



## **Circle Anglia's Response to HCA Consultation Paper: Social Housing Assistance – Principles of Recovery**

### **1.0 Implications for Recovery of Equity Investment**

Circle Anglia supports the principle of maintaining the distinction between the HA sector and other Registered Providers in recovering capital grants. HA's are regulated bodies, we do not distribute profits either during initial development or long term ownership.

Unlike other Registered Providers, all of Circle Anglia's resources are focused on enhancing the life chances of those people in the communities where we work. All of our resources are dedicated to developing, managing, improving and supporting affordable housing.

### **2.0 Homes for Social Rent**

We support the proposal not to change the current recycling arrangements on social rented homes.

### **3.0 Homes for Intermediate Rent and Low Cost Home Ownership**

Circle Anglia uses grant to make shared ownership more affordable to the priority groups targeted by government who will most benefit from assistance to access the property market.

In order to model financial viability in a competitive grant environment our business planning processes factor in certain assumptions regarding long term prospects for the timing, percentage and value of future staircasing. This future staircasing income is factored into the 30 year viability model to help achieve lower grant rates overall. Current RCGF repayment obligations are taken into account in this calculation. In effect the initial grant bid is discounted to take account of estimated future returns.

Most schemes with grant funded intermediate housing incorporate other tenures and in particular social rent. Higher levels of grant are required to build social rent as the revenue stream is fixed and costs are higher or equal to those for intermediate tenures. Our development portfolio and business plans factor in predicted surpluses from shared ownership to reduce the grant required to deliver social rented homes.

Applying assumed LCHO future staircasing income in this way reduces the grant required for social rented units. It also allows us to keep rents low on the unsold equity portion ensuring that they remain affordable. This aspect is a particularly important in the current LCHO market.

Any obligation to recycle staircasing proceeds will reduce the predicted income available to Circle Anglia and reduce the cross subsidy available to maintain grant rates at current allocation levels. Recycling future staircasing repayments into RCGF will increase the initial grant requirement on both LCHO and social rent.

It is also likely to suppress our appetite for LCHO developments and thereby reorientate our programme to provide more rented homes, this will exert additional pressure on grant levels for rented homes as the opportunity for cross subsidy will have been lost and the real cost of rented housing will be revealed.

#### **4.0 Other Implications**

All of Circle Anglia's resources are deployed in meeting our core objective of enhancing life chances – any reduction in these resources will have direct and indirect effects on our ability to continue to deliver our existing range of services.

Furthermore any income returned to the HCA is at risk of being factored into government calculations of future grant requirements and netted off against future funding allocations. It may also be at risk of recovery by Treasury and redirected to fund other government priorities.

Reductions in future resources will impact on lenders assessments of our financial viability which is certain to drive up the cost of borrowing and drive down our credit rating. We would encourage the HCA to seek the views of the CML and canvass the views of major lenders.

Added risk and reduced future income will have a negative effect on development activity and will reduce our future development programme.

LCHO affordability is likely to suffer. Any loss of long term staircasing receipts will reduce our ability to keep first tranche sales low and affordable to first time buyers; this is particularly the case in London & the South East where Circle Anglia is based. Recycling larger proportions of future income will reduce receipts and increase the initial purchase tranches, requiring purchasers to have higher salaries and higher deposits to purchase LCHO homes.

There is likely to be a reduction in shared ownership applicants who will be able to afford to buy if affordability is reduced and this will exert greater pressure on general needs affordable housing.

There are growing Government and regulatory expectations of HAs to extend their community development activities. These cannot be sustained directly from social rented income given the rent regime currently in place. This is another area supported by staircasing receipts which is likely to suffer as a result of any increase in the amounts paid into RCGF.

#### **5.0 Key Questions and Next Steps**

Circle Anglia's responses to the consultation paper's key questions, having considered the issues outlined above, is set out below:

##### **Question 1: Which of the three options should be the standard or default option for recycling/recovery?**

Circle Anglia believes that retaining option 1 is the most appropriate solution. RCGF is currently recycled by us in furtherance of our strategic objectives which are aligned with the HCA's investment strategy. All RCGF use and allocations are recorded and approved by the HCA on the IMS system. The HCA is able to ensure

that RCGF is allocated and spent on projects which meet its investment and value for money criteria

We currently use RCGF in two ways to maximise our development capacity; we rely on our accumulated RCGF as second tier funding for our landbank sites, this allows us to quickly respond to sites available on the market and to compete unconstrained by the HCA's bidding process. We also use RCGF to dilute the SHG required to fund larger schemes thereby reducing the SHG required to fund the project.

**Question 2: Do you accept the case for operating different regimes for social rented homes and low cost home ownership?**

Yes. If there is to be a change to the existing regime, our view is that it should only apply to LCHO.

Our second preference is for option 2. We believe that our objectives and regulatory control ensures that all Circle Anglia's proceeds are reinvested in delivering and improving affordable homes. The HCA approves the use of these funds through the RCGF process and can ensure that they are spent in accordance with the relevant investment criteria.

Option 3 is therefore unnecessary and risks leakage to the Treasury and is likely to be netted off against future housing funding requirements and reduce housing funding in the long term.

**Question 3: What would be the consequences for RSL's business plans of moving to option 2 or option 3 for LCHO?**

Adopting option 2 or 3 would immediately drive up grant rates for all tenures as assumed staircasing receipts would no longer be available. The effect of linking RCGF to uplifts in value & requiring its recycling or return would be to directly increase grant rates on new LCHO & social rent projects.

There would also be a secondary impact on the affordability of LCHO to priority purchasers. This is a key factor within our feasibility model. Assumptions about long term staircasing receipts make it viable for initial sale tranches to be reduced, therefore helping to make SO more affordable to first time buyers. Recycling larger proportions of future income will reduce receipts and harm affordability by requiring purchasers to have higher salaries to access LCHO.

RCGF is not held as cash; instead RCGF and staircasing receipts assist with Circle Anglia's cashflow thereby reducing overall borrowing. Earlier repayment of larger amounts would adversely impact on our cashflow, gearing and interest cover ratios. We would be obliged to increase our borrowing at an earlier stage in the development process if those funds were not available to defer loan drawdown.

**Question 4: How might options 2 and 3 impact upon RSL's asset management strategies?**

Circle Anglia is on target to meet Decent Homes compliance without additional funding. A large part of our programme has been funded from retention of staircasing receipts. If receipts were reduced in future (due to increased RCGF liabilities), this income would not be available to support future improvement programmes to meet

either Decent Homes or other higher standards beyond 2010 without additional financial support from the Government.

Receipts have also contributed significantly to supporting Circle Anglia's extensive community development programmes, other new funding streams would be required to maintain our programmes at their existing levels. Any reduction in these programmes is very likely to have an adverse impact on community cohesion.

**Question 5: What is the most appropriate way of calculating a link to value? Would an alternative approach – e.g. using total scheme costs of a property as a proxy for initial value – be more transparent?**

Across Circle Anglia's LCHO programme, construction costs have tended to be lower than sale values so, on balance, we support linking any repayments to market value.

It should be noted that by linking repayment to value, that there will be less incentive for us to undertake LCHO in regeneration schemes where construction costs may be higher than sales values.

**Question 6: Do any of the options create any disincentives – to individuals or providers – for movement from intermediate rent to sale?**

We do not believe that intermediate renters will see any disincentive to purchasing equity in their property, however the pressures on viability and affordability may result in Circle Anglia requiring higher first tranche sales therefore reducing the attractiveness of making the transition from renting to shared ownership.

**Question 7: What are your views about the timetable for making any changes?**

It is imperative that any changes are not applied retrospectively, all of Circle Anglia's current development programme has been appraised on the assumption that future staircasing receipts are available.

We welcome the HCA's commitment to maintain the existing arrangements on 1 April 2010 when the new powers will be implementable.

In our opinion, more consideration is required to address the issues outlined in our response and to consult more widely with lenders and the CML. We would also suggest that further consideration is given from an accounting perspective to treating future grant as equity.

Any changes to the grant funding regime will require a significant change in our approach to investment which is already under pressure due to the wider economic circumstances and market conditions. We believe that the proposals outlined under options 2 and 3 will exert significant additional pressure on our development programme and we recommend that any changes are not implemented until market conditions have significantly improved.

**Question 8: Do you have any further comments that you would like to make on these proposals?**

The proposals under options 2 and 3 propose repayment on every tranche of staircasing for each property. We would prefer that repayments were deferred until the property was purchased outright.

Should option 2 introduced, we propose that the HCA introduce a requirement for the RP to have allocated all its available RCGF before bidding for SHG – this would ensure that recycled funds were used prior to any call for grant funding.

A large part of Circle Anglia's programme is delivered on behalf of smaller HA's and those serving BME communities. Any changes which create an ongoing liability to recycle grant/equity may be a disincentive for partner HA's to enter into those development agency relationships. This will reduce the supply of new affordable housing and result in the development capacity of those partners to be underutilised.

The proposals do not recognise that Circle Anglia bears all the costs and risks of maintaining and managing our homes, both of which are significant factors in maintaining and adding value to that stock. The HCA's proposals assume a pro rata repayment of grant/equity which does not reward Circle Anglia for contributing to any uplift in property value or acknowledge any allowance for maintenance and management costs. We would propose a discount on recovered equity as compensation for maintenance and management costs.

Option 3 would require the HCA to set up complex system for grant/equity recovery and reallocation whereas Circle Anglia, like other HA's, already has an established process for managing the recording and recycling of RCGF.