands

2. Introduction

The programme targets set for the region include delivering 7200 homes for rent and 3600 homes for low cost home ownership. These targets have been agreed at a regional and national level and will go forward as part of the targets to be delivered by the Homes and Communities Agency (HCA) from April 2009. Allocations made so far amount to £185.6m of investment to complete 2629 new rented and 1902 new low cost home ownership (LCHO) homes between 2008-2011. It is a large scale regional programme comprising over 170 individual projects. Consultation with each individual local authority in the region was key to the assessment and evaluation of the proposals.

The Housing Corporation's investment is levering in over £320m of private finance and almost £8m in other public subsidy.

<u>Overall regional allocation</u>

The table below gives an overview of the regional programme prior to the first round of RME. It is intended that regular market engagement will be utilised throughout 2008-11 to deliver the balance of the programme targets.

Table 1 – Overall allocations

	RENT	**LCHO**							
	RENT	**HBYNB**	**INT RENT**	**OMHB**	**HOLD**	**LCHO Total**	**Sub-total**	**Other**	**Grand total**
Value (£m)	135.9	23.2	1.5	23.0	1.2	48.9	**184.8**	0.8	**185.6**
Homes	2,629	1,159	50	658	35	1,902	**4,531**	19	**4,550**

3. Competition

The level of competition in the bidding round meant that there was a range of schemes looking to meet a diverse range of needs in the region. A number of “new” players were in evidence and some more successful than others in the offer they had to make. However, many of the bids which were not included in the first iteration of the programme will be encouraged to be presented in future RME rounds for further appraisal having revisited delivery and cost parameters. Private sector partners are not yet in evidence in the programme but we expect that this situation will change during RME.

Table 2 - Bids received

		Number of bidders	Value (£m)	Homes	Grant per unit (£k)
RENT	**Private Sector Partner**	6	11.2	225	49.8
	Housing Association	22	307.3	5,293	58.1
	Total	**28**	**318.5**	**5,518**	**57.7**
LCHO	**Private Sector Partner**	4	0.5	26	19
	Housing Association	18	71.9	2,787	25.8
	Total	**22**	**72.4**	**2,813**	**25.7**
Grand total		**28**	**390.9**	**8,331**	**46.9**

Table 3 - Bids accepted

		Number of successful bidders	Value (£m)	Homes	Grant per unit (£k)
RENT	**Housing Association**	16	135.9	2,629	51.7
	Total	**16**	**135.9**	**2.629**	**51.7**
LCHO	**Housing Association**	15	26.0	1,244	20.9
	Total	**15**	**26.0**	**1,244**	**20.9**
Grand total		**17**	**161.8**	**3,873**	**41.8**

The tables above indicate the number of bids received in the region and those bids accepted into the programme. NB: The above tables do not include allocations for Open Market HomeBuy (OMHB) which was allocated separately.

4. Overall allocations

Table 4 - Allocations by sub-region (does not include OMHB)

	RENT		LCHO	
	Value (£m)	**Homes**	**Value (£m)**	**Homes**
Central	106	1,999	20.6	977
North	13.3	281	2.1	134
South	11.5	236	2	84
West	5.2	113	1.3	49
Total	**135.9**	**2,629**	**26**	**1,244**

The table above shows the amounts of NAHP funding proposed for each of the Housing Market Areas (HMA). RME presents the opportunity to invest further in all of the housing market sub regional areas. When compared to the levels of investment proposed in the regional allocations strategy, the level of investment is lower than in all of the HMAs, but particularly the North, South and West HMAs than the plan..
However, in each of the Housing Market Areas there are issues which need to be addressed to ensure that the supply of affordable (and other forms of tenure) is considerably stepped up if each of the housing market areas is to benefit from the increased levels of investment provided by the Regional Housing Executive.

The Housing Corporation will work with the Regional Assembly, local authorities, English Partnerships and delivery partners to increase the pipeline of new housing schemes over the next three to five years.

5. Summary of performance against Regional Housing Executive targets

The Regional Housing Executive agreed the Regional Allocations Strategy which proposed the level of investment for each of the four housing market areas. Within these levels of investment bidders were asked to help meet the shortage of affordable homes for rent and LCHO across the region, meeting the needs of rural communities with at least 750 homes delivered in villages and market towns, and investment in supported housing.

Proposed investment in Supported Housing and Extra Care schemes amounts to £63m and represents 37% of the programme. This is in line with the expectations of the regional allocations strategy, to create a balance between general needs housing and housing for specified client groups. There are schemes which were not allocated which will be able to be considered as part of regular market engagement. However, the need to meet regional efficiency targets suggests that the commissioning of future Extra Care schemes will need to embrace alternative funding solutions to those already in place.

6. Regional regular market engagement strategy

Guidance will be published prior to the RME bidding rounds, but there are some specific issues which bidders and commissioners and enablers need to be aware of and these points will be reiterated in discussions with Housing Corporation staff.

Regional Efficiency levels – the Housing Corporation has designed the initial programme to deliver a balanced programme which meets diverse needs across the region. The imperative to deliver a cost effective programme will remain the utmost priority during the RME process and partners should take the earliest opportunity to speak to the relevant Investment Manager if there are concerns about not being able to meet the regional efficiency levels or further information is required on the appropriate levels of investment being sought from the Housing Corporation.

Delivering affordable homes in rural communities – The levels of investment which the Regional Housing Executive want to see invested in the four housing market areas to deliver more affordable housing will need to be addressed in future RME rounds. The supply of housing particularly in the West Housing Market need to be addressed if we are to meet the requirements of the RHE and deliver for the communities in the rural areas of the region. If current investment partners are unable to deliver, the Housing Corporation will have to look to other national partners to explore alternative ways of delivery.

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	**51.7**	**15.0**	**41.0%**	**20.5**	**6.0**	**16.0%**

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	**14.1**	**15.5**	**96.6**	**32.1**	**15.8**	**76.7**

The regional team has sought to create a programme which meets regional priorities and has a balance of investment between those schemes which represent very good value with those that are strategically important but are more expensive. There are other schemes which have not been included in the current programme but which will be the subject of further discussion with providers to be brought back for RME.

For investment partners the need to ensure that the regional efficiency targets are being met will need to be upper most in their minds when looking to commission schemes. They will be challenged to justify costs where schemes are appraised by the Corporation as being expensive, and local authorities as commissioning partners will need to examine their ability to contribute resources where schemes are seeking to be recognised as local priorities.

S106 additionality

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
Central	14.7%	85.3%	41.6	55.6	25.2%	74.8%	13.9	25.5
North	0.8%	99.2%	25.0	47.5	0.9%	99.1%	2.5	16.7
South	0.0%	100.0 %	0.0	49.2	0.0%	100.0%	0.0	23.5
West	5.3%	94.7%	55.0	45.4	9.9%	90.1%	25.0	25.9
Total	**11.7 %**	**88.3%**	**41.3**	**53.5**	**20.5 %**	**79.5%**	**13.8**	**24.0**

The number of s106 schemes has been less than expected and their ability to help cushion higher grant levels on non s106 schemes has therefore been limited. It is anticipated that RME will bring forward a greater number of s106 sites. The low level of bids from non-registered bodies would also suggest that they will come forward with additional s106 sites in RME.

8. Geographic investment priorities

Rural

Table 8 – Allocations to rural areas

	RENT			**LCHO**		
	Value (£m)	**Homes**	**Grant Per Unit (£k)**	**Value (£m)**	**Homes**	**Grant Per Unit (£k)**
Population less than 3,000 total	**2.8**	**54**	**52.4**	**0.7**	**25**	**26.3**
Population between 3,001 and 10,000 total	**5.5**	**124**	**44.2**	**1.0**	**100**	**10.0**
Total rural	**8.3**	**178**	**46.7**	**1.7**	**125**	**13.3**

The volume of new rural homes bid for was in line with expectations and it should be possible to meet the targets which the Regional Housing Executive has asked the Corporation to deliver through regular market engagement. It is recognised that the commissioning and delivery of schemes in rural localities is difficult, and this is clearly reflected in the West and South HMAs, but Regular Market Engagement is seen as a positive way to ensure that as schemes are commissioned, resources are available to ensure delivery.

Growth Points

Table 9 – Allocations to growth points

Growth Points	**RENT**		**LCHO**	
	Value (£m)	**Homes**	**Value (£m)**	**Homes**
Birmingham and Solihull	35.4	598	5.2	140
Coventry	3.4	72	1.8	86
East Staffordshire	0.6	22	0.5	33
Shrewsbury and Atcham	1.8	41	0.7	27
Telford	8	201	1	96
Worcester	1.1	26	0.2	13
Total	**50.3**	**960**	**9.4**	**395**

The table above shows the level of current investment in the NAHP for those areas which have been designated ad Growth Points by CLG. This information is purely for illustrative purposes and the forthcoming sub regional investment priority strategies will need to give a steer on how these areas will fit into future investment priorities.

Pathfinders

Table 10 - Housing Market Pathfinder areas

Pathfinder	RENT Value (£m)	RENT Homes	LCHO Value (£m)	LCHO Homes
Birmingham and Sandwell	6.7	96	1.2	51
North Staffordshire	12.1	250	1.2	76
Total	**18.8**	**346**	**2.5**	**127**

The regional allocations strategy has prioritised investment in the two national pathfinders, RENEW in the North HMA and Urban Living in the Central HMA. This is reflected in the table above. The regional investment strategy has also identified the two "regional" pathfinders in the Black Country – Evolve and North Solihull/East Birmingham as priority investment areas.

Investment has been proposed in all of the four areas to support the work of the pathfinders and help to deliver their strategic vision. Where there have been issues identified on schemes which cannot be delivered to the required timescale or there are issues of costs and or quality, these schemes will be revisited through Regular Market Engagement.

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	653	60.7	241	35.5
Total housing for older people	**653**	**60.7**	**241**	**35.5**
Homeless families with support needs	41	52.8	0	0.0
Offenders and people at risk of offending	6	10.9	0	0.0
People with alcohol problems	10	51.0	0	0.0
People with mental health problems	100	75.7	0	0.0
People with physical or sensory disabilities	23	38.6	0	0.0
Rough Sleepers	19	90.2	0	0.0
Teenage Parents	6	45.0	0	0.0
Young People at risk	36	63.5	0	0.0
HOLD Allocations	0	0.0	35	34.1
Total other supported housing	**241**	**64.2**	**35**	**34.1**
Total supported housing	**894**	**61.6**	**276**	**35.3**

Supported housing is a challenging area to fund within the constraints of a tight efficiency target. In general terms it has a higher subsidy requirement than general needs, due to factors such as higher build costs for extra facilities and higher specifications on certain projects and a less secure income stream reducing capacity to borrow.

Notwithstanding the above the current programme contains 190 new rented supported homes - over 5% of the rented homes total. Within this are a variety of schemes for client groups as wide ranging as women fleeing domestic violence, adults with learning disabilities, older people requiring specialist accommodation, young single people and hostel move on accommodation.

The number of bids for Extra Care schemes was anticipated to be large and it has been possible to include 14 individual schemes in the Central HMA and one in the North HMA. These represent a significant investment and will deliver 635 homes for rent and 247 for LCHO.

Larger homes

Table 12 - allocations for homes with three or more bedrooms

	Value (£)	Homes	Grant per unit (£k)
RENT Total	**33.7**	**614**	**54.9**
LCHO Total	**4.0**	**228**	**17.8**
Region Total	**37.7**	**842**	**44.8**

Larger family homes are those defined as having 3 or more bedrooms. This is a particular priority for most of the authorities in the region. It is encouraging that almost a quarter of the new rented homes are larger family homes, notwithstanding the cost pressures . There will be a continued to focus on this and in particular on seeking a larger proportion of larger LCHO homes which were underrepresented in bids against the target. Further discussion will need to take place within the HMA groups to identify where there is the greatest need for larger homes so that Regular Market Engagement can ensure delivery against targets.

Meeting the needs of Black and Minority Ethnic communities

The need to address the housing needs of a diverse population across the region has been recognised in the Regional Housing Strategy and Allocations Strategy.

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 the region where there are significant BME communities 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 is no suitable organisations operating in an area. We have therefore retained a specialist investment route to accommodate such projects.

Design & quality

The Housing Corporation's new 2008-11 design and quality standards have set out a very clear benchmark for bidders to achieve. For sustainability these are Code for Sustainable Homes Level 3, for the external environment the achievement of a Building for Life assessment scoring 12 out of 20 (10/20 for rural below 3000 population and street fronted homes) and on the internal environment the achievement of minimum housing quality indicators which specify standards of size, layout and services. Within the programme there are a number of exemplar schemes such as those which achieve Code for Sustainable Homes level 4. The Housing Corporation will be working with the multi agency group - Designed Environment West Midlands - to promote the quality and sustainability agenda in the RME process.

Table 13 – New build units meeting CSH3 and above

	RENT		LCHO	
	% of total	**Homes**	**% of total**	**Homes**
Meeting CSH3	98.1%	2,049	100%	911
Meeting CSH 4 or higher	1.9%	40	-	-
Total		**2,089**		**911**

LCHO affordability

Table 14 – LCHO affordability

	Average rent as a % of unsold equity	Average % first tranche sale
Central	2.50	51.46
North	2.80	47.33
South	2.76	49.57
West	2.63	45.36
Regional Average	**2.57**	**50.39**

Affordability is an issue which local authorities and the Regional Housing Executive are increasingly concerned about – the ability of local people to access good quality homes that they can afford to purchase, rent and maintain. Parts of the region , particularly in the South and West Housing Markets have experienced high prices which effectively consign many local people to the rented sector.

The region has therefore indicated a need to increase the number of rented homes while still maintaining a LCHO programme which can meet some of the demand for home ownership.

10. Pre-allocations

Table 15 – Pre-allocations

	Rent		**LCHO**	
	Value (£m)	**Homes**	**Value (£m)**	**Homes**
Central	2.3	83	0.6	66
North	1.0	25	0.5	22
Total	**3.3**	**108**	**1.1**	**88**

The pre-allocations in the programme relate to the Millennium Communities Village in Telford which is being developed in partnership with English Partnerships and private sector and RSL partners. One other scheme is for the final phase of a strategic regeneration scheme in Stoke.