Appendix 2 Summary of Value for Money Assessment for the Cambridgeshire & Peterborough Affordable Homes Programme.

Background

The Cambridgeshire and Peterborough Combined Authority (CPCA) is responsible for administering a £100m housing fund, part of the area's devolution deal. Within the original full business case for the fund a set of five core delivery criteria were used to assess the economic case, these are shown below. The results of the assessment were that "*These criteria have been used to assess the long list of potential sites and schemes. This has identified a potential programme of new affordable homes, across 45 sites, from which the £100m will be used to deliver at least an additional 2,000 affordable homes.*"

Figure 1: Economic Business Case Assessment Criteria

The focus of this business case is on the deliverability of the shortlisted schemes and no detailed assessment of the long list has been undertaken. Previous build out rates for affordable homes are not an accurate guide as they relied upon HCA grant funding regimes which have since changed significantly.

To create a delivery plan against the £100m investment fund and build high levels of confidence, a robust set of five core delivery criteria has been identified and applied to the 'long list':

1. **Added value –**
    - Ensuring delivery of affordable housing that is in addition to that already in the development pipeline.
    - The ability of the investment to unlock stalled or new schemes.
    - The ability of the investment to achieve either affordable housing policy compliant applications particularly where this may be a barrier to achieving planning approval or at a minimum to enhance the percentage of affordable housing achievable within viability calculations.
    - The ability of the investment to stretch future development funding capacity by enabling the re profiling the housing association development finance.
2. **Size of site** – this programme initially excludes any scheme under 50 units in total to provide focus and confidence in delivering the level of new homes required. Smaller sites and windfall sites can be brought into scope if required.
3. **Deliverability** - ability to start on site in the timeframe – particularly planning certainty.
4. **Affordability** – ability of the proposed scheme to address identified affordability needs.
5. **Value for money assessment**- average build cost subsidy for the programme overall of not more than £25k per home.

Questions have since been raised in relation to criteria 5. value for money assessment; What is the origin and context for the £25,000 figure (£27,447.72 adjusted for inflation[1])? What are the benchmark values for value for money achieved by other schemes? What other value for money considerations are there in relation to the performance of the housing fund? The original business case from March 2017 was inconsistent in so far as it stipulated an overall objective to achieve 2,000 units with £100m of funding, which averages out at £50,000 per unit. The reason for the difference is not clear and brings into question what the over-riding objective is.

This short briefing note seeks to review those questions.

Understanding the Original Benchmark

When putting forward the original business the main point of reference was the Homes and Communities Agency (HCA)[2] Affordable Homes Program. A programme to support an increase in the supply of affordable homes that has been in existence, in various forms, since 2010.

[1] https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

[2] The Homes and Communities Agency (HCA) was an executive non-departmental public body, sponsored by the Department for Communities and Local Government. It was replaced by in January 2018 by Homes England and the Regulator of Social Housing.

The framework for the 2010-2015 Affordable Homes Programme[3] had an initial aim to deliver 130,300 homes with a £4.49b fund the equivalent of £34,458.94 per unit (£42,313 adjusted for inflation). Keeping in mind that the housing market conditions at the time (a historic low in the building of market homes between 2009 and 2014) meant that it was possible to gain significantly better value for money than at the present time.

The grant funding applied for was approximately double the funding available[4]. According to the National Audit Office (NAO) *"This meant that the Agency could be more challenging in its discussions with providers and its negotiators actively sought the 'best deal'."* On value for money the NAO concluded that *"Our analysis shows that the grant per home awarded compares favourably to previous programmes. On average, the Affordable Homes Programme has allocated funding of approximately £20,000 per home compared with £60,000 per home under the National Affordable Housing Programme."*

Towards the end of the 2010 to 2015 programme actual performance was being reported as figure around the £26,000 mark, close to the £25,000 benchmark set for the CPCA fund. However the NAO also concluded that "*The lower grant has been achieved partly through the higher rents providers expect to charge. The Department estimates that over 30 years these will result in increased housing benefit costs with a net present value of £1.4 billion, or approximately £17,500 per home."*

There is also a very specific context for this benchmark:

- Affordable housing delivery splits into three broad categories:
    - Social rent
      mostly owned by local authorities and private registered providers. Guideline target rents are determined through a national rent regime and are lower than those for 'Affordable rent' homes;
    - Affordable / intermediate rent
      let by local authorities or private registered providers of affordable housing. Rents can be no more than 80 per cent of the local market rent (including service charges, where applicable);
    - Shared ownership
      homes for sale and rent provided at a cost above social rent, but below market levels. These can include shared equity (shared ownership and equity loans) and other low cost homes for sale and intermediate rent.

- The subsidy gap per home is different depending on the model of affordability followed. There being a difference between the total cost of building the home, and the amount that can be borrowed against future rental income and in the case of shared ownership, sales receipts. This subsidy gap can be partially met through cross-subsidy from market sale of other properties on the development site but the remaining gap needs to be met from grant.

- In 2019 The Housing Federation measured this grant cost (excluding London) as being;

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/371817/affordable-homes-framework.pdf
[4] file://cccauser07/userslocal/gr262/Desktop/Housing%20Evaluation/National%20AUdit%20Office%20Homes%20Evaluation.pdf

- Social Rent - £162,000 per unit
  - Affordable / intermediate rent - £74,000 per unit
  - Shared Ownership - £29,000 per unit

- Looking at the Homes & Community Agency (HCA) programmes from which the £25,000 benchmark was derived approximate 90% of the grant expenditure was for shared ownership products the lowest cost for of delivery. Since this point Homes England (the replacement for the HCA) has announced a programme more balanced between affordable rent (52%) and Shared Ownership 4(4%) with the remainder being Social Rent (4%).

Based upon current information provided about the grants made by the CPCA (updated spreadsheet provided by Roger Thompson, end Jan 2020). A total of 1,741 units have been grant funded at an average cost of £35,036 per unit. However, the grant is divided as follows, 4.0% Social Rent, 59.4% Affordable Rent and 36.6% shared ownership; significantly different from the profile of expenditure from which the £25,000 benchmark was derived but closer in profile to the current Homes England programme (see above)[5].

A more suitable benchmark for value for money would be the 2019 Housing Federation calculations. On the basis of the tenure mix of the CPCA grant scheme this would be £60,800 which the CPCA is well below.

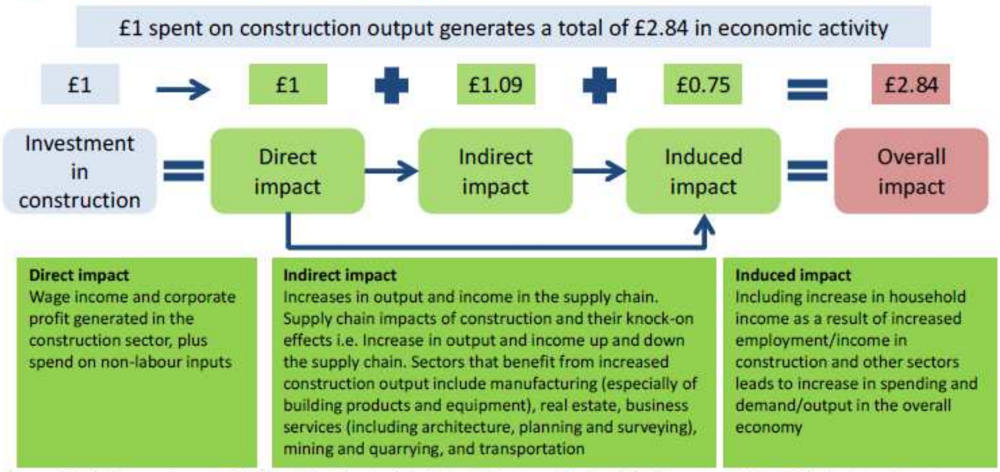
The CPCA has been innovative since being given the initial £55m. CPCA members asked for innovation and this has resulted in the creation of a revolving fund which is currently supporting 5 loans with local SME companies delivering 213 houses and the creation of a housing development company as a vehicle for potential future joint venture opportunities. The revolving fund will enable a future pipeline of housing development to be delivered at zero cost to the taxpayer, potentially in perpetuity. *(no allowance for the creation of future housing units from 'revolving' the fund monies beyond the first round of loans has been made in the value for money calculations in this report).*

Draft calculation on Return on Investment

Given the timing of this report then a readymade model for the immediate economic impact of housebuilding has been used (see below).

[5] If Mare Fen, Northstowe was excluded then these figures would be 1,498 units funded at an average cost of £40,212, 4.6% social rent, 61.1% Affordable Rent and 34.3% Shared Ownership.

Figure 29: The economic impact of investment in housing



Sources: Capital Economics and L.E.K. Consulting, Construction in the UK Economy: The Benefits of Investment (The UK Contractors Group, London), 2009.

A. The 2009 model was updated by Capital economics in 2019 and concluded that *"every pound spent on construction output stimulates an increase of £2.84 in gross domestic product".* Based on the core CPCA grant scheme value of £61mm this would stimulate an increase of an additional £173.2m in UK GDP. An additional **£74.5m**[6] returned to the exchequer via taxation.

B. The level of grant awarded isn't the only consideration for understanding the overall impact on public finances. There are savings in welfare expenditure generated by moving families receiving housing benefit from private rented accommodation into social or affordable rent tenure. This is particularly the case for social rent and affordable rent homes. Using the Capital Economics model for the CPCA grant scheme generates the following table.

Table 1: Cost per unit calculation – Dec 2020 costs

	Total Units	Total cost in CPCA grant	Average cost per unit
Social Rent	54	£3,847,800	£71,256
Affordable Rent*	990	£37,478,530*	£37,857

**based on an average grant per unit on schemes that only have affordable rent units. Further work will be needed to separate out the grant into two or three lots for mixed tenure schemes.*

Table 2: Value for Money Assessment for CPCA Affordable Housing Grant - benefits

	Average cost per unit	Return to exchequer via tax system e.g. VAT	Return to exchequer via savings on housing benefit*	Total benefits per unit
Social Rent	£71,256	£30,640	£70,500	£29,884
Affordable Rent	£37,857	£16,270	£29,700	£8,121

[6] If Mare Fen adjustment as above would give a figure of £73.6m

*based on Capital economic model for a high cost area over 30 years.
**Note that the draft model doesn't take into account interest rates on government borrowing (as per the Green Book) or the possibility of rent levels being different in Cambridgeshire compared to the national high cost model.

Table 3: Value for Money Assessment for CPCA Affordable Housing Grant – Jan 2020 Results

	Total Units	Total return per unit	Total return
Social Rent	69	£29,884	£2,061,996
Affordable Rent	1035	£8,121	£8,405,235
Total	-	-	**£10,467,231**
Figures below excluding Mare Fen – (no change to social rent)			
Affordable Rent	915	£8,121	£7,430,715
Ex MF Total	-	-	**£9,492,711**

It should be noted that this model only provides a view on housing benefit savings. Social and affordable rent are likely to return other benefits such as improved outcomes for children.

C. The final element of consideration needs to be given to the 637 dwellings grant funded for shared ownership. These need to be considered in a different way as the beneficiaries of these schemes aren't necessarily housing benefit claimants. Therefore, these have been treated as part of the CPCAs general model of return to the public purse based on an increase in GVA per household (see separate CPCA paper). The outcome of this calculation is £18.75m[7].

In total the draft return on investment on £61m of investment to the public purse is calculated as **£103.7m or 1.7 to 1.**

If Mare Fen is excluded then this VfM assessment drops to 1.6 to 1.

[7] If Mare Fen, Northstowe was excluded then this would be £15.13m.