

# Homes & Communities Agency Affordable Homes Programme 2015-18

Prospectus January 2014

## Chapter 1

### Programme aims

£1.7bn Homes & Communities (HCA) grant funding is available outside London.

The programme seeks to:

- § Increase the supply of Affordable Rent (AR) and affordable home ownership;
- § Maximise the number of new affordable homes delivered supplemented by bidders' own contributions;
- § Address the demographic challenges facing social housing, including the need for more one and two bedroom homes that match the needs of smaller households;
- § Maximise delivery within the programme period and deliver new affordable homes by March 2018; and
- § Encourage providers with capacity who do not currently develop, or who could do more, to bring that capacity into use, utilising the skills and experience of existing delivery partners as appropriate. The aim is to drive value for money.

## Chapter 2

### Cost contributions:

- Borrowing against rental income
- Borrowing capacity created from converting social rent properties to AR
- Sale of existing stock
- Cross subsidy from Recycled Capital Grant Funding and Disposal Proceeds Funding and outright sale properties
- Government backed guarantees

### Borrowing from capitalising rent

Income generation is expected to be maximised, including charging rent up to 80% of market rents.

### Borrowing capacity created from converting social rent properties to Affordable Rent

It is stated that RPs must consider selling or converting vacant properties to AR.

### Sale of existing stock

The number of properties to be disposed must be stated in the bid with an explanation as to why the figure is not higher. The HCA require evidence of the approach taken to decide whether to hold, sell or convert properties to another tenure.

## **Cross subsidy from Recycled Capital Grant Funding and Disposal Proceeds Funding and outright sale properties**

Conversion of existing stock to AR is considered crucial in generating additional financial capacity.

If no conversions are planned the HCA will “wish to understand, and explore, the constraints which limit their ability to create an income stream from conversions.”

There is potential to convert units to shared ownership rather than AR.

## **Government backed guarantees**

Guarantees for development finance are available via the Government’s Affordable Housing Guarantee scheme delivery partner, Affordable Housing Finance.

## **Other sources of funding**

Local authorities are expected to use land holdings and capital from S106 negotiations to deliver affordable housing. Land brought forward at nil consideration will be a positive impact on the assessment of a bid.

Local authorities are encouraged to apply for other sources of funding such as the New Homes Bonus and the Community Infrastructure Levy.

## **Chapter 3: Bidding Requirements**

### **Bidding routes**

There are two bidding routes:

- § A mixed (indicative and firm scheme) approach; and
- § A firm scheme only approach.

### **Mixed route**

Bidders must notify the HCA of their intention to bid via this route by the 3 February 2014 and the HCA will confirm whether bidders may proceed by the 10 February 2014.

Under the mixed route bidders will include firm schemes and indicative proposed schemes. This is only possible if the proposed allocations for firm schemes exceeds £5m. Indicative bids must not exceed 50% of any bid.

Indicative allocations will not exceed 30% of the HCAs allocation. Indicative proposals must become firm schemes no later than 30 May 2016.

### **Firm scheme only route**

Minimum requirements for a firm scheme are:

- § The name of the scheme
- § The x, y co-ordinates
- § Details of ownership or control by the bidder
- § Planning stage reached
- § Tender stage reached

Forecast dates for start on site and completion will be taken into account for the deliverability assessment.

## **Payment**

50% of the grant will be paid at start on site and 50% will be paid on practical completion.

## **Allocating the available grant**

There is £1.7bn of grant funding available with the intention to allocate 75% at the programme outset and 25% for future market engagement.

## **Bid requirements**

Bids are sought for schemes which:

- § Offer good value for money (grant requested, anticipated costs and used own resources including generating capacity)
- § Have a good and demonstrable prospect of delivery within the programme timeframe
- § Meet local needs and priorities in their proposed locations and addressing any mismatch between existing stock and need.

## **Value for money**

The contribution from other sources of funding will be a key element of bid assessment.

## **Achieving construction and procurement efficiency savings**

The HCA wants to align with the vision of *Transforming Construction: An Industrial Strategy for Construction* (Department for Business, Innovation and Skills: June 2013), which includes the ambition to reduce initial and whole life costs by 33% by 2025.

The HCA also welcomes providers using offsite manufacturing as discussed in *Offsite Housing Review* published February 2013.

Build cost requirements:

- § Bidders must specify overall construction costs
- § Bidders must state how construction and procurement efficiencies will be achieved.

## **Use of public land**

Where land is being brought forward at nil consideration this should minimise the amount of HCA funding.

## **Section 106 schemes**

### **Funding for S106 schemes**

There will be no grant for S106 schemes. The amount paid for AR should equate to the capitalised rent. The amount paid for shared ownership should be based on reasonable value assumptions and rental income.

Only in exceptional circumstances will Recycled Capital Grant Funding be agreed on S106 schemes.

### **Treatment of nil grant S106 schemes in the value for money assessment**

The value for money assessment will exclude nil grant schemes. However they should be added to the programme when “firmed up.” If AR is to be charged there must be a contract between provider and the HCA.

### **Meeting local needs**

Local authority priorities should be taken into account for the bid and local needs, in particular any need for one and two bed properties. Social rent will not be accepted as a local authority priority.

Dialogue with LEPs is considered important for this programme.

It is expected that providers will discuss their proposals with local authorities.

### **Schemes requiring demolition**

Refurbishing and upgrading existing homes should always be the first and preferred option, and demolition the last option.

### **Other bid requirements**

#### **Design and Quality**

An addendum to the prospectus will be published once the outcome of the Housing Technical Standards Review is known.

## **Chapter 4: Assessment**

Overall objective of assessment:

- § Local needs and priorities are met;
- § Offer good value for money;

- § Have a good and demonstrable prospect of delivery within the programme timeframe; and
- § RPs continue to meet the Regulator's Governance and Viability standard.

### **Meeting local needs**

Local authorities will be asked to confirm whether firm schemes or indicative proposals are supported and meet local needs. Fit with LEPs will also be considered.

### **Value for money (50%)**

This will be via comparison with other bids. Any high grant schemes will require strong reasons for the high requirement. Very low grant schemes will need to justify delivery.

Indicators that will form a part of the HCAs assessment scoring are:

- § Grant per unit compared to the overall Operating Area average;
- § Grant per unit compared to the national average;
- § Grant per unit compared to an appropriate comparable average;
- § Grant per person compared to the overall Operating Area average;
- § Grant as a percentage of total scheme cost;
- § Works costs per m<sup>2</sup> compared to the area average;
- § m<sup>2</sup> per person compared to the area average.

### **Delivery (50%)**

Any scheme that has significant slippage may result in a scheme being withdrawn but this does not preclude the scheme from being brought forward again through CME.

Having achieved planning will be considered good deliverability.

Having local authority support will be considered a good indicator of deliverability.

Scheme proposals with forecast start and completion dates in the first year of the programme will be advantaged.

Previous track record of delivery will be taken into account.

### **Programme building**

All bids supported by local authorities will be ranked by value for money, then the geographical location will be considered so there is a good geographical spread of supply.

### **Role of the Regulator**

The Regulator will be reviewing Value for Money standards, which will inform the HCAs funding decisions.

The Regulator will assess bids and provide advice on:

- § Compliance with the Regulator's Governance and Viability standard; and

- § Likelihood of compliance continuing if the bid is supported by the HCA.

## **Chapter 5: Provider and programme requirements**

### **Partnership working**

Partnership working with local providers, specialist providers and community based organisations is encouraged.

### **Local authorities**

Local authorities with Housing Revenue Account headroom are able to bid for this funding.

### **Limit rent**

Affordable Rent will be treated outside of the Rent Rebate Subsidy Limitation scheme.

### **Information requirements**

#### **Bid information**

Bids must be submitted via the HCAs Investment Management System.

Bidders will be required to certify there is no overlap between the 2011-15 Affordable Housing Programme and this programme.

Firm scheme bids will include:

- § Anticipated unit mix and size
- § Tenure
- § Any specific provision (eg supported housing)
- § Any specific needs (eg wheelchair accessible housing)

Indicative proposals will include:

- § Outline mix and anticipated size
- § Tenure
- § Minimum geography

Estimated scheme costs must be outlined together with the sources of funding.

Expected month of start on site and completion will be required.

All bids should include any named firm schemes where homes are to be delivered at nil grant through S106 agreements.

### **General Information**

## **Conversion Information**

The number and location of Affordable Rent and other tenure conversions should be outlined, together with the proportion of annual re-lets this represents.

The additional borrowing capacity created through conversions should be provided.

## **Supplementary Information**

The below information should be provided in written statements:

- § Active asset management - the contribution vacant properties can make
- § Achieving procurement efficiencies - reduction in costs through innovation and supply chain efficiencies
- § Employment and skills - indicative numbers of apprenticeships and opportunities for 16-23 year olds
- § Meeting the needs of a range of communities - housing suitable for older people, people with disabilities and specialist housing
- § Financial information and viability - provide to the Regulator an updated version of the financial forecast return
- § Registered Provider Board approval - the relevant board paper and minute will be required

## **Chapter 6: Range of products**

### **Affordable Rent**

AR will be at 80%, except in exceptional circumstances, such as where this exceeds Local Housing Allowance.

### **Rent increases**

Bidders should bid on the basis of Consumer Price Index + 1 percentage point each year for 10 years. This is a change from current policy (Retail Price Index + 0.5 percentage points) and is out for consultation.

Rents must be re-based on re-lets.

### **Social rent**

This will only be considered in very limited circumstances where a strong argument can be made as to why AR is not viable.

### **Affordable home ownership**

Bids that only include affordable home ownership and, no AR, will not be considered. Funding for equity loan products will not be available.

## **Supported housing and housing for older people**

This will be supported where this matches local need.

## **Other groups or forms of housing**

Empty homes, homelessness and traveller pitches should all be bid for under this programme.

## **Chapter 7: Contract and programme management**

Heads of Terms of the standard agreement will be published shortly.

## **Chapter 8: Timetable**

<b>Milestone</b>	<b>Date</b>
Launch of bid round	27 January 2014
Close of bid round	Noon Wednesday 30 April 2014
Clarification and assessment of bids	01 May - 20 June 2014
Moderation of bids	23 - 30 June 2014
Clearance of recommendations for allocations	early July 2014
Announcement of successful allocations	mid July 2014