



Department for
Communities and
Local Government

Local Growth Fund

Housing Revenue Account Borrowing Programme (2015-16 and
2016-17)

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Ministerial foreword

Increasing the supply of affordable housing is a priority for the Government and it is a critical element in wider economic growth. We are currently working with Local Enterprise Partnerships to agree local Growth Deals – and our aim is a Growth Deal for every area by July this year. In many areas, a key part of the local strategies developed by Local Enterprise Partnerships will be investment for housing growth.

Local government has always played a central role in housing and, since the introduction of self-financing for local government in 2012, many councils who manage and maintain their own stock are starting to look again at the opportunities it offers to commission and build new homes for their local communities.

But many councils have said that they can do more if they can undertake additional borrowing. We have listened to this and that is why, in the Autumn Statement last year, we announced we would raise local authority Housing Revenue Account borrowing limits, by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis to drive value for money. We are looking to local authorities, who need additional borrowing, to bid for that increase and for schemes that would help to deliver 10,000 new affordable homes.

The Government wants to see active asset management and the disposals of high value vacant stock forming part of any bid as well as public sector land being brought forward – councils should be using their land proactively and not just mowing it. Local authorities should also consider partnership working with housing associations or through joint ventures to deliver their schemes. In a nutshell we want this additional borrowing to be used to drive innovation in how local authorities deliver housing for their local communities.

We also explained in the Autumn Statement that this funding will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership. This will strengthen the role of the Local Growth Fund in transforming local economies by providing much-needed housing to support growth.

This bidding document sets out the detail of how local authorities can bid for additional borrowing and I would encourage them to come forward with their proposals and take advantage of this opportunity.

Kris Hopkins MP, Minister for Housing

Chapter One: why should local authorities bid to this programme?

Introduction

1. Local authorities play a central role in the management and delivery of new homes and the Government wants to support innovative local authorities who want to do more. In April 2012 the Government reformed the council house finance system, introducing self-financing for local authorities who still own and manage their own housing. This system of self-financing gave local authorities greater freedoms and flexibilities to manage their housing and develop new homes. For many councils the opportunities provided by self-financing are only just starting to be realised.
2. The limits on the amount of local authority Housing Revenue Account borrowing were introduced to control public sector borrowing in the context of the government's fiscal consolidation plan . However, we recognise that some councils would value increased flexibility in realising their housing supply ambitions. The Government has therefore made £300 million of additional Housing Revenue Account borrowing available as part of the Local Growth Fund to help those authorities that need additional borrowing and want to deliver new affordable homes quickly.
3. Our aim is that local authorities will work with Local Enterprise Partnerships, in support of local growth strategies, to increase the supply of housing locally. We want local authorities to do this in a way that will drive innovation through the use of locally owned land, the sale of high value vacant properties and partnership working to ensure that the impact on public sector borrowing is as low as possible and the supply of new homes is as high as possible. We intend to help a new way of thinking about value for money take root within the sector.
4. It is hoped that many local authorities will take this opportunity of a new approach to their role in the supply of local affordable homes for their communities using the innovation and creativity that marks the local government sector at its best.
5. The profile for this additional borrowing is £150 million against capital expenditure in 2015/16 and £150 million against capital expenditure in 2016/17. This bidding document covers England, including London. There is no proposal to have a separately administered scheme for the London boroughs. The Greater London Authority will, however, assist with the assessment of bids submitted by any London borough.

Main programme aims

6. The Government has some core objectives that it wants to achieve through this new Housing Revenue Account borrowing programme.
 - To increase the supply of new affordable rent and affordable home ownership homes delivered by local authorities or through partnership arrangements, leveraging in private finance where necessary;
 - To support innovation by local authorities in delivering and supporting new housing development;
 - To drive down costs and support bids where affordable housing is developed with lower public sector costs;
 - To require local authorities to maximise value for money of schemes including contributing their own resources such as bringing forward their own land and, in particular disposing of high value vacant stock;
 - To support local authorities that will be delivering new affordable homes that meet local needs and which are in line with the objectives of the local Strategic Economic Plan; and
 - To see new homes provided that address the demographic challenges facing social housing, including the need for homes of sizes that match household needs.

Meeting local needs and economic priorities

7. One of the main aims of the programme is to help to meet local need for affordable homes. Housing plays an important role in local economic growth, it is therefore vital that any additional borrowing for housing is considered alongside wider investment in an areas infrastructure and economic growth plan. This is why this borrowing will form part of the Local Growth Fund. Local authorities will need to ensure that their bids are endorsed by their Local Enterprise Partnerships, and we will be looking for confirmation that any potential bids are in line with the objectives of the Strategic Economic Plans which were submitted to Government by 31 March 2014. We will also seek to engage with authorities where a Strategic Economic Plan indicated that a local authority would be likely to bring forward a bid for additional Housing Revenue Account borrowing.
8. To ensure that bids meet local housing need, local authorities should consider whether the proposed scheme, or schemes, offer an appropriate size and mix of affordable housing. In areas where there is a particular shortage of smaller homes for under-occupying tenants to move to, we would expect local assessments of needs and bids to reflect this, by including a high proportion of one and two bedroom properties, for example, by the conversion of existing stock to new affordable units or the provision of sheltered housing.

9. Local needs may also include on-going requirements for family homes. It is possible that need might be met, in part, through re-allocation of properties which are currently under-occupied, by providing opportunities for households who are under-occupying to move to a smaller home.
10. The Government has recently published its response to the consultation on Housing Standards Review and set out the next steps¹. Local authorities bidding for additional Housing Revenue Account borrowing should take note that the Review has not completed and that there will be further announcements during the year. In preparing bids local authorities should make reasonable assumptions about other factors likely to impact on their proposed developments².
11. The intention of this programme is to provide new affordable rent homes (and, where appropriate, affordable home ownership homes). Social rent provision will only be supported in very limited circumstances. In general, government policy does not support the argument that only rents at or close to social rent levels are capable of meeting local needs.

Invitation to bid

12. This bidding document invites local authorities that maintain a Housing Revenue Account to submit bids to increase the supply of affordable housing locally through bids developed around an increase in Housing Revenue Account borrowing.
13. The bidding routes for doing so are set out in Chapter 3.
14. As the £300 million programme is available as part of the Local Growth Fund local authorities need to ensure that their bid has been endorsed by their Local Enterprise Partnership before submitting it to the Secretary of State. The Local Enterprise Partnership should confirm that the bid is in line with their Strategic Economic Plan.
15. This invitation to bid is open for firm schemes until **5pm 16 June 2014**.
16. For schemes that are due to start only in 2016/17 and where detailed plans are not yet available, we will also accept **Expressions of Interest by 5pm 16 June 2014**.
17. Depending on the number and quality of bids received the Government may decide to allocate all the £300 million to the firm bids it receives in June. There is therefore a risk for authorities who submit an Expression of Interest that we will be unable to allocate

¹ www.gov.uk/government/news/stephen-williams-announces-plans-to-raise-housing-standards

² The addendum to the Affordable Homes Programme provides clarification on the technical requirements that bidders for the 2015-18 Programme will be expected to meet or consider in submitting their bids. The Government expects local authorities to follow a similar approach for this programme: http://www.homesandcommunities.co.uk/sites/default/files/our-work/140326_ahp_prospectus_2015_addendum.pdf

additional borrowing to them for 2016/17. We will endeavour to inform those authorities as soon as possible.

18. Details for any subsequent bidding round for those authorities who have submitted an expression of interest will be published in due course, following the assessment of firm bids received by 16 June 2014. We will seek to align any second bidding round for 2016/17 with the bidding process for the 2016/17 Local Growth Fund.

Chapter Two: The Funding Model

Summary of main elements

19. Local authorities should seek to reduce the amount of public sector borrowing needed to finance new supply wherever possible. Therefore, where additional Housing Revenue Account borrowing is requested and in order to meet the Government's aim of 10,000 new affordable homes, we will be looking to support local authority schemes that maximise the following sources of funding:
 - Bringing forward their own land for scheme development as a mechanism to reduce costs of the proposed housing;
 - Receipts generated through the disposal of existing stock, and, in particular, high value vacant stock;
 - Other sources of cross subsidy, including surpluses from existing stock and activities and income; and
 - Other sources of funding or means of reducing the costs such as free or discounted public land (in addition to local authority land) and other contributions such as from the New Homes Bonus or Section 106 commuted sums.
20. Councils may also wish to consider sources of private finance and the contribution that private sector finance can make to the scheme either through partnership arrangements or a special purpose vehicle. Where a local authority may be considering proposals for a special purpose vehicle, such as a joint venture, as part of the scheme they should indicate how they propose the special purpose vehicle or its members will borrow commercially and avoid any impact on public sector borrowing – i.e. that it would not be classified as a public sector vehicle. We will not be looking to support schemes where such a special purpose vehicle, and its borrowing and expenditure, is classified as public sector, and therefore has an impact on public sector borrowing.
21. Local authorities who are able to deliver the most additional affordable housing units, either directly or in partnership with others, and as a result are able to offer good value for money for the additional public borrowing, are likely to be advantaged in this element of the assessment.
22. A scheme may also facilitate the additional provision of market tenure housing, including for cross-subsidy purposes.

Asset management

23. As part of a local authority's wider approach to asset management, local authorities are required to consider the contribution that disposal of some vacant properties (both within and outside the social housing sector) can make to support the delivery of new homes. This could include homes that are uneconomic as social housing properties and homes with particularly high market values where greater value to the business could be achieved if they were sold and the receipts reinvested in new housing.
24. Already some councils are taking a positive approach to asset management. Others are not. We believe asset management is a necessary part of social housing for all providers. All bids must show how they have considered the contribution of land and receipts from the disposal of stock, including, in particular, high value vacant stock. If contributions from land and asset disposal are not part of the bids local authorities must explain how they have arrived at this conclusion.
25. Disposals at market value of land or vacant stock held within the Housing Revenue Account can be disposed of under the General Housing Consents 2013 (section 32 of the Housing Act 1985) and do not require the consent of the Secretary of State. The Government is also publishing alongside this bidding document a revised set of General Consents under Section 25 of the Local Government Act 1988 which allow councils to dispose of vacant housing land to private registered providers and non-registered providers at less than market value. Nevertheless, the Government seeks to encourage authorities to seek full market value for properties where possible.
26. If, however, an authority proposes to dispose of land and/or property held within the Housing Revenue Account and this requires a consent from the Secretary of State bidders should complete the application form published alongside this bidding document.
27. Authorities should be clear when bidding for additional Housing Revenue Account borrowing who will provide the landlord services for the homes developed and that this represents an efficient and effective approach.

Conversions to Affordable Rent

28. The Government has considered whether, as part of the funding model, local authorities and their partners should be encouraged to convert existing rental stock to affordable rent. We recognise that this can be an important mechanism to generate additional financial capacity. However, the Government, in making available an additional £300 million borrowing headroom, has done so in recognition of the fact that some authorities have limited borrowing headroom now. Authorities who are at, or are close to their cap, will not be able to utilise additional borrowing capacity from the rental stream uplift provided by converting properties to an affordable rent without hitting their borrowing cap.

29. The Government does not therefore expect to receive bids from local authorities who are proposing to fund their scheme on the back of additional borrowing capacity provided by conversions to affordable rent.
30. Where a local authority is working with a Private Registered Partner to deliver their proposed scheme, the Private Registered Provider is encouraged to consider conversions to affordable rent to generate additional financial capacity.
31. Private Registered Providers' partners should note that capacity generated from conversions outside London cannot be used to support (additional) new supply as part of this scheme inside London. Similarly, capacity generated from conversions inside London cannot be used to support new supply outside London.

Limit rent

32. The Government has implemented a process to allow properties let on affordable rent terms by local authorities to be treated outside of the Rent Rebate Subsidy Limitation scheme.
33. To claim Housing Benefit subsidy above the limit rent for affordable rent properties provided under this programme, an authority must show the auditor of their subsidy claim form a letter signed by their Section 151 Officer, addressed to the Department, which:
 - Lists the addresses of all affordable rent properties – broken down between existing homes that have been converted to affordable rent, and newly built homes let at affordable rent;
 - Confirms that the rents will not rise except in line with Government policy;
 - Confirms any properties re-let have had their rents re-set, if needed, to ensure they remain at no more than 80 per cent of market rent;
 - Confirms that all income derived from the higher rent has been spent or will be spent – and only spent – on new affordable housing; and
 - Confirms the amount of capacity generated by conversions of existing properties to affordable rent is no greater than that specified in their delivery agreement with the Homes and Communities Agency.
34. In addition to satisfying the requirements set out above, the arrangements for local authorities who wish to develop new affordable rent properties without recourse to grant funding will continue to apply. In order for those properties to be exempt from the limit rent framework local authorities must follow the process outlined in a letter sent from the Department to local authority chief executives on 28 July 2011 attached at Annex C.

How the additional borrowing will be issued

35. Local authorities who make successful bids for the additional borrowing will receive a new indebtedness determination to provide for additional Housing Revenue Account borrowing (up to the agreed amount) which the authority undertook to finance capital expenditure on approved schemes during 2015/16 and/or 2016/17.
36. An example of a draft determination for 2015/16 is attached at Annex B.
37. Successful local authorities who receive additional borrowing for the years 2015/16 and or 2016/17 must ensure that schemes undertake the necessary capital expenditure in those years. We will agree quarterly monitoring arrangements with local authorities including progress on starts and completions. If there is significant slippage in a scheme we may look to reallocate the additional borrowing elsewhere.

Chapter Three: How can my local authority bid for borrowing?

The bidding options

38. We would expect all bids to be consistent with the Local Enterprise Partnership's Strategic Economic Plan. The Housing Revenue Account Borrowing Programme is offering two bidding options for local authorities:
- (i) making a firm, per scheme, bid for borrowing to support capital expenditure in either of the two financial years or across them; or,
 - (ii) submitting an Expression of Interest with an outline of the estimated borrowing required, per scheme, in 2016/17 with a firm bid to be submitted at a later date depending on the outcomes of the initial bidding round.
39. We will seek, wherever possible to make a single allocation across the two years 2015/16 and 2016/17 where successful local authorities have requested such additional borrowing. However we recognise that some authorities and particularly those who may be looking for additional borrowing in 2016/17 only, may not be able to submit a firm scheme bid by June 2014. In those cases we are therefore asking authorities to set out Expressions of Interest by 16 June 2014. Details of the information to be submitted with an Expression of Interest are attached at Annex A.
40. Please note that we will only accept Expressions of Interest for additional borrowing for 2016/17. Proposals that require additional borrowing starting in either 2015/16 or in 2015/16 and 2016/17 (i.e. their scheme needs borrowing increases across both years) must submit a firm bid now. There is a risk for councils and particularly if this programme is in receipt of a large number of high quality bids, that we may not be able to take forward Expressions of Interest requests for funding for 2016/17. We therefore encourage authorities to submit firm scheme bids where possible.
41. Schemes which are in receipt of grant from the Affordable Homes Programme or which have bid for grant under the 2015-18 Programme will not be able to bid for additional borrowing under this Programme. However, schemes which have different phases, each funded from different programmes, may be supported.

Bidding requirements for firm schemes

42. Bidding authorities must set out their current amount of borrowing headroom (as at March 2014) and indicate to what extent that headroom is earmarked for other schemes or projects in their 30 year Business Plan. In addition: bids for firm schemes will be expected to include the following information for each scheme:

- The name of the organisation that will develop the affordable homes (e.g. council; special purpose vehicle; private registered provider);
- The name and location of the scheme; the number of homes broken down by the anticipated unit mix and size, tenure (including affordable rent and shared ownership) and any specific provision being offered (for example supported housing, rural housing or housing for older people).
- The estimated scheme costs, and the amount and sources of funding (including the additional borrowing requested and other borrowing) to meet those costs. The estimated additional Housing Revenue Account borrowing requirement (per scheme) should be set out separately for each of the following years:
 - Additional Housing Revenue Account borrowing required to finance capital expenditure per scheme in 2015/16
 - Additional Housing Revenue Account borrowing required to finance capital expenditure per scheme in 2016/17
- Whether partnerships are in place or how they will be in place in time to ensure scheme delivery;
- The ownership of completed affordable homes (including the number assigned to each landlord, if more than one);
- Confirmation that, to the extent that additional borrowing capacity is used to fund capital works on existing tenanted properties, charges to leaseholders in respect those works will be capped at £15,000 in London and £10,000 in the rest of England over a five year period; and
- All bids and proposals should outline the anticipated, realistic, timing of delivery (expected month of start on site and completion).

43. We expect all bidding local authorities to maximise the use of their own assets as part of the bid proposals. Local authorities must therefore provide information on:

- The local authority land to be included as part of the scheme (or schemes);
- How asset disposals (high value vacant stock) will help to provide cross-subsidy to the scheme (or schemes); and

- Where use of local authority land and asset disposal is not part of the bid local authorities must explain how they have arrived at this conclusion.

44. The Government is also interested in the potential for wider scheme benefits and local authorities should therefore:

- Set out how the scheme (or schemes) will help to meet evidenced local needs and priorities in their proposed locations, including building homes that address the demographic challenges facing social housing and any mismatch between existing stock and household needs; and
- Demonstrate growth impact in relation to the scheme (or schemes) being part of wider plans for housing delivery and growth in the local area, including where there is a direct link to the Strategic Economic Plan.

45. Local authorities will be expected to certify that there is no other Government grant support or funding on their scheme (e.g. funding through the 2015-18 Affordable Homes Programme). If other funding – such as Local Growth Fund investment – is being used to support associated infrastructure, this should be clearly stated to allow consideration of wider value for money issues.

46. The bids for funding will need to be signed off and certified by the Section 151 accounting officer for each local authority.

47. It is a requirement on schemes where an affordable rent is to be charged, that a Framework Delivery Agreement is entered into with the Homes and Communities Agency or the Greater London Authority. Some bidders may already have such a Framework Delivery Agreement in place. We will expect providers to record all affordable homes to be delivered within their Framework Delivery Agreement to allow for consistency of data and monitoring of delivery of such homes.

Schemes requiring demolition

48. This bidding document invites bids for additional borrowing for new affordable homes. George Clarke, the Government's Independent Empty Homes Advisor, set out in his recommendations for housing regeneration areas that refurbishing and upgrading existing homes should always be the first and preferred option, and that demolition should always be the last option³. Ministers have affirmed their own preference for refurbishment rather than demolition⁴.

49. Local authorities are therefore reminded that, where demolitions of derelict existing structures are required, those are expected to be principally for redundant structures such as garages and other non-housing. Where demolitions of existing housing stock are needed, these are expected to be on a small scale – for example where required to open up access to developable land, or where the housing being demolished is

³ George Clarke's 10 recommendations for housing regeneration areas can be found at: <https://www.gov.uk/government/news/91-million-cash-to-tackle-over-6000-empty-and-derelict-homes>

⁴ See Mark Prisk's Written Ministerial Statement of 10 May 2013 at c13WS in Hansard.

demonstrably no longer suitable nor viable for further use. Where demolitions are required we will be seeking an indication of the net additional housing units to be delivered as part of the scheme or for wider benefits to be clearly demonstrated.

50. It is not intended that additional borrowing will be available for schemes which require multi-landlord, area-wide demolition. Schemes on previously cleared land (regardless of the previous use), are acceptable.

Section 106 schemes

51. We would not generally expect affordable homes developed through this programme to be built as part of a Section 106 agreement, but, where appropriate, would encourage the use of commuted sums related to section 106 agreements that have arisen from schemes on other sites.

Where to send bids to:

52. Expressions of interest for 2016/17 bids, in the form of a letter, should be emailed to hrborrowing@communities.gsi.gov.uk
53. We will be publishing a bidding proforma shortly which will set out where to send bids to. Any general enquiries about the Housing Revenue Account bidding document can be sent to hrborrowing@communities.gsi.gov.uk or to:

Cynthia Brathwaite
Tel: 0303 4442402

Affordable Housing Management and Standards
Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

Chapter Four: Bid Assessment

Overview

54. The overall objective of bid assessment is to allocate additional borrowing to local authorities to supply new homes that will include affordable housing. Assessments will be based on:
- Meeting local needs and growth priorities in their proposed locations including building homes that address the demographic challenges facing social housing and any mismatch between existing stock and household needs;
 - Offer good value for money (taking account of both additional Housing Revenue Account borrowing requested and anticipated costs, as well as the extent to which bidders have applied their own resources). Good value for money proposals are likely to be enhanced where councils bring forward land, include disposal of high value assets and providers are efficient across their operating base, and where they seek to achieve procurement efficiencies in the delivery of new supply;
 - Have a good and demonstrable prospect of early delivery within the programme timeframe.
55. Assessment will be at scheme level. Therefore, if a local authority submits a bid for additional borrowing for more than one scheme, it is possible that some or all scheme bids may not be successful.

Stages of assessment

56. The detailed assessment will be carried out by the Greater London Authority (for London bids) and by the Homes and Communities Agency (for non-London bids).
57. Following scheme assessment moderation of bids will take place involving the scheme assessors and the Department for Communities and Local Government.
58. The final scheme identification will identify the successful bidders. Subject to the number of bids received against the programme (i.e. if we are over-subscribed with high quality bids) we may seek to establish a list of reserve schemes that could be taken forward quickly in the event of another scheme suffering significant slippage.

Policy elements/growth impact

59. We will prioritise bids that can clearly demonstrate that their scheme meets the policy objectives the Government is seeking to achieve. Factors we will take into account in assessment include:

- Growth impact and strong support from the Local Enterprise Partnership will also be seen as a good indicator of growth strength;
- Disposal of vacant stock, particularly high-value vacant stock, to cross subsidise scheme costs and reduce their Housing Revenue Account borrowing request;
- Innovative partnership working between the local authority, housing associations and other organisations such as through joint ventures to reduce the ask for Housing Revenue Account borrowing and cross subsidise the scheme in creative ways;
- Demographic change including in particular the need for smaller units or rural housing; and
- The contribution that local authority land is making to the overall scheme.

60. All bids must show how they have met the second of the above points. If land and asset disposal is not part of a bid the bidding local authority must explain how they have arrived at this conclusion.

Value for money

61. We are seeking to drive value for money through the competitive bidding process and expect local authorities to submit bids which make best use of the other sources of funding available to them, including from partner organisations. We will assess bids to establish whether they offer value for money comparative to other bids and bidders.

62. A primary metric for assessment of value for money will be the level of additional Housing Revenue Account borrowing requested to deliver the scheme as a whole and per new affordable housing unit (and note that this will be calculated against all affordable housing on a scheme, whoever the landlord).

63. However, in considering comparative value for money, we recognise that in some cases, there will be reasons why scheme costs or the resources available to bidders may vary and we will seek to take this into account where local authorities make this information clearly available. In doing this we recognise that the level of borrowing per retained local authority unit may be at a higher level if considered in isolation from the totality of the number of units in the scheme where the local authority is working with private partners. Local authorities will however be expected to drive down scheme costs as far as possible.

64. Indicators that will form a part of our assessment scoring for a scheme are:

- Additional Housing Revenue Account borrowing per affordable unit (total scheme numbers) compared to the programme average (used to identify outliers);
- Additional Housing Revenue Account borrowing per affordable unit (retained by the local authority) compared to programme average;
- Additional Housing Revenue Account borrowing as a % of Total Scheme Cost (used to identify outliers, and in assessment of value for money);
- Works cost per m² and archetype compared to the programme average (used to identify outliers and reflecting the importance of minimising construction costs, in line with the Government Construction Strategy⁵); and
- m² per person compared to the programme average (used to identify schemes which appear to be abnormally small, or abnormally large).

Delivery

65. We will prioritise those local authority bids that can clearly demonstrate early scheme delivery. Factors which we will take into account in assessing deliverability includes:

- The stage of planning achieved, where having already achieved full planning permission will be advantaged in our view of deliverability;
- The status of land ownership will also feed into the assessment, with schemes being proposed on land which is in local authority ownership or where there is a substantial contribution by the local authority scoring more highly;
- Land condition and availability for development;
- Tender stage reached (scheme tendered/contractor selected/contract signed);
- Whether partnership arrangements are in place/will be in place and where a joint venture is being proposed, the structure of the special purpose vehicle; and how they will be established in time to take forward the scheme;
- A demonstrable track record of delivering new affordable homes; and
- Any other information in support of the scheme including, for example, local community support or otherwise.

⁵ <https://www.gov.uk/government/collections/government-construction#government-construction-strategy>

Technical ability, financial information, robustness and good standing

66. As part of our bid assessment we will look at the track record of the local authority to ensure their technical capacity and the viability of the schemes brought forward.
67. Local authorities will also need to indicate in their bids how they have taken account of established Housing Revenue Account accounting practices.
68. Within their bidding application local authorities must – unless they are existing investment partners with the Homes and Communities Agency or the Greater London Authority - detail what experience they have in developing new build affordable homes by providing examples of previous development projects.
69. We would expect local authorities to carry out due diligence on any partners that they propose to work with to ensure viability and delivery of the scheme. Bidders are also reminded of the need to ensure compliance with their equalities duties⁶.
70. Local authorities should complete the Bidding Proforma which will be published shortly.

⁶ The Government has produced guidance on the Public Sector Equality Duty at: <https://www.gov.uk/equality-act-2010-guidance#public-sector-equality-duty>

Annex A

Expressions of Interest

Local authorities who wish to submit an Expression of Interest for additional borrowing for 2016/17 should provide the following information:-

- An outline of the estimated borrowing requirement (per scheme) in 2016/17 including information on the authority's borrowing headroom (as at 31 March 2014);
- An outline of the scheme (or schemes) including the location(s) and estimated number of proposed new units per scheme;
- An outline of the funding arrangements including whether the council will be bringing forward its own land for development or undertaking asset disposal to help subsidise the scheme (or schemes);
- An outline of proposed partnership arrangements and whether those are existing arrangements or whether new arrangements are proposed; and
- Whether the proposed scheme is supported by the Local Enterprise Partnership.

Expressions of interest addressing the above points must be submitted to the Secretary of State by 16 June 2014 and can be sent in the form of a letter to hrborrowing@communities.gsi.gov.uk.

Annex B

Example housing revenue account borrowing determination for increased cap in 2015-16

THE [Name] COUNCIL (LIMITS ON INDEBTEDNESS) DETERMINATION [Year]

The Secretary of State, in exercise of the powers conferred by sections 171 and 173 of the Localism Act 2011, after consulting [Name] Council, makes the following determination –

Citation, commencement and interpretation

- 1.1 This determination may be cited as the [Name] Council (Limits on Indebtedness) Determination 2014 and is made in respect of [Name] Council.
- 1.2 This determination shall have effect in respect of [Name] Council in relation to financial years beginning on or after 1 April 2015.
- 1.3 In this determination-
“the 2012 Determination” means the Limits on Indebtedness Determination 2012.

Amendment of the Limits on Indebtedness Determination 2012

- 2.1 For paragraph 2 of the 2012 Determination substitute the following-

“2 The limit on the amount of housing debt that [Name] Council can hold

- 2.1 In relation to the financial year beginning on 1st April 2015 and subsequent financial years, the maximum amount of housing debt, calculated in accordance with the definition at paragraph 1.1 above, that [Name] Council may hold shall be calculated as follows:

A + B

Where-

A is £ [insert sum]⁷; and

B is the amount of any capital expenditure incurred by [Name] Council on the scheme described in Annex B to this determination which-

⁷ This is the maximum amount of housing debt that was determined for the [Name] Council in accordance with paragraph 2 of the 2012 Determination and listed in Annex B to the 2012 Determination as it appeared before the amendments made by this Determination.

- (i) was incurred on any interest in housing land,
- (ii) was financed by borrowing or credit arrangements,
- (iii) was incurred between 01 April 2015 and 31 March 2016; and
- (iv) does not in aggregate exceed £xx [insert maximum amount of additional borrowing agreed for the authority as part of the HRA Borrowing Programme for 2015-16]

2.2 In this paragraph-

“housing land” means any land, house or other building in relation to which the local authority is, or has been immediately before disposal of it, subject to the duty under s74 of the Local Government and Housing Act 1989 (duty to keep Housing Revenue Account).

2.3 [Name] Council will be in breach of the limit if its housing debt (as calculated in accordance with paragraph 1.1 above) exceeds the amount calculated in accordance with paragraph 2.1 above on the final day of the 2015-16 financial year. In subsequent financial years [Name] Council will be in breach of the limit if its housing debt exceeds the amount calculated in accordance with paragraph 2.1 on the final day of the financial year concerned.”

2.2 For Annex B of the 2012 Determination substitute Annex B as set out in the Annex to this Determination.

“Limits on Indebtedness Determination 2012 – Annex B

[Description of scheme]”

[Name]
Department for Communities and Local Government
[Date]

Annex C

The text of the letter of the 28 July 2011 to local authority chief executives is reproduced below:

28 July 2011

To the Chief Executive of English local housing authorities

BUILDING NEW COUNCIL HOUSING USING AFFORDABLE RENTS

1. This letter will be of interest to any English local housing authority considering building new council homes for Affordable Rent, but without other financial support from central Government. (We are writing separately to authorities awarded financial support under the 2011-15 Affordable Homes Programme.)
2. This letter will be of less relevance to non-stock holding authorities, authorities whose council house rents are already 80% or more of market rents, and authorities who will have little or no capacity to increase borrowing in the short term under the forthcoming self-financing settlement.

Background

3. The Government's policy on Affordable Rents is to enable the building of more new affordable housing and thereby help tackle un-met housing need.
4. To effect this a local authority would charge up to 80% of market rents on new homes it has built and use this additional income to cover the costs of construction.
5. The maximum rent level for Affordable Rent should be assessed according to the individual characteristics of the property. Local authorities should assess the gross market rent that the individual property would achieve and set the initial rent (inclusive of service charges) at up to 80% of that level. The Tenant Services Authority has issued an explanatory note for private registered providers on RICS approved valuation methods, which may also be useful to local authorities and is available at:

http://www.tenantservicesauthority.org/upload/doc/RICS_rental_valuation_note_20110118140714.doc

6. It is for local authorities to decide whether to let Affordable Rent properties on flexible or conventional lifetime tenancies. (Provisions in the Localism Bill currently before Parliament will (subject to Royal Assent) enable post-March 2012 local authorities to offer fixed-term flexible tenancies.) In either case at the point the property becomes available for re-letting the local authority should review the rent to ensure that it remains at 80% (or lower) of prevailing market rents.
7. Government policy is that where an Affordable Rent has been set it should rise each year by no more than the Retail Price Index plus 0.5%. This will apply for the duration of the tenancy and at the end of the initial tenancy rents will need to be re-based to up to 80% of market rents.
8. Local authorities should offer Affordable Rent properties in line with their lettings and allocation policies.
9. Please note that we will permit only newly built properties to be treated outside the Rent Rebate Subsidy Limitation scheme. We will not permit existing homes to be excluded unless the local authority has entered into a Framework Delivery Agreement with the Homes and Communities Agency (HCA). This is because the Government does not intend providing additional public subsidy (via Housing Benefit) over and above that announced in the 2011-15 Affordable Homes Programme.

The Limit Rent

10. We have worked closely with colleagues in the Department for Work and Pensions (DWP) to devise a process of allowing Housing Benefit claimant rents higher than the Limit Rent without loss of subsidy to local authorities whilst at the same time ensuring value for money and guaranteeing new supply.
11. Because this process requires changes to the DWP's subsidy claim forms, charging a Housing Benefit claimant an Affordable Rent will not be possible until 2012/13.

The Process

12. The following sets out the process we have agreed with the DWP, the HCA and (for the London Boroughs) the Greater London Authority (GLA). Provisions in the Localism Bill will transfer the powers of the HCA in London to the GLA.
13. Any local authority intending to charge an Affordable Rent to fund new supply without any other financial support from central Government should set out their proposals in the form of a letter to its HCA operating area lead.
14. The letter should set out:
 - the scheme name and its location
 - the number and tenure of the new homes proposed
 - mix bed sizes
 - whether any of the new supply is supported housing or in rural locations
 - Total Scheme Costs - including acquisition costs, works and on-costs (including making clear whether the land is already in the ownership of the local authority)
 - proposed new supply rents by tenure

- an estimate of income from any low cost home ownership first tranche sales
 - the borrowing capacity generated by the additional income (and where this is less than Total Scheme Costs how the local authority is making up the difference)
 - the intended dates of both start-on-site and completion.
15. The HCA / GLA will then comment on the proposals in a return letter. In particular they will confirm (or otherwise) that the ratio of additional income to anticipated new supply represents value for money given the types of homes local authorities intend building and their location in the country.
16. To claim rent above the Limit Rent the DWP will amend their subsidy claim forms to include a category on Affordable Rents – this will enable specified properties to be treated outside the Rent Rebate Subsidy Limitation scheme. When the subsidy claim form comes to be audited the local authority will have to show the auditor a letter signed by the authority's Section 151 Officer addressed to Stephen Biddulph at this Department.
17. The letter from the Section 151 Officer must
- a. list the addresses of all properties on which an Affordable Rent has been charged;
 - b. confirm that the local authority's scheme's finances have been approved by the HCA / GLA
 - c. confirm that all income derived from the additional rent has been or will be spent - and only spent - on the new council housing;
 - d. confirm that the higher rent set will not rise except in line with Government policy on rises in council house rent (RPI + 0.5% per annum)
 - e. confirm that where any property has come up for re-let the rent has been re-assessed to ensure it is no more than 80% of prevailing market rents (we appreciate that this will not be relevant in the early years, but confirmation is nonetheless necessary for consistency).
18. Where the local authority is unable to provide a signed letter from its Section 151 Officer confirming the above or where the auditor selects for inspection a property on which an Affordable Rent is being charged but which is not listed in the Section 151 Officer's letter, then that part of the subsidy claim will have to be qualified resulting in a potential loss of subsidy.
19. This process will need to be repeated each year that an entry against Affordable Rents has been made on the audit form.
20. If you have any queries on this letter please contact Stephen Biddulph (stephen.biddulph@communities.gsi.gov.uk). Any queries on Housing Benefit or the Rent Rebate Subsidy Limitation scheme should be sent to Emmanuel Ibiayo (Emmanuel.Ibiayo@dwp.gsi.gov.uk)

Peter Ruback
Deputy Director
HRA Reform and Decent Homes Division