

National Affordable Housing Programme 2008-11

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# Regular market engagement: Guidance

## National information for bidders

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July 2008

## Summary

This document:

- sets out some **additional flexibilities** within the Corporation's bidding framework to allow our Partners to respond to changes in the housing market;
- summarises the Corporation's key **priorities** for regular market engagement for the 2008-11 National Affordable Housing Programme (NAHP); and
- sets out the **timetable** and **process** for the second round of regular market engagement.

## Introduction – Regular market engagement

In contrast to previous programmes, the Corporation has not allocated all of the available resource at the end of the initial bidding round and for the start of 2008-11. Remaining resources are thus being made available to Investment Partners (and specialist bidders) through further market engagements.

In February 2008, we announced the outcome of our initial NAHP bidding round and confirmed that we are making strong progress towards meeting our priorities. Through the initial bid round we:

- expanded the range of affordable housing providers engaged and included local authorities (via arm's-length management organisations and special purpose vehicles) for the first time;
- met the grant per unit efficiency targets required to deliver Housing Green Paper affordable housing supply commitments;
- achieved these efficiencies whilst also implementing Code for Sustainable Homes (CSH) 3\* for new-build affordable housing;
- achieved these efficiencies whilst also significantly increasing the number and proportion of larger homes;
- kept us on track to deliver beyond Regional Assembly rural housing targets;
- maintained the Corporation's excellent record in funding supported housing;
- stepped-up investment in the Thames Gateway and other Growth Areas;
- launched new Open Market HomeBuy products following the Corporation's shared equity competition;
- increased affordability of New Build HomeBuy by funding projects offering lower initial purchases and lower rent on unowned equity; and
- expanded the opportunities to help registered social landlord tenants into home ownership through support for Social HomeBuy.

We ran the first regular market engagement (RME) between April and June 2008 and we agreed to fund an additional £270 million of projects across the 2008-11 period. In the first market engagement we:

- agreed allocations for £269.7 million to build 4,249 homes for affordable rent and 1,744 homes for affordable sale;
- accepted a high proportion of bids showing the RME message of only bidding for deliverable schemes continues to be heeded in the sector;
- agreed new allocations deliver to CSH level 3 or better; and
- agreed new allocations that will deliver 30% larger homes for affordable rent.

## **Additional flexibilities within the bidding framework**

In the light of changing market conditions, we have been discussing with our Investment Partners what changes that we might make to the programme framework to allow our partners to respond quickly and effectively to changing circumstances.

As a result of these discussions we propose to make a number of changes.

### **Timetable for the second regular market engagement**

We are intending to accelerate the timetable for the second RME so that we open bidding at the beginning of July as planned, invite bids until 23 July and make announcements of successful bids in August. This cuts down the time that bidders will need to wait for decisions.

A full timetable is included on page 14.

### **Continuous market engagement**

We will take this approach further at the conclusion of the second RME round to move to a system where, for the remainder of 2008-09, we have a continuous bidding system. Providers will be able to bid schemes to the Corporation at any time for a quick decision on funding. This process of continuous bidding will be launched at the beginning of September 2008.

### **National clearing house**

We are setting up a process – managed nationally but closely involving the Corporation's regions – to give early feedback to developers and other organisations who come to us with significant offers of stock. This process will allow us to consider stock and future supply together and take advantage of offers which operate across regions.

For offers of 'packages' of schemes equivalent to more than 500 homes submissions should be submitted by e-mail to [fiona.macgregor@housingcorp.gsx.gov.uk](mailto:fiona.macgregor@housingcorp.gsx.gov.uk) and copied to [judi.mcpherson@housingcorp.gsx.gov.uk](mailto:judi.mcpherson@housingcorp.gsx.gov.uk)

Submissions will need to include details of the schemes including (by scheme):

- name of scheme;
- location (local authority and Housing Corporation region);
- number of units, tenure mix and size mix (eg 3b 5p house, 2b 3p flat)
- rents to be charged or,
- for low-cost home ownership (LCHO) schemes, projected initial sales values by unit type/size, proposed first tranche equity percentage to be sold, and % rent charge on unsold equity;

- (where applicable) proposed period of intermediate renting (leading to sale in future - see below) and rent to be charged;
- standards (including unit sizes in m2), HQI element 'unit size', HQI element 'unit - layout', build for life scores and CSH (or eco homes) ratings;
- grant request and calculation of grant per unit and grant per person;
- current market value of properties on the open market, and discount being offered for bulk purchase;
- proposed completion dates;
- RSL involved,
- summary of any affordable housing already being delivered on the site, and who the RSL is. (Please note that where it is feasible, we would wish the additional affordable housing to be delivered by the same RSL as any existing affordable housing to prevent unnecessary diversification of management arrangements); and
- status of units in relation to s106 planning obligations for affordable housing.

We will make available a pro-forma by Friday 4 July outlining the scheme information requirements set out above, as well as a summary sheet designed to provide an overall view of the total proposal.

We will provide you with feedback on such submissions on a scheme by scheme basis indicating our initial view of the schemes. (Note that further information may be required in exceptional cases.) This will not constitute a final commitment to fund the scheme but should provide sufficient confidence for bidders to proceed.

Schemes will subsequently need to be bid into the regular/continuous market engagement process based on the full information requirements for any scheme and assessment will be followed by a commitment to fund. A full assessment of local and regional fit will continue to be a part of this process.

In submitting proposals under these national clearing house arrangements, bidders should provide a covering submission outlining how funding of packages of stock available currently or within the short term (completion within 2008-09) will be linked to proceeding with schemes which will deliver affordable housing in the medium term (2009-10 and 2010-11) including the possibilities for adapting the latter to ensure quality standards are achieved and the proposed mix of housing meets local and regional strategic priorities.

## Opportunities to bring stock into the affordable sector

Our Prospectus for the 2008-11 National Affordable Housing Programme sets out the design and quality standards for the programme. The Corporation is looking to achieve high standards for sustainability and the design of the internal and external environment.

In view of current market conditions, and the need to continue to develop good quality affordable housing, we may, in some circumstances, be prepared to allow some flexibility in our space and sustainability standards to allow homes that may have been previously designed for market sale to be offered for affordable housing.

In taking advantage of this opportunity to expand affordable housing, the Corporation will look at these opportunities on a case-by-case basis.

Bidders who wish to put forward these schemes should note that all projects will be assessed against the criteria set out in the NAHP Prospectus;

Where schemes depart from standards we will particularly consider:

- what stage of development the scheme is at (and, note, that we will be extremely unlikely to fund schemes which are not scheduled for early completion);
- whether the mix of homes meets regional and local housing priorities (by providing, for example, an appropriate tenure mix of larger homes rather than just flats);
- the extent to which opportunities represent significant value for money improvements;
- that the organisation responsible for the long-term ownership of these properties confirms that it has made provision to ensure that the properties will be fit for purpose for their client groups over the longer term. (A comment on IMS should be entered to confirm this); and
- the criteria outlined above will apply to any proposals for bulk delivery outlined under the national clearing house proposals above.

## **Low cost home ownership and intermediate rent**

### **New Build HomeBuy**

We have had a strong level of bidding for New Build HomeBuy at initial bids and in the first round of regular market engagement. At initial bids the efficiency targets were met, average rent levels were reduced to 2.55% and the average expected first tranche sale fell to 45%. At the first RME we have allocated at broadly similar levels and we are extremely unlikely, for example, to fund LCHO projects with rent on unsold equity above 2.75%.

### **Intermediate rent**

The NAHP Prospectus set out the framework for bidders with respect to intermediate rent. The Corporation will fund intermediate rent where there is a case for provision of this sort to meet need and bidders will need to continue to make the case as part of their bid submission.

We acknowledge that the current market position may mean that the case for intermediate rent is stronger and we expect a higher proportion of bids for intermediate rent in future.

Investment Partners will already be aware that the Corporation has recently adopted a position on existing funded schemes to consider change to intermediate rent from LCHO for an agreed period on a case-by-case basis where this may be appropriate in the current market.

In order to manage this process on a more proactive basis – and to encourage bidders to think strategically in order to manage their sales risk in the current market – we will include a facility as part of IMS where bidders for New Build HomeBuy can indicate schemes where some short-term flexibility to offer homes for intermediate rent may be required. Our policy aim is to ensure that properties are available for low-cost sale at the earliest feasible opportunity, subject to purchaser demand. Bidders should also set out the intermediate rent to be charged and the expected period of intermediate renting.

### **‘Rent to buy’**

We are working with CLG to further explore the benefits of ‘rent to buy’. There is a strong case in the current market for the flexibility which ‘rent to buy’ offers, where homes can be offered for intermediate rent for a period to be followed by the offer of conversion to low-cost home ownership. This flexibility could provide additional choice in the intermediate market – particularly for people now unable to get mortgages – while also helping organisations manage sales risk in the current market.



## **Priorities for this round of RME**

Bids brought forward at regular market engagement will need to meet the policy priorities set out in the NAHP 2008-11 Prospectus (which itself refers to Regional Housing Strategies and Regional Investment Plans). Our overall policy priorities are unchanged.

The challenging supply targets for 2008-11 mean that we are continuing to look to fund good value, deliverable projects which will deliver high quality affordable housing in each of the programme years (including for 2008-09 completion). This section sets out some of our continuing policy priorities.

### **Larger family homes**

The NAHP 08-11 Prospectus sent a clear message to bidders that the Corporation was looking to build on its record of larger homes delivery in 2006-08 when – for the first time – we set (and met) a national target for delivery of larger homes. The Overcrowding in England Action Plan (December 2007) confirmed that housing for families remains a priority for the Government.

Our targets for the NAHP 2008-11 are to achieve 30% larger social rented homes in years one and two, and 33% (or one in three social rented completions) in year three.

### **Rural housing**

We have agreed with Communities and Local Government a challenging national target for rural housing for population settlements of 3,000 or less, of 10,300 homes across the span of the three-year programme. More rural homes are therefore a priority for RME.

Please note that when submitting bids for rural areas, bidders should take care to correctly code the bids for settlements below 3,000 and for settlements with a population between 3,000 and 10,000.

### **Supported housing**

In the NAHP 2008-11 Prospectus, the Corporation set out an expectation to invest in more supported housing than in 2006-08. We have made a strong start but it will be important not to lose sight of our commitment in the Investing in Independence: Housing for Vulnerable People strategy to ensure that we maintain a figure of 10% of our NAHP being dedicated towards funding for supported housing and housing for older people.

The Housing Corporation welcomes bids in all regions for homes that contribute to meeting the objectives of PSA 16<sup>1</sup> for the following socially excluded client groups:

- care leavers (at 19);
- adult offenders;
- adults in contact with secondary mental health services; and
- adults with moderate to severe learning difficulties.

Bidders are encouraged to refer to PSA 16 data to inform their bids which can be found at: [http://www.cabinetoffice.gov.uk/social\\_exclusion\\_task\\_force/psa.aspx](http://www.cabinetoffice.gov.uk/social_exclusion_task_force/psa.aspx). This data indicates the number for three of the four client groups in each local area and the proportion that are in settled accommodation (note that data for the mentally ill group is being baselined in 2008-09). The data can contribute to an assessment of local housing need and inform bids and regional housing strategies.

### **Homes and Communities Agency**

The Homes and Communities Agency (HCA) will inherit the delivery of the National Affordable Housing Programme from 2009. Securing the delivery of 180,000 new affordable homes in the period to 2011 – largely through the NAHP – will be at the heart of the HCA’s objectives. The Prospectus for the initial NAHP 2008-11 bidding round set out the new organisational future and how the NAHP framework prepares for this.

We are keen to identify projects through this, and subsequent rounds of regular market engagement, which offer new and innovative approaches to the provision of affordable housing or make the most of the opportunities within current market conditions. We particularly encourage excellent value bids which use the opportunity provided by surplus public sector, local authority or English Partnerships-owned land.

Bidders should enter projects bid in IMS in the normal way, using the standard funding parameters and products currently available. In addition, if you consider the project to be suitable for alternative, innovative funding approaches, please submit a letter to the Housing Corporation regional office in which the scheme is located, with initial details of any proposed alternative funding approaches. We will assess the bid entered in IMS in the normal way, using our standard assessment criteria. If the standard bid is one to which we wish to allocate funding, we will then take forward discussions with you with regard to any alternative approaches you have proposed. Please note that an indication that a project may be suitable for innovative funding approaches will not in itself be a factor in our initial assessment decision.

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<sup>1</sup> Public Service Agreement 16 aims to increase the proportion of socially excluded adults in settled accommodation and employment, education or training.



## Reporting ‘Nil grant’ projects

Registered social landlords should be aware the PPA now **requires** them to report through IMS ‘nil grant’ homes built for rent or sale. This **requirement** applies to homes where:

- a) RCGF or DPF has been used (whether in conjunction with a S106 obligation or not); and
- b) homes are being delivered without SHG (or RCGF/DPF), **and** are not the subject of a section 106 requirement.

Associations should notify us of nil grant schemes in either of the above categories prior to start on site, noting that:

- they will not be added to delivery targets; and
- that standards, and other obligations, do not apply to the second category of nil grant schemes, (b) above, in the same way that they do for SHG or RCGF/DPF funded schemes.

For this second round of RME, associations should enter onto IMS all schemes funded with RCGF or DPF which are close to (or already have achieved) start on site.

For the second category, (b) above, of absolute nil grant schemes, amendments are being made to IMS to allow input of information without obliging full quality details to be provided (where these are unknown). Our aim in doing so is to avoid creating transaction costs (in undertaking quality assessments e.g. for HQI scores) related to this PPA obligation where no SHG, RCGF or DPF is being used to fund the homes. These amendments will be available as part of continuous market engagement. If, however, any association has absolute nil grant schemes being delivered where information on standards is available, they should input such schemes to IMS as part of this second round of RME.

## Regional Investment Statements

In July we will publish updates to the Regional Investment Statements for each of the nine English regions. These set out in detail the allocations that we have made at the first regular market engagement and set out where we are looking for additional programme.

## Framework for regular market engagement

The framework for this regular market (and subsequent continuous market) engagement is the same as that for the initial bid round. We consider the 2008-11 National Affordable Housing Programme to be a single programme and it is not our intention to change our procurement processes mid-stream.

Regular market engagement will therefore be conducted within the framework of the 2008-11 National Affordable Housing Programme Prospectus and the design and quality standards expected are set out in our Design and Quality Standards.

In particular, bidders should note that we wish to ensure that we invest in projects where SHG funding is clearly required to deliver the affordable housing proposed. For 2008-11 we replaced the financial workbooks with a requirement to submit information on scheme costs and contributions via IMS. This information, along with the amount of SHG requested and any projected first tranche equity sales (for New Build HomeBuy products), allows us to make that judgment. We have made a minor change to IMS and it is now **mandatory** to enter an amount in each of the cost and contribution categories (even if that amount is zero). Bidders should also note that in providing information about the estimated market value of New Build HomeBuy properties, they should do so on the basis of a single property for each respective unit type, and not on the basis of the aggregate for all properties of each unit type.

### Information requirements

The information requirements for RME are generally the same as those for the initial bid round (and bidders should consult the NAHP 2008-11 Prospectus) including:

- the need to submit bid information through IMS;
- the need to provide additional information on supported housing projects; and
- projects that are submitted which are targeted at meeting the needs of specific black and minority ethnic communities. This requirement is detailed in paragraph 62 of the Prospectus. For projects bid through RME which are targeted in this way we require some additional information to demonstrate how projects are addressing issues of community cohesion:
  - what is the bidders understanding of community cohesion issues in the local area, and how will they ensure the project (including access/ nomination arrangements) works to reduce any tensions and improve cohesion.

However, where providers submitted programme level information at initial bidding we will not require re-submission. This relates to:

- statements on the approach to affordability for LCHO, specifically targeting existing social tenants for low-cost home ownership; and
- BME method statements at a regional or local authority level.

Note: New bidders will need to supply this information. Relevant new bidders' BME method statements should address how they understand community cohesion issues in the areas in which they work, and how will they ensure their projects (including access/ nomination arrangements) work to reduce any tensions and improve cohesion.

### **Information requirements for assessing CLT bids**

Community Land Trusts are non-profit-distributing community-based organisations set up for the purpose of vesting land ownership in the community, for the benefits of that community. Most Community Land Trust (CLT) models seek to offer affordable housing in perpetuity by separating the ownership of the land from buildings in affordability calculations. The Housing Corporation recognises that CLTs offer an innovative approach to affordable housing provision and accordingly, the 2008-11 NAHP Prospectus invites CLTs to bid, **in partnership with RSLs**, for Social Housing Grant under the specialist provision route.

Bidding and development will be conducted by a partner affordable housing provider, who will need to be either an Investment Partner, or eligible for funding under the specialist route. Bids for projects to be transferred to a CLT should be submitted separately and must include supplementary information stating the identity of the CLT.

Due to the innovative nature of some of the models adopted by CLTs and the technical and policy issues they raise, it should be noted that **some** bids may be assessed on a longer timescale. The Government has announced its intention to carry out a full public consultation over the summer of 2008, in which it will attempt to resolve issues such as a legal definition for Community Land Trusts, affordability in perpetuity and the relationship with an individuals right to full ownership, the Right to Acquire and other significant policy issues. The timetable for decisions following the consultation is not yet clear. The Corporation, however, will continue to work with CLTs that meet the criteria set out in the prospectus on a case-by-case basis to resolve these issues where possible.

As CLTs are a new vehicle, we are likely to require additional information and clarification subsequent to the first submission and assessment will fall outside the main RME timetable.

### **Capacity model**

We currently require a Capacity Model from any association that is planning to bid for more than 100 units during the course of the 2008/11 bid round. In the normal

course of events, the capacity model will be required within three months of the association's year end. If an association is bidding as part of a RME round, we will place reliance on the most recently submitted capacity model, however if the model is more than six months old we will require written confirmation from the Finance Director that the association's financial position has not materially deteriorated since the submission of the model.

If the association is bidding for a level of grant that is materially more than that shown in its latest capacity model, we may require the association to submit a revised plan showing how it will finance the proposed bid.

### **Bids from private sector partners**

Private sector partners will be aware that we have made available on our website the two standard forms of grant agreement which set out the contract terms and will apply to any allocations made following initial bids or regular/continuous market engagement.

Those standard forms of grant agreement cover the main circumstances in which we would encourage private sector partners to deliver schemes:

- a) the Agreed Transfer version applies where land is owned and homes are developed by the private sector partner and ownership is transferred to an RSL following practical completion; and
- b) the second, retained ownership version, applies where the private sector partner will retain the long-term ownership of the affordable homes developed. (A slightly modified version of the latter is also available on our website where homes are being developed and retained for long-term ownership by pre-qualified ALMOs).

Private sector partners should think carefully before submitting grant applications for schemes which depart significantly from these structures, for example by proposing schemes involving land transfer to an RSL prior to practical completion, or where land is never in the ownership of the PSP. This is because the terms of the governing legislation and the need to protect public funds add a substantial degree of complexity to the necessary contractual arrangements. Whilst we will attempt to reach agreed contract terms to accommodate alternative arrangements and we will need to be convinced that the alternative arrangements offer additional benefits over and above those provided by the delivery mechanisms referred to in points a and b above. Where this is not possible, we will seek to reach agreement on suitable alternative delivery approaches to secure the delivery of any homes which receive allocations following initial bids or regular/continuous market engagement.

If private sector partner are proposing to use delivery structures which fall outside paragraphs a and b above, they should discuss these with us at the earliest possible opportunity.

## RME timetable

The timetable for this round of RME is as follows:

Initiate/launch RME	2 July 2008
Investment Partners enter bids	2 July – 23 July 2008
Close RME	23 July 2008
Announcements	End August