Homes & Communities Agency

Investment Statement 2008-11

East Midlands Region

January 2010

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1. Foreword from the Regional Director

This report updates on the progress of delivering the National Affordable Housing Programme (NAHP) in the East Midlands, which since December 2008 has been the responsibility of the Homes and Communities Agency (HCA).

Nationally, during 2008-11, funding of £8.4bn was earmarked for the NAHP with intention to provide at least 155,000 new homes. Of these, more than 100,000 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 HCA inherited the delivery of this programme and has worked with partners on “continuous market engagement.” Pre-qualified partners are now able to bid for that funding at any time and we manage our programme on this basis.

The current market conditions have led to the introduction of a series of operational flexibilities to assist partners in maintaining delivery. We can only deliver this programme through close working with 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 continuous market engagement, and during programme delivery.

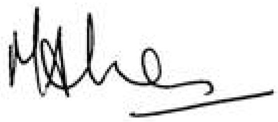
The need to assist entry into the housing market is reflected in Homebuy Direct – an additional form of Low Cost Homeownership product, which offers homes into the low cost ownership market.

Most recently, government have introduced a series of new funding initiatives – Kick Start, Local Authority New Build, a Public Land Initiative, and increased resource for NAHP. These are predominantly nationally distributed programmes, which are open to bids from within the region.

Working with our partners, we hope the region can benefit from these initiatives. We remain optimistic that our investment and innovation can help tackle the issues arising from the current housing market, but we continue to closely monitor the local market. As ever we welcome the open and honest dialogue that we experience as part of our programme interventions.

This statement sets out the proportion of funding made through the monthly continuous market engagement rounds that took place in October, November and December 2009. The funding is drawn down from the total regional funding for new affordable housing in 2008-11 of £316m.

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



Margaret Allen

Regional Director - East Midlands

2. Introduction

This Regional Investment Statement should be read in conjunction with the Regional Investment Statements published on the Homes and Communities Agency website since January 2009; the Housing Corporation website in May, July and November 2008; and the NAHP prospectus issued by the Housing Corporation in September 2007. (Housing Corporation publications are accessible through the Homes and Communities Agency website).

Table 1 - Overall regional allocation from 2009/10 Quarter 3 Continuous Market Engagement

	Rent	Low Cost Home Ownership (LCHO)										
	RENT	Homebuy Direct	Homebuy Newbuild	Open Market Homebuy	Home Ownership for people with long- term disabilities	Intermediate Rend	Mortgage Rescue	Rent to Homebuy	LCHO Total	Sub-Total	Other	Grand Total
Value (£m)	35.3	5.2	1.2				4.1	1.8	12.4	47.7	0.6	48.3
Homes	773	216	49				46	73	384	1,157	15	1,172

Table 2 - Overall regional allocation for 08/11 Programme

	Rent	Low Cost Home Ownership (LCHO)										
	RENT	Homebuy Direct	Homebuy Newbuild	Open Market Homebuy	Home Ownership for people with long- term disabilities	Intermediate Rend	Mortgage Rescue	Rent to Homebuy	LCHO Total	Sub-Total	Other	Grand Total
Value (£m)	248.9	43.4	13.6	10.7	1.0	4.5	4.7	18.9	96.8	345.7	3.0	348.7
Homes	5,176	1,803	706	401	26	155	53	719	3,863	9,039	142	9,181

We continue to utilise "continuous market engagement" (CME). This is where we allocate our remaining resources as we proceed through 2008-11 on an on-going basis. This arrangement has worked well, giving us both the flexibility and responsiveness needed to respond to changing market conditions.

As we move through the 2008-11 programme period we will continue to focus on a tightly managed programme with a strong focus on value for money.

3. Overall allocations

Table 3 – New allocations from 2009/10 Quarter 3 Continuous Market Engagement by sub-region

	RENT		LCHO	
	Value (£m)	Homes	Value (£m)	Homes
Northern	2.9	53	0.9	40
Peak	1.5	24	0.3	12
Rural East	6.8	137	1.4	67
Southern Growth	9.9	189	5.6	111
Three Cities	14.3	370	4.1	154
Total	**35.33**	**773**	**12.4**	**384**

Table 4 – Total 08/11 Programme allocations by sub-region

	RENT		LCHO	
	Value (£m)	Homes	Value (£m)	Homes
Northern	19.1	490	11.8	551
Peak	14.4	252	1.9	70
Rural East	71.0	1,467	21.8	954
Southern Growth	45.0	899	26.0	858
Three Cities	99.5	2,068	35.3	1,430
Total	**248.9**	**5,176**	**96.8**	**3,863**

Across both the initial bid round and subsequent market engagements, the programme broadly reflects the spatial prioritisation proposed by the Regional Assembly. However the programme is lower in the Southern sub-region than the plan. It is higher than envisaged in the Three Cities and Eastern sub-regions, where the supply of opportunities has been strong. Further market engagement may present the opportunity to address this imbalance.

Table 5 – Total LA New Build allocations by sub-region*

Sub Region	Round 1		Round 2	
	Value (£m)	Homes	Value (£m)	Homes
Northern	4.2	74	2.6	54
Peak	0	0	0.3	5
Rural East	1.1	19	0.8	16
Southern Growth	4.0	78	0.3	8
Three Cities	7.2	143	5.0	103
Total	**16.5**	**314**	**8.9**	**186**

**Not included in overall 08/11 programme position*

A total package of £460 million - that will be distributed in two rounds - has been made available nationally for local authorities to deliver new homes for social rent, building on their own land and to high environmental standards.

The available funding, delivered through the HCA, makes available Social Housing Grant and provides capital cover for the consequential prudential borrowing serviced by rental income from the properties. The money is broadly split 50:50 between the two elements.

As part of the first round the region allocated £16.5m of grant to deliver 314 homes across 10 Local Authorities. Successful schemes were selected on the basis of deliverability, value for money and strategic fit, as well as requiring local authorities to demonstrate local labour initiatives as part of their bids. The second round resulted in £9m of grant to deliver 186 homes.

Table 6 – New allocations from 2009/10 Quarter 3 Continuous Market Engagement by provider type*

		Number of successful bidders	Value (£m)	Homes	Grant per unit (£)
RENT	**ALMO/SPV/Other**				
	Private Sector Partner	4	4.5	146	30,616
	Housing Association	13	30.9	627	49,226
	Total	**17**	**35.3**	**773**	**45,711**
LCHO	**ALMO/SPV/Other**				
	Private Sector Partner	2	0.3	17	19,412
	Housing Association	7	6.9	151	45,393
	Total	**9**	**7.2**	**168**	**42,764**
Grand total		**18**	**42.5**	**941**	**45,185**

**(Excluding Open Market Homebuy, Miscellaneous and Homebuy Direct products)*

4. 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 3 above and the overall split between rent and low cost home ownership.

The tenure balance proved difficult to achieve in the initial programme. The Regional Assembly asked providers to deliver to 60% rent: 40% low cost home ownership. The ratio was adjusted following further advice to 70% rent: 30% low cost home ownership.

Market conditions and the slower than expected uptake of new demand led products has resulted in the region achieving a 59% rent: 41% LCHO split between tenures thus far.

5. Regional continuous market engagement strategy

We recognise that the current market conditions are a significant factor in influencing the quantity and nature of new affordable housing supply. Notwithstanding this our priorities remain as below.

In the East Midlands we are seeking the following:

- Schemes which offer excellent value for money. We have a very strong focus on delivering our target outputs, which places a focus on levels of grant required.
- 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.

6. Value

Table 7 - Value for grant for 2009/10 Quarter 3 Continuous Market Engagement allocations

	RENT			LCHO		
	Grant per unit (£)	Grant per person (£)	Grant as % TSC	Grant per unit (£)	Grant per person (£)	Grant as % TSC
Regional average	45,711	13,585	36.9%	25,026	6,106	19.7%

Table 8 – Average costs for 2009/10 Quarter 3 Continuous Market Engagement allocations

	RENT			LCHO		
	Acq cost per unit (£)	On Costs per unit (£)	Works cost per unit (£)	Acq cost per unit (£)	On Costs per unit (£)	Works cost per unit (£)
Regional average LCHO excl Homebuy Direct, Open Market Homebuy, HOLD	16,682	16,094	90,995	7,114	5,518	27,736

The region has maintained its focus on delivering new affordable housing within the agreed efficiency parameters

S106 additionality

Table 9 – S106 additionality for 2009/10 Quarter 3 Continuous Market Engagement allocations

	RENT						LCHO					
	Proportion of expenditure		Grant per unit (£)		Grant per person (£)		Proportion of expenditure		Grant per unit (£)		Grant per person (£)	
	S106	Non-s106	S106	Non-s106	S106	Non-s106	S106	Non-s106	S106	Non-s106	S106	Non-s106
Regional average	4.5%	95.5%	31,909	46,666	7,821	14,076	0.6%	99.4%	11,500	32,626	2,875	4,225

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

7. Geographic investment priorities

Rural

Table 10 – 2009/10 Quarter 3 Continuous Market Engagement allocations to rural areas

	RENT		LCHO	
	Value (£m)	Homes	Value (£m)	Homes
Population less than 3,000 total	3.5	71	0.4	13
Population between 3,001 and 10,000 total	4.5	89	0.6	36
Total rural	8.0	160	1.0	49

Table 11 – Total 08/11 Programme allocations to rural areas

	RENT		LCHO	
	Value (£m)	Homes	Value (£m)	Homes
Population less than 3,000 total	33.9	660	4.8	189
Population between 3,001 and 10,000 total	18.7	413	3.7	208
Total rural	52.6	1,073	8.4	397

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 12 – 2009/10 Quarter 3 Continuous Market Engagement allocations to Growth Areas

Growth Area	RENT		LCHO	
	Value (£m)	Homes (8-14)	Value (£m)	Homes (8-14)
Milton Keynes/South Midlands	9.9	189	5.6	111
Total	**9.9**	**189**	**5.6**	**111**

Table 13 – Total 08/11 Programme allocations to Growth Areas

Growth Area	RENT		LCHO	
	Value (£m)	Homes (8-14)	Value (£m)	Homes (8-14)
Milton Keynes/South Midlands	45.0	899	26.0	858
Total	**45.0**	**899**	**26.0**	**858**

Growth Points

Table 14 – 2009/10 Quarter 3 Continuous Market Engagement allocations to Growth Points

Growth Point	RENT		LCHO	
	Value (£m)	Homes (8-14)	Value (£m)	Homes (8-14)
3 Cities & 3 Counties	14.3	370	4.1	154
Total	**14.3**	**370**	**4.1**	**154**

Table 15 – Total 08/11 Programme allocations to Growth Points

Growth Point	RENT		LCHO	
	Value (£m)	Homes (8-14)	Value (£m)	Homes (8-14)
3 Cities & 3 Counties	99.5	2,068	35.3	1,430
Total	**99.5**	**2,068**	**35.3**	**1,430**

We have made significant investment in our Growth Area and Growth Points and will continue to do so. In Newark, Lincoln, Gainsborough 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 them.

8. Thematic investment priorities

Supported housing

Table 16 – 2009/10 Quarter 3 Continuous Market Engagement allocations for supported housing

	RENT			LCHO		
	Value (£m)	Homes	Grant per unit (£)	Value (£m)	Homes	Grant per unit (£)
Specialist housing for older people	2.4	92	25,738	2.4	92	25,738
Supported housing for older people						
Sub total for older people housing	2.4	92	25,738	2.4	92	25,738
Client groups for other supported housing:						
People with drug problems	0.2	10	15,300			
People with learning disabilities	0.4	9	38,889			
People with physical or sensory disabilities	0.1	1	91,500			
Single homeless people with support needs	2.4	65	36,485			
Women at risk of domestic violence	0.5	8	66,500			
Young People at risk	1.4	46	29,565			
Sub total for other supported housing	4.9	139	34,950			
Total supported housing	7.3	231	31,281	2.4	92	25,738

Table 17 – Total 08/11 Programme allocations for supported housing

	RENT			LCHO		
	Value (£m)	Homes	Grant per unit (£)	Value (£m)	Homes	Grant per unit (£)
Specialist housing for older people	11.4	231	49,564	0.6	18	32,111
Supported housing for older people						
Sub total for older people housing	11.4	231	49,564	0.6	18	32,111
Client groups for other supported housing:						
Homeless families with support needs	0.2	4	39,787			
Offenders and people at risk of offending	1.7	52	33,242			
People with alcohol problems	0.1	2	26,409			
People with drug problems	1.2	44	27,570			
People with learning disabilities	1.5	31	47,387			
People with mental health problems	1.7	29	57,931	0.8	25	30,143
People with physical or sensory disabilities	6.7	158	42,480			
Rough Sleepers	0.2	2	115,000			
Single homeless people with support needs	3	81	36,679			
Teenage Parents	0.4	12	34,667			
Women at risk of domestic violence	1.4	24	59,417			
Young People at risk	2.2	69	32,023			
Sub total for other supported housing	20.3	508	39,896	0.8	25	30,143
Total supported housing	31.7	739	42,918	1.3	43	30,967

The region is also performing particularly strongly in the supported/specialist accommodation area. By way of illustration, we have allocated £33m of grant, over twice the assembly's recommendation.

Larger Homes

Table 18 – 2009/10 Quarter 3 Continuous Market Engagement allocations for homes with three or more bedrooms*

	Value (£)	Homes	Grant per unit (£)	Grant per person (£)
RENT	£13.5	235	£57,437	£11,155
LCHO	£1.1	191	£5,902	£3,149
Region Total	**£14.6**	**426**	**£34,331**	**£9,327**

The region is performing very strongly against our larger homes target, where the percentage of new allocations made in the 0811 programme so far exceed assembly recommendations in both the rent (29%) and LCHO (27%) tenures. The targets for rent and LCHO are 25% and 23% respectively.

**Includes Rent, Homebuy Newbuild & Intermediate Rent products only*

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 Homes and Communities Agency 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 Homes and Communities Agency 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 19 - 2009/10 Quarter 3 Continuous Market Engagement allocations for new build units meeting CSH3 and above

	RENT		LCHO	
	% of total	Homes	% of total	Homes
Meeting CSH3	92.4%	3,048	95.3%	772
Meeting CSH 4 or higher	4.8%	159	2.8%	23
Total	97.2%	3,207	98.1%	795

Table 20 - Total 08/11 Programme allocations for new build units meeting CSH3 and above

	RENT		LCHO	
	% of total	Homes	% of total	Homes
Meeting CSH3	91.6%	489	87.3%	96
Meeting CSH 4 or higher	8.4%	45	12.7%	14
Total	100.0%	534	100.0%	110

We have funded a small number of market opportunity new homes that are complete, or nearly complete. This is in accordance with our recently revised additional guidance issued as part of our response to market conditions. These do not meet CSH3 in that their open market specifications were fixed prior to funding for affordable housing. However we continue to focus rigorously on the quality and space standards of all the homes we fund.

LCHO affordability

Table 21 – LCHO affordability (New Build HomeBuy) from 2009/10 Quarter 3 Continuous Market Engagement allocations

	Average rent as a % of unsold equity	Average % first tranche sale
Northern	2.75%	50%
Peak	2.75%	50%
Rural East	2.84%	34%
Southern Growth	2.74%	44.9%
Three Cities	2.75%	45.7%
Regional average	**2.77%**	**42.5%**

9. Pre-allocations

National Affordable Housing Programme 2008-11