

NEW PARTNERSHIPS IN AFFORDABLE HOUSING

A PILOT INVESTMENT PROGRAMME OPEN TO HOUSING ASSOCIATIONS AND UNREGISTERED BODIES



THE HOUSING CORPORATION INVESTS IN AND REGULATES THE PROVISION OF AFFORDABLE HOMES ACROSS ENGLAND.

WE SUPPORT SUCCESSFUL, THRIVING AND INCLUSIVE COMMUNITIES ACROSS ENGLAND BY SUBSIDISING THE SUPPLY AND REGULATING THE QUALITY OF AFFORDABLE HOMES AND ASSOCIATED SERVICES FOR HOUSEHOLDERS WHERE IT MAY BE DIFFICULT FOR THEM TO MEET THEIR HOUSING NEEDS IN THE OPEN MARKET, INCLUDING THE HOMELESS, LOW INCOME FAMILIES, KEY WORKERS, AND THOSE IN NEED OF SUPPORTED ACCOMMODATION.

OUR PROPOSALS FOR A PILOT INVESTMENT PROGRAMME OPEN TO HOUSING ASSOCIATIONS AND UNREGISTERED BODIES

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Introduction

1.1/ For the past thirty years, the Housing Corporation (the Corporation) has contributed to the provision of new affordable and social housing through the use of its statutory powers to pay grants to registered social landlords (often known as housing associations)¹. Now the Housing Act 2004 includes provisions to extend the Corporation's grant-giving powers to unregistered bodies. It does this by introducing a new Section 27A into the Housing Act 1996.

1.2/ Once the new legislation has been enacted, the Corporation intends to apply these new powers for the first time early next year. We will launch a £200 million pilot investment programme in February 2005 for new proposals to meet regional priorities for social and affordable housing. The programme will be open to both housing associations (which we will continue to support under our existing powers) and unregistered bodies. This paper sets out the objectives for this initial programme, and outlines the processes and procedures that will put these objectives into practice. In publishing this paper we aim to give interested housing associations and unregistered bodies the information that they need to start to prepare to participate in the programme when it commences in the New Year.

The paper explains in section 6 the actions that all prospective participants need to take now to register their interest in the programme.

1.3/ The Government first announced its intention to consider this extension to our powers last year in the Sustainable Communities Plan and consulted on this before the introduction of the Housing Bill. We now welcome comments and suggestions on the proposed approach to delivery and implementation set out in the paper that would enable us better to meet the Government's policy objectives and our own aims.

1.4/ We would particularly welcome views and feedback on:

- the key features of the pilot programme (section 4). We would be interested in comments on the size of the allocations that we envisage that we will make (paragraph 4.2);
- the bidding procedure (section 6);
- arrangements for programme management, control and audit and the accreditation of managing bodies (section 7);
- our proposals for the recovery of equity growth in the event of disposal. We would be interested in any ideas about alternative arrangements relating to each of the rented, shared ownership and Homebuy products to be funded under this pilot programme (section 8).

Comments should be sent by 11 January 2005 to: comments.newpartnerships@housingcorp.gsx.gov.uk.

1.5/ The Corporation reserves the right to make changes to the approaches described in this paper and to issue any additional modifications or clarifications to this information.

¹ This paper refers to RSLs as 'Housing Associations' and non-RSLs as 'unregistered bodies'.

Policy objectives and strategic aims

2.1/ In accordance with the Sustainable Communities Plan, the Government's policy objective in introducing these new powers for the Corporation is to secure better value for money from its housing investment programme, and in particular to:

- drive efficiency;
- encourage innovation and creativity in the sector;
- widen the pool of potential types of provider of social housing.

2.2/ The Government's objective for this pilot programme is to make changes to the way that affordable and social housing is delivered – not to change the nature of that housing. This means ensuring an equality of outcomes for residents, tenants and potential tenants of housing associations and of unregistered bodies in respect of:

- standards of construction and amenities that the housing will be expected to offer;
- who gets priority in access to the housing;
- the rights of tenants, residents and leaseholders;
- rent levels and housing costs.

2.3/ As with existing investment programmes, we will expect the affordable and social housing provided with grant to continue to be available for its intended use over the longer term (unless of course the occupier of a social rented property exercises a right to purchase the home outright).

2.4/ The powers within the Housing Act will enable the Government to ensure that these policy objectives are delivered. The Housing Corporation has the power to apply conditions to grant awarded as a result of this competition. In addition, the Secretary of State will have powers to specify conditions which the Corporation must apply to the grants that it makes to unregistered bodies.

2.5/ In order to deliver the Government's policy objectives and to use our new powers to complement and add value to our existing investment the Corporation intends to:

- establish new relationships with a range of providers, who will work alongside or in partnership with housing associations to meet the priorities and needs identified in Regional Housing Strategies.
- take forward our drive for greater efficiency and better value for money in procurement, specifically by:
 - supporting housing associations and unregistered bodies that are committed to raising standards in the construction industry as good clients;
 - providing opportunities to explore innovative approaches;
 - ensuring that our approach to investing in unregistered bodies builds upon the recent experience of our Investment Partner Programme Agreements with major developing housing associations.
- require equivalent standards and outcomes for tenants

and residents in relation to the design, construction and management of similar homes, irrespective of whether they are provided by an unregistered body or by a housing association. We intend to introduce an accreditation scheme for all organisations that are to manage homes produced under the pilot programme.

- fund affordable housing that will perform the same function and be to the same standards as are obtained under our existing Approved Development Programme (ADP). This means, for example:
 - we will aim to invest in a mix of housing that takes account of priorities in Regional Housing Strategies and broadly reflects the balance between rent and low cost home ownership that is found in our existing programme. The primary focus of the programme will be on new build. We will however consider rehabilitation proposals if these represent a cost-effective contribution to providing additional social and affordable housing within high priority regeneration initiatives;
 - we will ensure that the pilot programme contributes to tackling local needs and supports the efforts of local authorities to build sustainable communities. We will encourage participants to work closely with local authorities to identify development opportunities and the priorities in local housing markets. As for ADP funded housing, we will expect providers to establish nominations arrangements with local authorities. In some cases local authorities or Arms Length Management Organisations (ALMOs) may themselves wish to consider joining a bidding partnership, to manage some of the homes to be produced;
 - it is our intention that the housing provided under this programme should remain as affordable housing over the longer term (unless a resident exercises a right to ownership). We expect to see ownership arrangements that will support this, and we will recover our grant and an appropriate proportion of sales proceeds from any disposal that does take place, or direct housing associations to re-invest these in replacement provision;
 - we will intervene where the landlord fails to meet agreed standards in respect of maintenance or tenancy management;
 - we will safeguard public investment. Our funding of housing associations is underpinned by our existing regulatory framework. Our funding of unregistered bodies will be based on contracts tied to the provision of grant.
- evaluate and learn from the experience that we gain from this pilot programme. We will report on our evaluation of the first round of funding to unregistered bodies and incorporate lessons learnt into our future policies and programmes.

Working with housing associations and unregistered bodies

3.1/ For the £200 million pilot programme that we will launch next year we will accept bids both from housing associations and from unregistered bodies. We will support housing associations with Social Housing Grant under the provisions of Section 18 of the Housing Act 1996. We will support unregistered bodies under the new Section 27A. Our objective is to take full advantage of both funding streams to support new cost effective proposals to meet regional housing priorities. All bids will be assessed against a common set of value for money criteria.

3.2/ In launching this programme it is not our aim to bring about adversarial relationships between housing associations and unregistered bodies that will undermine the constructive relationships that already exist and that are essential for the success of our wider investment objectives. We envisage that housing associations and unregistered bodies may come together in a variety of partnerships, consortia and special purpose vehicles or may establish dedicated subsidiaries to take full advantage of the new investment opportunities and to deliver against the Government's Sustainable Communities agenda as well as regional priorities. Our market testing and discussions with potential participants have given us confidence to expect that this can be delivered. In any case in which the homes are to be delivered by an unregistered body, (including the unregistered subsidiary of a housing association), we would strongly prefer the management responsibilities for the homes produced to rest with housing associations or others with a good record of social housing management, so as to keep arrangements for this pilot programme as straightforward as possible. We will not rule out other approaches, but they will need to demonstrate cost effectiveness and careful management of risks, support the creation of long-term and sustainable communities and match the best standards of management service in the housing association sector.

3.3/ The Housing Corporation's priority is to ensure equality of outcomes for tenants, irrespective of the nature of their landlord or the organisation to which we originally gave the grant. However we do not expect to express and enforce our requirements on housing associations and unregistered bodies in identical ways in order to achieve this outcome. Housing associations differ from unregistered bodies in their governance arrangements, their financing, in their permissible purposes and objectives and in the legislative requirements and policy objectives placed upon them. Private companies are accountable to their shareholders. It would be inappropriate and unrealistic to expect unregistered bodies to work within the same regulatory regime that applies to housing associations. For this reason we have devised a set of policies and procedures to apply to our contractual relationship with unregistered bodies that draw from, but do not exactly replicate, our existing regulatory framework. Because we want housing associations and unregistered bodies to participate in the same programme, we will take care to ensure fair treatment for both sets of organisations. This means recognising the differences in our relationship with each of them, and avoiding unnecessary or unreasonable burdens. Above all, our aim is to ensure the delivery of high quality, value for money homes in sustainable communities.

3.4/ Since the publication of the Housing Bill we have worked closely with the Office of the Deputy Prime Minister (ODPM), to develop appropriate policies and procedures to support our new powers to give grants to unregistered bodies. We have commissioned a market intelligence report and we have also held discussions with a number of organisations and individuals with relevant knowledge and expertise. These soundings have revealed a high level of interest in the new funding arrangements and our emerging programme proposals. They have also emphasised for us the importance of consistency, clarity and transparency in the criteria for assessing bids and making allocation decisions. The findings and conclusions from this work are incorporated in this policy paper.

Key features of the pilot programme

Size of programme

4.1/ The pilot programme will comprise £200 million of Corporation grant to complement private finance to be raised by the participants. It will be launched in February 2005. (Section 6 of this paper includes a more detailed timetable). The resources for this will be drawn from our existing capital allocation and completions will score against the Corporation's existing and future output targets agreed with the ODPM. The Government is keen to open up opportunities for new providers of affordable housing. Therefore, the size and the scope of the programme may be expected to increase in future years.

Distribution

4.2/ We will invite bids for development in all parts of the country. Subject to receiving sufficient acceptable bids, we will look to reflect the distribution of resources already agreed with Ministers. The distribution of investment between regions is currently as follows:

• London	44.7%
• South East	12.0%
• South West	6.7%
• Eastern	7.2%
• East Midlands	4.7%
• West Midlands	7.0%
• Yorkshire/Humber	5.6%
• North East	2.9%
• North West	9.4%

However, our investment decisions within this pilot programme will take account of the value for money on offer within different bids rather than achieving a pre-determined distribution of investment between different regions. We intend to concentrate our investment in a small number of organisations and partnerships in order to increase opportunities for economies of scale and to increase our ability to work with each in a constructive and open way. This means that we currently envisage that most of the allocations under this pilot will be for programmes that will provide some 400 or more units of social and affordable housing.

Type and balance of housing provision

4.3/ We will fund bids in accordance with regional priorities to deliver housing for affordable rent, housing for shared ownership, new-build Homebuy and housing for rent at intermediate levels. A more detailed description of each of these is given in section 5 of this paper.

We anticipate that approximately 70 per cent of funding will be allocated to social rented housing, up to 25 per cent to shared ownership and new build Homebuy and up to five per cent to intermediate rent. In support of the Government's policy of creating mixed and sustainable communities, we will be looking for a balance and mix of tenures on the individual schemes that we fund. In accordance with the recommendation of the Government's Urban Task Force, we would expect a mix of tenure in any scheme of more than 25 units. Bids for resources that do not generally reflect this overall mix of outputs, or that do not deliver a mix of tenures on individual schemes, are less likely to be accepted.

National targets

4.4/ In making allocations we will be conscious of the following priorities, reflecting the challenges in the Government's Sustainable Communities Plan, which apply to our current ADP:

- regeneration and urban renaissance: we will welcome bids for housing which is to be delivered on previously-used land;
- rural communities: over the period 2004/06 we aim to approve at least 3,500 homes in village locations. Although this pilot programme is not primarily aimed at rural communities, we will welcome bids that contribute to meeting the needs of rural neighbourhoods and which demonstrate innovation in showing how larger programmes can contribute to the provision of new homes in settlements of less than 3,000 units;
- a step change in housing supply: we envisage that modern methods of construction² will be the preferred choice of housing providers and will far exceed the level (50 per cent of new build provision) achieved in previous programmes;
- raising standards in the construction industry: all housing should be procured in accordance with the principles outlined in the Rethinking Construction report, and as encapsulated in the Client's Charter criteria set out in the Corporation's guide to the Allocation Process 2004-2006³;

Regional targets

4.5/ Within each region, investment priorities for this programme will be determined by the current Regional Housing Strategies and the revisions to these strategies now in draft form. Annex 1 to this paper is taken from our National Investment Policy 2004/06 and summarises the key investment priorities that arise from each Regional Housing Strategy. Our Regional Investment Statements provide detailed guidance on the interpretation and application of these strategies⁴.

² Our definitions can be found at www.housingcorp.gov.uk/pdfs/cfg/cf.pdf.

³ Available at www.housingcorplibrary.org.uk under 'Investment Procedures and Guidance'.

⁴ These Regional Investment Statements can be found on our website www.housingcorp.gov.uk.

Controls over costs and grants

4.6/ To maximise the opportunities for innovative and cost effective approaches to social housing provision, we will follow the streamlined approach that we have adopted this year for partner programme agreements. We will refrain from setting any cost indicators, limits or grant rates in respect of individual projects. However, to comply with the European Union controls that will apply to this programme on permitted gap funding for housing projects, public investment in schemes within this programme will not normally exceed 60 per cent of eligible project costs. However, higher levels of subsidy may be available for schemes involving the remediation of derelict, brownfield or contaminated land.

Learning lessons

4.7/ We expect to learn significant lessons from this pilot programme, both in respect of establishing a framework for successful relationships with unregistered bodies and partnerships involving a combination of unregistered bodies and housing associations, and in terms of running a programme in which both housing associations and unregistered bodies participate. Our evaluation of this experience may cause us to make important changes to the way in which we run future programmes, or to our contractual or regulatory relationships with the bodies with which we work.

Who do we expect will bid?

4.8/ We are interested in receiving bids from organisations and partnerships that have the necessary commitment and capacity to make an effective contribution to meeting regional housing priorities. They will need to submit bids that deliver quality housing in priority locations, a high standard of housing and tenancy management services, appropriate relationships with local stakeholders (such as local authorities), good value for money, and that support the policy framework set out in the Government's Sustainable Communities Plan. The Office of the Deputy Prime Minister's earlier consultation on the new grant making power indicated support and interest from a range of potential providers.

4.9/ We envisage that the list of potential participants will include:

- any unregistered bodies that have the combination of financial strength, experience and capacity to deliver value for money and quality in social housing;
- partnerships between housing association and unregistered bodies (including ALMOs and local authorities), however constituted;

- housing associations that are lead partners under existing investment programmes funded with Social Housing Grant;
- other housing associations that can demonstrate the required capacity and competence for lead partner status.

4.10/ The suitability of individual registered housing associations to take part in this pilot programme will be assessed according to the criteria that apply to our existing ADP. Any unregistered body (whether or not in partnership with a housing association), will go through a new pre-selection procedure which is outlined below.

4.11/ It is vital that the affordable housing delivered under this programme is well managed, for example in respect of:

- helping vulnerable tenants to maintain their tenancies;
- ensuring equality of access and service to minority groups;
- assisting local authorities with their duties towards homeless people and other in housing need.

In this respect, Arm's Length Management Organisations (ALMOs) and local authorities, as well as housing associations, may be in a position to offer their experience to other organisations that are interested in entering this competition. ALMOs that have been set up to manage stock owned by local authorities play an important role within the Government's affordable housing policies. Any borrowing that either a local authority or an ALMO undertakes counts against the Public Sector Borrowing Requirement and hence as public subsidy. This public subsidy will need to be taken into account when we assess the value for money offered by any bids submitted for this pilot programme. This is likely to constrain their ability to put forward cost effective bids in their own right.

4.12/ In assessing any bids involving ALMOs or local authorities, we will be looking at capacity and track record for delivery. We would expect, therefore, that those local authorities classed as "excellent" in their Comprehensive Performance Assessments would be more likely to be successful. Within all the bids that we receive, we will be looking for clear evidence that high management standards will be sustained.

Outputs from the programme

5.1/ We summarise below the different housing products that we intend to support under this pilot programme. For this programme, we aim to ensure high standards of design and construction. We will expect housing for rent (including intermediate rent) to comply with the 'essential items' set out in the Corporation's Scheme Development Standards (April 2003) in Section 1: 'Quality of Housing', plus the enhanced provision as set out in Appendix 3 of the Corporation's Guide to the Allocation Process 2004–2006⁵ which requires the achievement of Ecohomes 'Good' level for all new build schemes built post-April 2005. In keeping with our published Sustainable Development Strategy we will require the achievement of Ecohomes 'Very Good' level for all new build schemes built post-April 2006. We will also encourage providers of shared ownership and new build Homebuy to aspire to similar standards to allow greater integration through sector-neutral marketing.

Affordable Rent

5.2/ Key Features:

- Permanent housing for rent, let on assured tenancies, at 'target rents' as defined by the Government's rent restructuring policy. The maximum permissible annual rate of increase in rent will be RPI + 0.5%.
- Access: this housing must be let on the basis of housing need and should contribute to establishing sustainable communities. An appropriate proportion must be made available to nominations from local authorities.
- Right to acquire: housing association tenants of properties built with Social Housing Grant normally have a statutory right to acquire, although there are some exceptions (e.g. in rural areas). The legislation will extend a similar right to tenants of unregistered bodies.
- Standards: all new build schemes should as a minimum meet the 'essential' items as set out in Section 1: 'Quality of Housing' in the Housing Corporation's Scheme Development Standards (SDS). We will not normally consider requests for waivers from the SDS relating to any items that are within the control of the provider, unless, in the case of any rehabilitation schemes, it can be demonstrated that costs of compliance are disproportionate to the benefits achievable and the resultant dwellings are suitable for the intended user groups. An increasing number of house builders have submitted standard house plans to us for plan compliance assessment and we encourage others to do so. We will have regard to the extent of enhanced standards provision as part of the value for money assessment of bids.

Shared Ownership

5.3/ Key Features:

- Housing where a purchaser buys a proportion of a property and rents the remainder, with an option to increase the proportion they own. Shared owners are assured tenants with long term leases.
- Access: existing social housing tenants and those on local authority housing waiting lists must be given priority in access to this housing. Landlords must satisfy themselves that all purchasers are unable to afford a suitable property in the local market.
- Rents: the rent on the portion of the housing that is owned by the landlord must be set with regard to affordability to the client group.
- Conditions of lease: lease terms must include fundamental clauses of alienation provisions, mortgage protection, staircasing, rent review and service charges⁶. For individual purchases the share of equity purchased initially can vary from 25 per cent to 75 per cent.
- Standards: as stated for housing for affordable sale within Section 1: 'Quality of Housing' in the Corporation's SDS. The 'essential' items applicable to housing for rent are recommended for housing for sale schemes. We will have regard to the extent of enhanced standards provision as part of the value for money assessment of bids.

Homebuy (new build)

5.4/ Key Features:

- Housing where the purchaser buys a 75 per cent share of the property and is provided with an equity loan from the provider for the remaining 25 per cent which is financed with grant from the Corporation.
- Access: as for shared ownership.
- Rents and conditions of lease: no rent is paid and there is no lease. When the purchaser leaves, 25 per cent of the market value of the property is repayable to the Corporation or, for housing associations, is included in the Recycled Capital Grant Fund.
- Standards: as for housing for shared ownership.

Intermediate Rent

5.5/ Intermediate rented properties can be a useful complement to the products described above.

Key Features:

- Housing for rent, let on assured shorthold tenancies, at rents set no higher than 80 per cent of local market levels (defined in relation to the Rent Officer's 'reasonable rent').
- Access: this housing must be let to people nominated from the local waiting list who are not yet ready or able to enter

the home ownership market, but who are able to afford a higher rent than that charged in affordable rent projects.

- Right to acquire: there is no right to acquire for these homes, which will be let on shorthold tenancies.
- Standards: as for housing for affordable rent.

5.6/ Under the pilot programme, we will not be seeking bids for the following:

- investment through our 'new tools' (such as acquisition for demolition) designed to help revive housing markets in areas of low demand;
- investment in housing whose occupants will be eligible for revenue support under the 'Supporting People' regime;
- housing that is intended exclusively for occupation by older people;
- housing specifically for key workers. (Although key workers will be amongst those benefiting from shared ownership and Homebuy provision under this programme).

5.7/ These are either comparatively small and specialised parts of our investment programmes or (in the case of key worker provision) are being dealt with separately. We have therefore decided that this pilot programme should only be for the four mainstream housing products outlined above.

Bidding procedure

Overview

6.1/ The process will be as follows:

- We are initially inviting expressions of interest. Organisations are invited now to indicate whether they wish to bid for funding under this programme, either through the Section 18 or the Section 27A funding streams. Prospective bidders should indicate if possible their intended organisational arrangements and/or partnerships for the development, ownership and management of homes. They should complete a form which is available from the Corporation's website and return this by 11 January 2005 to eoi.newpartnerships@housingcorp.gsx.gov.uk
- In February 2005 we intend to publish a prospectus to launch the programme. All organisations expressing an interest will be invited at this stage to complete a pre-qualification questionnaire. These returns will be assessed according to appropriate criteria. Shortly after the publication of the prospectus we will organise a bidders' conference as a further opportunity to explain the programme and to respond to questions raised.
- We will then invite organisations that best meet these criteria to submit bids for grant. Our assessment of the bids we receive will follow a tender process which ensures fairness without imposing prohibitive costs on bidders. We will impose certain minimum criteria on all bids. Those that meet these minimum criteria will then be assessed in terms of their public subsidy cost (taking account of contributions from planning agreements) and a matrix of pre-determined indicators of quality and contribution to wider policy goals – such as regeneration or environmental sustainability. More details are given in the following sections.
- Finally we will meet with each of the organisations submitting detailed bids to review their proposals before making formal allocation decisions.

Selection process

6.2/ We will establish an assessment panel to oversee all stages of the bidding process. The role of the panel will be to ensure consistent and fair consideration of all expressions of interest and bids and to put forward final recommendations on allocations for Ministerial approval. The assessment panel will be chaired by the Corporation's Deputy Chief Executive and will include Corporation senior managers and a senior representative of English Partnerships. It will be advised by a group with relevant financial, technical and legal skills and experience. The decisions of the panel will be formally recorded.

European Union Procurement Directives

6.3/ Under this pilot programme we will be awarding grants rather than commissioning or procuring housing. We therefore envisage that the programme will not constitute 'procurement activity' within the meaning of relevant European Union Directives. Organisations that bid under the programme must obtain their own advice at an early stage on the question of whether the Directives apply to them in respect of any contracts relating to the programme.

Timetable

6.4/ In February 2005 we will issue the programme prospectus which will provide the details of our assessment criteria and we will call for pre-qualification returns. After assessing these we will call for specific proposals in May from those organisations that fully comply with pre-qualification requirements. We expect to begin approving successful proposals in Autumn 2005.

Pre-qualification

6.5/ More detailed features of the pre-qualification stage of the bidding process are as follows:

- Assessing pre-qualification returns: At the pre-qualification stage organisations will be required to provide, in a specified standard format, the information and documentation necessary to allow us or our appointed agents to carry out an assessment in accordance with a standard framework. For housing associations bidding for funding under Section 18, this will be based upon the current published Housing Corporation Assessment and a test of development capacity.
- Proposed programme: An outline of the housing that the organisation or partnership would propose to deliver if it were successful, in terms of numbers, mix of housing products, proposed client groups and regional distribution.
- Financial and governance strength: For unregistered bodies or partnerships seeking funding under the new Section 27A powers, we will look at the financial strength of the entity into which we would be investing our grant. If the body applying for grant is a special purpose vehicle or a new dedicated affordable housing subsidiary, we will also review the financial standing of the subsidiary's owners and sponsors. This will include an initial assessment of viability and liquidity; management and legal structures; influences on working capital, cash flows and operating margins; and capital structure and debt management. Our risk analysis will vary depending on whether homes are to be passed on completion to a

housing association or whether they are to be owned or managed by an unregistered body and if so, whether this body is dedicated to affordable housing provision.

Our tests will examine whether proposals offer a risk environment for public subsidy which will be broadly comparable to our current forms of investment in housing associations.

- Vires: We will require assurance that the entity is acting intra vires when it enters the programme and will require information about track record in contract delivery and any associated outstanding litigation.
- Technical capacity: For unregistered bodies or partnerships seeking funding under the new Section 27A powers, we will look for evidence of competence in development and in the management of affordable housing. This will include the following:
 - experience and expertise in development;
 - membership of a national pre-qualification database;
 - arrangements for warranties on the built form;
 - equal opportunities and skills training within employment practices;
 - experience and competence in social housing management, including nomination arrangements with local authorities, tenancy management, and property management, all within a clear equal opportunities framework.

6.6/ We will advise all organisations that submit a pre-qualification return of the results of our assessment. To avoid unnecessary and unproductive preparatory work we intend only to invite sufficient organisations to submit fully worked up proposals to ensure genuine competition. We may advise some organisations that, whilst we are unable to consider bids for this pilot, we may be interested in looking at proposals in a subsequent year. In some cases we will need to advise organisations that they have failed to satisfy our base line criteria.

Submission of bids

6.7/ More detailed features of the bidding stage of the process are as follows:

- Contents of bids: From the organisations invited to submit second stage proposals we will expect bids, each of which will be made up of a number of individual schemes. In respect of each scheme, the bid will need to specify: scheme location (by local authority), number/type/size of units, timing of construction and first occupancy, management arrangements, performance against SDS, indicators of enhanced quality/size/amenity/external impact, grant requirement, and details of any 'Section 106' agreement(s). We will also ask for supporting evidence of

the deliverability of the proposed schemes, in respect of ownership of the site and planning status.

- Choice of bids: We will analyse and assess bids on a consistent basis, taking account of:
 - the match with regional housing priorities. Our regional investment teams will consider how effectively proposals contribute to regional strategic objectives;
 - the mix of type and size of homes to be provided;
 - the use of modern methods of construction;
 - innovative and creative features of the bid.

6.8/ We will also consider the merits of more expensive proposals (or individual schemes within an overall programme proposal) that can demonstrate one or more of the following:

- development of a site that contributes to the physical, economic or social regeneration or the local area;
- enhanced quality of individual properties in terms of embodied energy, energy consumption in use, and the provision of space or other amenity appropriate for particular client groups.

6.9/ In each case we would expect to see evidence of the deliverability of proposals within the stated timescale, and support for what is being proposed within local authority or other strategic policy and planning documents. We would also expect the bidder to set out and explain the financial context of the grant requirement, to be illustrated in a financial model spreadsheet. Indications of shareholder and sponsor returns will need to be included, along with a description of all the sources and uses of funds.

6.10/ We will then select those bids that best contribute to the achievement of the programme objectives set out in Section 4 above in a timely manner, to provide units of the right type and the right quality in the right locations at the lowest public subsidy cost per unit. 'Public subsidy' includes expenditure from any source that scores against the Public Sector Borrowing Requirement.

Section 106 agreements for affordable housing

6.11/ Our policy for paying grant to housing associations on Section 106 sites is:

- where possible affordable housing on such schemes should be delivered without grant input from the Corporation;
- where our grant is required we expect to have early involvement in negotiations over the content of the Section 106 agreement and in particular the expectations

- about the availability of Corporation funding;
- that our objective in such negotiations will be that the Section 106 agreement delivers more social housing outputs or a different mix than would have been possible without the input of our grant.

6.12/ As a result, we will ask for information about any Section 106 agreements on the schemes included in proposals under this competition. Where there are such agreements we will expect to see evidence that these have resulted in a significantly lower grant requirement per unit than would otherwise have been the case and that the resulting homes will be SDS compliant.

Confirmation of allocations

6.13/ Following the assessments described above the Corporation will meet individually with all bidding organisations to advise them of:

- elements of their overall bid which the Corporation intends to support;
- elements of the bid that require modification to secure funding;
- those parts of the bid that the Corporation does not regard as a funding priority.

6.14/ The organisation will be invited to make any necessary modifications before a draft programme is formally considered by the assessment panel.

6.15/ The Corporation's field directors will brief and invite comments from each Regional Housing Board on proposed allocations and the contribution that the draft programme will make to regional strategies. The assessment panel will then submit the Corporation's recommended programme to Ministers for approval. Once Ministers have agreed the programme, the Corporation will make a formal announcement of the allocations.

Programme management, control and audit arrangements

7.1/ Following announcement of the agreed programme, we will confirm our grant allocations and the conditions applying to them to each of the successful applicants. For housing associations to be funded under Section 18 of the 1996 Act, we will draw up a programme agreement or, in the case of housing associations that are already leading investment partnerships, we will amend, extend and expand our existing agreement with them. The Programme Agreement will set out the scope of the programme and the conditions attaching to grant. For unregistered bodies to be funded under Section 27A we will establish a framework contract between us. The contract will define the programme and confirm:

- our funding conditions, similar to the grant conditions applying to housing associations and including development obligations and standards to be achieved;
- our security requirements and the events which will trigger the recovery of grant or of sale proceeds. These will include breaches of funding conditions, and changes in the control, financial status or viability of the recipient;
- the requirement for our consent to the sale or disposal of any homes produced under this programme;
- calculations for the recovery of grant or sales proceeds and conditions relating to grant repayment;
- provisions to apply to any transferee receiving grant funded properties;
- service standards relating to ongoing property management;
- the Corporation's power to obtain general information about the unregistered body and the grant funded property in particular;
- processes for the resolution of any disputes between the Corporation and the unregistered body.

7.2/ To provide opportunities for innovation in funding and delivery, we will not rule out arrangements in which unregistered bodies retain ownership of the homes produced in the long term. However, if it is intended that the management of the homes to be produced is to be the responsibility of a body other than a housing association, the Corporation will need to be satisfied that it is capable of providing a standard of management that matches the best standard of service in the housing association sector. Unregistered bodies intending to provide management services will need:

- to work co-operatively with local authorities and to offer nominations to them to meet local housing needs;
- to be a member of the Independent Housing Ombudsman scheme;
- to demonstrate compliance with management service standards and requirements specified by the Corporation and to provide a quality of service to customers consistent with the existing charter for housing association applicants and residents;

- to provide periodic returns to the Corporation for the statistical monitoring of social housing. This will include the continuous recording of lettings (CORE).

7.3/ The Corporation intends to introduce an accreditation scheme for all organisations that are to manage homes produced under the pilot programme. Accreditation of housing associations will be based on the results of their published Housing Corporation Assessment. Accreditation of ALMOs and local authorities will be based on relevant inspection and Comprehensive Performance Assessment results. We will announce full details of the accreditation arrangements for other unregistered bodies in February 2005, including steps that we will take to audit the on-going performance of these bodies in terms of housing management, tenancy management, and the maintenance and repair of the stock. Organisations will need to satisfy accreditation requirements before they take homes into management. Accreditation may subsequently be withdrawn in the event of non-compliance or service failure, in which case the owners of the property will be required to make alternative arrangements for management by another accredited body acceptable to the Corporation.

7.4/ Grant payment arrangements for the programme will be as follows:

- for housing associations (funded under Section 18) grants on each project will be paid in two tranches, the first when work starts on site, the second when the project reaches practical completion. This matches the payment arrangements that currently apply to programme partnerships;
- For unregistered bodies (to be funded under Section 27A), the Corporation will confirm the details of each scheme and the development timetable before start on site. To minimise the need for complex controls to safeguard public investment in the development period, the Corporation may pay grant in one instalment at practical completion of the project. Before payment of grant it is likely that the Corporation will take a legal charge over the relevant properties

7.5/ Monitoring of compliance with funding conditions and procedures will normally be on a self-assessment basis by an independent accountant operating under the guidance contained in Technical Release – Audit 03/03 Public Sector Special Reporting Engagements – Grant claims (September 2003) published by the Institute of Chartered Accountants of England and Wales (ICAEW). The grant recipient will commission the independent accountant to prepare and undertake a programme of self-assessment procedural compliance tests. The Corporation will undertake to become

party to the commission through the 'standardised terms of engagement', using agreed procedures as set out in Appendix 3 of the ICAEW publication. The tests will apply in all cases to a sample of projects within the agreed development programme, covering all scheme types.

7.6/ In addition to this self-assessment of procedural compliance, representatives of the Corporation will visit schemes to monitor the standards and quality of schemes or projects forming part of this programme. Organisations will be notified at least one week in advance of any standards and quality visit in order that access authority may be obtained.

7.7/ The properties produced through this programme will also become part of the population from which a sample of schemes will be chosen for inclusion in our programme of impact assessments. These impact assessments consider whether completed projects funded by the Corporation have succeeded in meeting the objectives intended for them at the time funding was agreed.

Long term control of grant funded properties

8.1/ As we make clear in Sections 1 and 2 of this paper, the aim of this pilot programme is to change the way we deliver affordable housing, not to change the nature of the housing itself. It follows that we want to secure the use of the housing delivered by this programme as affordable housing over the long term, unless of course the occupier chooses to acquire their home outright under the various provisions for them to do so. In funding unregistered bodies we will therefore set grant conditions that will establish controls on the use of the property and will protect the interests of tenants and residents.

8.2/ Under our current funding regime, we require housing associations to recycle the grant in any property that they dispose of into grant-eligible activities, or to repay the grant to us. In the case of properties sold under the Right to Acquire, the whole of the net proceeds must be used to provide replacement stock. In other circumstances, they retain control of any surplus arising from the disposal of the property: however these surpluses must be used within the terms of their 'permissible purposes' which in turn are constrained by the 1996 Act. In broad terms, surpluses may be used in pursuit of housing-related social objectives .

8.3/ It is not possible to replicate these arrangements in respect of unregistered bodies. However it is important that the taxpayer should retain some control over the growth in the value of assets that have been partly funded from the public purse. For these reasons, we propose to make it a condition of grant in respect of unregistered bodies that, on disposal of a grant-funded property, for a use other than social housing, the grant as well as growth in equity value, in proportion to our original contribution to the housing asset that was funded by grant, will be returned to the Corporation.

8.4/ We envisage that under this pilot programme we will in many instances pay grant to unregistered bodies, which might then transfer ownership of the property to housing associations. Under such circumstances, it would not make sense for housing associations to own and manage some affordable housing under one set of statutory provisions and funding arrangements, and the rest of its housing under another. For this reason, the Housing Act provides for any property transferred in this way to a housing association immediately to become subject to the existing provisions relating to properties funded under Section 18 of the 1996 Housing Act.

Annex 1

Key investment priorities arising from Regional Housing Statements

London

Key priorities

- increase the supply of affordable housing;
- reduce homelessness;
- modernise the private rented sector;
- bring social housing up to decent homes standard;
- achieve sustainable communities through housing investment and neighbourhood regeneration.

In addition a focus on helping low income/vulnerable homeowners and tenants and older people, a commitment to provide homes for keyworkers and to support and include vulnerable people and black and minority ethnic (BME) groups within sustainable communities.

South East

Key priorities:

- address affordability and homelessness in the South East;
- support urban renaissance and regeneration activity;
- meet the needs of growth areas and also support other key strategic land releases;
- provision of rural homes in both villages and small towns;
- priority groups are key workers, supporting people clients and the homeless using a variety of options - social rented housing, the intermediate market, shared ownership/equity and private sector renewal.

South West

Three overarching priorities are identified:

- deliver more affordable homes, in areas specified in the Regional Planning Guidance Spatial Strategy, in other areas of current housing growth, in rural villages and in market and coastal towns;
- private sector renewal (supporting vulnerable people living in the private sector);
- decent homes for tenants in the social housing sector.

Eastern

Five strategic themes are identified along with the % of investment expected for each:

- growth (40%);
- regeneration (30%);
- rural (15%);
- supported housing (10%);
- BME (5%).

East Midlands

For the period 2004-06, the priorities are identified as:

- bringing social housing up to decent homes standard (with this as the key priority for the SRHB investment being directed at local authorities);
- investing in the Milton Keynes South Midlands growth

- area (with a bid for additional resources);
- supporting the region's social, economic and environmental objectives and underpinning growth, urban renaissance and rural development;
- supporting the wider aims of the Sustainable Communities Plan to ensure social inclusiveness through a focus on rural housing, the needs of BME communities and vulnerable groups;
- continued regeneration of cities, with a target of 60 per cent use of brownfield land.

West Midlands

The strategy identifies a series of priorities for investment that will have a regional and cross-boundary impact. It links with the Spatial Strategy for the Region and the regional Economic Strategy. The key areas for action are:

- to contribute to urban renaissance;
- to contribute to rural renaissance;
- to provide pathways of choice for households within different parts of the region.

The geographical areas to be targeted are activity hubs in the core area running West and East through Birmingham and in Staffordshire and key action areas related to coalfields and more remote rural areas.

Yorkshire/Humber

There are four objectives relating to the housing action needed in the region:

- regeneration and neighbourhood renewal;
- sufficient new homes within mixed-income communities;
- improving homes to meet the decent homes standard;
- fair access to housing for all groups.

In addition the suitability of existing housing for older people, funding for supported housing and further work on the needs of BME communities in the region is flagged.

North East

There are four broad aims to the strategy:

- developing housing stock to meet 21st Century demands and replacing market failure with high quality housing and sustainable and cohesive communities;
- meeting requirements for new housing that result from household growth and aspirations for better housing;
- improving and maintaining existing housing;
- addressing specific community housing needs including affordability in certain rural locations, the needs of an ageing population and the special needs of other groups.

The current, overriding priority for the region is restructuring of the housing stock as this impacts on the overall health of the housing market, the vibrancy of the regional economy and the success of urban and rural communities.

North West

Three cross-cutting themes are identified:

- housing and community cohesion;
- housing and neighbourhood renewal;
- sustainability, quality and design.

The priorities are identified in order as:

- urban renaissance and dealing with changing demand;
- providing affordable homes to maintain balanced communities;
- delivering decent homes in thriving neighbourhoods;
- meeting the region's needs for specialist and supported housing.

The priorities and their order of importance have been informed by an analysis of, and a focus on, housing markets.



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