

National Affordable Housing Programme 2008-11

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# Regular market engagement: Guidance

National information for bidders

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April 2008

## Summary

This document:

- summarises the Housing Corporation's key priorities for regular market engagement (RME) for the 2008-11 National Affordable Housing Programme (NAHP); and
- sets out the timetable and process for the first round of regular market engagement.

## Introduction – Regular market engagement

In contrast to previous programmes, the Housing 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.

Additional allocations are timetabled to be made quarterly, from April 2008 to October 2010 (or when resources are fully committed).

The opportunity to access additional funding within the 2008-11 programme offers significant potential benefits. In particular it will:

- give better alignment with affordable housing providers' business plans;
- enable partners to be responsive to land acquisition and development opportunities;
- enable more effective negotiation of Section 106 agreements where grant is considered alongside developer contributions; and
- enable partners to offer projects with certainty of delivery.

## **Regular market engagement policy priorities**

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 remain unchanged.

### **Initial bids**

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 arms-length management organisations and Special Purpose Vehicles) for the first time;
- met the grant-per-unit efficiency targets required to deliver the Housing Green Paper's affordable housing supply commitments;
- achieved these efficiencies whilst also implementing Code for Sustainable Homes 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 Housing 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 Housing Corporation's Shared Equity competition;
- increased the affordability of New Build HomeBuy by funding projects offering lower initial purchases and lower rent on unowned equity; and
- expanded the opportunities to help housing association tenants into home ownership through support for Social HomeBuy.

### **Recycled capital grant and the link to equity value**

We consulted on the Recycled Capital Grant Fund (RCGF) in spring 2007. As a result, the Housing Corporation agreed in principle that deposits into a housing association's RCGF – following an initial sale or a staircasing sale of a low-cost home ownership (LCHO) home – should reflect growth in the value of the property, not simply the amount of grant originally received, for projects where grant exceeds 25% of initial capital costs of the project (i.e. to introduce a link to value).

We agreed to suspend implementation of the decision until after the initial NAHP 2008-11 bid round and, for New Build HomeBuy, we set a number of criteria on which we would judge whether we would continue to suspend a decision on making the introduction of a link to value. This included whether efficiency targets were met, whether providers would offer at smaller shares and whether rent levels on unsold equity were reduced. 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%.

It is, therefore, our intention to keep a decision on introducing a link to value for New Build HomeBuy in abeyance for the 2008-11 programme. In confirming this decision, it is our clear intention to continue to drive efficiency in our LCHO programme and we intend to maintain this level of performance through regular market engagement. We are extremely unlikely, for example, to fund LCHO projects with rent on unsold equity above 2.75%.

### **Reporting 'nil grant' projects**

Alongside these changes to the RCGF/Disposal Proceeds Fund (DPF) regime – and confirmation that the link to value will not apply within the 2008-11 programme – we have amended the Programme Partnering Agreement to **require** registered social landlords to report through IMS 'nil grant' homes built for rent or sale where:

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

Associations are strongly encouraged to notify us of nil grant schemes in either of the above categories at the earliest possible opportunity, noting that:

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

### **Responding to market opportunities**

Our prospectus for the 2008-11 National Affordable Housing Programme sets out the design and quality standards for the programme. The Housing 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 Housing Corporation will look at these opportunities on a case-by-case basis.

Bidders who wish to put forward these schemes as part of the first regular market engagement should note that all projects will be assessed against the criteria set out in the NAHP Prospectus.

Where schemes depart from standards we will consider in particular:

- 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; and
- 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.)

This approach will be reviewed following each regular market engagement.

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

Through the initial bidding round we allocated £2.1 billion of resources to new projects (including for Open Market HomeBuy). Taken together with existing commitments, this means that we have currently committed over £3.5 billion to fund affordable housing within 2008-11.

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 Housing 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 recently published 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. This involves delivering 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 Housing Corporation set out an expectation to invest in more supported housing than in 2006-08. We have made a strong start, through the allocations made in the initial bid round, 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;

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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.

- 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.

### **Growth Support (Affordable Housing) Fund**

The GS(AH)F is aimed at making allocations to projects located within the Growth Areas and Growth Points, and regions adjoining London. Investment from the GS(AH)F will be made only where the bidding organisation can guarantee, following discussion with the host local authority, that a proportion of the resulting affordable housing will be made available to London boroughs through the Pan-London Choice and Mobility Scheme. Projects will need to offer a minimum of 30% of nominations to London boroughs, with those offering more assessed positively within the GS(AH)F. Bidders should also demonstrate that the homes to be delivered will meet the priorities set out in the London section of the NAHP Prospectus, which reflect the Mayor's draft housing strategy.

The GS(AH)F has a budget allocation of £100 million in 2008-09, £200 million in 2009-10 and £300 million in 2010-11.

To publicise the GS(AH)F, the Housing Corporation, in partnership with the local Government Office, intends to hold a series of seminars during April 2008. These are timetabled as follows:

- Cambridge (Trinity Centre), 22 April 2008;
- Reading (Best Western Hotel), 23 April 2008; and
- Tunbridge Wells (Ramada Hotel), 24 April 2008.

Please contact Josephine Farrell ([josephine.farrell@housingcorp.gsx.gov.uk](mailto:josephine.farrell@housingcorp.gsx.gov.uk)) if you would like to attend one of these seminars.

More detailed guidance on priority areas can be obtained by contacting our regional offices.

### **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.

### **Regional Investment Statements**

At the beginning of May we will publish Regional Investment Statements for each of the nine English regions. These set out in detail the allocations that we have made at initial bids and set out where we are looking for additional programme.

## Framework for regular market engagement

The framework for this first (and subsequent rounds of) regular 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 publication.

In particular, bidders should note that we wish to ensure that we invest in projects where Social Housing Grant (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 for this (and future) rounds of RME, 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 (BME) 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 bidder's understanding of community cohesion issues in the local area, and how will it 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 (CLTs) are based on a legal model which makes locally controlled affordable homes available in perpetuity by locking in the land value. They provide a framework within which the sustainability of the communities being created is safeguarded by the community itself. The Corporation is working with Salford University to assist pilot CLTs to get underway, usually with housing association help. We are looking to develop investment models aligned with the structure and spirit of CLTs.

However, for this bid round, we will adapt existing processes. 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. As CLTs are a new vehicle we are likely to require additional information and clarification subsequent to the first submission and assessment may fall outside the main bid round 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.

## RME timetable

The timetable for this round of RME is as follows:

Initiate/launch RME	15 April 2008
Investment Partners enter bids	15 April - 9 May 2008
Close RME	9 May 2008
Announcements	Week beginning 24 June 2008

The provisional timetable for further rounds of RME in 2008-09 is:

### Second RME

Initiate/launch RME	1 July 2008
Close RME	8 August 2008
Announcements	14 October 2008

### Third RME

Initiate/launch RME	6 October 2008
Close RME	24 October 2008
Announcements	10 December 2008

### Fourth RME

Initiate/launch RME	5 January 2009
Close RME	23 January 2009
Announcements	10 March 2009