RE-INVENTING INVESTMENT

A policy paper from the Housing Corporation setting out a new approach to its investment programme.

HOUSING CORPORATION

October 2003

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1. INTRODUCTION

In February 2003 the Deputy Prime Minister, John Prescott launched “Sustainable Communities: delivering for the future”. This document set out the Government’s vision for housing in England and the resources being made available to deliver that vision. It called for a step change in dealing with the different issues experienced in different parts of the country. Regional Housing Boards were created to oversee the creation of Regional Housing Strategies in each of the nine regions in England and to recommend to Ministers how resources within single regional housing pots should be utilised.

The Housing Corporation has been the main funder of new social housing in this country since the 1980s. The Government has re-iterated the major role for the Corporation in helping to deliver the vision set out in “Sustainable Communities”. However, the expectation is that there will be a step change in the outputs from the Corporation’s investment programme. The Government is seeking greater cost-effectiveness or ‘better than more of the same’. This policy paper sets out our plans to meet this objective.

The Housing Corporation’s funding for new social housing has until now been agreed on an annual basis with Ministers and details of the Approved Development Programme (ADP) usually issued in March, before the beginning of the forthcoming financial year. The Investment Bulletin 2003 at Annex 1 is an example of the composition of the programme.

In the future, beginning with the next financial year (2004/05), Ministers will determine the level of resources to be made available through the Housing Corporation for housing associations to provide new social and affordable housing with reference to Regional Housing Board recommendations. These recommendations will relate to the priorities and plans set out in Regional Housing Strategies. It is expected that the resource levels announced by Ministers will relate to the two-year period of 2004/05 and 2005/06. Following discussions at Board level within the Corporation, with officials from the Office of the Deputy Prime Minister and with a Sounding Board of external representatives (see Annex 2 for list of members) we have decided to use this two year period to pilot a new approach to the way in which we fund housing associations. We believe this new approach will put associations at the heart of delivering the Government’s vision. In the remainder of this document we set out in more detail how we intend to proceed.

2. DRIVERS FOR CHANGE

The establishment in 1998 of the Construction Task Force by the Deputy Prime Minister and led by Sir John Egan to report on the scope for improving the quality and efficiency of UK construction was a major catalyst for change. The principles set out in report of the Task Force entitled 'Rethinking Construction' have been adopted by the Corporation over the intervening years.

The Corporation has been in the vanguard of change within the social housing sector by requiring housing associations to adopt the principles set out in 'Rethinking Construction' and to become better clients. Working with others in the sector in 2001, we established the 'Client's Charter' for housing associations undertaking regular development and in 2002 established the 'Mini-Charter' for small and occasionally developing housing associations wishing to act as construction clients. We then formally announced that only those housing associations able to demonstrate the achievement of Charter status would qualify for funding for significant construction works from 2003/04 onwards.

During 2002 the Corporation issued a Discussion Paper, "Partnering through the ADP". In that paper we set out some thoughts for more collaborative relationships with the best developing associations. We are keen to build upon the 'Rethinking Construction' ideas by partnering throughout the supply chain. We believe that the procurement of new housing in this country is too segmented, leading to competition which can be wasteful, distrustful and inefficient. In recent years we have funded between 350 to 400 housing associations. This produces an average programme of 50 homes per association (ranging from single dwellings to some substantial programmes). We are confident that through selective partnering we will be able to achieve economies of scale, more efficient procurement, higher quality and increased end user satisfaction. To some extent this is already happening. In the current year 56% of ADP allocations by value, went to just 42 housing associations (£874 million out of £1,562 million) but the remaining 44% was shared between more than 300 associations giving little scope for economies of scale.

In the ADP for 2003/04 we have been able to test out our ideas for partnering. A Challenge Fund of £300 million was set aside to enable us to pilot a number of new techniques in agreement with the Deputy Prime Minister. Following a bid round we allocated resources to 50 housing associations that could deliver new housing most quickly, primarily because they had already secured planning permission. We also wanted to pilot the delivery of new housing for key public sector workers and the funding of new products, namely intermediate renting and new build Homebuy. Each of the associations was invited to enter into a partnering agreement setting out obligations placed on both the association and the Corporation, and details of the projects to be funded. An example is attached at Annex 3. The Corporation closely monitors delivery of the projects and a number of meetings have been held with representatives of all participant associations to discuss progress. In addition we have recently employed DTZ Pieda to undertake an evaluation of the Challenge Fund. A copy of the evaluation brief is at Annex 4.

The primary purpose of the evaluation project was to ascertain which parts of the Challenge Fund could be replicated throughout the ADP. To some extent this has been overtaken by the statement in Sustainable Communities that the Government's 'support for key worker housing will be integrated into the Housing Corporation's main affordable housing programme'. This was supplemented by the decision to consider whether to extend the Corporation's power to fund bodies other than housing associations, with a view to widening the opportunities for encouraging new housing development.

This is all part of the Government's drive to ensure it gets the best possible value for money from its use of tax-payers money. This is not just a demand for the cheapest delivery mechanisms. As will be seen later in this document, there are stringent tests and quality thresholds that will have to be met before our funding will be confirmed, demonstrating that we will be looking at delivery and value for money in the round.

3 A FRAMEWORK FOR CHANGE

There are six elements to our proposed new approach:

a) Working with the best developing associations through a series of Partner Programme Agreements (PPAs);

b) Working with developers and house-builders as part of the supply chain;

c) Changing the Operational Framework, comprising Total Cost Indicators, Grant Rates, Allowances and the underlying standards;

d) Our evolving investment policy;

e) Changing our Regulatory Framework to include entry criteria into PPAs and the longer term regulatory engagement with our development partners;

f) Introducing a Lead Investor concept for our partner associations.

Each of these are described in more detail below:

a) Partner Programme Agreements

We wish to provide the best developing associations with the certainty they require to plan longer-term development programmes with confidence. A move to making allocations over a two-year period is a start. We hope to be able to cover longer periods in due course.

We are inviting associations to put forward proposals for a two-year programme of development activity. We expect such a programme to be more than just the sum of a number of individual bids. We will be looking for the added value that can be derived from a programme approach. In this pilot programme we will be looking to partner with those associations that secure a funding programme of £10 million or more in each of the two years.

We will want to ensure that proposals are for projects that meet priorities set out in regional housing strategies and help to create or maintain sustainable communities. We will also want to be assured that good quality management of the housing after development will be secured in line with our regulatory requirements and that it makes sense in strategic terms. This might well require developing associations to forge relationships with other, more local, management associations.

The specimen Challenge Fund partnering agreement at Annex 3 gives an idea of the expectations we will want to cover under the pilot arrangements. One important element is the expectation that associations will secure external validation to provide confirmation that they comply with our requirements in securing project approvals and drawing down Social Housing Grant (SHG).

b) Working with Developers and House-builders

One way in which social and affordable housing can be procured more cost-effectively in the future is through the greater use of standard components, layouts and manufacturing systems. The Deputy Prime Minister has asked us to take a lead in promoting the use of Modern Methods of Construction (MMC) amongst housing associations. Indeed it is probable that from next year at least 25% of the housing we fund will be expected to be built using one form of MMC or another.

We have been discussing with house-builders and the suppliers of MMC how we can introduce more standardisation both in the housing product and processes by which it is delivered. We have recently accredited 23 house layouts from 3 suppliers – the details will shortly be available on our website at www.housingcorp.gov.uk By accreditation we mean that the layouts have been pre-tested and accepted as meeting certain key aspects of our Scheme Development Standards. This will mean that associations using these layouts will not have to have their internal arrangement proposals scrutinised again. It will also mean that the builders/ suppliers will be able to offer them to associations as compliant with Corporation standards. While we will not insist on associations using these layouts only, we believe that as well as saving time, their greater use will reduce costs as components can be acquired in bulk and economies of scale achieved.

Some commentators have criticised our proposals in this respect. However there is no intention on our part to insist on associations producing housing that all looks the same. We recognise the difficulties that have been created by building mono-tenure soulless-looking estates in the past. Our accreditation covers internal layout only. It does not cover external treatment and dwelling orientation. We accept that these are matters between the association or developer and planning authority. Our commitment to good quality design appropriate for its setting and with build features which deliver sustainability of the housing product remains as strong as ever and is covered in the paragraphs below in relation to standards.

We see accreditation of builders internal layouts and partnering with associations as two elements within our intention to partner throughout the supply chain. We are hopeful that our relationship with English Partnerships will provide a third element by helping associations secure access to land for development. We are also liaising with developers and house-builders to see how their build programmes might be integrated into our funding programmes, in the future.

c) Changing the Operational Framework

The traditional framework for determining the level of Corporation financial support for a development project comprises the primary elements of Total Cost Indicators, Grant Rates and Allowances and the underlying standards. This framework will remain in place for occasional and small scale developing associations. However for our partner associations there will be some fundamental changes to the framework.

Costs – We believe the TCI framework is too much of a constraint and at the same time provides little incentive for cost-efficiency. It is a constraint because we can only approve costs in excess of 110% of TCI with Ministerial approval and this is only given in exceptional cases. This can lead to good quality, top priority projects not coming forward. It is not an incentive to efficiency because associations know that projects below 110% TCI receive little scrutiny and are invariably approved. We consider that the costs of development are becoming increasingly irrelevant to our value for money considerations. What matters to us is the grant take, rent levels and the quality of the housing to be provided. We therefore intend to stop taking costs into account when we consider development proposals from partner associations. We will restrict our consideration to the level of grant required (see below). It will be for associations to determine the cost of development. We believe that this is the right place for this responsibility, as associations need to live with the long-term consequences of development costs. They have to borrow the share of costs not covered by SHG and manage their financial position.

Standards – We will continue to treat the essential items within Scheme Development Standards as a base threshold from which to consider associations' proposals. As a further step towards greater reliance on Housing Quality Indicators (HQIs) we will also require housing associations to provide HQI information at Bid stage. Within the bidding guidance we will set out the scores that we will expect associations to match or beat in relation to 'Unit size' and 'Unit layout'. The current edition of SDS provides a brief analysis of the range and average HQI scores currently being achieved by housing associations.

Grant Rates – We maintain a comprehensive framework of grant rates that attempts to cover a wide variety of project types. When the framework was originally developed it had as its main objective the delivery of rents affordable to those in low paid employment. However the link between grant rates and rents was broken with the introduction of the Government's Rent Re-structuring Policy and the setting of target rents that associations have to reach by 31 March 2012. As a consequence we believe that we can stop using the grant rate framework to determine the level of subsidy provided to associations. Instead we will invite associations to put forward the level of subsidy they require in order to deliver their development programme as a whole. We will then sit down with each partner association to agree what grant we will make available. We will do this by reference to bids made under the traditional route, other bids under the partnering route and grant levels approved in the current financial year in order to demonstrate the Value for Money derived from the programme.

d) Developing our Investment Strategy

It is important that we have policies and implement funding strategies based on a good analysis of housing markets, trends and needs in order to guide our funding decisions. The recently published regional housing strategies demonstrate that much work is to be done if that analysis is to be as comprehensive as is required. Within the Corporation we are developing a Geographic Information System and an Index of Housing Market Efficiency that we hope will provide a basis for analysis which will be of assistance to both Regional Housing Boards and national Government in identifying priorities and agreeing strategies for investment and targeting the best use of resources.

National Investment Policy

Our National Investment Policy document sets out our national policies, objectives and targets for 2004/5 and 2005/6. It also draws together the key priorities from the Regional Housing Strategies produced by the Regional Housing Boards.

We have three investment objectives. These are:

First - providing new affordable housing in areas of economic and demographic growth including rural areas and the growth areas.

Second - contributing to regeneration and neighbourhood renewal and housing market restructuring.

Third - meeting the needs of a wide range of vulnerable people by continuing to fund the provision of new supported housing.

We also have a number of national targets for the programme agreed with Ministers:

No. of Completions	To be agreed when the Minister approves the programme
Rural units	3,500 approvals between 2004/05 and 2005/06
% of programme targeted at regeneration	65%
Level of funding for key working housing	£1 billion spend during 2003/04 – 2005/06
Proportion of programme using modern methods of construction	25% of newbuild schemes

The investment programme for each region will be agreed by Ministers. These will reflect regional and national priorities and national level targets.

The focus of our National Investment Policy for 2004/05 and 2005/06 will be delivering the government's action programme *Sustainable communities: building for the future* by:

- increasing the supply of homes, particularly in London, South East and East of England, but also in other hotspots to tackle the issue of homelessness and also to address the pressing housing needs of key workers. We also expect the programme to make a major contribution to pushing forward the use of modern methods of construction;
- dealing with the issue of low demand and abandonment in parts of the North and Midlands through the Housing Market Renewal Pathfinders pursuing our wider regeneration programme and helping associations to ensure homes meet the decent homes standard; and
- ensuring that all projects we fund are developed using sustainable development principles.

The National Investment Policy explains how our policies, including Re-inventing Investment, will enable us to do this. We regularly review all our policies and this year in particular we have been developing our regeneration policy which includes our policy on low demand and how we will contribute to housing market restructuring pathfinders.

To help us co-ordinate our activities in the Growth Areas and Market Renewal Pathfinder Areas we have recently established three new Head of Operations posts.

e) Developing our Regulatory Framework

Our regulatory framework has been overhauled in recent years. The new regime introduced in April 2002 is based on the regulatory code and guidance. There is more work to do to refine that approach and rationalise the policies and guidance that underpin it. We have recently launched an independent review of the way we have implemented the new approach.

We are developing a regulatory framework which is more selective and risk-based and which aims to place more emphasis on continuous improvement and more reliance on compliance and self-assessment. Meanwhile, housing associations are changing as they respond to a range of challenges. This is likely to mean that our approach to regulation will need to adapt to reflect those changes, with more segmentation reflecting not just differences in size but also different operating environments.

In the specific context of this paper, we plan to develop our regulatory approach to associations bidding for involvement in the new approach to investment. We see two aspects of regulatory involvement with that approach:

- assisting in short-listing candidates (entry criteria); and
- regulating associations which have entered long term commitments (regulating partners)

Entry criteria - there are a number of areas that need to be considered. They are:

i) *Overall competence*

This year we have introduced Housing Corporation Assessments (HCAs). These give a public statement of the Corporation's current view of each association under the three main headings of the regulatory code - viability, governance and management - and, where relevant, our view of its investment performance. We expect to refine the HCA approach over time and in any event see that statement as the platform for any more detailed view of an association's competence.

The HCA is inevitably broad brush. We shall be developing a checklist of specific issues which we shall want to explore which lie behind or are in addition to the HCA.

ii) *Financial capacity*

Each year, all associations with more than 250 dwellings are expected to provide five-year financial projections, using the FV5 return. Those projections inform the Corporation's annual viability reviews (AVRs). These are based on credit-rating methodology.

The details of AVRs are treated as commercially confidential, but the key findings are reflected in the viability section of the HCA. We do not intend to alter the basic regulatory requirement. The five-year projection and AVR are a considerable advance on our previous approach and associations have generally found them useful. They are adequate for reviewing the viability of most associations, including those which plan relatively modest developments, as long as the prospect of such developments is included in the projections.

This approach is clearly not adequate, however, where associations are seeking to commit to major development over a number of years. We shall therefore need to ask for longer-term projections, based on relevant investment assumptions, as a condition of entry.

In order to assist associations in their planning and to ensure the Corporation reviews financial capacity on a consistent basis, we are developing an extension of the FV5 / AVR approach in consultation with the NHF, employing the consultants FSMD to help us. Working with a group of housing associations – we aim to trial and test this approach and launch it in March/ April 2004.

iii) *Management competence*

There are three relevant aspects of management competence:

The ability to manage development projects complements the question of financial capacity. Clearly the Corporation will only want to commit to major development funding if an association can not only raise and pay for the necessary finance but also deliver projects to time and budget. (This is covered in more detail in the next section.)

Neighbourhood management will be of prime interest in those areas, particularly in regeneration schemes, where associations are likely to have to play a major role. While the Corporation will have some information from its own sources, including from our Impact Assessments and the findings of the Housing Inspectorate to draw upon it will need to consult local authorities, pathfinders and others to refine its assessments.

Housing management is a major consideration in all schemes, and the Corporation will have to form a view on the proposals for housing management with associations in the pilot programme. Essentially, we shall need to judge an association planning to develop and retain stock in its ownership and management on its housing management record as well as its development record.

Where, as will often be the case, stock will either be transferred to other associations or will be managed under local agreements, we shall need to understand the proposed terms of transfer and/or management arrangements and be able to assess the capability of the ultimate managers. That is likely to mean taking a view on partner organisations, or on the subsidiaries of groups, at the outset.

iv) *Development track record*

The HCA already includes a view of an association's development performance. That is based on the Corporation's direct experience through the ADP. We are currently identifying officers in the Corporation to act as "Lead Investors". This will mean they take an across-the-board view of each partner association's performance and liaise with Lead Regulators within the Corporation. This will involve looking at investment across the Corporation's regions and at wider performance on development which does not receive direct Corporation funding.

v) Efficiency

The process of bidding and selection should go a long way to promoting efficiency in procurement. The ultimate ability to finance and sustain developments in the long term depends also on the efficiency and effectiveness of management. We have a programme to promote continuous improvement which we are developing in conjunction with the sector. We shall want to identify measures of the efficiency with which assets are employed; or, at least, to establish that associations are taking steps to assess and improve that themselves.

Regulating partners – Once an association has been chosen as a long-term partner the Corporation will need to establish the right regulatory environment. This must balance two legitimate but potentially conflicting concerns:

- to streamline the regulatory burden on those who are expected to operate efficiently and quickly

- to receive regular and reliable information and be able to take swift action where necessary

In looking at this balance we must recognise that both the regulation and investment sides of the Corporation need information and will have concerns. Thus the programme funded through the partnering deal will have to be monitored; but so will the continued overall health and performance of the organisation. An association performing to target on the programme may be doing so at the expense of its wider asset management for example; or its wider financial viability may deteriorate, putting individual programmes and existing assets and residents at risk.

The process of "due diligence" in establishing suitable partners should limit risks; but those relatively small risks will be amplified by the size and duration of the programmes. Establishing the right balance will not mean abdicating our responsibility for monitoring the programme or seeking regulatory information but it will mean co-ordinating and streamlining the requirements. The essential features will be:

- to be clear and consistent in what we require. These requirements will typically be tougher than for other associations but they will be agreed in advance;

- to establish pre-qualification or certification where possible;

- to place increasing emphasis on compliance and self-assessment in reporting both on the programme itself and on wider regulatory performance. The more an association establishes robust systems for this purpose, the more likely we are to place reliance on them.

In some cases, self-assessment will mean just that; but we shall generally expect external verification. The object is, wherever possible, to avoid second guessing external audit and ensure ownership of the compliance agenda by associations.

If significant regulatory problems emerge during the life of the Partner Programme Agreement, we will expect a quick, co-operative and focused approach from the association. If necessary we will need to reconsider the association's suitability as a partner and eligibility for funding.

f) Introducing the Lead Investor concept

In order to manage our investment relationships with partner associations we intend to designate senior Corporation officers as Lead Investors. As well as being responsible for relationship management these officers will also be acting as account managers. This will mean that they will be the main point of contact in the Corporation for matters relating to an association's overall programme. We recognise that there will need to be local contacts with our field offices over specific projects but the management of the partnering agreement and oversight of the delivery of the programme needs to be carried out at the corporate level. We hope that this arrangement will be of benefit to both partner associations and the Corporation.

Over the next few weeks the nominated officers will be contacting major developing associations to discuss with them their bidding strategy, the likely size of programme, their eligibility to be a partner and thus the bidding route they should follow. The Lead Investor will also be working in close partnership with the Corporation's Lead Regulator to obtain a clear understanding of our recent and current assessments of an association's performance against the Regulatory Code and its suitability as a development partner, and to provide intelligence to inform our regulatory judgements.

4. BENEFITS AND RISKS

We believe that the approach set out in this policy paper will help us to realise benefits of greater efficiency in the procurement of social and affordable housing. Concentrating resources on the best developing associations should produce economies of scale as greater certainty of funding intentions provide associations with the confidence to plan their development programmes, perhaps buy-in sites in advance, secure development teams, obtain cheaper private finance and negotiate contract prices without having to artificially phase projects to fit funding timetables.

However, we recognise that this is a major departure from the way in which we have traditionally allocated resources and there are a number of risks associated with the new approach. The contents of this paper set out how we intend to manage these risks.

A major concern expressed to us that our proposals would reduce the diversity of the sector. It is the Corporation’s view that this should not be the case. The proposals contained in this paper relate in the main to the procurement and ongoing regulation of new development. The strength of the sector lies in the diversity of its housing management services. It is for this reason we will require to approve the management proposals before committing grant. We are looking to retain diversity of supplier of services. One way that this can be facilitated is if associations form consortia for development purposes factoring in arrangements for onward ownership and management. This will be particularly important when considering specialist housing such as for BME households, supported housing and low cost home ownership.

It has also been suggested that the approach outlined will only be relevant in the South of England, focussing on the delivery of new housing in the growth areas. We do not subscribe to this, as we believe the proposals relate equally to programmes of regeneration activity as well as new housing in all parts of the country. We do recognise however, that each presents different issues and potentially different timescales.

As with all new initiatives we will evaluate the outcomes before rolling out the new approach further. We have already agreed that there will be another meeting of the Sounding Board to reflect on the experiences of the forthcoming bids and allocation round.

5. SELECTING OUR PARTNERS

In this section we set out the approach we will adopt in choosing candidates for the two-year pilot. There are two aspects to this:

- our requirements and assumptions; and
- how we will evaluate proposals.

a) Requirements and assumptions

There are a number of areas where we will need to be satisfied with the performance of the association before it can be considered as a partner. These are:-

i) Overall competence

All associations with more than 250 dwellings have an HCA posted on our website. We intend to give grant only to those associations with green lights under all four headings. We shall start by checking the HCA and confirming that there is no current activity likely to lead to a material change in any aspect and that, as a minimum, the association has no red lights. Where an association has an amber light, there must be an agreed improvement strategy, which will deliver results quickly, and in any event will be completed by the time any new grant would be committed.

That will be a preliminary check on governance, management, viability and investment track record, subject to further analysis outlined below.

ii) Financial capacity

We shall look at the current AVR. This may be sufficient to assess the capacity to undertake a two-year programme; but there are two potential problems:

- the latest FV5 may not reflect the size of any bid;

- the association may bid at several levels;

Any association bidding a place on the pilot programme should therefore <u>as a minimum</u>

either confirm that the current FV5 adequately covers the scale of its total bid and any anticipated non-Corporation funded developments;

or

submit with its bid a new FV5 extended to cover the total bid and any anticipated non-Corporation funded developments.

Ideally it should also provide evidence of longer-term financial projections which cover all anticipated development programmes. Pending development of a standard format, these projections can take the form of associations own long-term models.

iii) Development track record

As well as looking at the HCA we will take into account an association's performance against its targets in the 2002/03 ADP as set out in the National Development and Investment Summary and its mid-year performance against this years targets.

iv) Housing management

Each submission should set out explicitly the proposed management arrangements for all parts of each programme including:

- which parts will be retained and managed by the lead applicant;

- which will be managed by subsidiaries of the group;

- which will be managed by other associations;

- which will be owned and managed by other associations.

The assessment will include checking the management record, including, where appropriate, the outcome of recent inspections, of the participants.

v) Other regulatory priorities

The Corporation will look in detail at what it currently knows about any applicants' performance (including, where appropriate, prospective housing managers) on these current issues:

- its performance in asset management and specifically its progress in meeting the decent homes target;
- its progress in implementing rent restructuring

The object will be to ensure that the programme bid is not at the expense of or likely to prejudice the achievement of those other targets. It would be helpful if applications addressed these issues specifically.

vi) Other investment priorities

We will need to be assured of an association's status in respect of the Construction Clients Charter; that it is meeting the appropriate requirements of the Sustainability Toolkit on each project; that it has appointed a Design Champion and its projects meet or beat the HQI threshold scores.

vii) Group/ Consortium proposals

Where a submission is made by a group parent on behalf of all the associations in a group or where a consortium of independent associations is bidding jointly, the submission will need to be clear as to which associations will draw down – and therefore be accountable for grant for which projects during the development process, and which association will own the dwellings – and therefore be accountable in the long term for the grant – following completion.

b) *Evaluating proposals*

In looking at the proposals submitted by associations we will take into account the following:

i) The extent to which projects meet National targets and priorities set out in Regional Housing Strategies. Projects which do not meet an identified priority will not be considered;

ii) The timetable for the delivery of the housing proposed. Obviously those projects scheduled to be completed earliest will be prioritised over those with a longer timescale;

iii) The mix of client groups to be housed and the mix of tenures. This is to assist in the creation of sustainable communities. However we accept that it does not always make sense to fix the mix at the outset and we are willing to be flexible so that associations can reflect the priorities and pressures faced at the time of completion;

iv) The procurement methods to be used, in particular the extent to which Modern Methods of Construction are employed;

v) The proposed arrangements for the management of the completed dwellings;

vi) The amount of SHG required for the programme;

vii) Other benefits being offered by the association. In particular we plan in future to take a more all-embracing approach to measuring associations development programmes. Dwellings constructed using private finance and resources in Recycled Capital Grant Funds are currently not scored as part of the outputs of the ADP, for example. As their development has generally been made possible by the input of SHG in an associations overall development programme we believe their exclusion is an artificial distinction.

6. **IMPLEMENTING THE CHANGE**

We are in a transitional period. We see the forthcoming bid round as an opportunity to experiment with, or pilot, some new approaches. The bid round will cover the two-year period 2004/05 and 2005/06. We will expect associations to bid for identified schemes, as there is a huge premium on delivery. Two bidding routes will be available within our Investment Management System – a 'Partnering route' to reflect the proposals in this paper and the traditional route based on the existing framework of TCIs, grant rates and Scheme Development Standards. Following discussions with regional staff in the Corporation, associations will be able to form a view about the bidding route they should follow. The Guide to the Allocation Process is being amended to provide details of both bidding routes.

Once Corporation staff have chosen which schemes/ programmes we wish to fund those associations which we would expect to be our partners will be invited to discuss the detail of the programme partnering agreement, including negotiating the level of SHG which would be made available. After the ADP has been agreed with Regional Housing Boards and Ministers the details of the partnering agreements will be finalised and associations invited to sign them.

During the two-year period we will monitor and evaluate progress. We very much want to learn what works and what does not as we develop programmes, the longer term. There will be time to take stock and re-fine the approach before the next bid round and we will be inviting associations to give us their thoughts on the process. We will be sharing this analysis with ODPM and publicising our future intentions.

7. **NEXT STEPS**

The timetable for the process is as follows:-

End of October	-	launch bid round
Early December	-	deadline for bids/ proposals
December/ January	-	sift bids/ proposals and discuss/ negotiate with associations
February	-	draft programmes considered by Regional Housing Boards submitted to Ministers
March	-	programme agreed and launched

It is a tight timetable and we will need to develop the framework, filling in any gaps as we work through it.

Reactions to our proposals are welcomed and should be sent to Neil Hadden, either at Maple House, 149 Tottenham Court Road, London W1T 7BN or by email to neil.hadden@housingcorp.gsx.gov.uk