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COMPTROLLER AND
AUDITOR GENERAL

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Department for Communities
and Local Government

Financial viability of the social housing sector: introducing the Affordable Homes Programme

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National Audit Office

Department for Communities and Local Government

Financial viability of the social housing sector: introducing the Affordable Homes Programme

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

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In 2010, the government announced a new programme to build affordable (which the Department defines as below market price) housing in England – the Affordable Homes Programme is expected to contribute approximately 80,000 homes through affordable rent and affordable home ownership in the four years from April 2011.

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/affordable-homes-2012

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Key facts

£1.8bn
funding available for the Affordable Homes Programme

80,000
expected number of new homes to be built by 2015 as a result of affordable rent and affordable home ownership funding

60%
reduction in average annual spending on affordable homes 2011-12 to 2014-15 compared to 2008-09 to 2010-11

377	Registered Providers that bid for funding through the Programme, either as sole applicants or as part of a consortium. Registered Providers are private, usually not-for-profit organisations established for the purpose of providing social housing
2.5 million	homes owned by large Registered Providers as of March 2011 (large Registered Providers are those managing at least 1,000 homes)
£109 billion	the book value of assets owned by large Registered Providers as of March 2011
£10 billion	the net amount that large Registered Providers earned in rents in 2010-11

Summary

1 In 2010, the government announced a new programme to build affordable (which the Department defines as below market price) housing in England – the Affordable Homes Programme (the Programme). The Programme is expected to contribute approximately 80,000 homes through affordable rent and affordable home ownership in the four years from April 2011. Affordable rent is a new funding model, which involves three main changes: housing providers can charge higher rents for affordable housing than previously (up to 80 per cent of market rates), both for new homes and for some new tenancies of existing homes; housing providers finance a greater proportion of the cost of new homes themselves, through increased borrowing; and the Department pays less grant for each new home provided.

2 The Department for Communities and Local Government (the Department); the Homes and Communities Agency (the Agency); and, until March 2012, when its role was taken on by the Agency, the Tenant Services Authority (the regulator) have all helped to develop the Programme. The Programme is delivered through housing providers, who during 2011 could bid to the Agency to get Programme funding. There are three main types of housing provider:

- private Registered Providers, many of which are housing associations, are usually not-for-profit organisations established to provide social housing;
- local authorities; and
- arm's-length management organisations, which are companies set up by local authorities to manage all or part of their housing.

Since April 2012, the Greater London Authority has taken on the Agency's housing and regeneration activities across London.

3 The Programme is intended to build housing with a third of the grant per home of earlier affordable housing schemes. It will involve housing providers spending some £12 billion on new homes, funded by a combination of government grant (£1.8 billion), borrowing by providers supported by rents on the new properties (we estimate around £6 billion), and funding from other sources (about £4 billion). Rents totalling around £500 million a year on new homes will be paid by tenants, approximately two-thirds of whom are supported by housing benefit.

4 The Programme increases the risks providers must manage. These risks include providers' increased borrowing and exposure to the housing market; delivery risks resulting from the commitments they are making to deliver new homes over the period of the Programme; and understanding, and dealing with, the impact of changes to benefit rules. Therefore, to be successful, the Programme must help housing providers to best use the funds available to them, including borrowing, without over-stretching themselves or risking their financial viability. This report examines whether, in developing and starting to deliver the Programme, the Department, the Agency and the regulator are addressing effectively risks to housing providers' financial viability while achieving policy objectives. We have focused on the new affordable rent model, which accounts for the majority of new funding available through the Programme.

Key findings

The Department's Programme design

5 **The Department's analysis of its options for the Programme used a consistent modelling methodology and set of assumptions.** The Department had £1.8 billion available between 2010-11 and 2014-15 for grants to housing providers and carried out a cost–benefit analysis of three different options to spend this money. The analysis considered costs to government and benefits to society. The Department carried out a separate exercise to better understand the costs to housing providers, although this evidence was not included within the impact assessment. The Department took into account total costs and benefits to all tenants, including those who would not have all their rent paid by housing benefit. However, the published analysis did not state the number of tenants in this group who would be affected by different amounts, or assess the effects on individual tenants' incomes.

6 **The Department selected the best delivery model open to it for the funds it had available.** Continuing with the previous programme's funding model offered potentially better value for money over the 30-year costing period. We estimated that some 8,200 homes could be funded at the same total cost over 30 years. However, such a programme would also require more grant funding than was available. Instead the Department chose the option that maximised benefits and the number of homes it could deliver within the £1.8 billion grant funding.

7 **The Department has so far achieved its policy objective to maximise the number of homes delivered within the available grant funding. On average, the grant awarded per home is a third of previous programmes.** The final grant per home was approximately £20,000 compared with £60,000 under the previous National Affordable Housing Programme. 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.

8 The Programme was oversubscribed which led to the Department raising its target for the number of affordable homes it expects to deliver. The amount of funding bid for as part of the initial application process was double that available and the number of homes offered exceeded expectations by even more. Because of the better-than-expected offers from providers, the Department and the Agency agreed in principle with providers delivering some 80,000 homes compared to its initial target of 56,000.

The Agency's appraisal and selection of offers

9 The Agency's final decision-making process took account of a range of factors but not in any set weighting, so we could not repeat its work to test it. Benchmarking against previous programmes would have increased the Agency's ability to test the value for money of the proposals, which might have reduced the grant per home offered. Some 55 successful offers had grant levels that were below the average grant per home, compared to one unsuccessful offer. The Agency considered a number of different factors when assessing bids, but the grant per home was the key driver. The number of homes offered by providers afforded some scope for competition: because offers exceeded expectations the Agency could choose between providers and encourage providers to resubmit offers so as to reduce the amount of grant required. As a result, the Agency was able to reduce the grant per home from an average of around £22,000 in providers' initial bids to around £20,000. However, its final decision-making process was not fully prescribed so we could not repeat the process to see how the Agency made individual decisions, or whether it could have secured better value for money. The Agency might have further reduced the grant per home offered if it had drawn on benchmarks of cost per home from previous programmes.

10 Risks to meeting Programme aims remain. As at April 2012, 82 per cent of contracts had been signed. Most of the contracts that had not been signed were with local authorities who had been delaying signing contracts pending confirmation of final borrowing capacity arising from the changes to the Housing Revenue Account in April 2012. More than half the homes expected to be built under the Programme are currently planned for its final year, so slippage would put at risk achievement, within the period of the Programme, of the planned 80,000 homes. In addition, some providers in London have concerns they may not be able to charge rents at the levels they originally agreed. The Agency recognises that meeting the March 2015 deadline is a key risk, and has put in place a regime to monitor providers' progress. The Greater London Authority is also aware of this issue and is in discussion with providers and local authorities over it.

The regulator's assessment of the financial viability of Registered Providers

11 **The Department modelled the impact of the Programme on Registered Providers and concluded that they had the financial capacity to invest more of their own resources to deliver affordable housing.** Before the Programme, those Registered Providers managing or owning more than 1,000 homes experienced growth between 2008-09 and 2010-11 in both turnover and surpluses. Surpluses increased by 80 per cent to £1.1 billion in 2010-11 from the previous year on turnover of £12.6 billion (an increase of 9 per cent between 2008-09 and 2010-11).

12 **The Programme increases providers' financial exposure.** The sector faces challenges in getting bank financing for capital investment, and the cost of supporting both existing and future debt. Between 2008-09 and 2010-11, most Registered Providers have benefited from recent lower interest rates, so while total debt increased by 12 per cent to £45 billion, interest costs only rose by 3 per cent to £1.9 billion. However, some have had to offer additional collateral, generally in the form of assets rather than cash, to lenders because of using financial derivatives to reduce their interest rate risk. A survey by Baker Tilly in 2012 found that 63 per cent of Registered Providers who responded are now considering alternative funding other than traditional banking sources, the most popular being corporate bonds. Five of the ten biggest Registered Providers have issued bonds between August 2010 and April 2012; rates for recent issues have ranged from below 5 per cent to 5.36 per cent.

13 **The regulator undertook analysis to identify any increased financial exposure for those Registered Providers that applied for funding.** It looked at whether the proposed delivery commitments increased Providers' exposure beyond that already understood by its ongoing regulatory work. The regulator highlighted particular risks to the financial viability of six Registered Providers, around the robustness of assumptions made when putting their offer together, and the potential impact of the wider economy. To address these risks, the regulator carried out additional work, after which it concluded that all Registered Providers submitting offers were financially viable and would continue to be so, subject to their managing specific risks identified.

14 **The Department will need to carry out a thorough analysis of the financial position of providers to assess the repeatability of the affordable rent model after 2015.** The issues to be considered include the effect of the economic climate on housing providers, the ability of providers to borrow additional capital funds, the amount of interest for a further iteration of the Programme, and the willingness of the sector to take on even more risk than it has already.

Conclusion on value for money

15 The Department and the Agency selected a design for the Programme that is projected to maximise benefits and the number of homes delivered within the constraints of the £1.8 billion capital funding available. The launch of the Programme has been successful. Providers have committed to building some 80,000 homes for the £1.8 billion of government investment, approximately 24,000 more homes than first expected. In this respect, the Programme has made a good start.

16 However, key risks remain and the delivery of new homes is concentrated towards the end of the period covered by the Programme. The final judgement of the value for money of the Programme will therefore depend on how successful the Department and the Agency are between now and 2015 in managing these risks and securing delivery of the aims of the Programme.

Recommendations

17 Our recommendations are designed to help the Department secure value for money from the Affordable Homes Programme, and draw out lessons for future housing programmes.

For those implementing the Affordable Homes Programme

a **The Department should update its assessment of the estimated costs and benefits of the Programme regularly so that progress against the initial assessment can be monitored, costs managed and understood, and benefits maximised.** Risks to meeting Programme aims remain, and regular updating of the assessment would assist the Department in managing them.

b **To understand the impact of transferring financial and delivery risks to providers, the Agency should evaluate how far providers priced risks into their offers, and whether the price paid represents value for money.** The Department concluded Registered Providers had the financial capacity to invest more of their own resources into affordable housing. However, the Programme increases the risks providers must manage, including financial exposure and challenges in getting bank financing for capital investment.

c **The Department and the Agency should evaluate the impact of the Programme on successful providers, and establish the reasons why they offered as many homes as they did, and why some providers did not apply, or were unsuccessful.** The Department concluded that Registered Providers had the financial capacity to invest more of their own resources to deliver affordable housing, but, following consultation with the Department and the Agency, provider's offers substantially exceeded its expectations. Establishing the reasons for providers' differing responses to the Programme will help secure successful delivery and design of future programmes.

For those implementing future programmes

d **For future programmes, the Department and the Agency should use the cost information from the Programme to seek additional savings in the cost per home. The Agency should also consider how to use competition further, by evaluating opportunities to use alternative bidding methods such as multiple rounds or open bidding.** Where possible, making greater use of benchmarks on cost per home from previous programmes would strengthen the Agency's ability to test the value for money of proposals. The Agency applied some degree of competition to achieve savings but it might have further reduced the grant per home offered by housing providers if it had more systematically assessed whether offers were competitive.

e **The Agency should consider the benefits of designing a more structured decision-making process which can be replicated, so that any future Programme can benefit from previous 'tried and tested' approaches.** The Agency examined a range of factors when assessing applications for funding. The application process was conducted systematically, but because set weightings were not given to each factor we could not repeat the process to see how decisions were made.

Part One

Introduction

1.1 In 2010, the government announced a new programme for delivering affordable (which the Department defines as below market price) housing in England – the Affordable Homes Programme. The Programme is expected to deliver some 80,000 homes by the end of 2014-15 through a mixture of affordable rent and affordable home ownership. Affordable rent is a new funding model, whereby housing providers can charge higher rents than have been normal in the past (up to 80 per cent of market rate), both for new homes and for some new tenancies of existing homes. It is expected that housing providers will use the increased rents to leverage further borrowing to build new homes. Together with commitments under past housing programmes, the government expects providers to deliver 170,000 affordable homes between 2011-12 and 2014-15.

1.2 This Part sets out:

- the context to the Programme;
- the main features of the Programme; and
- the scope of this report.

Programme context

1.3 Social housing is housing let at low rents to people in housing need. The Department defines affordable housing as social rented or below market price housing for households whose needs are not met by the market. Social housing is owned and managed by housing providers, which comprise private Registered Providers, local authorities and arm's-length management organisations:

- Private Registered Providers of social housing, many of which are housing associations, are usually not-for-profit organisations established to provide social housing. As of March 2011, the larger Registered Providers managed some 2.5 million homes, owned assets valued at some £109 billion and earned over £10 billion a year in net rental income.[1]

1 Tenant Services Authority, *2011 Global Accounts of housing providers*, March 2012. This financial analysis is based on 400 providers which own or manage at least 1,000 social homes, relating to more than 95 per cent of the sector's stock.

- Local authorities are responsible for housing, though the number with direct responsibility for their housing stock has lessened in recent years. A number of authorities have transferred their stock to Registered Providers or arranged for arm's-length management organisations to manage it for them.

1.4 The Department for Communities and Local Government (the Department) is responsible for social housing policy in England, and governs the policy for setting rents charged by social housing providers. The Homes and Communities Agency (the Agency) is a non-departmental public body responsible for the delivery of the Department's housing and regeneration policies. Up until March 2012, the Tenant Services Authority (the regulator) regulated Registered Providers in England. From April 2012, the Agency has taken this role. Since April 2012, the Greater London Authority has taken on the Agency's housing and regeneration activities across London.[2]

1.5 The Department, the Agency and housing providers face a number of challenges to meet the needs of the estimated 4.5 million people waiting to be allocated an affordable home in England.[3] Meeting this housing need is a priority for the Department. However, like other government departments, the Department for Communities and Local Government is working within the constraints of cost reduction. The 2010 Spending Review reduced the Department's annual housing related programme spend by approximately 60 per cent to £4.5 billion over the four years starting 2011-2012, compared with £8.4 billion over the three preceding years. The reduction in funding, coupled with rising demand, mean that the Department and Agency need to deliver more for less.

The Affordable Homes Programme

1.6 In 2010, to meet the challenge of reduced funding, the Department launched the Affordable Homes Programme (the Programme), to deliver social housing at a lower grant per home than previous support programmes. **Figure 1** outlines the funding available for different types of housing in 2011-12 to 2014-15. Including remaining commitments under the previous National Affordable Housing Programme, the Department expects to deliver a total of 170,000 homes between 2011-12 and 2014-15, at a cost of £4.5 billion. Of this some 80,000 will be through the Affordable Homes Programme at a cost of £1.8 billion.

1.7 The Agency manages the Programme for the Department. The regulator provided assurance on whether Registered Providers bidding to take part in the Programme met the regulatory standard on financial viability, and as of April 2012 the Agency regulates Registered Providers' financial viability.

2 Regulation remains with the Agency.
3 Department for Communities and Local Government, *Laying the Foundations: A Housing Strategy for England,* November 2011.

Figure 1
Types of funding for social housing in England, 2011-12 to 2014-15

Project	Description	Total available funding 2011-12 to 2014-15 (£bn)	Homes expected to be delivered by 31 March 2015
Commitments under the previous affordable housing scheme	In the National Affordable Housing Programme the Agency spent £8.4 billion during 2008-09 to 2010-11 to deliver 155,000 new homes with a mixture of low-cost home ownership and social rent. The Agency is spending a further £2.28 billion completing schemes begun in earlier years.	2.28	72,000
Affordable rent and affordable home ownership (the Affordable Homes Programme)	Homes are offered to rent at up to 80 per cent of market rate. Providers are granted a high degree of flexibility over the terms of the tenancies they may grant, but they must be a minimum of two years. Assistance is also provided to first time buyers through either shared ownership or equity loans.	1.80[1]	80,000
Mortgage rescue scheme	Continuing the mortgage rescue scheme administered through the National Affordable Housing Programme allowing households facing repossession to remain in their homes.	0.22[2]	2,500
Homelessness change programme, traveller pitch funding, empty homes[3] and other grant including local authority funded homes	Support to develop and improve hostel accommodation and provides opportunities to help people find employment, provides public sites meeting specific needs of these communities and to bring back into use empty homes within supplier stock.	0.19	15,500
Total		**4.49**	**170,000**

NOTES

1 Figure shows the expected combined funding available for homes through both affordable rent and affordable home ownership.

2 Funding for the scheme is only available up to 2013-14. No new applications will be accepted after spring 2013, or earlier if available funding has already been committed.

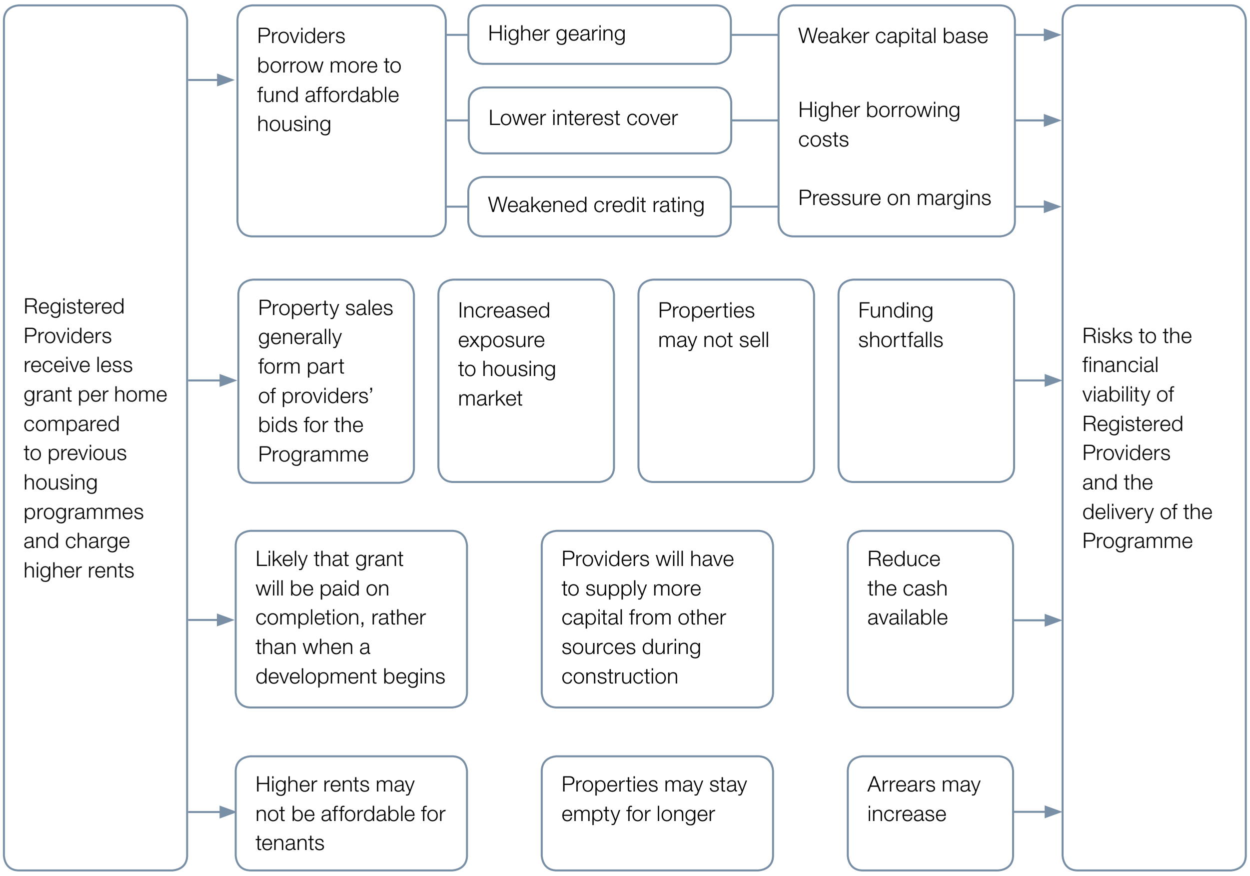
3 Empty homes funding was available from April 2012.

Source: Homes and Communities Agency, Corporate Plan, 2011

1.8 The Programme requires providers to take on increased borrowing, as well as other risk, for example committing to deliver housing over the whole of the period of the Programme at a fixed price, rather than agreeing commitments on a site by site basis. **Figure 2** sets out the risks to delivery and financial viability faced by Registered Providers. The Programme will involve housing providers spending some £12 billion on new homes, funded by a combination of government grant (£1.8 billion), borrowing by providers supported by rents on new properties (we estimate around £6 billion), and funding from a range of other sources[4] (about £4 billion). Rents totalling around £500 million a year on new homes will be paid by tenants, approximately two-thirds of whom are supported by housing benefit.

Figure 2
Risks faced by Registered Providers under the Programme

The Programme required providers to take a range of risks including increased borrowing and committing to deliver housing over the whole life of the Programme at a fixed price



Source: National Audit Office analysis of information provided by the Tenant Services Authority

4 Including borrowing supported by converting properties from social rent to affordable rent, property sales (principally through shared ownership) and other sources of cross subsidy.

1.9 Therefore, to be successful, the Programme must help housing providers to best use the funds available to them, including borrowing, without over-stretching themselves or risking their financial viability.

Scope of this report

1.10 To maximise meeting housing and other policy aims, providers need to be encouraged to best use funds available to them, including increasing the level of their borrowing. However, housing providers also face significant uncertainties. Excessive borrowing could increase the cost of borrowing, and potentially put financial viability at risk.

1.11 In 2010, the Department for Work and Pensions proposed changes to the benefits system, which resulted in the Welfare Reform Act enacted in March 2012. These changes included capping benefits to tenants and paying benefit directly to them, rather than, as before, directly to housing providers. This may affect how far providers can raise rents, the level of lost rent arrears, and again may affect providers' financial status. However, the Government has committed to implementing Universal Credit in a way that protects social landlords' income streams. The Department for Work and Pensions is undertaking work to better understand the risks associated with paying benefits directly to tenants, and how these risks can be mitigated.

1.12 We examined how the Department, the Agency and the regulator have taken account of the financial viability of providers who have taken part in the Programme, while achieving policy objectives. We have focused on the new affordable rent model, which accounts for the majority of new funding available through the Programme. We examined:

- how the Department planned the Programme and appraised the options;
- whether the Agency assessed offers for the Programme robustly and its efforts to get the most from funds; and
- the effectiveness of the regulator's assurance on the financial viability of Registered Providers who applied for the Programme.

Part Two

Programme strategy, planning and implementation

2.1 As **Figure 3** shows, the National Audit Office expects value for money in public spending programmes to be supported by a core management cycle. We have used the cycle to assess the Department's and Agency's progress in designing, planning and implementing the Programme. This Part covers:

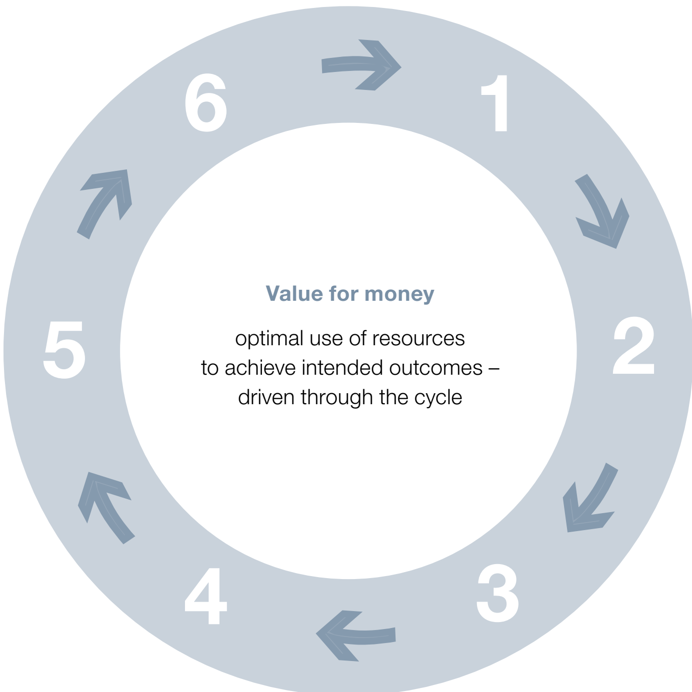
- strategy – the cost and benefits of the delivery model;
- planning – Programme risks and mitigating actions; and
- implementation – the bid appraisal process and plans to deliver.

Figure 3
The core management cycle

6 Feedback
amends priorities and informs future strategy and planning

1 Strategy
based on evidence with clear policy goals

5 Evaluation
of implementation against strategic goals



2 Planning
with agreed priorities, resources, management information and programme management in place

4 Measurement
of quality, delivery, costs and user experience against benchmarks and targets

3 Implementation
with good financial management, risk management, governance and controls in place

Source: National Audit Office: A short guide to structured cost reduction, June 2010

Strategy and planning

Programme design and development

2.2 The objectives of the Programme are to:

- meet housing need at a local level;
- offer more flexible options for social housing tenants;
- make sure that public funds are properly and effectively spent; and
- maximise delivery of new affordable housing supply.

2.3 The Affordable Homes Programme differs from the previous National Affordable Housing Programme in its operating and delivery model, most notably around introducing the affordable rent model. The Department intended that this model should help providers to fund development by increasing the rents they can charge. Providers participating in the Programme can set rents at up to 80 per cent of market rate both for new housing and for an agreed proportion of re-lets of their existing social rent properties. This level of rent is generally higher than rent charged by providers under previous housing schemes, especially in London and the South East. The resulting increased income will then allow an increased proportion of the cost of the new housing to be funded by providers. **Figure 4** overleaf outlines the differences between this Programme and the previous programme in more detail.

Cost–benefit analysis

2.4 The Department published its impact assessment for affordable rent in June 2011. Of the £4.5 billion allocated to the housing programme in the 2010 Spending Review, £2.7 billion was already committed, mainly to completing schemes approved under the National Affordable Housing Programme between 2008-09 and 2010-11. The Department considered in detail three different options for spending the remaining £1.8 billion:

- Continuing with the model used for the National Affordable Housing Programme.
- Spending all £1.8 billion on schemes using the new affordable rent model.
- Spending the same amount on a combination of the new affordable rent model and affordable home ownership.

Figure 4

Comparison of the National Affordable Housing Programme, 2008-09 to 2010-11, and the Affordable Homes Programme, 2011-12 to 2014-15

	National Affordable Housing Programme	Affordable Homes Programme
Rent levels	Rent charged in line with target rent guidelines, calculated using a formula based on affordability in an area and value and size of a property.	Rents charged at up to 80 per cent of market rent.
Application process	Providers bid for funding on a scheme-by-scheme basis and could do so at any time during 2008-2011, or until all funding was allocated.	Providers submit offers up front in one round for the whole of the four-year Programme.
Assessment process	Stage one: Offers are assessed against compliance conditions, with a pass or fail outcome. Stage two: The Agency reviewed offers in a competitive process against set criteria.	Stage one: The assessment was a competitive process involving negotiation with providers. Stage two: Offers were considered nationally against different key criteria including value for money, costs, strategic fit and local priorities.
Criteria offers assessed against	Offers were assessed against the following criteria: value for money, quality and fit with strategic priorities, deliverability within the Programme, and alignment with policy objectives.	
Benchmarks offers measured against	Each offer was assessed using a grant index which uses information on value and quality to rank proposed projects.	The Agency used the costs per home from the initial offers to establish a set of benchmarks, though this did not include benchmarks for rural, larger or supported housing, or from previous programmes. These were used to make improvements in the grant per home of offers.
Moderation process	Grant awarded on a scheme-by-scheme basis until all capital funding allocated.	Grant matched to the total capital funding available in one moderation process.

Source: National Audit Office analysis of information from the Homes and Communities Agency

2.5 The Department's cost–benefit analysis used a consistent modelling methodology and set of assumptions across each of the three options. The Department assessed the options assuming the same amount of capital funding was available: £1.8 billion in cash terms, £1.6 billion when discounted to a net present value. The analysis compared benefits against a counterfactual in which no grant funding was available beyond existing contractual arrangements. It estimated both costs and benefits over 30 years. The analysis also considered estimates of housing benefit that would be paid to tenants under the three options.

2.6 The Department considered the expected net cost to government, for example grant paid minus tax paid by construction workers, and the net economic benefits to society, such as the economic value of increasing the supply of housing. The Department also carried out a separate exercise to better understand the costs to housing providers, although this was not presented within the impact assessment. It analysed the cost to all tenants, including those who would not have all their rent paid by housing benefit, but the published analysis did not explicitly refer to the number of tenants in this group who would be affected or by how much.

2.7 Our analysis of the Department's impact assessment (**Figure 5**) showed that over the 30-year period analysed, continuing to fund housing on the model of the National Affordable Housing Programme (option one) offered the highest ratio of benefits to costs and hence the best value for money. This was mainly because of housing benefit savings expected from tenants moving out of more expensive private sector housing, offsetting much of the initial capital cost.

Figure 5

Summary of estimated impact of the options considered in detail by the Department

The Department adopted the option that best met its objective to maximise the number of affordable homes delivered for £1.8 billion grant funding

Option	Net present value[1]				Number of homes forecast
	Capital grant in spending review period (£bn)	Net cost to government (£bn)	Net economic[2] value of benefits (£bn)	Economic[3] benefit–government cost ratio	
Option one: Continuing the National Affordable Housing Programme	1.6 (1.8 in cash terms)	0.7	1.6	2.2:1	27,000
Option two: Introducing affordable rent	1.6 (1.8 in cash terms)	1.8	3.0	1.7:1	48,000
Option three: Introducing affordable rent with affordable home ownership	1.6 (1.8 in cash terms)	1.8	3.2	1.8:1	56,000

NOTES

1 The Department calculated net present value over 30 years. HM Treasury *Green Book* guidance denotes that the costs and benefits should cover the useful life of the asset.

2 The total economic benefit figures include the net impact on government.

3 We have presented the benefit–cost ratio for each of the options considered although this was not included within the Department's impact assessment.

4 Figures may not total due to rounding.

Source: National Audit Office analysis of Department for Communities and Local Government, Impact Assessment for Affordable Rent, June 2011

2.8 However, the Department adopted the option that best met its objective to maximise the number of affordable homes delivered within the constraints of the £1.8 billion grant funding. The affordable rent and affordable home ownership option (option three) was forecast to deliver the largest number of new homes – 56,000, compared to 27,000 under option one. It had the highest net cost to government but also the largest net economic value of benefits – £3.2 billion compared with £1.6 billion. This option therefore represented the best value for money available within the amount of capital available.

2.9 The Department's preference for option three reflected its aim to do the most it could with the limited amount of capital available to it. If, instead, its aim had been to achieve the most for a given level of total cost, the superior benefit–cost ratio of option one would have made this model of delivery more attractive – but would have required more capital to deliver the same number of homes.

2.10 To illustrate the possible impact of adopting the option one model, we estimated the costs and benefits of a hypothetical option that used the model of option one, but was scaled up so as to have the same cost to government as option three. On a simple pro rata basis, we estimated that this would provide more homes and more net benefits – 8,200 more homes and £0.7 billion more benefits – than option three. However, it would require grant funding of some £4.3 billion between 2010-11 and 2014-15, and so was not affordable to the Department within the £1.8 billion available.

2.11 The Department updated its appraisal of option three after offers to take part in the Programme had been selected. The update showed that its initial assumptions had underestimated the number of homes that could be built under the Programme, and that it would be possible to deliver some 80,000 homes within the funds available rather than the 56,000 originally estimated. This increased the cost of housing benefit by some £850 million over the appraisal period, in addition to the initial cost of £550 million stated in the impact assessment. It also increased the wider benefits that would arise from delivering additional homes. **Figure 6** outlines the costs and benefits of the agreed Programme with the additional £850 million in housing benefit costs. To meet this additional cost, the Department, with Treasury advice, agreed with the Department for Work and Pensions to transfer a one-off amount of £57 million between 2011-12 and 2014-15.

Figure 6

The Department's updated cost–benefit analysis of the agreed Programme with additional housing benefit costs, 2011

Cost to government	Central estimate (£bn)	Type of cost	Who bears the cost
The Agency's capital funding	1.6	Cash	Homes and Communities Agency
Increase in housing benefit expenditure	1.4	Cash	Department for Work and Pensions
Employment and council tax	-0.5	Cash	Construction employees pay taxes to HM Revenue & Customs
Total net government costs	**2.5**		

Benefits to society	Central estimate (£bn)	Type of benefit	Who receives benefits
Increase in land value	1.5	Cash if land sold	Providers
Distributional impacts[1]	1.3	Notional	Tenants
Gross Value Added impact from construction activity	1.6	Economic growth	Economy benefits from investment and activity in the housing sector
Total net benefits	**4.4**		

NOTES

1 Distributional impacts are the benefits of redistributing income from higher-to lower-income households that will not be realised in cash.

2 The Department calculated net present value over 30 years. HM Treasury *Green Book* guidance denotes that the costs and benefits should be calculated over the useful life of the asset.

3 The total economic benefit figures includes the net benefit to government.

Source: National Audit Office analysis of the Department's Impact Assessment for Affordable Rent, June 2011

Risk management

2.12 The Department's risk management focused on implementing the new model. It identified a number of risks, including the possible impact of changes in housing benefit, and housing providers' lack of interest. The Department and the Agency carried out mitigating actions to address these risks, including early engagement with all key stakeholders about the model. The Department therefore achieved successful outcomes for all the risks identified for this phase of the Programme. **Figure 7** overleaf outlines the key Programme risks, mitigating actions and outcomes.

Figure 7
Key risks to achieving the Affordable Homes Programme

Risk	Potential impact	Mitigation	Outcome
The affordable rent model may not be considered viable by sufficient numbers of housing providers.	Desired output levels are not achieved, housing need is not addressed.	Early discussion with providers on products and flexibilities.	Programme was oversubscribed.
Agreement is not reached with the Greater London Authority over funding and delivery arrangements in London.	The delivery model fails in London.	Weekly engagement with the Greater London Authority and a separate section in the affordable rent framework on London.	Agreement reached with the Greater London Authority to deliver 27 per cent of outputs in London.
The Agency or regulator, or both, do not complete negotiations with providers within required timescales.	Missed deadlines reduce confidence in the new model as a method of delivery, fewer homes potentially built as a result.	Engagement with developers, Registered Providers and local authorities.	Agency and regulator completed negotiations within timescales.
Uncertainty over future housing benefit reforms and their impact on the model.	Providers may be reluctant to engage with the new model.	Early engagement with the Department for Work and Pensions, and providers to understand welfare benefit reform impacts.	Programme was oversubscribed.
Local authorities do not buy into the affordable rent model.	Local authorities could obstruct development through the planning system if they do not believe it is viable.	Early engagement with local authorities and a clearly defined role.	The Agency consulted local authorities to understand how offers aligned with local need.

Source: Department for Communities and Local Government, Affordable Rent Full Business Case, January 2011

Implementation

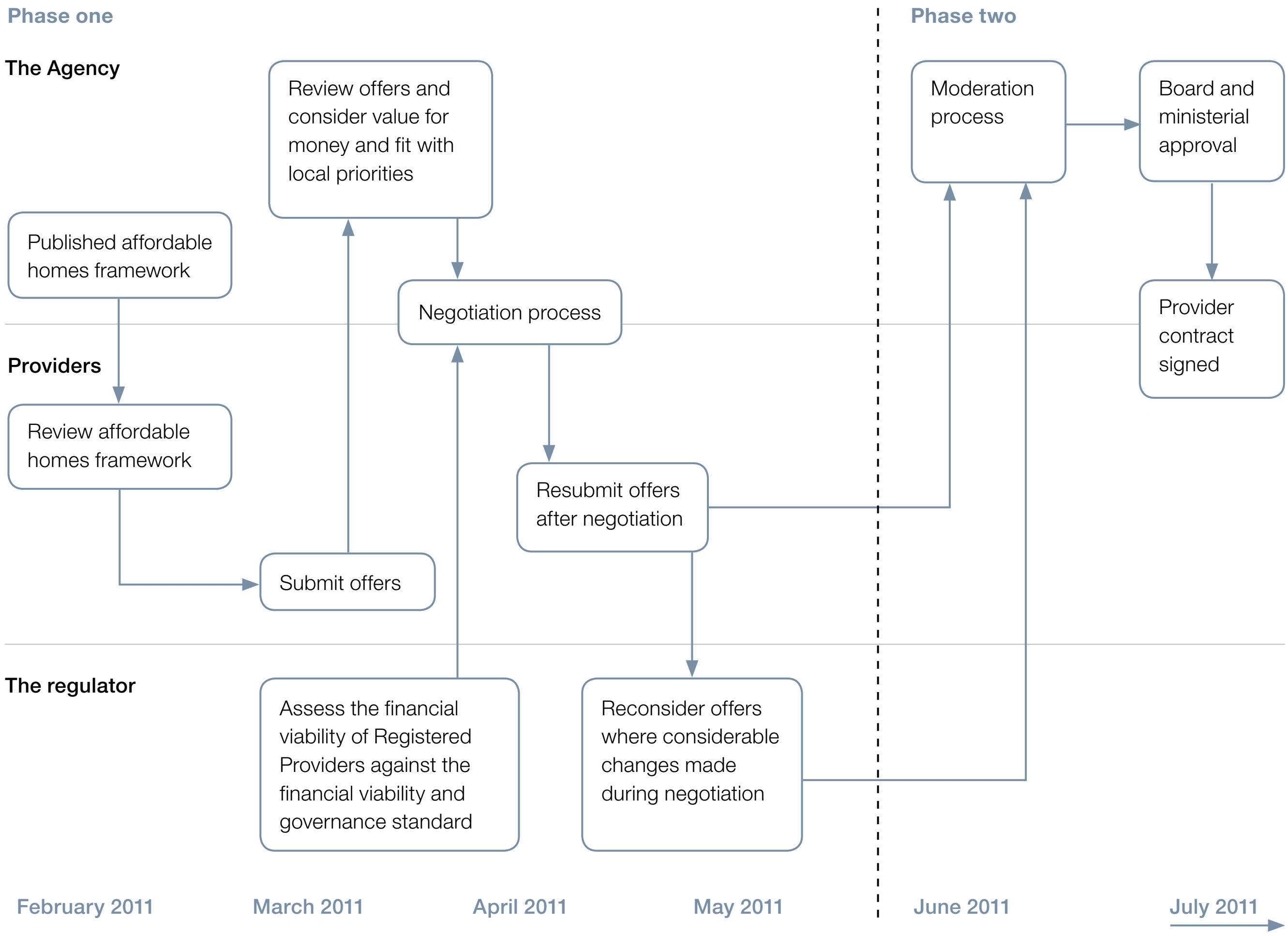
2.13 The Programme launch was successful in terms of offers to deliver against targets. In all, the Agency received 199 offers, including 125 from Registered Providers, 40 from local authorities, 27 from developers and two from arm's-length management organisations.[5] Some bids were by individual housing providers and others were from providers acting as consortia. In all, 377 Registered Providers submitted offers either individually or as part of a consortium. The funding applied for was approximately double the funding available, and the Department's aim of 56,000 homes was exceeded by offers to deliver approximately 162,000. **Figure 8** outlines the application process, announced in October 2010, in more detail.

5 The remaining five include three charities, a limited partnership and a community land trust.

Figure 8

The Affordable Homes Programme application process, 2011

The application process ran from February to July 2011 and had two phases



Source: National Audit Office analysis of information from the Homes and Communities Agency

Negotiation – phase one of the application process

2.14 The Department and the Agency decided that a single round of applications would create the best circumstances for competition, especially as one of the key risks was potential lack of interest. As outlined in paragraph 2.13, the Programme was oversubscribed. This meant that the Agency could be more challenging in its discussions with providers and its negotiators actively sought the 'best deal'.

2.15 The Agency compared the grant per home in each individual offer against other offers in the same region. The Agency might have been able to reduce further the grant per home offered if, where sufficiently detailed cost information had been available, it had drawn on benchmarks of cost per home from previous programmes to inform its negotiations with providers. The Agency did not use such benchmarks when examining each offer, nor did it use benchmarks to compare the costs of larger, rural or supported housing.

Central moderation – phase two of the application process

2.16 The Agency had to strike a balance between getting the best value for money in terms of grant per home with other key criteria. The Agency consulted all affected local authorities to ensure offers met local priorities. The Agency also considered factors such as whether providers could realistically deliver, the mix of housing type, and whether the homes would meet accepted design quality standards. Through its assessment process, the Agency was able to agree a reduction in the overall average grant applied for, from around £22,000 per home to around £20,000.[6]

2.17 The Agency assessed bids at a Programme level and considered a range of different factors. However, the decision-making process was not fully prescribed and no set weighting was given to each factor, so we could not repeat the process to see how individual decisions were made, or on what basis offers were scaled down. The assessment examined all offers against a series of indicators such as the past delivery performance of providers, the geographic spread of funding, overall risks to delivery, types of schemes committed to and local priorities. However, some providers have raised concerns as to the final outcome, as they were not clear how the reduction in their offers had been decided.

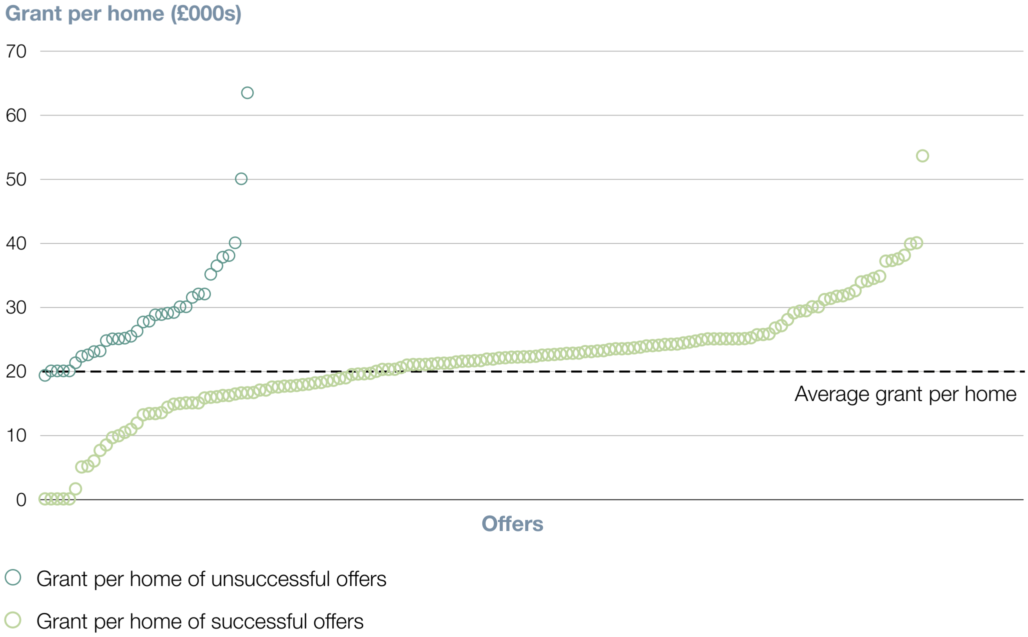
2.18 Some 55 of the 146 successful offers had grant levels that were below the final average grant per home (£20,000), with a further 19 offers within 10 per cent of this amount. Some 20 of the offers were successful despite having put forward a bid for grant per home that was 50 per cent or more above the grant average. Of these, we found that all offers had committed to deliver higher-cost housing such as rural, supported, larger homes or homes in London.

2.19 The Agency rejected 53 of the 199 offers. Of these, the Agency rejected 35 bids because of concerns about value for money and 11 were withdrawn from the process.[7] Our analysis shows that of the bids rejected because of value-for-money concerns, one had a lower than average grant per home while four had a grant per home that was on or near to the average. **Figure 9** shows the grant per home for successful and unsuccessful offers.

6 Figure is based on current commitments and includes risk margins built in by the Agency.
7 Of the remaining seven bids, four were considered more suitable for funding under the Homelessness Change programme, two were duplicate bids and one did not commit to a rent at close to the 80 per cent rate.

Figure 9
Proposed grant per home for successful and unsuccessful offers, 2011

Almost all of the offers that had grant levels below the final average per home were successful, but some higher cost offers were successful as well



NOTE

1 Two outliers (one successful and one unsuccessful) have been removed from the population because the cost per home in each case was more than 300 per cent higher than the average.

Source: National Audit Office analysis of information from the Homes and Communities Agency

2.20 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. **Figure 10** overleaf outlines the different amount of grant per home awarded between this and the previous programme by region.

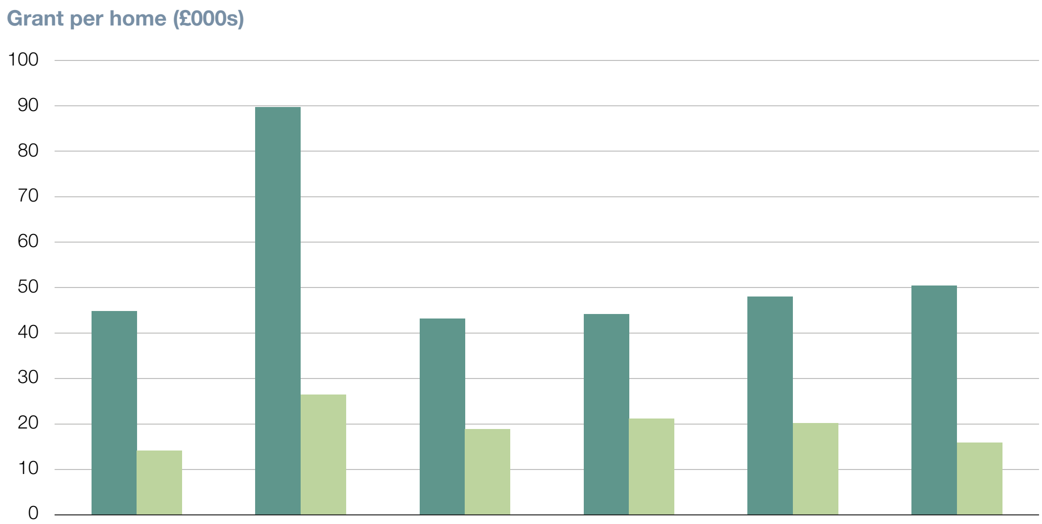
Impact on rent levels

2.21 The Department's modelling assumptions were based on providers charging a rent level between 70 and 80 per cent of market rate, which proved accurate with providers planning to charge an average rent of 75 per cent. The 80 per cent rate was adopted by only 40 per cent of providers and in London providers typically planned for rent levels at approximately 65 per cent. The proposed rent levels took into account that tenants might not be able to pay higher rents, especially if subject to the proposed benefit caps.

Figure 10

Comparison of grant per home awarded under the National Affordable Housing Programme (2008-09 to 2010-11) and the Affordable Homes Programme (2011-12 to 2014-15)

The grant per home awarded compares favourably to previous housing programmes



	East and South East	London	Midlands	North East, Yorkshire and the Humber	North West	South West
National Affordable Housing Programme	44,798	89,767	43,162	44,144	47,963	50,379
Affordable Homes Programme	14,088	26,437	18,845	21,272	20,130	15,837

Source: National Audit Office analysis of information from the Homes and Communities Agency

2.22 The Agency has information on the average rent levels expected to be charged by provider and region. Our analysis of the high-level information held by the Agency shows that average weekly rent will range from around £100 a week in the North East, Yorkshire and the Humber to £182 a week in London. However, it does not have information on rent levels charged across homes of different sizes. As a result, we could not compare actual rent charged under the model and rent levels under previous programmes.

Risks to delivery

2.23 After completing phase two of the application process, the Agency and providers then agree a contract to build the housing. As of April 2012, 120 of the 146 (82 per cent) contracts had been signed. Of the 26 contracts still to be signed, 23 are with local authorities who had been delaying signing contracts pending confirmation of final borrowing capacity arising from the changes to the Housing Revenue Account. As of 1 April 2012, some 14,900 of the expected 15,000 homes had begun and 2,200 had already been completed.

2.24 Once contracts have been signed, the key risks to delivery are borne by providers, as the contracts they have with the Agency commit them to complete at a fixed price and by 31 March 2015. The Agency's contracts with providers state that funding can be reduced if delivery targets are not met. If providers fail to deliver, and if the Agency does not consider the reviewed plan to be achievable, the Agency may reduce the number of new homes agreed in the contract. The Agency may also withdraw a proportionate amount of allocation to redistribute to other providers in return for additional homes. **Figure 11** sets out key delivery risks in more detail. The Agency has not yet quantified the cost impact of transferring risk, for example by examining how providers had priced their offers to consider delivery risks.

2.25 Some 51 per cent of schemes are indicative, because they have not been identified, are not sufficiently progressed, or do not yet have planning permission. However schemes that are planned for late delivery are more likely to be provisional and are therefore inherently more uncertain. Providers that have indicative sites are still expected to deliver on their offers, so if these fall through other sites will need to be found within the same time frame. Some local authorities in London may be reluctant to work with providers to develop or convert homes under the affordable rent model because of concerns around whether charging rents at an average of 65 per cent of market rate are affordable. It is too early to say whether this will impact on the ability of providers to deliver on their commitments. The Greater London Authority is aware of this issue and is in discussion with providers and local authorities over it.

Figure 11
Key risks to the delivery of the Programme

There are a number of key risks to the delivery of the Programme which the Agency needs to manage

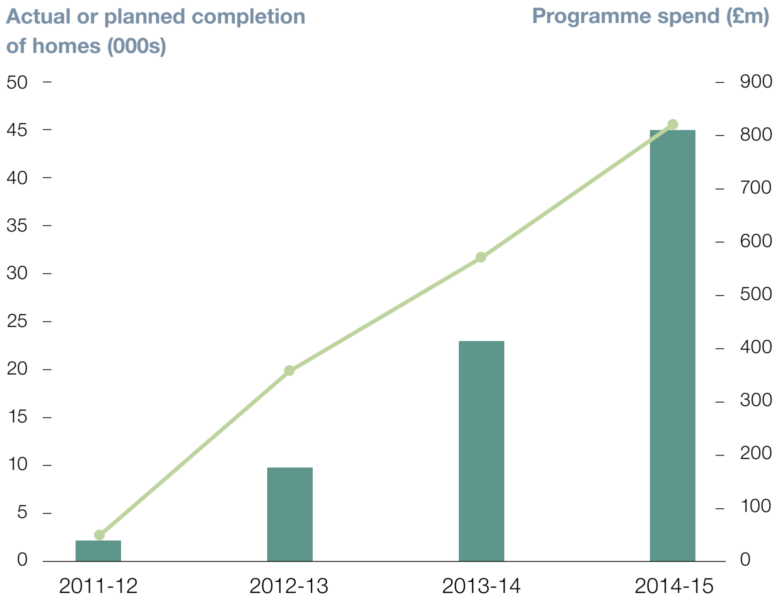
Risks	Mitigation
The Agency may not meet its target of delivering 170,000 affordable homes by 2015 as providers may not be able to fully deliver on their commitments.	The Agency will have quarterly review meetings with providers to discuss changes to planned delivery. The Agency will also carry out an annual review of providers.
The Agency may not meet targets in line with expectations because over half of the homes are expected to be delivered in the last year of the Programme.	Up to March 2012, the Agency paid providers on start (75 per cent) and on completion (25 per cent) to encourage them to start developing.
Providers may be unable to charge planned rents or development costs higher than originally planned.	The Agency is working with local authorities and providers to help broker relationships. They are also meeting providers quarterly to discuss progress towards meeting targets.

Source: National Audit Office

2.26 Figure 12 shows that, in line with the Programme budget, 46 per cent (£820 million) of the budget will be spent in the last year of the Programme and 56 per cent (45,000 homes) of all completions are currently planned in that year. The later homes are built, the bigger the risk is that they will be built after March 2015.

Figure 12
Spend and housing completions, 2011-12 to 2014-15

Forty-six per cent of the budget will be spent in the last year of the Programme and 56 per cent of all completions are planned in that year



	2011-12	2012-13	2013-14	2014-15
Planned completion of homes (number)	2,200	9,800	23,000	45,000
Percentage of homes completed	3	12	29	56
Programme spend (£m)	50	360	570	820
Percentage of programme spend	3	20	32	46

NOTES
1 Figures for completed homes are based on the Homes and Communities Agency 2011-12 Corporate Plan. This will be updated in the 2012-13 Corporate Plan and will exclude figures for London.
2 Programme spend is based on the original budget profile.
3 Figures may not total due to rounding.

Source: National Audit Office analysis of information from the Homes and Communities Agency

Part Three

Financial viability of Registered Providers

3.1 As private bodies carrying out, with government support, activities of public benefit, Registered Providers, but not other types of providers, are subject to a regulatory regime whose objectives include ensuring financial viability. This part examines:

- the regulator's role;
- the Registered Provider sector's financial position before the Programme;
- the regulator's work to assess the financial viability of Registered Providers that bid for Programme funding; and
- the impact of Registered Providers' financial viability on the repeatability of the Programme.

Regulator's role

3.2 The Tenant Services Authority was the regulator for Registered Providers in England until the end of March 2012. After a Department review of social housing regulation in 2010,[8] this role transferred to the Homes and Communities Agency's Regulation Committee in April 2012.

3.3 The Department's 2010 review identified three factors that justify continuing to regulate those providing social housing:

- the lack of competition to encourage good, efficient service provision;
- a substantial public subsidy; and
- private sector funding of £40 billion to Registered Providers was given on the condition that they are regulated.

3.4 The regulator has monitoring powers that range from inspection to holding a statutory inquiry in more serious cases. The regulator also has enforcement powers to inspect; and, if required, can transfer management of homes to another Registered Provider. The regulator reviews Registered Providers against set standards, one of which concerns financial viability and governance. **Figure 13** overleaf outlines the financial viability aspect of the standard.

8 Department for Communities and Local Government, *Review of social housing regulation,* October 2010.

Figure 13
Financial viability standard

The regulator reviews Registered Providers against set standards, one of which concerns financial viability and governance

Registered Providers should ensure that:

- effective controls and procedures are in place to ensure security of assets and the proper use of public funds;
- effective systems are in place to monitor and accurately report delivery of their plans; and
- the risks to delivery of financial plans are identified and effectively managed.

Registered Providers shall ensure that they have a robust and prudent business planning and control framework. Through this framework they will ensure:

- there is access to sufficient liquidity at all times;
- financial forecasts are based on appropriate and reasonable assumptions;
- planning sufficiently considers the financial implications of risks to the delivery of plans; and
- they monitor, report on and comply with their funders' financial covenants.[1]

NOTES

1 Financial covenants are those conditions attached to funding agreements which are set by lenders.

2 The regulator published a new regulatory framework in April 2012 but the financial viability standard has not changed.

Source: Tenant Services Authority

3.5 The financial indicators the regulator considers when assessing financial viability are based on its experience of past weaknesses and failures and its current assessment of risks facing providers and the sector overall. These include sales risk, interest cover and level of debt. **Figure 14** outlines some of the key financial indicators used by the regulator and explains why these are important. The indicators used are also recognised indicators to examine financial viability in other sectors, such as higher education.

The financial position of the Registered Provider sector

3.6 The regulator's monitoring shows sector growth between 2008-09 and 2010-11 in both turnover and surpluses, with an overall operating margin rising to 21.4 per cent (**Figure 15** on page 32). This growth supports the Department's assessment that Providers had the financial capacity to invest more of their own resources under the Programme. The regulator is concerned with ensuring financial viability of Registered Providers and part of that assessment is to make sure Providers have the financial capacity to deliver on their commitments. The sector has had very few failures in recent years – the last was in 2008. Of those that have failed, the key factor has been over-rapid expansion. In 2010-11, the regulator only had concerns over the financial viability of one Registered Provider.

Figure 14
Key indicators to evaluate financial viability of Registered Providers

The financial indicators the regulator considers when assessing financial viability are based on its experiences of past weaknesses and failures

Ratio	Explanation	Why it is important
Operating margin	Increasing margins reflect financial efficiency and may increase the borrowing capacity of providers. Falling margins have a direct impact on cash flow, debt-servicing and development potential.	Lower or deteriorating margins may be the first sign of trouble.
Net surplus as a percentage of turnover	Net operating margin shows the percentage profit made by the organisation after all interest payments and tax liabilities have been paid in the year.	Percentage surplus available to the organisation to use in the next year. Surpluses provide funds to reinvest.
Interest cover	This shows the ability of the organisation to meet interest repayments from the cash flow it generates.	If this figure is less than one it means payments of interest on loans exceed the income generated. The provider may have to increase borrowing to meet repayments in the future. In extreme cases interest cover less than 100 per cent may lead to inability to repay debt. Loan agreements often require a minimum level of interest cover be maintained.
Gearing	This is calculated by comparing long-term debt to capital. It indicates the extent to which the organisation is reliant on debt to fund its operations.	A high level of gearing indicates high reliance on debt and could signal problems in the future in meeting loan repayments. This should be considered alongside the interest cover ratio.

Source: National Audit Office

Assessing the financial viability of Registered Providers bidding for Programme funding

3.7 In view of the financial risk for Registered Providers under the Programme, the regulator assessed whether they were in a financially viable position and in compliance with the financial viability standard; and whether they were likely to continue to meet the standard if their offer was successful.

3.8 The regulator's work to assess viability was based on information from the original applications. The regulator has since carried out viability assessments on all Registered Providers including those who were allocated funding as part of the Programme. It also considers the overall financial strength of the larger Providers in the sector, including unsuccessful Registered Providers and those that did not bid.

Figure 15
Key financial highlights and indicators for the Registered Provider sector, 2011

The regulator's monitoring shows sector growth between 2008-09 and 2010-11 in both turnover and surpluses, with an overall operating margin rising to 21.4 per cent

Financial highlights and indicators	2009	2010	2011
Turnover (£m)[2]	11,565	12,280	12,647
Operating surplus (£m)	1,643	2,224	2,704
Surplus on social housing lettings (£m)	1,644	2,242	2,605
Net interest payable (£m)	1,891	1,895	1,959
Operating margin (%)	14.2	18.1	21.4
Surplus for the year (£m)	203	609	1,116

NOTES

1 Includes those Registered Providers that have at least 1,000 social homes. At 31 March 2010, 379 Providers had over 1,000 homes. Figures are for the financial year ending 31 March.

2 Turnover includes rental incomes and income from other activities.

Source: Global accounts of housing providers: landlords' financial health, Tenant Services Authority, 2011

3.9 We reviewed a sample of 120 assessments carried out by the regulator and found that its work to assess the financial viability of Registered Providers was robust. It developed detailed guidance and ensured that staff who conducted the assessments were skilled in financial analysis. The regulator considered that the financial viability of most Registered Providers was not adversely affected by the offers put forward but initially highlighted risks to the viability of six Registered Providers; 2 per cent of all Providers who submitted an offer. Specifically, issues identified were:

- risks to breach of loan conditions (known as covenants);
- optimistic interest rates identified in the financial plan;
- overly ambitious scale of development;
- risk of exposure to the housing market; and
- insufficient contingency in the financial plan.

The regulator undertook additional work to understand these issues. It concluded that all Registered Providers submitting offers were financially viable and would continue to be so, subject to their managing specific risks identified. As a result all those Providers that applied for funding were considered for the Programme.

Repeating the affordable rent model

3.10 There are a number of factors for the Department to consider when assessing whether the model can be repeated after 2015. The Department outlined its early thinking on repeating the Programme in its new housing strategy *Laying the Foundations*.[9] It highlighted the positive response to the first Programme and notes that the principles underpinning the model, including efficiently using existing assets, would "remain the cornerstone of affordable housing provision for the future." The Department is currently scoping work to look at the potential options for funding affordable housing. The Communities and Local Government Select Committee has undertaken an inquiry on the financing of new housing supply. The inquiry focused on the steps government must take so that resources are available to meet the nation's housing needs.

3.11 A key risk to repeating the same model is providers' ability to access private sector finance. The regulator's quarterly survey of Registered Providers shows that, as of December 2011, borrowing in the form of debt drawdowns and new financing are the lowest reported since January 2009[10] and providers are increasingly exploring other potential sources of funding. A survey by Baker Tilly in 2012 reported that some 63 per cent of Registered Providers who responded are now considering alternative funding sources, the most popular being corporate bonds. Previously Providers have relied more on bank loans.

3.12 The majority of Registered Providers have good credit ratings and as such are able to access lower-cost financing on the bonds market. Our analysis shows that Registered Providers have increased interest in using bonds. Five of the ten biggest Registered Providers have issued bonds between August 2010 and April 2012. Some Providers can access finance at a lower cost on the bonds market than from traditional sources of funding. The regulator's monitoring of the larger Registered Providers shows the price of debt at rates between 5.42 and 6.35 per cent in 2010, but recent bond issues have been at 5.36 per cent (Amicus Horizon), 5.22 per cent (Circle) and below 5 per cent for The Housing Finance Corporation Ltd.

3.13 Most Registered Providers have benefited from lower interest rates in recent years, so while total debt increased by 12 per cent between 2008-09 and 2010-11 to £45 billion, interest costs only rose by 3 per cent to £1.9 billion. However, some have had to provide additional security to banks because they have attempted to improve their competitiveness by using financial derivatives to fix their interest rates, mostly in the form of interest rate swaps. Forty-six Registered Providers have reported to the regulator that they are using such derivative instruments to fix the rates they are paying on debt with a total nominal value of £9.3 billion. Falling interest rates have required some Providers to offer collateral, generally in the form of assets rather than cash, as security against their future fixed rate payments under these agreements. The regulator's December 2011 quarterly survey reported that Registered Providers were putting up collateral totalling £1.6 billion, in the form of cash and secured property, up from £0.5 billion in June 2011. If, before future settlement dates, floating interest rates move closer to contracted fixed rates, the need for this collateral will reduce.

9 Department for Communities and Local Government, *Laying the Foundations: A Housing Strategy for England,* November 2011.
10 Tenant Services Authority: *Quarterly survey of private Registered Providers*, December 2011.

3.14 Some Providers may be deterred from applying for funding if a similar model is used after 2015 because of the potential impact on their existing debt commitments. The model increases the level of debt because additional debt is taken on to fund housing schemes. Additional debt can impact on agreed loan covenants, which may increase the risk that covenants are breached. If Providers then have to renegotiate existing debt arrangements, this could increase the cost of borrowing as banks increase interest rates. **Figure 16** shows the impact the Programme is likely to have on the sector compared with previous affordable housing schemes.

3.15 The sector's response to the feasibility of repeating the model is mixed. Some housing providers and sector experts consider that the model is not repeatable; while others consider that there would be sufficient capacity to engage with a similar funding model beyond 2015. This supports feedback from our consultation with the sector. Some providers who have been successful in getting Programme funding this time have stated they have made more cautious delivery commitments to give them the capacity to apply next time. Those providers who have not applied for funding this time may well be in a better position to apply for funding next time. The Department will need to carry out a more thorough analysis of the financing of individual Registered Providers to address the issue and come to a conclusion.

Figure 16

Impact of the average cost of financing the development of a home under the Programme compared with previous affordable housing schemes

The Programme increases the level of debt housing providers take on

	National Affordable Housing Programme[2] (£)	Affordable Homes Programme[3] (£)
How construction is financed (average per home)		
Borrowing supported from new rents	61,000	75,000
Grant (Programme average)	60,000	20,000
Other funding[4]	34,000	46,000
Total scheme costs[1]	155,000	141,000
Ongoing costs (annual average per home)		
Rent	4,698	6,552

NOTES

1 Total scheme costs include the construction and land costs associated with the development of a home.

2 Figures for the National Affordable Housing Programme exclude shared equity homes. The borrowing figure supported from new rents is an estimate.

3 Figures for the Affordable Homes Programme include risk margins built in by the Agency.

4 Other funding is calculated as a residual from other figures shown.

Source: Homes and Communities Agency

Appendix One

Methodology

Method	Activity
Quantitative analysis	We analysed information from the Agency including data on applications, offers post-negotiation and allocated funding. We also reviewed data on unsuccessful offers.
High-level validation of the affordable rent impact assessment	Our work focused on validating the costs and benefits of the Department's delivery model.
File review – Tenant Services Authority	We reviewed a sample of 120 assessments of the financial viability of Registered Providers applying for funding.
File review – Homes and Communities Agency	We reviewed a sample of 33 applications from Registered Providers and seven from local authorities to understand how the Agency assessed applications.
Interviews with the Department, Agency and regulator	We conducted interviews with key staff in the Department, the Homes and Communities Agency and the Tenant Services Authority.
Case studies	We spoke to a sample of Registered Providers, local authorities, and builders and developers to understand the challenges faced by the sector, and Programme administration.
Interviews with stakeholders and sector experts	We interviewed a wide range of stakeholders including the National Housing Federation and the Council of Mortgage Lenders.
Document review	We reviewed key documents to better understand how regulation and funding activities support the financial viability of the sector.

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