



## **2011-15 Affordable Homes Programme – Framework**

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# Ministerial Foreword

Housing supply has simply not kept pace with demand. Too many families can't afford the housing they need. Many are locked out of the housing market by unaffordable prices and unobtainable mortgages.

This Government will increase the number of homes to buy and rent. This means scrapping ineffective top-down targets and unnecessary regulation, and streamlining the planning system. Instead, the New Homes Bonus will provide a powerful local incentive. Communities will in future see the worth of welcoming new homes.

There is a particular need for more affordable housing. There are now an estimated 4.5 million people on waiting lists, many of whom have no realistic chance of being allocated a home. At the same time the system for providing new social housing has been under strain, with the current levels of grant unsustainable in the current economic climate.

We will continue to invest in affordable housing – providing some £6.5 billion over the next four years, including £4.5 billion for new affordable homes. And the New Homes Bonus will provide enhanced incentives for affordable homes.

But that money must go further. So we are introducing new flexibilities for providers on using existing assets, and a new offer on rents. The objective of these flexibilities, including the new Affordable Rent product, is to enable providers to deliver up to 150,000 new affordable homes. I have an aspiration to deliver even more.

These changes are a key part of a wider reform programme. We must make better use of existing stock and target support where it is most needed. Local authorities and social landlords need more flexibilities and more control. They are best placed to work out how best to support households when they need it most. This should not always mean a lifetime tenancy at a social rent – a 'one size fits all' model which is not necessarily the most appropriate solution for tenants, landlords or taxpayers.

This new localist approach is about giving control to local people, local authorities, housing associations and developers. This document sets out how these new freedoms can be used to build more affordable homes. It explains how the HCA will help support local initiative, including through Government funding, and how a new approach to investment will help deliver new supply.

So Government is getting out of the way where it needs to, and is supporting you where it can. Ultimately, though, delivery depends on the initiative of

providers, and the support of local authorities and local communities. It is now up to you to deliver the homes we need.

A handwritten signature in black ink, reading "Grant Shapps". The signature is written in a cursive style with a period at the end.

The Rt Hon Grant Shapps MP, Minister for Housing and Local Government

# 1. Overview

- 1.1 The Government is proposing a range of reforms to the way social housing is delivered. These include giving greater flexibility to social landlords to determine the types of tenancies they grant to new tenants. Landlords will be able to offer lifetime tenancies where this is needed but also to set shorter tenancy periods where that makes more sense. The rights of existing secure and assured tenants will be protected.
- 1.2 In addition, the introduction of a new Affordable Rent product will allow a more diverse offer for the range of people accessing social housing. Affordable Rent homes will be made available to tenants up to a maximum of 80% of market rent and allocated in the same way as social housing is at present. Providers will be able to offer Affordable Rent homes on flexible tenancies. Where tenants are eligible for Housing Benefit it will continue to be paid in full in the same way as for social rented properties at present.
- 1.3 Affordable Rent will form the principal element of the new supply offer. At the same time, new flexibilities will allow a proportion of social rent properties to be made available at re-let at an Affordable Rent, with the additional capacity generated from those re-lets applied to support delivery of new supply.
- 1.4 Alongside the new product, we are introducing a new delivery model. The model will be more flexible with providers using existing assets to help reduce the amount of public funding needed to deliver new supply. The new flexible model will mean that the current system of detailed scheme-by-scheme appraisal will end. The intention is to agree clear and flexible arrangements which enable providers to plan ahead, but which can be adapted over time - as opportunities arise and plans develop - particularly to respond to local needs and priorities.
- 1.5 In response to this Framework we are seeking offers from providers who wish to work with us and are able to deliver new supply of affordable housing over the next four years. Delivery proposals should cover the 2011-15 Spending Review period and outline the provider's requirement for funding from the HCA to support that delivery. Around £2.2bn of funding is currently uncommitted and is available to fund the products outlined in this Framework through the new contractual arrangements. We are inviting providers to put forward offers combining new supply with their proposals on how they will use new flexibilities.
- 1.6 This Framework has been produced by the Department of Communities and Local Government (DCLG) and the Homes and

Communities Agency (HCA) to set out in detail the changes in affordable housing provision being introduced for the 2011-15 Spending Review period. In developing it we have sought to engage openly with many people and organisations working in the management and development of affordable housing and we are grateful for their thoughts and input. We intend to continue this open approach during the contract management phase of the programme.

- 1.7 The Framework will be of interest to a wide range of partners – local authorities, housebuilders and developers, affordable housing providers and local community groups - who wish to develop or contribute in other ways to delivery of new supply. Additionally, local authorities will find it of interest in their strategic housing role.
- 1.8 There is a significant amount of change. Chapter two sets out the proposed delivery model for the 2011-15 programme and the context for the information on contracts later in the document.
- 1.9 The products that are eligible for funding from this programme, including detail on the new Affordable Rent product, are set out in chapters three and four and, in chapters five and six, we outline how the HCA will assess offers and how programme management will operate under this model. We also outline the role of the social housing regulator, currently the Tenant Services Authority (TSA), in the new model.
- 1.10 The Framework includes information on how arrangements will work in London, reflecting the Government's intention to devolve responsibilities for delivering new affordable homes to the Mayor.
- 1.11 Finally, we provide the timetable for the programme. We want providers to start bringing forward development proposals as soon as possible, with the intention of having the first contracts in place by early summer 2011.

## 2. The new delivery model

- 2.1 The aims of the new programme are to:
- meet housing need at a local level;
  - provide a more flexible offer for social housing tenants;
  - ensure that public funds (and funds generated from conversions) are properly and effectively spent; and
  - maximise delivery of new affordable housing supply.
- 2.2 The Programme will introduce a new, more flexible form of social housing, Affordable Rent, which will be the main type of new supply. In addition, providers that enter into a contract with the HCA will have the flexibility to convert a proportion of social rent properties to Affordable Rent at re-let; the additional financial capacity generated must be applied to support delivery of new supply. Details of the Affordable Rent product are set out in chapter three.
- 2.3 As part of the Affordable Homes Programme, there is also the flexibility for some funding to be used for other forms of tenure including affordable home ownership and, in some circumstances, social rent. Details are set out in chapter four.

### A flexible delivery model

- 2.4 The introduction of Affordable Rent is the key product change that we are making as part of this programme. Equally significant are the changes that we intend to make to the delivery model for the new supply of affordable housing.
- 2.5 At the core of the new model is the proposal to use the new Affordable Rent product, together with new flexibilities on the use of existing assets, to generate additional financial capacity to support new supply.
- 2.6 We recognise that this model will need to operate in a new way - introducing more flexibility and an approach that looks at an organisation's capacity in the round to deliver a given level and mix of outputs. We are therefore moving away from a scheme by scheme approach to funding decisions. Such an approach can limit the scope for providers to respond flexibly to opportunities as they arise and to business plan on a flexible, forward looking basis - and can lead to development activity being undertaken in isolation from an organisation's wider asset management strategy.
- 2.7 The new delivery model starts from a different place. We are looking for providers to set out their proposals for a four year programme covering how they will manage their existing assets and capacity – and in particular how they will use the flexibility to convert some of

their current stock to Affordable Rent (or other tenures) – alongside HCA funding - to generate significant volumes of new supply. Our assessment will consider the strategic fit and overall value for money across all elements of a provider's offer.

- 2.8 These proposals will form the basis of a framework contract agreed between the provider and the HCA for the four-year period. This should provide a solid platform for providers to generate supply pipelines which give excellent value for Government investment. At the same time, the contractual arrangements will be flexible enough to allow for changes throughout the delivery period where they are needed.
- 2.9 Greater certainty over the range of sources of funding available to support new supply will allow providers to work closely with local authorities throughout the 2011-15 period to help deliver their priorities to meet local needs. The HCA's local teams will play a key role in brokering and enabling relationships between providers and local authorities to ensure local priorities are delivered.
- 2.10 In this new model, the HCA will effectively act as a co-funder, sitting alongside delivery partners to secure best value – both in agreeing the initial framework, and through an on-going collaborative approach during the delivery period. Delivery of the outcomes envisaged will be reviewed on a transparent and open book basis, to secure best value across the whole of the provider's programme. The HCA will, where appropriate, adjust delivery expectations and agreement on the use of the capacity generated by conversions, after consultation with the TSA. Further details of our approach to programme and contract management are set out in chapters five and six.

### **Provider offers**

- 2.11 In the new model there will be four broad funding streams which contribute to the development of new supply:
- i) the additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let, as well as borrowing capacity generated by the net rental income stream of the new properties developed;
  - ii) existing sources of cross subsidy, including provider surpluses, income from developing new properties for outright sale, Recycled Capital Grant Funding (RCGF) and Disposals Proceeds Fund (DPF) and s106 cross subsidy;
  - iii) HCA funding where required for development to be viable; and



- iv) other sources of funding or means of reducing costs such as free or discounted public land, including local authority land, and local authority contributions for example from the New Homes Bonus.
- 2.12 We expect offers to set out the contribution that the provider can make to support their proposals to deliver a programme of new supply.

i) Generating additional capacity

Conversions

- 2.13 Providers are asked to assess the capacity that they can generate from re-let conversion and cross subsidy of all types and set out how they will use that capacity and the HCA funding requested to deliver new supply. This will form the basis of the provider's programme offer.
- 2.14 The conversion of existing stock to Affordable Rent is a crucial element in generating additional financial capacity and it is anticipated that it will be integral to the offer that providers bring forward as part of their proposals for funding new supply. Agreement for providers to convert existing properties will only be given (through signing a framework contract with the HCA) where the provider commits to using that additional financial capacity for new supply.
- 2.15 Where a provider is able to convert re-lets, we will expect them to include proposals for doing so as part of their overall offer. This will supplement financial capacity which can be generated from other sources, and ultimately lead to improved value for money for the new HCA funding requested. Where providers are not able to offer conversion of re-lets, we will consider the value for money achieved through generating funding capacity from other sources available to them.
- 2.16 Providers will need to consider the proportion of re-lets they propose to convert. Government wishes to encourage mobility within social housing, including where tenants wish to move to take up employment. The HCA will be mindful of the potential impact on tenant mobility of providers' proposals to convert re-lets across a geographical area. In addition, the TSA will consider the level of risk posed to a provider by the proportion of re-lets proposed – proposals which rely on conversion of all, or a high proportion of re-lets are likely to be considered to involve a high degree of risk.
- 2.17 Providers are invited to consider offering conversion to Affordable Rent of existing committed social rent schemes begun under the 2008-11 National Affordable Housing Programme (NAHP) which will achieve practical completion in the new programme period. We encourage such proposals as a way of generating additional financial capacity for new development in a way that can offer certainty of

volume, rent, location and timing. This will not lead to recovery of existing funding, but will generate additional financial capacity for the delivery of new supply. This option is covered by scenario one in Annex four.

- 2.18 We expect that the majority of conversions will be to the new Affordable Rent product. However, there may be local circumstances where alternative approaches are appropriate. For example, where there is demand for home ownership and/or where social rents are already close to, or exceed, 80% of market rents and conversion to Affordable Rent will not generate significant additional capacity, providers may wish to put forward proposals to convert units to shared ownership.
- 2.19 Providers are encouraged to consider converting Intermediate Rent properties, at re-let, to affordable home ownership.

#### Disposals

- 2.20 As part of a provider's wider approach to asset management, we will also consider the disposal of some homes as part of an overall programme offer. Where offers are agreed, following negotiation, and framework contracts signed, this will constitute in principle agreement to indicative disposal plans.
- 2.21 However, we recognise that disposal plans will be subject to change, for example if the location of voids varies from that anticipated. Providers will need to obtain consent in advance from the TSA for specific disposals of social housing where this is required by law. Guidance is available on the TSA's website at <http://www.tenantservicesauthority.org/server/show/nav.14479>. If the TSA's usual requirements for consent have been met, consent for specific disposals will not be unreasonably withheld, and will take account of the indicative disposals agreed at initial contract stage.
- 2.22 There is information in Annex four about potential conversion options and recycling or recovery implications.

#### ii) Provider capacity

- 2.23 Under the current NAHP, providers cross subsidise their development programmes from a range of sources, and we expect such cross subsidy to continue to be applied under the new model. Those sources might include:
- surpluses generated from existing stock on current rent levels;
  - current RCGF and DPF funds, and anticipated increases in those funds from future forecast relevant events;
  - cross subsidy generated from the development and sale of new open market homes; and

- cross subsidy from s106 agreements.

2.24 The contribution that a provider is able to make from its own resources and from the borrowing supported from new properties, conversions and existing social rent homes will be greater for those providers that operate efficiently, across both their management and maintenance operations. Providers that operate efficiently will be in a position to achieve higher net operating income levels which support their financial capacity – allowing them to be more competitive in their delivery of new supply.

2.25 The HCA will consider the extent to which cross subsidy is contributing to the delivery of new supply, including from the provider's existing financial capacity, the RCGF and DPF available and the provider's track record in undertaking development for outright sale and in delivering through s106 agreements.

iii) HCA funding for new supply

2.26 Provider requests for HCA funding to support delivery of new supply are expected to be the minimum necessary for delivery to be viable, taking account of contributions from the other sources of funding outlined above. HCA funding, where agreed, will be on a 'payment by results' basis at completion.

2.27 It is anticipated that offers for new supply will include a mixture of identified schemes, based on a provider's current supply pipeline which will deliver in the early years of the programme, and of indicative proposals for the later years of the programme.

2.28 For identified schemes we will expect the provider to be able to demonstrate that these contribute to meeting locally identified needs and local authority priorities.

2.29 For delivery in the later years of the programme we expect providers to set out a proposed programme of new supply. Proposals should be based on a track record of delivery and engagement at a strategic level with key local authority partners. The HCA's local teams will broker engagement between investment partners signed up for delivery of the new programme and local authorities - to bring forward housing supply and marry local priorities for funding with partners who have on-going capacity to deliver. This process will build on the successful practice of commissioning for important strategic projects which the HCA's local teams have developed in many areas, in conjunction with local authorities.

iv) Other sources of funding and reducing costs

- 2.30 Working with local authorities to bring forward new supply can be supported by the HCA's wider enabling role - providing strategic land advice (including on surplus public sector land), procurement support, viability modelling and maximising the local benefits from the New Homes Bonus. The HCA will work closely with local authorities to identify the best use for land for which it has direct delivery responsibility.
- 2.31 Local authorities are strongly encouraged to also consider the contribution that they can make to bringing forward housing supply and meeting local needs and priorities through the use of their own land holdings, as well as through their negotiation of s106 agreements to deliver affordable housing, and the application of other sources of funding such as from the New Homes Bonus, or Community Infrastructure Levy.

### **Meeting local priorities**

- 2.32 In setting out the Framework for the Affordable Homes Programme, we are clear that the programme must meet local priorities and we will seek confirmation of local authority support for new supply proposals when schemes are identified or indicative proposals become firm.
- 2.33 Local priorities are expected to include both particular sites which are a priority for development *and* identification of the range of needs groups which new supply is intended to assist. In setting out such priorities, local authorities will have had regard to the statutory equalities requirements they have as public bodies.
- 2.34 Identified needs might include for example, the provision of larger homes; supported housing for vulnerable and older people; housing in rural areas and housing which will be targeted to meet the needs of disabled people, faith groups and black minority and ethnic communities. Providers should ensure that their offers take account of the range of needs identified by local authorities (including any equality priorities) in the areas in which they wish to operate.
- 2.35 In the 2008-11 NAHP, the available funding was divided in advance into nine regional budgets. We do not intend to adopt this rigid approach for the 2011-15 Programme. We will use this flexibility to allow providers to make effective use of their capacity and ensure that we can drive value for money across the country. We do, however, want to make specific arrangements for London, given the Government's commitment to devolve investment powers and responsibilities to the London Mayor. Under the 2008-11 Programme, London received funding estimated to deliver around 27% of national outputs. The HCA will seek to deliver a similar percentage of outputs from the new programme in London. The final figure will depend on the relative value for money of offers in London and elsewhere.

- 2.36 We intend instead to focus our efforts in ensuring that local authorities are able to shape the new Affordable Homes Programme to respond to the housing needs of their communities. Close collaborative working with local authorities, for both the HCA and delivery partners, will be key to the success of the new model. It will be critical for all parties to work together on an on-going basis to ensure that priorities identified by local authorities can be delivered.
- 2.37 Many authorities have established, or are in the process of developing, shared plans – Local Investment Plans (LIPs) - with the HCA which set out their priorities for new affordable housing supply.
- 2.38 Circumstances for individual local authorities will vary considerably and the decision on whether to produce or continue with the production of LIPs will be determined by each local authority or group of authorities. The HCA will participate where a local authority invites it to do so. Where a local authority has taken another approach to identifying its strategic housing needs and priorities, the HCA will utilise the information available in whatever form the local authority has chosen.
- 2.39 Whether set out in a LIP or in another format, providers should seek to address the priorities for new supply identified by local authorities. We expect that providers will be entering into discussions with local authorities from this early stage about their aspirations for supply of new affordable housing and how providers can deliver these.
- 2.40 However, we do not expect that dialogue and discussions between local authorities and providers will have concluded all the details of a provider's proposed programme over the four-year period. We expect discussions between providers and local authorities – and the HCA – to be on-going throughout delivery of the 2011-15 Affordable Homes Programme. This will enable local priorities and needs, which may evolve over that period, to be addressed, and allow funding for new housing to be aligned with opportunities where existing community infrastructure is in place, or other funding streams are available to allow delivery of such infrastructure where it is required.
- 2.41 The scope for individual providers to generate financial capacity through conversion of re-lets will not be uniformly distributed between areas, and may not match those areas with new supply opportunities. Providers will need to take a flexible and strategic approach to generating financial capacity through conversion. A requirement to ring-fence capacity for reinvestment in new supply within a particular area would not allow the new model to work in practice. The HCA will not apply such a ring-fence and cannot support individual local authorities in doing so.

- 2.42 Nonetheless, in outlining where they expect to realise capacity through conversion, we encourage providers to aim to reinvest in new supply within the same wider housing market area.
- 2.43 Where conversion from one type of social housing to another takes place, eg from social to Affordable Rent, we anticipate that allocations will remain subject to existing nomination arrangements with local authorities.
- 2.44 We expect providers to have discussed their proposed approach to disposals with their local authority partners. Where disposals requiring specific statutory consent are proposed, the TSA will expect providers to meet all relevant requirements, including consultation with the local authority, before seeking disposal consent.
- 2.45 We anticipate that there will be some scope to balance opportunities for capacity and supply across a range of providers and areas at a programme level. In assessing programme offers, the HCA will consider the balance between capacity generated and supply proposals across the range of offers received. Where an imbalance is identified, we will seek, through commissioning and brokering engagement between local authorities and providers with indicative allocations, to identify schemes to deliver new supply which meet local needs.
- 2.46 Our clear intention is that the financial capacity generated through the flexibilities available to providers and the new delivery model will be applied effectively to support local authority priorities. That will best be achieved where all partners work together.
- 2.47 We are aware that many local authorities are already facilitating such an approach, working together across boundaries in flexible and innovative ways to consider how opportunities for new supply can be supported by generating capacity through conversion across their areas, and agreeing flexible approaches to allocations and nominations. Such collaborative and constructive approaches are strongly encouraged, and are likely to result in increased opportunities for maximising delivery of affordable housing across a broad range of areas.
- 2.48 Information about how the programme will operate in London is set out in chapter seven.

## 3. Affordable Rent

- 3.1 Legislation requires that the landlord of Affordable Rent properties funded by the HCA must be a Registered Provider of social housing and therefore be subject to TSA regulation. To give providers the operational freedom to benefit from the opportunities which Affordable Rent provides, the TSA is proposing to make changes to the rent and tenure components of its Tenancy Standard. Full details of the consultation, which will close on 2 March 2011, are available at <http://www.tenantservicesauthority.org/server/show/ConWebDoc.20977/changeNav/14567>
- 3.2 This section sets out the key characteristics of the Affordable Rent product.

### Rents

- 3.3 Affordable Rent is a form of social housing. Homes will be made available at a rent level of up to 80% of gross market rents. Gross market rents are generally expressed inclusive of any service charges. An Affordable Rent, set at up to 80% of the gross market rent, should take account of the service charge for a property (where applicable).
- 3.4 Providers will be able to let a property at an Affordable Rent (inclusive of service charges, where applicable) of up to 80% of the gross market rent which reflects the property size and location. The maximum rent level for Affordable Rent should be assessed according to the individual characteristics of the property. Landlords are required to assess the gross market rent that the individual property would achieve and set the initial rent (inclusive of service charges) at up to 80% of that level. The TSA has issued an explanatory note on RICS approved valuation methods which is available at: [http://www.tenantservicesauthority.org/upload/doc/RICS\\_rental\\_valuation\\_note\\_20110118140714.doc](http://www.tenantservicesauthority.org/upload/doc/RICS_rental_valuation_note_20110118140714.doc)
- 3.5 Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an Affordable Rent, the gross market rent comparables should be based on similar types and models of service provision. Where there are insufficient comparables for similar types of provision in the local area, valuers should be requested to identify comparables from other areas, and extrapolate their best view of the gross market rent that would be applicable in the location in which the property is situated. Providers should set the initial rent at up to 80% of that level.
- 3.6 As set out in the Department for Work and Pensions (DWP) White Paper '*Universal Credit: Welfare that Works*' Housing Benefit payments for Affordable Rent will be based on the actual rent charged

for that property. Government has already announced its intention to limit Housing Benefit payments to social rented sector tenants who under-occupy their properties, and this policy will therefore also apply to Affordable Rent homes. Other than this, we do not anticipate further changes in the short to medium term. A tenancy where a registered housing association (note that this term includes private Registered Providers) is the landlord is excluded from mainstream Local Housing Allowance rules.

- 3.7 The TSA is therefore not proposing to restrict the maximum rent that Registered Providers can charge for Affordable Rent properties based on the Local Housing Allowance. However, landlords will wish to consider the local market context when setting rents, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located. They should also take into account wider benefit policy such as the proposal, subject to the passage of the Welfare Reform Bill, to cap total household benefit payments so that workless families do not receive more in welfare than the median earned income after tax and National Insurance contribution earnings of working families. War widows and households with a member entitled to Disability Living Allowance, Constant Attendance Allowance or Working Tax Credit will be exempt from the cap.
- 3.8 Homes let on Affordable Rent terms will not be subject to the rent restructuring policy for social rented housing set out in the TSA's Rent Influencing Regime Guidance (RIRG). The current rent standard continues the implementation of Government rent restructuring policy as described in the RIRG originally issued by the Housing Corporation in October 2001. The TSA intends to amend the rent component of the Tenancy Standard to clarify that Affordable Rent is outside the formula established in the RIRG.
- 3.9 In order to provide protection and certainty for tenants, providers and funders, the maximum annual rent increase on an Affordable Rent property will be Retail Price Index (RPI) + 0.5%. RPI will be taken as at September of the previous year. Additionally there will be a requirement to rebase the rent on each occasion that a new Affordable Rent tenancy is issued (or renewed) for that property to ensure that the rent remains at no more than 80% of market rent (inclusive of service charges) – this requirement overrides the RPI + 0.5% limit.
- 3.10 While offers which include Affordable Rent for new supply and/or conversions at less than 80% of market rents will be considered, it is expected that providers utilise the flexibility to charge rents of up to 80% of market rents to maximise financial capacity. The HCA would need to understand how any proposal to charge lower rents would help to meet particular housing needs, deliver value for money for the taxpayer and generate the capacity required to deliver new supply aspirations.



- 3.11 There may be specific circumstances where it is appropriate to set rents at less than 80% of market rents. For example, providers may wish to charge a lower rent where a rent at 80% of market rent would exceed or be close to the relevant Local Housing Allowance (LHA) cap, or if the local rented market was considered to be particularly weak or fragile (for example on an existing estate where there may be few market rented properties). The HCA would wish to explore with providers the rationale for considering rents at less than 80% of market rents. In all cases, an Affordable Rent should be no lower than the rent calculated based on the current target rent regime. In cases where an Affordable Rent would otherwise be lower than the target rent for a property, the target rent will constitute a 'floor' for the rent to be charged.
- 3.12 Once adopted, the TSA's new Tenancy Standard will allow providers to let homes on Affordable Rent terms where they form part of an agreement for new supply with the HCA. This includes new homes, both those developed with grant and with nil grant input, as well as giving providers the freedom to convert re-lets to Affordable Rent.
- 3.13 The precise regulatory requirements on rent-setting will be set out by the TSA, subject to the outcome of its on-going consultation.

## **Tenancies**

- 3.14 The TSA does not intend to prescribe the type of tenancy that Registered Providers should use when homes are let on Affordable Rent terms. Providers will have flexibility on the type of tenancy to be offered for Affordable Rent, and they will retain the option to offer lifetime tenancies should they wish to do so. Government has stated that it expects providers to use this additional flexibility to ensure that help and support are focused on those who need it most when they need it most, and to build strong and cohesive communities.
- 3.15 Tenancies for Affordable Rent properties must be for a minimum period of two years but providers will have the flexibility to offer longer tenancies, including lifetime tenancies.
- 3.16 Where, at the end of a fixed term tenancy, a provider decides not to issue a further tenancy, the provider will be required to offer reasonable advice and assistance to the tenant to find alternative suitable accommodation.
- 3.17 Landlords and tenants may wish to consider a range of 'end of tenancy' options depending on the needs of the household concerned. This could include selling the property to the tenant on shared ownership terms to assist tenants into home ownership.

- 3.18 Providers will need to meet the existing regulatory requirement to publish clear and accessible policies which outline their approach to tenancy management. As part of the proposed reforms to social housing which will, subject to Parliament, come into force following enactment of the Localism Bill, local authorities, in their strategic housing authority role, will be required to publish a tenancy strategy setting out the broad objectives that Registered Providers should have regard to when formulating their own tenancy management policies. Local authority tenancy strategies will set high level objectives, for example around creating and sustaining mixed communities and tackling over-crowding. Local authorities will be required to give Registered Providers a reasonable period to comment on their proposals.
- 3.19 Local authorities will be required to publish tenancy strategies within 12 months of the relevant section of the Localism Bill coming into force. Registered Providers may need to review their own tenancy management policies during the life of the 2011-15 Programme, having regard to tenancy strategies that are developed by the local authorities in which they provide social housing. However it will ultimately be for Registered Providers to decide what their own tenancy management policy should be and what types of tenancy they will offer. For the avoidance of doubt, the proposed requirement to have regard to local authority tenancy strategies only applies in relation to Registered Providers' tenancy management policies, and not to other aspects of providers' business (such as rent setting).

### **Allocation**

- 3.20 Allocations and nominations processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing. Providers will be under the same statutory and regulatory obligations when allocating Affordable Rent homes as they are when allocating properties for social rent.
- 3.21 There is scope for local flexibility within the existing allocations framework. Provided that a local authority's overall scheme is framed around the Reasonable Preference categories, local authorities can opt to reserve certain properties for allocation to other client groups. They may decide to exercise this discretion in relation to Affordable Rent, eg to target it at households in work but on low incomes. Similarly, providers will have discretion to allocate properties to households who are in work where those properties do not form part of nominations agreements with local authorities. Within this overall context we strongly encourage local negotiation and agreement between providers and local authorities to reach appropriate and flexible solutions.

## Consents

- 3.22 Agreed offers may propose future asset management plans that include social housing disposals, which will be subject to obtaining statutory consent from the TSA for specific disposals.
- 3.23 It is recognised that providers may not be in a position to identify specific properties for disposal at the point that offers are made and agreed with the HCA. Where this is the case, HCA agreement will be given on the basis that TSA consent will be required for specific disposals before they can be made. Again, the HCA will expect providers to have discussed their plans with local authorities before offers are made. Similarly the TSA will expect providers to meet its requirement for consultation with a local authority before seeking a specific disposal consent.
- 3.24 There will be a presumption that new Affordable Rent properties which receive funding under the new programme will be permanently available for letting. Flexible tenancies have been introduced to meet the differing needs of prospective tenants – but the homes themselves are expected to be available to meet need over the long-term, and it is on that basis that funding will be made available. We recognise that circumstances may change over time and any future disposal of properties will require TSA consent in the usual way, including consultation with the relevant local authority.

## Affordable Rent and planning

- 3.25 The Minister for Decentralisation has published a proposed revision to *Planning Policy Statement 3: Housing* (PPS3), clarifying that Affordable Rent is considered to fall within the definition of affordable housing for planning purposes. The proposed wording contained within the consultation document is:
- 3.26 ***Affordable rented housing*** is:  
*Rented housing provided by registered providers of social housing, that has the same characteristics as social rented housing except that it is outside the national rent regime<sup>1</sup>, but is subject to other rent controls that require it to be offered to eligible households at a rent of up to 80% of local market rents.*
- 3.27 That revision is currently subject to consultation. Consultation will close on 5 April 2010.  
[www.communities.gov.uk/publications/planningandbuilding/pps3annexconsultation](http://www.communities.gov.uk/publications/planningandbuilding/pps3annexconsultation)

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<sup>1</sup> *The national rent regime is the regime under which the social rents of tenants of social housing are set, with particular reference to the Guide to Social Rent Reforms (March 2001) and the Rent Influencing Regime Guidance (October 2001).*

## 4. Other options to meet local needs

### Range of products

- 4.1 Affordable Rent is expected to be the main element of the product offer from providers both for new supply and conversion of re-lets. But we want providers to respond appropriately to a range of local needs and development opportunities. We will therefore consider the inclusion of affordable home ownership in proposals, where it is a local priority and offers value for money.
- 4.2 Funding for social rented housing may be considered in exceptional cases.
- 4.3 Providers can also include or indicate that they will provide a range of other products in their proposals. These include Mortgage Rescue, hostel provision through the Homelessness Change Programme, Traveller Pitch Funding and proposals for bringing empty homes back into use (which may be through any of the product options available). Further details of these products are set out in Annex one.
- 4.4 We will also welcome proposals as part of provider offers for the conversion or extension of existing properties where this could meet a specific need, for example where conversions of lofts could increase the supply of family homes.

### Affordable home ownership

- 4.5 Affordable home ownership options have a role to play in helping first time buyers who may be excluded from purchasing a home by affordability or deposit constraints. The HCA will consider proposals from providers which include affordable home ownership as part of the overall mix where such schemes have the support of the local authority and fit with the local housing market. Affordable home ownership will need to provide good value for money and increase overall affordable housing supply. Offers from providers (or consortia) that only include affordable home ownership, with no Affordable Rent within the overall proposal, will not be considered.
- 4.6 In order to ensure the best value for public resources, there will be a strong presumption that funding is not required for affordable home ownership on s106 sites, as planning gain is expected to provide sufficient subsidy. Further information on expectations of the delivery of affordable housing on s106 sites is set out in chapter five.
- 4.7 A strong and compelling case has been made by consumers, retail mortgage lenders and providers to ensure consistency, stability and simplicity in relation to affordable home ownership. We will simplify affordable home ownership offers for purchasers whilst providing the

flexibility for home ownership to meet the needs of a broad range of households and different local circumstances. To do this we will consider funding the provision of properties for affordable home ownership through two standard options - shared ownership or equity loans, both branded under the umbrella 'HomeBuy' outside London and 'First Steps' in London. Branding guidance is being produced by the HCA which providers will be required to use as a condition of funding.

- 4.8 As part of overall offers, providers will be able to propose that some of the affordable home ownership homes included may be sold to eligible consumers with an equity loan. Given that shared ownership can assist a wider range of purchasers, equity loan proposals must offer as good or better value for money as shared ownership offers and/or demonstrate how specific sites contribute to additional affordable housing supply within the local housing market.
- 4.9 We expect shared ownership to form the main element of the affordable home ownership offer to ensure that households on a range of incomes can be assisted. Therefore offers for the provision of properties on equity loan terms will only be considered as part of an offer which also includes shared ownership or where an equity loan offer is the most appropriate home ownership option for the local area and agreed with the local authority.
- 4.10 The maximum equity loan that can be offered by providers will be 20% of the value of the property. Providers will be expected to maximise their contribution to the equity loan and we will be seeking to achieve the best value for money through our assessment of offers. In order to ensure consistency and simplicity for consumers and provide support to retail mortgage lenders all other terms and conditions for purchasers will be required to be identical to the HomeBuy Direct product – in particular that purchasers will pay a 1.75% charge on the equity loan from year six and that charge will rise by RPI + 1% per annum thereafter.
- 4.11 The HCA will not hold a charge on individual properties and providers will manage the loan and the relationship with the consumer.
- 4.12 The HCA will no longer fund Rent to HomeBuy or Intermediate Rent as distinct products. However, one of the options that could be offered to Affordable Rent tenants at the end of their tenancies includes the option to purchase their home on shared ownership terms.
- 4.13 Alternative home ownership models will not be considered for funding under the 2011-15 Affordable Homes Programme.
- 4.14 The eligibility requirements for affordable home ownership are unchanged but the system for prioritisation has been simplified. There is a clear priority for assisting existing social tenants to meet their

home ownership aspirations where this is sustainable and providers whose offers include affordable home ownership proposals will be required to outline their targeting and marketing plans to encourage access by social tenants. In addition, the Government recognises the particular needs of serving armed forces personnel and does not wish to see them disadvantaged in terms of access to affordable home ownership by virtue of what they do. Serving armed forces personnel will therefore retain a priority for access to affordable home ownership below social tenants but alongside the highest locally determined priority group. Beyond this local authorities, in conjunction with their partners, have the flexibility to set the priorities for affordable home ownership within their areas. The national prioritisation of key workers has been removed with local authorities able to consider key workers within their locally determined priorities.

- 4.15 The shared ownership and equity loan affordable home ownership options, combined with these enhanced freedoms to set local priorities, provide significant opportunity for providers and local authorities to respond to the needs of local housing markets.
- 4.16 Assisting existing social tenants to meet their home ownership aspirations where this is sustainable can generate re-lets at lower cost than new rented provision. In future the value for money test on whether to allow social tenants to use Cash Incentive Scheme payments, where provided and funded by the local authority for the purpose of helping them to access affordable home ownership will rest with the local authority. Providers will not be required to make a separate business case to the HCA. This approach will give local authorities greater flexibility to assist social tenants in their areas and to respond to local circumstances.
- 4.17 Further guidance on this and more details on shared ownership and equity loans is available in the Affordable Housing Capital Funding Guide. Providers should note that funding for Cash Incentive Schemes is not provided by the HCA.
- 4.18 In addition to the options listed above the HCA will continue to fund Right to Acquire and Social HomeBuy in response to demand from providers and their tenants. Further details of these products, which are unchanged from the 2008-11 NAHP are available in the Affordable Housing Capital Funding Guide.
- 4.19 The HCA will also welcome proposals for two types of variant on shared ownership for vulnerable groups - Home Ownership for people with Long-term Disabilities (HOLD) and Older People's Shared Ownership.

## Social rent

- 4.20 Social rent provision will only be supported in limited circumstances. For example, social rent could be considered in regeneration schemes where decanting existing social tenants into new homes is necessary.
- 4.21 In all cases providers, supported by the relevant local authorities, will have to make a strong case to demonstrate why Affordable Rent would not be a viable alternative. All such cases will be considered on their individual merits.
- 4.22 Alternatively a local authority may wish to support the provision of social rent through the application of its own resources, for example, the provision of free land or its own funding. The HCA will consider such cases where this results in the level of HCA funding requested offering similar value for money to that achieved for Affordable Rent offers.
- 4.23 The existing inflation-linked formula for annual rent increases in social rented housing will continue to apply throughout the 2011-15 Affordable Homes Programme period, as part of the Government's rent restructuring policy.

## Supported housing and housing for older people

- 4.24 Offers which include proposals for supported housing and housing for older people through new supply or improvements to existing stock are positively encouraged. We expect that local commissioning bodies working with their housing partners will identify the type(s) of provision that will most appropriately meet the locally identified needs to fit with, and complement, existing services and supported housing locally.
- 4.25 We encourage joined up provision of accommodation with services which can include access to education, training and employment, care or support services. These services and the associated facilities may be provided within the building (and may also be open to the local community) or these may already be available locally and can be accessed by residents outside the building. Best value for money may be derived from maximising the use of existing or new facilities and not replicating local facilities.
- 4.26 As proposals for supported housing and housing for older people become firm schemes, providers will be expected to have developed a strategic approach to the provision of housing without support, where tenants are ready to move on, to have identified the revenue funding source and have in place exit plans or alternative uses for the building should commissioning priorities change in future. Best value for money is likely to be derived from schemes designed to respond flexibly to evolving service management models and resident and

commissioning requirements, allowing future changes at minimal additional cost. We will particularly wish to ensure that supported housing meets local needs and that there is local strategic prioritisation for the proposed service. Where necessary, we may seek detailed information about the service and strategic prioritisation of an individual scheme.

- 4.27 There may be exceptional circumstances in which providers wish to offer some supported housing at social rents rather than Affordable Rent. In such cases, the tests outlined at 4.20 and 4.21 will be applied.
- 4.28 In all cases funding from the Affordable Homes Programme is only available for the provision or improvement of accommodation and cannot fund other services.
- 4.29 Further information about housing for vulnerable and older people is available at [http://www.homesandcommunities.co.uk/vulnerable\\_people](http://www.homesandcommunities.co.uk/vulnerable_people)

#### Other programme elements with indicative funding

- 4.30 There are four parts of the Affordable Homes Programme which have been given indicative funding – the Mortgage Rescue Scheme, Homelessness Change Programme, Traveller Pitch Funding and Empty Homes.
- 4.31 Detailed arrangements for the continuation of the Mortgage Rescue scheme are outlined in Annex one. All providers with existing stock holdings making offers to deliver new supply should read the requirements for delivery of Mortgage Rescue and our proposals for including this in negotiation discussions.
- 4.32 Given the specialist nature of provision for the Homelessness Change Programme and Traveller Pitch Funding, providers may wish to indicate that, in principle, they are willing to offer these products – with a high level indication of anticipated numbers and broad geographic area (in line with local authorities agreed needs and priorities). Subject to indicative volumes proposed, we will work with interested providers to bring forward firm proposals – including through working with smaller, specialist, voluntary and community organisations who may have specific delivery expertise in these areas.
- 4.33 Providers should note that this does not preclude them from bringing forward firm proposals as part of their offers, where such firm proposals are already being progressed. Further details are given in Annex one.
- 4.34 We also welcome expressions of interest from providers to bring empty homes back into use as affordable housing – based on either



firm plans, where these are in place, or indicative interest in being involved as a provider in tackling empty homes. Further details are provided in Annex one.

- 4.35 We also intend, during the course of 2011/12, to provide further detail on options for tackling empty homes. Although this should not preclude providers who currently have proposals for bringing empty homes back into use from including those in their offers in response to this Framework, there will be further opportunities for empty homes proposals to be considered given that the identified funding is mainly available from 2012/13.

#### Extensions and conversions

- 4.36 Extensions or loft conversions undertaken to provide additional bedrooms or living areas in social rented homes to reduce the need for larger families to move to meet their housing requirements or to increase the supply of larger homes which may be let at Affordable Rents will be considered for grant funding.

#### Works to existing stock

- 4.37 Although as a general rule we would expect works to existing stock to be funded through providers' existing business plans, by exception the HCA will consider requests for funding to support major repairs where such repairs are essential for the property to remain habitable, and the provider demonstrably does not have access to resources of its own to undertake such works. The HCA will also consider proposals for re-improvements. In both cases, such funding is only possible for rented properties funded under the *pre-1988 Housing Act* procedures, and some supported housing funded using the *1988 Housing Act* procedures but prior to the *1996 Housing Act*. Further details (including revisions to the definitions of the types of work which are eligible for funding) are contained in the repair chapter of the Capital Funding Guide: <http://cfg.homesandcommunities.co.uk/repair>.

#### **Affordable Housing Capital Funding Guide**

- 4.38 References are made throughout this Framework to the Affordable Housing Capital Funding Guide (AHCFCG), where detailed guidance is available on the requirements for the range of products outlined in this document. That detail supplements but does not alter the information provided in this Framework. The HCA is currently updating the AHCFCG to include the new Affordable Rent product and other changes resulting from the new delivery model. It is anticipated that a fully updated version will be available by the mid-April 2011. Information will be posted on the HCA website: <http://cfg.homesandcommunities.co.uk/announcements> and providers are advised to check the website regularly.

## 5. Programme requirements

- 5.1 The 2011-15 Affordable Homes Programme introduces a new delivery model. This Framework invites providers to submit offers to deliver new supply. The costs will be met from a range of funding sources – borrowing supported from the net rental stream of the new homes; borrowing and receipts from converting existing social rent homes; contributions from the provider’s existing resources (surpluses); RCGF and DPF; and new HCA funding. Through the assessment process all offers will be tested to ensure that no more funding than is required is being requested by providers.
- 5.2 Offers should demonstrate that the aggregate of anticipated funding sources will meet (but not exceed) the anticipated costs of delivery of new homes. This key principle of the new delivery model will be maintained during the assessment and negotiation process and subsequently, through contract management – i.e. funding identified and capacity generated are expected to be applied to support the delivery of new supply.
- 5.3 As offers will be for the duration of the 2011-15 Programme period it is expected that proposals for delivery in later years will be more indicative. (So, for example, anticipated delivery of completed homes in years one and two of the Programme would be likely to be on schemes which can be identified and named in offers, whereas offers to deliver completions in year three and four are more likely to be on the basis of indicative proposals, and specific sites may not necessarily be identifiable at offer stage.)
- 5.4 Moreover, the volume and pattern of conversions may vary from that anticipated at the outset over the four years of the contract period.
- 5.5 We therefore intend to operate framework contracts with providers on a flexible basis, recognising that parameters may change. The contract will allow for variations and amendments to take account of changes in any of the range of parameters. Our contract management approach will allow for the application of flexibilities on a fully open book basis through quarterly reviews of the contract. We will also undertake a full strategic annual review, jointly with providers, of how the contract is operating, to capture all variations agreed in previous quarterly reviews. The principles by which contract management will be undertaken are outlined below and in chapter six.

### Value for money

#### Costs

- 5.6 Given constrained public finances, it is important to make the best use of the range of sources of funding for new supply. The HCA wishes to

see providers consider and maximise value for money by bearing down on the costs of new supply.

- 5.7 The new delivery model will give providers greater certainty over the sources of funding and proposed volume of development over the 2011-15 programme. It is expected that providers will apply this certainty to reduce costs through innovative and efficient procurement approaches when securing their development pipelines. Significant savings have been achieved through efficient procurement of the Decent Homes programme, and we expect providers to explore ways of achieving savings in the delivery of new supply. Providers will be required to submit a procurement statement as part of their offers.
- 5.8 To maintain a strong focus on the management of costs throughout the programme period we will require providers to work with us on an open book basis, sharing their cost data on specific projects, and to publish comparable cost data on a regular basis.

#### Competing for schemes

- 5.9 Given the profile and amount of available funding, and of the committed completions which have started on site in 2008-11, there is not anticipated to be a need to build over-ambitious volumes of new schemes to deliver completions in the first two years of the programme period. We therefore do not expect providers to seek to maximise their new delivery pipelines in order to submit detailed scheme proposals as part of offers. Intensive competition to secure schemes is likely to drive up costs in the period up to submitting proposals and is strongly discouraged. The new delivery model requires the application of funding from a range of sources, and we do not wish to see that funding utilised to pay for unnecessary increases in land or works costs through higher profit margins.
- 5.10 Where new supply proposals are indicative, providers will be able to identify deliverable schemes throughout the Programme period - allowing time for full engagement with local authorities about meeting identified priorities.
- 5.11 The HCA will consider the value for money of the costs of supply of offers received and will take account of costs in its assessment.

#### Use of public land

- 5.12 Publicly owned land is a valuable resource and providers should work in partnership with public sector landowners to deliver affordable housing. In particular, providers may wish to look for opportunities to enter into long-term arrangements with public sector landowners to build out their land banks.

- 5.13 Providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as HCA funding. Where a public body is unwilling or unable to transfer the land for free or for a nominal capital receipt, then it should be willing to share in the risks of development, with the deferred value to be realised over the lifetime of a project.

#### Section 106 schemes

- 5.14 Our expectation is that s106 schemes can be delivered at nil grant input for both affordable home ownership and for Affordable Rent.
- 5.15 For the latter, our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes. Providers who are efficient in their operating costs are likely to have a competitive advantage in making offers.
- 5.16 For affordable home ownership, we will expect the price paid to include reasonable assumptions about the likely value of homes and the initial average share to be offered (which we expect to allow a range of shares to be sold to meet a range of incomes of potential purchasers). The price paid should also be based on reasonable assumptions about the rent to be charged on the unsold equity in the home. As with Affordable Rent, providers who are efficient in their operating costs are likely to have a competitive edge in making offers.
- 5.17 Although we intend through the new delivery model to generally move away from scheme by scheme assessment, scheme specific scrutiny should be expected where: any grant is sought; or the use of RCGF or DPF; or application of a provider's own resources; or funding from conversion is proposed, on s106 sites. Open book provision of data about the economics of the scheme will be required from both the developer and the long term owner of the affordable housing (if they are different). We reserve the right to test the economics of individual schemes through our development appraisal tool, particularly where HCA funding is sought on s106 sites. If HCA funding is requested on s106 sites we would expect, as part of the appraisal, to see evidence that this will result in provision of additional affordable housing which would not otherwise be delivered including by reference to the local planning authority's viability assessment.
- 5.18 We will also make the development appraisal model, and support in its use where requested, available to local authorities to assist in their negotiations on s106 schemes as part of our enabling offer. The HCA may from time to time provide additional guidance on appraisal of s106 sites.
- 5.19 We will expect providers who enter into a framework contract with the HCA for the delivery of new supply to record all affordable homes

delivered with nil grant. This will allow consistency of data and monitoring of delivery of such homes.

### **Provider offers**

- 5.20 Any provider may submit proposals for delivery under the 2011-15 Affordable Homes Programme. A provider does not need to be registered with the TSA in order to submit proposals, but will have to achieve registration if they intend to be the landlord of properties funded by the HCA at completion.
- 5.21 All providers will be expected to offer value for money in delivering new supply. Providers will have to meet the costs of new supply through a range of sources which will supplement new HCA funding. This is likely to mean a provider will need to have existing stock which can be converted to generate capacity, or access to other resources, to minimise the call on HCA funding.
- 5.22 Under the 2008-11 NAHP, a number of Investment Partnership arrangements were put in place. We expect providers to maintain such consortium working arrangements and, in addition, to identify new consortium members who may be able to bring additional capacity to an offer. We wish to encourage providers with financial capacity (including scope to convert existing homes at re-let to generate further capacity) to participate in the new Affordable Homes Programme.
- 5.23 New members may be identified both at the initial offer stage and during the course of delivery of the framework contract. Where new consortium members who are Registered Providers are identified, the new Registered Provider will be subject to review by the TSA at that time. For example, a new consortium member might be best placed to bring forward firm schemes to deliver new supply originally included in the framework contract as indicative.
- 5.24 Providers are particularly encouraged to include smaller, rural, specialist (including supported housing and housing for older people) and community based organisations in consortia arrangements either at the outset, or during the course of the contract so that proposals will better reflect local need. We will favour in assessment offers which include a range of provision and meet a range of needs, including where this is delivered through smaller local providers who can bring forward capacity and who are likely to be well placed to meet local needs, as identified by local authorities.
- 5.25 Consortium leads will be expected to work closely with other consortium members throughout the contract period to deliver the supply envisaged, and will be responsible for collating and providing information from consortium members to the HCA on delivery of the various parameters included in the framework contract. The

framework contract flexibilities outlined in the section above will allow for variations in delivery performance across all consortium members.

5.26 Specific considerations for particular groups of providers are outlined below.

- Unregistered providers (for example housebuilders and developers) who submit proposals where new homes will be transferred at completion to a Registered Provider(s) must name the intended owner of those completed homes. This will enable the sources of funding and capacity to pay for those homes to be assessed, and enable the TSA to assess the impact on the Registered Provider's ability to meet their Standards.
- Community based organisations and small specialist organisations may find it beneficial to partner with existing consortia or investment partnerships to benefit from shared expertise in development and reduce administration costs, and should therefore consider joining consortia if that best meets their needs. If they wish to put forward independent proposals and intend to be the landlord of the homes upon completion, they will need to register with the TSA. The TSA aims to be proportionate in its approach to registration.
- As part of the *Localism Bill*, the Government is planning to introduce a Community Right to Build, giving communities the power to bring forward the type of development they wish to see in their area. Such schemes will not start to come forward until after the Bill is enacted. The HCA will retain some funding across the four years of the Programme for proposals to deliver good quality affordable homes that come through the Community Right to Build route and which offer good value for money. Proposals must be for new supply products eligible for funding under the Affordable Homes Programme as outlined in this Framework.
- Proposals from specialist and community based organisations for example to help deliver traveller sites, supported housing through the Homelessness Change Programme, and community inspired projects that meet the needs of diverse communities and promote equality of opportunity are encouraged. Proposals coming through the Community Right to Build route would be welcomed.

#### Local authorities and Arms Length Management Organisations (ALMOs)

- It is anticipated that local authorities may wish to consider direct provision of new affordable homes. We are seeking offers from local authorities in response to this Framework, in line with the timetable outlined at chapter eight - to allow consideration in the round of all proposals which will contribute to the delivery of the main Affordable Rent product, and to the achievement of 150,000

new affordable homes. There are particular considerations in respect of managing public sector borrowing and of the timing of proposed legislative changes to take into account in respect of direct provision by local authorities (or local authority sponsored vehicles). These are outlined below:

- For local authority applications for funding for schemes which will start on site before implementation of reforms to the HRA, borrowing will be taken into account in the value for money assessment.
- For schemes which start on site after April 2012 any borrowing necessary to make a proposal viable must be within the borrowing cap applicable to the local authority under the self-financing settlement. It will therefore no longer be necessary for that borrowing to be included in the HCA's value for money assessment. The value for money offered by a local authority is likely to be significantly improved if offers are for schemes on land already in the authority's ownership which they choose to make available for affordable housing at nil receipt (ie free land).
- Given the above, we anticipate that offers for direct provision by local authorities are likely to be for starts after 1 April 2012, and that offers for starts before that date will be exceptional. Where funding in principle is agreed for schemes which will start on site after 1 April 2012, we would not propose to enter into a framework contract with the local authority until after the final HRA settlement (and borrowing headroom) is confirmed later in 2011/12. This will allow for adjustments to the offer if the headroom available varies.
- We are working with DWP to agree that any void property converted to Affordable Rent and new units delivered as part of a framework contract under the Affordable Homes Programme will be exempt from the Limit Rent. Local authorities will only be able to proceed with converting existing properties to an Affordable Rent where they have entered into a contract for delivery of new supply. As outlined above, where that is dependent on the headroom available under the HRA settlement, we anticipate that contracts will be agreed when headroom is confirmed.
- Once a framework contract is in place with a local authority, and the mechanics are in place to free those properties from the limit rent, they will be able to convert existing properties (in line with the contract) to an Affordable Rent. It is anticipated that this will be possible from 1 April 2012.

- We also wish to establish the extent to which local authorities intend to use the proposed freedoms and flexibilities to deliver new affordable homes without recourse to HCA funding.
  - Where local authorities intend to deliver new supply without HCA funding - by using their own resources (including headroom within the HRA settlement) and additional income generated from charging an Affordable Rent on new and converted properties and free land - they are requested to indicate the anticipated numbers for new delivery and for conversion on the standard information template [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes).
  - It is our intention that new and converted Affordable Rent properties are exempt from the limit rent mechanism, so long as the revenues generated are invested in new supply. We will work with authorities and DWP to identify the best mechanism for achieving this.
- The self financing reform will introduce controls on borrowing solely in relation to debt incurred within the Housing Revenue Account. Other local authority debt is not controlled through this mechanism. Local authorities cannot use borrowing within the HRA to on-lend to other bodies. For this reason, borrowing undertaken by ALMOs or Special Purpose Vehicles (SPVs) will be taken into account in the HCA's value for money assessment of proposals received from those organisations for schemes which start on site either before or after April 2012.

## **Design and Quality Standards**

- 5.27 Offers must meet the HCA's Design and Quality standards (April 2007) [http://collections.europarchive.org/tna/20100710184205/http://www.housingcorp.gov.uk/upload/pdf/Design\\_quality\\_standards.pdf](http://collections.europarchive.org/tna/20100710184205/http://www.housingcorp.gov.uk/upload/pdf/Design_quality_standards.pdf) and accommodate any changes in Building Regulations.
- 5.28 Some local authorities may require additional local standards and providers will need to liaise with local authorities in whose areas they will be developing new homes. Providers whose offers include proposals in London should also see chapter seven of this Framework.
- 5.29 Offers to meet higher standards than the HCA's requirements (for example on space) will be advantaged in the assessment process, subject to offering good value for money.
- 5.30 Where providers are considering applying for Feed in Tariffs (FITs) for eligible low carbon installations, they should consult the guidance on FITs and grants available from DECC at [www.decc.gov.uk/FITs](http://www.decc.gov.uk/FITs) and Ofgem at [www.ofgem.gov.uk/FITs](http://www.ofgem.gov.uk/FITs).



- 5.31 There are a small number of circumstances where certain of the HCA's Design and Quality standards do not apply, for example external environment standards (Building for Life) for existing properties. Full information is available at [http://collections.europarchive.org/tna/20100710184205/http://www.housingcorp.gov.uk/upload/pdf/Design\\_quality\\_standards.pdf](http://collections.europarchive.org/tna/20100710184205/http://www.housingcorp.gov.uk/upload/pdf/Design_quality_standards.pdf). Other than in the specific circumstances outlined in the HCA's Design and Quality standards, the HCA will not expect to give waivers for new provision.
- 5.32 Housing Quality Indicator (HQI) information will be collected in the normal way when specific scheme details are input on the HCA's Investment Management System (IMS) at start on site.

### **Assessment and negotiation**

- 5.33 The overall objective of the assessment and negotiation process is to agree framework contracts with providers for the supply of affordable homes that:
- meet local needs and priorities in their proposed locations;
  - offer good value for money;
  - have a realistic prospect of delivery within the programme timeframe;
  - are social housing (as defined by sections 68-71 of the *Housing and Regeneration Act 2008*); and
  - confirm Registered Providers should continue to meet the TSA's Standards.
- 5.34 The assessment process will consider how offers meet local needs and priorities and will verify fit with the local authority(ies) in whose area new supply is proposed, particularly where firm schemes are identified.
- 5.35 Offers will be assessed to ascertain value for money of the costs of supply and of the requirements for new HCA funding.
- 5.36 The HCA will assess offers to establish that the proposed delivery of new supply provides value for money comparative to other providers. Our assessment will take account of the costs of supply (and how those compare to offers from other providers and to our current costs database) and the extent to which sources of funding other than HCA funding are available to the provider and are being applied to support delivery of new homes.
- 5.37 The new approach to funding, with a greater proportion of the development costs of new homes coming from sources other than the HCA, may impact loan covenants, including gearing ratios. The

advice of the TSA on a Registered Provider's continued viability will be key in the HCA's decision on whether to proceed to contract.

- 5.38 If, following assessment, there is a need for discussion and potentially negotiation, there will be a single set of negotiations with each provider (or consortia of providers) across their proposed areas of operation, led by an HCA 'lead negotiator' team. Where offers include delivery of supply in London, a representative of HCA London will be involved in the negotiations, and will lead in those instances where the majority of a provider's offer is in London. The HCA may request providers to submit revisions to offers and/or further information before a framework contract can be agreed.

### TSA Role

- 5.39 The TSA will assess offers as they are submitted and provide advice to the HCA on whether the Registered Provider(s) involved in delivering the offer:
- are currently in compliance with the TSA's Standards, including their Governance and Viability Standard. This will reflect the TSA's current assessment of compliance and will not be based on information submitted as part of the offer; and
  - are likely to be able to continue to meet their Standards, including the viability element of the Governance and Viability Standard if the offer is agreed.
- 5.40 In assessing the impact of proposals on future viability the TSA will consider a range of factors including the deliverability of conversion / disposal assumptions, funding requirements, sales risk and interest cover and gearing.
- 5.41 The TSA's review of offers will form part of the overall assessment process for the Programme. Registered Providers will need to submit relevant information direct to the TSA including an updated Financial Forecast Return (FFR). Full details are included in the standard information template [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes). Where there are material alterations to submitted offers following negotiation with the HCA, the HCA will give the TSA an opportunity to review the revised proposals prior to signature of the framework contract and provide further advice if necessary.
- 5.42 The TSA will also consider any requests for statutory consent to specific social housing disposals that Registered Providers are ready to submit alongside offers. As noted in paragraph, 3.23, the TSA will expect providers to meet its requirements for consultation with a local authority before seeking specific disposal consent.
- 5.43 Where a provider's plans include disposals for which specific consent will be required but the provider is not yet in a position to seek

consent, the TSA will – where possible – alert the HCA to any potential barriers to consent eventually being given. Whilst the TSA will not be able to guarantee that consent will be given when it is eventually sought, subject to their usual requirements for disposal being met, consent will not be unreasonably withheld.

- 5.44 When a signed contract is in place following agreement of an offer, providers may begin to convert existing social rent homes at re-let to new tenures (including the new Affordable Rent product).

### **Offers – information requirements**

- 5.45 This section sets out the information required from providers submitting offers. The level of information needs to be sufficient to allow the HCA (and where appropriate – in respect of financial viability and where consents will be needed – the TSA):

- to establish that proposals for new supply meet identified needs and will address local priorities and allow assessment of the national spread of proposals;
- to allow comparison of provider offers (particularly comparative value for money) and provide assurance that the cost of delivering new supply can be met from the range of funding sources proposed; and
- to test that proposals are realistic and likely to be deliverable.

- 5.46 Providers must submit their offers using a standard information template available at [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes).

### Geographic spread

- 5.47 Providers should set out the anticipated location(s) of new supply and of conversions. The geographic level at which offers are to be grouped has been set out by the HCA's local teams. These are set out for all areas of the country at Annex five. In all instances, where firm proposals form part of an offer, the individual local authority in which the scheme is located should be identified.
- 5.48 Recommended offers following assessment and, where necessary, negotiation will be aggregated nationally. For areas where significant gaps are identified, the HCA will work with local authorities to identify future opportunities and will commission proposals in partnership with local authorities to ensure that indicative allocations are utilised to meet local priorities.

### Conversion information

- 5.49 Conversion proposals should outline the number and location (based on the agreed geographies outlined above) of homes to be converted to Affordable Rent and other tenures at re-let, and the proportion of anticipated annual re-lets this represents. We expect this to be supported by an analysis of historic void rates.
- 5.50 The estimated average existing and new rent levels (and service charge) and the additional borrowing capacity generated should be provided. The assumptions which underpin the estimates of financial capacity should be included in the details provided to the TSA which back up the Financial Forecast Return (FFR).
- 5.51 Providers should outline whether there are specific types of properties they will retain for letting at social rents – for example, supported housing.

### New supply information

- 5.52 Offers must include the anticipated number of new homes to be delivered and the indicative location based on the agreed geographic areas outlined above. Where the proposal includes firm schemes, the local authority and site should be identified. Offers should indicate the number of homes expected to be delivered in rural areas.
- 5.53 New supply offers will include the anticipated mix (for example the proportion of larger homes), tenure (Affordable Rent, shared ownership or equity loans and, exceptionally, social rent) and any specific provision being offered (supported housing, housing for older people) and where known, specific needs (faith groups, disabled people, black and minority ethnic (BME)).
- 5.54 Offers which meet a diverse range of needs - including supported housing and housing for the elderly - and housing in rural areas are strongly encouraged.
- 5.55 Offers should outline the anticipated timing of delivery (expected outputs by year) and the consequent profile of payment based on payment at completion of new homes.
- 5.56 Proposals must outline the estimated aggregate costs (for each HCA operating area in which new supply is proposed), and the amount and sources of funding to meet those costs.
- 5.57 Offers should outline the proposed number of homes to be delivered at nil grant through s106 agreements which require no additional funding over the price paid based on the principles outlined in chapter five (ie capitalised rental stream for Affordable Rent or reasonable

assumptions on initial receipts and borrowing from the capitalised rental stream for affordable home ownership).

- 5.58 Proposals should outline the design and quality standards to be achieved.

#### Registered Provider Board approval

- 5.59 We expect Registered Providers to confirm that their Boards have approved, at least in principle, the offer submitted. A copy of the relevant Board paper and Minute will be required to confirm this and should be submitted direct to the TSA. As details are likely to change during the negotiation process, providers should indicate the final sign off requirements for Board approval and the timescale for achieving this to allow the framework contract to be entered into.

#### Supplementary requirements

- 5.60 The supplementary information outlined below should be provided in written statements, unless specified otherwise – ie through certification as part of the standard information template.

#### Achieving procurement efficiencies

- 5.61 We wish to see on-going reductions in the costs of new provision, through innovative and efficient approaches to procurement. The new delivery model, with greater certainty over the range of sources of funding and of anticipated volumes of new supply over a four year period, is expected to allow more innovative approaches to procurement of supply pipelines.
- 5.62 Providers should include a statement of how they are, or propose to, introduce procurement efficiencies and bear down on costs. The approach outlined will be reviewed annually and providers will be asked to assess the savings achieved.

#### Marketing of affordable home ownership

- 5.63 Providers who include affordable home ownership in their offer are expected to provide supplementary information that outlines individual targeting and marketing plans to maximise the purchase of properties by existing social tenants.

#### Employment and Skills – supporting jobs

- 5.64 The HCA is committed to using its funding to maximise employment opportunities and improve skill levels. The Government has made plain the continued importance of work and pathways into work for individuals and as a means of reducing the burden on the welfare bill.

More locally, skills has been identified as the most common issue included within the Local Enterprise Partnership proposals to date.

- 5.65 Many delivery partners have a positive delivery track record on employment and skills.
- 5.66 Providers should include a brief employment and skills statement as part of their offer, outlining in particular how they will create or support apprenticeships, reflecting the Government priority for apprenticeships at Level 3. This can take account of the wider range of provider activity. We are particularly interested in collaborative approaches with local partners (particularly local authorities). Providers in consortia are encouraged to take a group approach to the provision of employment and skills opportunities.
- 5.67 The HCA will work with providers to review progress on employment and skills as part of the regular quarterly review process. We will wish to capture qualitative information about outcomes and information about outputs.
- 5.68 In indicating outputs, the specification of apprenticeships should be aligned with the HCA definition (which has been agreed with the National Apprenticeship Service) to ensure these are consistently captured. Guidance is available on the HCA website <http://www.homesandcommunities.co.uk/Employment>

#### Meeting the needs of a range of communities

- 5.69 Local authorities and the HCA will be subject to both the general and specific equalities duties introduced by the *Equalities Act 2010* from 1 April 2011. This means that we must have regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations in the exercise of our functions.
- 5.70 The TSA's tenant involvement and empowerment standard makes clear that in meeting all the Standards, Registered Providers must take account of equality and diversity and tenants with care or support needs.
- 5.71 We will expect providers to confirm that offers, and in particular schemes as they are developed, will meet key equalities priorities that are identified and agreed by local authorities, as evidenced through LIPs or other strategic housing documents. While we recognise that the fine grain of outcomes will depend on the detail of individual schemes as they are developed, providers are asked to confirm that they will work with their local authority partners to agree nominations arrangements which comply with a local authority's allocation policies (which will have been developed in line with the local authority's statutory equalities responsibilities).

- 5.72 Providers are asked to confirm the above through the relevant section of the standard information template.
- 5.73 We will wish to discuss with providers the progress they are making in agreeing nomination arrangements with their local authority partners and how those are being applied to individual schemes as part of the quarterly reviews of the framework contract.
- 5.74 We intend to provide further information on equalities in due course.

### **Organisation information and requirements**

- 5.75 In addition to the information on proposals themselves, providers will be required to submit information about their organisations.

### Financial information and viability

- 5.76 Providers who are already registered with the TSA should provide, direct to the TSA, an updated version of the Financial Forecast Return (FFR) which includes the financial information relevant to the offer being proposed. A schedule of the key assumptions on which the FFR is based and confirmation that banking covenants are not, and will not be, breached (or details of negotiations to amend banking covenants) will also be required and should be submitted to: [FAenquiries@tsa.gsx.gov.uk](mailto:FAenquiries@tsa.gsx.gov.uk). These requirements will apply to individual Registered Providers, including where their proposals are being made as part of a consortium.
- 5.77 By submitting offers, Registered Providers will be giving consent that relevant financial information provided to the TSA may be shared with the HCA on a confidential basis.
- 5.78 Providers who are not registered with the TSA must provide their audited accounts for the last three years to the HCA for assessment.
- 5.79 For registered and un-registered providers, the HCA reserves the right to make additional financial checks and request further financial information if necessary.

### Registered Provider status

- 5.80 Unregistered providers must achieve Registered Provider status from the TSA if they intend to become the landlord of grant funded social housing (including Affordable Rent and shared ownership properties). This will be a condition of the framework contract and payment of completion monies. Full details of how to register are available on the TSA website <http://www.tenantservicesauthority.org/server/show/nav.14475>.

Providers should note the indicative timescales for registration included in the TSA's guidance.

### Investment Partners

- 5.81 Existing HCA Investment Partners are not required to submit a new pre-qualification application. Investment Partner performance is reviewed annually and those already qualified through the 2008-11 NAHP and meeting the required performance thresholds (review to be conducted at the end of 2010/11) will be qualified as Investment Partners for the new Affordable Homes Programme 2011-15. Qualification will automatically lapse for Investment Partners with no activity in 2010/11.
- 5.82 Organisations who are not already qualified as Investment Partners with the HCA will need to submit an application for qualification. Applications for Investment Partner status assess an applicant's financial and technical capacity to undertake an agreed programme of new supply, and the organisation's good standing. Providers must have achieved HCA Investment Partner status before payment under an agreed framework contract can be made. For community led organisations, we will seek to ensure that our assessment processes are proportionate to the scale of funding sought to improve access to funding for community organisations where proposals meet an identified need and offer value for money:  
<http://www.homesandcommunities.co.uk/affordable-homes>



## 6. Contract and programme management principles

- 6.1 We recognise that proposals for later years will be based on indicative delivery expectations, and that re-let patterns may vary – impacting anticipated conversions. We will therefore operate contract and programme management on a flexible basis to take account of situations in which parameters change.
- 6.2 Based on provider's offers and following negotiation and agreement of a framework contract, a rate for new HCA funding per unit will be agreed for each provider, to be paid at completion (on a results basis). It is anticipated that a separate rate will be agreed for Affordable Rent and for Affordable Home Ownership homes, and for provision in and outside London, where a provider's agreed offer includes that range of provision.
- 6.3 A provider's agreed rate of funding for each home completed will apply for the duration of the contract where delivery is largely in line with the assumptions in the initial framework contract.
- 6.4 This approach is intended to respond to provider preference for simplicity, and for programme level support, and moves away from the need for a detailed scheme by scheme assessment.
- 6.5 Changes in the range of contract parameters will be dealt with through quarterly reviews with each provider. Quarterly contract reviews will consider (i) actual delivery achieved (of new supply and of conversions/disposals), and (ii) a forward look at new supply proposals to be delivered and anticipated conversions/disposals. Data will be provided on an open book basis. A strategic review of the operation of the framework contract will be undertaken, jointly with providers, on an annual basis.
- 6.6 Where a provider has the capacity to do so, there will be opportunities to go further and to deliver more new homes than envisaged under the original contract. This could include additional HCA funding allocations if available, where value for money is maintained.
- 6.7 Where delivery is behind that envisaged under the framework contract, a fundamental principle will be that the provider will have an opportunity to put forward proposals to increase or accelerate delivery in the first instance. The HCA will take a view on the realism and likelihood of achievement of remedy, informed by the scale of variation and the stage reached in the programme (ie a risk assessment). The view taken will be informed by past performance of the provider in remedying delivery issues.

- 6.8 The key objective of contract reviews and the approach to variations will be to maintain (or increase) the number of new homes delivered.
- 6.9 It is unlikely to be possible at any stage during the programme period to respond to changes in contract parameters by increasing the rate of funding per unit for each completed home (if additional funding is needed - for whatever reason - to deliver the new supply outputs envisaged). Such additional funding would have to be generated from a provider's own resources or capacity (where that is achievable without adversely impacting their financial viability).
- 6.10 If sufficient additional funding cannot be generated by the provider, the number of new units envisaged under the contract may be reduced, and a proportionate amount of allocation withdrawn for re-distribution to other providers (in return for additional units).
- 6.11 However, there may be scenarios in which the rate per unit for homes still to be completed and claimed will be reduced following a quarterly contract review – for example if there is a significant reduction in the proportion of family homes to be delivered. The contract will allow for such variations.
- 6.12 Examples of the approach to contract management are set out, for illustrative purposes, at Annex three.

## **Contract**

- 6.13 Providers will be required to enter into a **standard form** framework contract with the HCA for the delivery of new affordable homes and conversion of social rent homes at re-let to new tenures. Where agreed offers include provision both in and outside London, two separate framework contracts will be required (based on one standard form), so that contracts for delivery in London can be novated from the HCA to the Mayor following enactment of the *Localism Bill* in 2012.
- 6.14 Annexes to the standard form contract will record the anticipated outputs. This information will be taken from the information supplied at offer stage and agreed during the negotiation process.
- 6.15 Heads of terms will be published on the HCA's website by mid-March 2011.

## Reporting and Information requirements

- 6.16 The framework contract will outline requirements for provider reporting (including for example on progress on implementing efficient procurement strategies and on addressing the employment and skills agenda) and programme management.

- 6.17 Full details of the reporting requirements in respect of delivery of new supply, conversions and disposals will be included in the framework contract. Providers should particularly note that the framework contract will require them to report all affordable homes delivered with nil grant input.
- 6.18 Providers will be required to include information on properties let on Affordable Rents in their CORE returns. A separate CORE log will be issued for Affordable Rent lettings.
- 6.19 Where necessary, the TSA will assess any potential impacts on the viability of Registered Providers as part of the framework contract review process (including reference to data to be collected through its Quarterly Survey and Regulatory and Statistical Return).

### Openness

#### Spatial mapping of housing need indicators

- 6.20 For information purposes, the HCA has published maps of four indicators reflecting different aspects of housing need at local authority level. [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes)
- 6.21 The four indicators are:
- Number of households in temporary accommodation per 1,000 households
  - Number of Housing Benefit recipients per 1,000 households
  - Ratio of lower quartile house prices to lower quartile incomes
  - Rank of average Index of Multiple Deprivation scores
- 6.22 The maps rank the 326 local authorities in England based on their indicator value and then classify the local authorities into one of five equal sized groups (quintiles). The legend on each map shows the range of indicator values within each quintile.
- 6.23 We expect providers to make offers based on meeting the needs of local communities and the priorities of local authorities. The illustrative needs maps we have provided for information are those we will use to overlay actual delivery outputs, of both new supply and conversions, to ensure transparency about where the HCA's funding is being applied. The indicator maps will not be used to evaluate individual proposals and are not part of the assessment and negotiation criteria.
- 6.24 All of the indicator data are publicly available via the following links:
- Households in temporary accommodation per 1,000 households  
<http://www.communities.gov.uk/documents/statistics/xls/1791630.xls>

- Housing Benefit recipients  
[http://research.dwp.gov.uk/asd/asd1/hb\\_ctb/hbctb\\_release\\_dec10.xls](http://research.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_dec10.xls)
- Ratio of lower quartile house prices to lower quartile income  
<http://www.communities.gov.uk/documents/housing/xls/152924.xls>
- Rank of average Index of Multiple Deprivation scores

Local authority level data can be derived from the Lower Super Output Area data sets here:

<http://webarchive.nationalarchives.gov.uk/20100410180038/http://communities.gov.uk/documents/communities/zip/indices2007.zip>

Or are available on request from:  
indicies.deprivation@communities.gsi.gov.uk

- Household projections  
<http://www.communities.gov.uk/documents/housing/xls/140987.xls>

#### Transparency on costs and funding

- 6.25 To encourage value for money, we will publish information on the initially agreed programme and thereafter provide updates on a quarterly basis. This will include information on scheme costs and the sources of funding meeting those costs. This will be a valuable source of data for providers and support the continual drive for improved efficiency.

#### Transparency on spend

- 6.26 It will be a condition of the framework contract that providers signing a contract for allocations of more than £3m from the Affordable Homes Programme must publish quarterly all expenditure in excess of £500 relating to delivery of schemes which form part of the framework contract. The HCA will require certification from the provider, as part of quarterly reviews, that relevant spend details have been published, including an outline of the approach taken to redactions affected by commercial confidentiality or data protection considerations.

#### Post scheme evaluation

- 6.27 As a result of the move to the new model of delivery for the Affordable Homes Programme, the HCA will review the compliance regime, including Quality Assurance and Impact Visits, to ensure that it remains fit for purpose. Details of revisions will follow in due course. Our intention is to ensure that the results from the compliance regime help the sector drive quality and efficiency in the delivery of new

homes. The review will focus on ensuring dissemination of good practice and lessons learnt to benefit providers and end users. For example, providers are encouraged to use and implement the results from post-scheme evaluation questionnaires. The review will consider how best to promote and share examples of good practice in areas such as this.

# 7. London

## Background

- 7.1 The government is committed, in the *Localism Bill*, to devolving responsibility for housing and regeneration in London to the directly elected Mayor. Subject to Parliament, this will, from April 2012 transfer the investment powers and responsibilities of the Homes and Communities Agency (HCA) to his office, alongside wrapping the roles and responsibilities of the London Development Agency (LDA) into the Greater London Authority (GLA). The arrangements will be governed by a board, chaired by the Mayor, and made up of equal representatives of the Mayor and London boroughs.
- 7.2 The Mayor already has strategic responsibility for housing in the capital. His statutory London Housing Strategy, published in February 2010<sup>2</sup> sets out his vision and policies for housing, which with his draft replacement London Plan, informs his funding priorities for the 2011-15 period.
- 7.3 This section sets out how the new arrangements will work in London, to deliver on the Government's intention to devolve these responsibilities to the Mayor, and to ensure the effective delivery of affordable homes in London.

## The London assessment and contracting process

- 7.4 From April 2012, the Mayor will take responsibility for housing investment in the capital with any framework contracts agreed as a result of this process then being novated to the Mayor. It has been agreed that the simplest means to achieve this transition will be for providers who wish to work both in London and in the rest of the country to enter into two separate framework contracts from the beginning of the process - one for London and one for the rest of the country.
- 7.5 However, as the programme is being put in place in advance of the full formal devolution, the HCA will, in collaboration with the GLA, lead on assessing the offers and drawing up the framework contracts, presenting the first cut of its proposed London investment programme to the HCA London Board's Executive Investment Group, which has oversight of HCA London's investment decisions. Once the final draft of the HCA's London investment programme has been put together, the HCA London Board will sign it off before it goes to the HCA's national Board and the Minister for final sign off. Any subsequent revisions will first be discussed with the Mayor.

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<sup>2</sup> <http://www.london.gov.uk/publication/london-housing-strategy>

- 7.6 Providers that are raising additional borrowing capacity from the conversion of social rent properties to Affordable Rent in London will be encouraged to reinvest those resources in new supply within the capital.
- 7.7 As is the case elsewhere, providers working in London will be expected to demonstrate how their proposals meet local priorities as set out in Borough Investment Plans (BIPs) or equivalents. Confirmation of Borough support for new supply proposals will be sought when schemes are identified or indicative proposals become firm.

### **The Mayor's aspirations for affordable housing**

- 7.8 Providers bringing forward proposals for affordable housing in London will want to consider the Mayor's policies as set out in the draft *London Plan*<sup>3</sup> together with the Mayor's *London Housing Design Guide*<sup>4</sup> and HCA London's *Interim Funding Design and Sustainability Standards* which will be published shortly on the HCA website. The Mayor's draft replacement *London Plan* proposes the annual provision of an additional 32,210 homes and, within this, 13,200 new affordable homes every year. The proposal set out in paragraph 2.35 should leave the Mayor well placed to deliver the ambitions set out in the *London Plan*. London's most pressing need is for more family-sized affordable homes. The Mayor will therefore expect providers to come forward with proposals which contain a significant element of three-bed or larger units.
- 7.9 The Mayor's intention is to introduce a pan-London mobility scheme, as set out in the London Housing Strategy. Details will be published by the HCA London Board in March 2011.
- 7.10 The Mayor's *Overcrowding Action Plan* identifies specific mobility schemes that encourage under occupiers to move to alternative properties where they free up family sized homes. These include 'Homes out of London' and 'Seaside and Country Homes'. Providers are asked to bring forward development proposals that increase the number of homes available in these initiatives.
- 7.11 Providers will be expected to deliver a range of rents across their development proposals from homes let at target rents up to a maximum of 80% of the market rent. In order to maximise the number of new homes, it is expected that most will be let at, or close to, the 80% limit. However, there will be circumstances where rents may need to be set at lower levels. This may include areas where market rents are exceptionally high, in the provision of supported housing or in regeneration schemes where there is a clear pre-existing commitment to the re-provision of homes at target rent levels.

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<sup>3</sup> <http://www.london.gov.uk/shaping-london/london-plan/>

<sup>4</sup> <http://www.london.gov.uk/who-runs-london/mayor/publications/housing/london-housing-design-guide>

## **Use of public land**

- 7.12 In London publicly owned land is a valuable resource and providers should work in partnership with public sector landowners to deliver affordable housing. In particular, providers may wish to look for opportunities to enter into long-term arrangements with public sector landowners to build out their land banks.
- 7.13 As elsewhere, providers carrying out developments in London on land owned by the public sector should aim to minimise other forms of subsidy such as HCA funding or capacity from conversions. Where a public body is unwilling or unable to transfer the land for free or for a nominal capital receipt, then it should be willing to share in the risks of development, with the deferred value to be realised over the lifetime of a project.
- 7.14 The Mayor will work with providers, the HCA and London boroughs to identify sources of funding for estate based renewal, in addition to using the resources of the HCA and LDA that will have been transferred to the Mayor.

## **Affordable Home Ownership**

- 7.15 In April 2011 the Mayor will be launching his First Steps housing programme. This will include the range of affordable home ownership options as set out in chapter four. First Steps will aim to help those Londoners with dependants who are looking to get a foot on the housing ladder and encourage providers to develop more family sized affordable home ownership homes.
- 7.16 The upper household income for First Steps homes will be set at £74,000 for families buying a home with three or more bedrooms. For single people and all other sizes of home the upper income limit will remain at £60,000. This change will come into effect from 1 April 2012 subject to the adoption of the draft replacement *London Plan*.
- 7.17 Providers will be expected to use the arrangements to be set out by the Mayor to market affordable home ownership developed within their programmes, and to target and assess the eligibility of prospective buyers.



## 8. Timetable

<b>Milestone</b>	<b>Date</b>
Publication of the Framework inviting offers for the 2011-15 Affordable Homes Programme	w/c 14 February 2011
Providers developing offers	March and April 2011
Deadline for submission of offers	3 May 2011
Assessment/negotiation of offers	May and June 2011
National aggregation and analysis of programme	20 June – 4 July 2011
HCA London Board (London part of proposed programme) and Ministerial and national HCA Board sign off of aggregate programme (subject to provider contracts)	w/c 4 July 2011
Initial contracts signed	July 2011

# Annex one

## Specialist programmes

- 1.1 Chapter four confirms that we will welcome offers for the specialist programmes set out below. Other than for Mortgage Rescue, where arrangements are in place to ensure that delivery continues with no disruption from early in the new financial year, providers may wish at this stage to indicate an interest only in participating in delivery of any of Empty Homes, Homelessness Change Programme and Traveller Pitch Funding. For Empty Homes, further detailed guidance will be available in due course.
- 1.2 However, where providers have already worked up proposals for any of these three programmes, they should not feel in any way constrained from submitting those proposals with their offers at this stage.

## Mortgage Rescue Scheme

- 1.3 Mortgage Rescue provides an option for eligible households facing repossession to remain in their homes. Funding is available for Mortgage Rescue in 2011/12 and 2012/13, with a smaller amount available in 2013/14 for applications already in the pipeline. The scheme will therefore close to new applications from households in spring 2013, or earlier if available resource is fully committed before that point.
- 1.4 The Mortgage Rescue lead provider role is to administer the scheme by liaising with local authorities to receive eligible cases referred by the local authority, process and administer the case, determine an appropriate Registered Provider (Mortgage Rescue syndicate member) to acquire the property and ensure that the rescue is undertaken as quickly as possible and grant claimed on IMS at completion. In partnership with individual local authorities, the lead provider will operate through a syndicate of Registered Providers who will take receipt of properties in areas where they have stock to deliver the Mortgage Rescue scheme across the sub-region.
- 1.5 It is expected that existing lead providers will continue their role, given their experience and track record. Indications from other Registered Providers that they are willing to take ownership of properties following completion of a successful Mortgage Rescue are strongly encouraged (ie as part of Mortgage Rescue syndication arrangements). Where providers wish to participate in the Affordable Homes Programme, but have not offered to become syndicate partners for Mortgage Rescue, this will be discussed as part of the negotiations with the HCA.
- 1.6 Lead providers will be expected to have worked with local authorities who wish to offer the Mortgage Rescue Scheme in their areas to

determine the likely levels of Mortgage Rescue cases they anticipate over the period 2011/12 and 2012/13. Guidance on anticipated levels of funding for specific areas has already been issued to lead providers. Any changes to those levels following assessment of lead providers' views will be published and all lead providers of Mortgage Rescue will be notified. Providers and local authorities will then be responsible for managing their allocation against demand and working closely with lenders and money advice to support households seeking help through the scheme.

- 1.7 To ensure that the scheme can help as many households as possible, we are making some changes to improve the value for money of Mortgage Rescue. Together, these changes will significantly reduce the cost of Mortgage Rescue and maximise the number of households who can benefit from the scheme, within the available resource, over the next two years.
- 1.8 It should be noted that the budget for Mortgage Rescue is finite and demand for the scheme is likely to exceed the resources available. Local authorities will need to work closely with the lead provider to agree in advance how to prioritise cases and when it is appropriate to use Mortgage Rescue as a last resort to avoid homelessness – in line with their strategic role on preventing homelessness. Subject to these financial limits, vulnerable home-owners at risk of repossession will be able to receive assistance until March 2013. The Mortgage Rescue Scheme will then close to new applicants, but continue to fund remaining cases already in the pipeline during 2013/14.
- 1.9 We plan to reduce the costs of Mortgage Rescue, including by reducing the grant rate to a maximum of 47%.
- 1.10 We are also reducing the redemption price offered by the RP to the household from 97% to 90% of the market value. For the majority of cases where the outstanding mortgage is greater than 90% of the value, this will reduce the final mortgage repayment received by the lender.
- 1.11 Mortgage Rescue must be delivered as cost effectively as possible, and the existing property price caps will remain in place: [http://www.homesandcommunities.co.uk/mortgage\\_rescue\\_guidance](http://www.homesandcommunities.co.uk/mortgage_rescue_guidance). There will be an absolute cap on grant funding available for mortgage rescue of 47%. In addition, the cost of repairs not exceeding a total cost of £20,000 to bring the property up to decent homes standards will be able to attract grant funding subject to an absolute cap of 47% grant funding on those costs.
- 1.12 We would encourage providers to put forward proposals which achieve better value for money than the terms outlined above to ensure that assistance can be provided to the maximum number of households for the resources available. We recognise that the costs

and value for money for Mortgage Rescue will differ from those included in providers' offers for Affordable Rent and affordable home ownership. The value for money of the main elements of the Affordable Homes Programme will be assessed independently from Mortgage Rescue.

- 1.13 Further information on the operation of the scheme including syndication is available in the Mortgage Rescue toolkit <http://www.homesandcommunities.co.uk/public/documents/Mortgage%20Rescue%20Toolkit%2030%2003%2010.pdf> and in the Affordable Housing Capital Funding Guide.

### **Empty Homes**

- 1.14 £100m has been earmarked for work to bring empty homes back into use. Funding will be available from April 2012. The funding will be targeted at long term empty properties which are blighting neighbourhoods, and which would not come back into use without intervention.
- 1.15 We recognise that there are a very wide range of possible approaches to tackling empty homes, and that different approaches might be most effective in different circumstances. We want to offer providers as much flexibility as possible to take the most effective approach locally, whilst ensuring a rigorous approach to value for money. We will shortly be seeking expressions of interest from providers who are interested in applying for funding to tackle empty homes.
- 1.16 Providers are asked to indicate in the standard information template [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes) whether they are interested in participating in bringing empty homes back into use once further programme detail is available. Providers who have schemes to bring empty homes back into use which are ready to deliver before April 2012 should provide information through the standard information template.
- 1.17 All providers should note that Temporary Social Housing Grant will not be available in future.

### **Homelessness Change Programme**

- 1.18 The aim of the Homelessness Change Programme stream within the Affordable Homes Programme is to underpin other work being undertaken to end rough sleeping by providing funding to support the development and improvement of hostels to support rough sleepers, and those at risk of sleeping rough, to access education, training and employment and to support them into more stable independent living.

- 1.19 Providers are encouraged to include proposals to develop new hostels or improve existing inadequate hostel provision for homeless people and will need to work closely with individual local authorities, as they commission housing related support services, which provide the revenue to run the hostel.
- 1.20 Rough sleeping is closely linked to other social problems including crime, drug and alcohol misuse, mental health and other health issues. Rough sleepers tend to have high support needs. Typically 50% have alcohol support needs with 36% having drug support needs and 35% have mental health issues. Many have a combination of all three<sup>5</sup>. These can lead to negative consequences for other members of society as well as for rough sleepers themselves.
- 1.21 Inadequate hostel provision can lead to too many people staying in the hostel system and many more people leaving hostels for negative reasons – like eviction or abandonment – than for positive ones – like finding employment or a settled home. Poor physical conditions and services that do not motivate people to address their needs can reinforce rather than break the cycle of homelessness. We want to fund hostels that provide the best opportunities for their clients, opportunities that will help people to move forward into work and a settled home. Therefore the provider should confirm that it has developed a strategic approach to move-on:  
[http://www.homesandcommunities.co.uk/places\\_of\\_change](http://www.homesandcommunities.co.uk/places_of_change)
- 1.22 Although accommodation will be the priority for funding we recognise that, in addition to good quality accommodation, positive engagement activity and opportunities for education, training and employment are important factors in breaking the cycle of homelessness. As such the HCA expects to see proposals for joined-up provision of services and accommodation with a focus on education, training and employment.
- 1.23 Schemes that include access to and/or space and provision for education, training or other support services alongside residential hostel accommodation will be prioritised. Given the priority for accommodation and limits on available funding, large-scale non-accommodation proposals will not be considered.

### **Who can submit proposals?**

- 1.24 Homelessness Change Programme funding is available to all Investment Partners including local authorities, housing associations, voluntary organisations and community based organisations.
- 1.25 Community based organisations and small specialist organisations should consider joining consortia if that best meets their needs. If they wish to put forward independent proposals and intend to be the

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<sup>5</sup> Broadway CHAIN data for London

landlord of the homes upon completion they will need to become Registered Providers. The TSA aims to be proportionate in its approach to registration.

- 1.26 Homelessness Change Programme proposals from community based organisations for community inspired projects, including through the Community Right to Build route, would be particularly welcome.
- 1.27 Prospective providers need to be mindful that they will have to meet the costs of their proposals through a range of sources, including utilising their own resources or raising charitable funding, to minimise the need for new HCA funding.
- 1.28 Providers who are not currently pre-qualified providers for the 2008-11 NAHP will either need to pre-qualify as an Investment Partner to access Homelessness Change Programme funding, or join a consortium of providers lead by a pre-qualified Investment Partner.

### **Costs of new supply**

- 1.29 Given constrained public finances, it is imperative that the best use is made of limited public funding, and also of the resources input by providers. The HCA strongly encourages providers to consider value for money, not only of the new funding requested, but also of the costs of supply.
- 1.30 An advantage to working in a consortium with other providers may also be the ability to access procurement economies of scale, enabling smaller organisations to bring down their costs of delivery, further reducing the need for Government funding.

### **Rent setting**

- 1.31 See paragraphs 3.3 to 3.13 of the main document.

### **Payment**

- 1.32 In principle, funding for the Homelessness Change Programme is expected to be made in accordance with the rest of the Affordable Homes Programme (ie based on payment by results at completion) but the HCA will consider proposals for different funding profiles, particularly for very small providers who may not have sufficient cash-flow to front-fund the whole of a development.

### **Design standards**

- 1.33 The HCA encourages providers to incorporate lessons from good practice, for example buildings designed with flexibility to respond to evolving service management models and commissioning requirements.

- 1.34 We also ask that providers ensure that there is an exit plan in place including potential alternative uses of the building should the scheme no longer be required for its initial particular client group. The design of the building should accommodate such a change of use without the need for significant additional expenditure.

### **Information requirements**

- 1.35 The supplementary information listed below may be required to support individual proposals. Providers should be prepared to provide this information if requested. This information is in addition to the supplementary information requirements outlined in the main Affordable Homes Programme Framework.

### Revenue funding

- 1.36 While the HCA does not require a guarantee of revenue funding before we will invest in a supported housing project, including through Homelessness Change Programme funding, we will work with local authorities to identify the local needs and the kind of provision that would best suit their communities and would thus expect that such schemes are likely to obtain any necessary revenue funding.

### Flexibility of use

- 1.37 In order to demonstrate best value for money, we also want to positively encourage flexibility within the design of Homelessness Change Programme hostels, ie buildings that can respond to evolving service management models, and resident and commissioning requirements, allowing future changes to be made with minimum additional capital expenditure.
- 1.38 In assessing requests for HCA funding from the Homelessness Change Programme stream we will review the following with the relevant local authority:
- proposed services and their intended outcomes;
  - local needs;
  - business case;
  - LA support and consistency of the scheme with the appropriate local authority strategy;
  - links with education, training and employment providers;
  - strategic approach to move-on; and
  - how the scheme links to, or embeds with, the local community, as appropriate to the client group and level of service provided.

## Needs maps

- Map of poor hostel provision (source SNAP survey)  
[http://www.epolitix.com/fileadmin/epolitix/stakeholders/SNAP\\_Report\\_2010.pdf](http://www.epolitix.com/fileadmin/epolitix/stakeholders/SNAP_Report_2010.pdf)

## Traveller Pitch Funding<sup>6</sup>

- 1.39 The aim of the Traveller Pitch Funding stream within the Affordable Homes Programme is to support local authorities, housing associations and other delivery partners to provide good quality public sites to help meet the need for accommodation for these communities.
- 1.40 The HCA seeks proposals to develop new sites, add new pitches onto existing sites or to improve existing provision for travellers. We will welcome offers from local authorities, housing associations and traveller community groups working with Registered Providers. Although we will consider standalone proposals for single schemes, we encourage smaller providers to work with housing associations and other larger Investment Partners to include Traveller Pitch Funding proposals as part of a larger Affordable Homes package.
- 1.41 As a group, travellers remain one of the most disadvantaged in the country experiencing deep inequalities, with very poor outcomes in health and education in particular.
- 1.42 The July 2010 DCLG Caravan Count showed that over 3,600 caravans, 20% of the total caravans in England, had no authorised place to stop<sup>7</sup>.
- 1.43 Authorised travellers' sites can provide the basis for local authorities to tackle the inequalities experienced by travellers. Increased authorised provision will reduce the number of unauthorised sites and the tensions they can create between travellers and the settled community and reduce the need for costly enforcement action.
- 1.44 The provision of good quality sites also plays an important role in promoting community cohesion and sustainability - whilst ensuring that local areas are inclusive for all irrespective of their background. Furthermore, the provision of good quality sites and pitches provide a platform that can support travellers to access key public services which will contribute to tackling inequalities and disadvantage.

## Programme stream details

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<sup>6</sup> Throughout this document and future documents relating to the Affordable Homes programme 'travellers' should be taken as an umbrella term including Gypsies, Travellers, travelling show people and new age travellers

<sup>7</sup> DCLG, *Count of Gypsy and Traveller Caravans – July 2010*

<http://www.communities.gov.uk/publications/corporate/statistics/caravancountjul2010>



- 1.45 The 2011-15 Traveller Pitch Funding stream will be primarily focused on the provision of new or additional pitches on permanent sites.
- 1.46 Although new permanent supply will be the priority for funding we recognise that, in some areas, the needs of the local traveller communities are best met through other forms of provision, whether temporary or transit sites, or through the improvement of existing provision. As such the HCA will also welcome proposals for new temporary or transit provision, or the refurbishment of existing sites, but will expect the level of HCA funding required to reflect the different levels of provision.

### **Who can submit proposals?**

- 1.47 Traveller Pitch Funding is available to all investment partners including local authorities, housing associations, voluntary organisations and community based organisations.
- 1.48 Community based organisations and small specialist organisations should consider joining consortia if that best meets their needs. If they wish to put forward independent proposals and intend to be the landlord of the homes upon completion they will need to become Registered Providers. The TSA aims to be proportionate in its approach to registration.
- 1.49 Proposals for Traveller Pitch Funding from community based organisations for community inspired projects, including the Community Right to Build, would be particularly welcomed.
- 1.50 Prospective providers need to be mindful that they will have to meet the costs of their proposals through a range of sources, including utilising their own resources or raising charitable funding, to minimise the need for new HCA funding.
- 1.51 Providers who are not currently pre-qualified providers for the 2008-11 NAHP will either need to pre-qualify as an Investment Partner to access Traveller Pitch Funding, or join a consortium of providers lead by a pre-qualified Investment Partner.
- 1.52 Where a provider chooses to submit a standalone scheme proposal, rather than working through a lead provider, they should be aware that these proposals will not be considered until after the Affordable Rent programme packages, including any Traveller Pitch Funding proposals submitted as part of a package, have been assessed and agreed.

### **Costs of new supply**

- 1.53 Given constrained public finances, it is imperative that the best use is made of limited public funding, and also of the resources input by

providers. The HCA strongly encourages providers to consider value for money, not only of the new funding requested, but also of the costs of supply.

- 1.54 An advantage to working in a consortium with other providers may also be the ability to access procurement economies of scale, enabling smaller organisations to bring down their costs of delivery, further reducing the need for Government funding.

### **Rent setting**

- 1.55 See paragraphs 3.3 to 3.13 of the main document.

### **Payment**

- 1.56 Traveller Pitch Funding is expected to be based on payment by results at completion but the HCA will consider proposals for different funding profiles, particularly for very small providers who may not have sufficient cash-flow to front-fund the whole of a development.

### **Design standards**

- 1.57 There are no national standards for the design of traveller sites and pitches, however providers may wish to consult the DCLG good practice guidance on designing traveller sites when considering the design of their site or pitches:  
<http://www.communities.gov.uk/documents/housing/pdf/designinggypsysites.pdf>

### **Innovative bids**

- 1.58 The HCA is keen to encourage the development of new solutions to increase and improve provision for travellers. In addition to proposals for Affordable Rent pitches, we will also welcome proposals that cover different models of delivery, including Registered Providers buying land for local community groups to build and manage sites or shared ownership proposals, where they meet local need and offer very good value for money.

### **Information requirements**

- 1.59 The supplementary information listed below should be provided in written statements. This information is in addition to the supplementary information requirements outlined in the main Affordable Homes Programme Framework.
- 1.60 In assessing requests for HCA funding from the Traveller Pitch Funding stream we will review the following information:

### Evidence of consultation with local communities

1.61 Providers should include details of consultations that have been completed and any that are planned. Consultations may involve some or all of the following groups, depending on the scale and type of work:

- the local traveller community and representative groups including for refurbishment or extensions to existing sites, the current residents;
- local residents and businesses;
- education, planning, social services and transport authorities;
- relevant local agencies such as police or fire services; or
- neighbouring authorities within the expected catchment area.

#### Business case for innovative bids

1.62 For innovative bids that fall outside the standard framework for delivery, providers should give details of how the proposal will improve provision for travellers in the local area and improve value for money.

#### **Needs maps**

- Map of caravan count (source: DCLG)  
<http://www.communities.gov.uk/publications/corporate/statistics/caravancountjul2010>

## Annex two

### Funding and outputs

	2011-12	2012-13	2013-14	2014-15	Total
	£bn	£bn	£bn	£bn	£bn
NAHP 2008-11 commitments	1.59	0.43	0.23	0.03	2.28
Affordable Rent and Affordable Home Ownership	0.05	0.36	0.57	0.82	1.80
Mortgage Rescue	0.09	0.08	0.05	0	0.22
Empty Homes	-	0.03	0.03	0.04	0.10
Homelessness Change Programme	-	0.01	0.01	0.01	0.03
Traveller Pitch Funding	0.01	0.01	0.02	0.02	0.06
<b>Affordable Homes Programme</b>	<b>1.74</b>	<b>0.92</b>	<b>0.91</b>	<b>0.92</b>	<b>4.49</b>

### Outputs (completions)

#### Indicative number of homes to be delivered by 31 March 2015

The location and number of homes started and delivered in each year will be dependent on framework contracts between providers and the HCA, in consultation with local authorities. The table below provides an indication of delivery through the various funding streams within the Affordable Homes Programme and also from other sources. These numbers are indicative and outputs achieved will vary depending, for example, on the extent to which local authorities and providers make use of the flexibilities we are creating, and decisions on benefit policy.

	Total
NAHP commitments <sup>8</sup>	67,000
Affordable Rent and Affordable Home Ownership	56,000
Mortgage Rescue	2,500
Empty Homes	3,300
Homelessness Change Programme	900
Traveller Pitch Funding	600
<b>Affordable Homes Programme</b>	<b>130,300</b>
Other including grant free and local authority funded homes	19,700
<b>Total</b>	<b>150,000</b>

<sup>8</sup> Committed homes delivered in 2011-15 will have received a start on site payment in 2008-11.

# Annex three

## Contract Management Scenarios

As indicated in chapter six, 6.12, outlined below are illustrative scenarios of potential contract variations, and options for remedy which are listed in broad hierarchy of solution. The scenarios and options for remedy are for illustrative purposes only.

- **Scenario 1** - Delivery of new supply is slower than anticipated under the framework contract, but conversions (number and capacity generated) are in line with the framework contract.
  - Agree a timescale for delivery of new supply to catch up. If not achieved, conversions are re-profiled to become more back-loaded or halted. If halted, the number of new homes to be delivered is reduced and allocation is withdrawn (on a proportionate basis) to be switched to another provider with the delivery track record, capacity and appetite to deliver additional supply.
- **Scenario 2** - Conversions are higher/faster/generate greater capacity than anticipated. Delivery of new supply is in line with the framework contract (including profile/timing of delivery).
  - Provider undertakes to deliver additional new supply with additional capacity generated. Grant per unit rate is adjusted to reflect that remaining allocation will be spread over a greater number of units.

OR

- Provider delivers original number of new supply units, at same grant rate, and conversions 'stop' earlier than originally anticipated in the framework contract.
- **Scenario 3** - Anticipated costs increase (including where delivery is in higher cost areas and/or fewer nil grant units are being delivered). (Higher costs per unit will not be met by higher grant per unit).
  - Through the forward look, the provider demonstrates that costs can be re-balanced with lower cost schemes (including greater proportion of nil grant schemes) and/or that realistic proposals exist for increasing the volume of nil grant units.

OR

- The provider generates additional income from:

- own resources (where achievable in line with the TSA view on maintaining financial viability)
  - additional conversions (or sales)
- **Scenario 4** - Anticipated costs are lower (including where delivery is in lower cost areas and/or more nil grant units are being delivered).
    - Through the forward look, the provider undertakes to produce more higher-cost units (eg in higher cost areas, or a greater proportion of larger homes or (possibly) an increased proportion of supported housing).

OR

- The provider undertakes to deliver additional new supply units. (Grant per unit rate for future completions is adjusted to reflect that the remaining allocation will be spread over a greater number of units.)
- **Scenario 5** – Rate/volume/capacity generated from conversions is slower/lower than anticipated.
    - The framework contract is varied to increase the number (and therefore proportion) of conversions permitted – including, for example, more outright sale.

OR

- The provider makes up the shortfall from other resources (own subsidy) in line with the TSA's view on financial viability.

OR

- The framework contract is varied to reduce the number of new units to be delivered and the allocation is reduced proportionately.

## Annex four

### Options for conversions – recycling implications

This is a brief table of the types of conversions and disposals that might fund an offer.

Type of Conversion	Consent requirements	Grant recovery (ie recycling via RCGF)
1. Social rent to Affordable Rent	HCA approval required as part of the agreement of the provider's offer.	Yes – <u>but policy not to recover/recycle grant provided capacity generated is used for new supply and where offer agreed with the HCA</u>
2. Social rent to shared ownership	HCA approval required as part of the agreement of the provider's offer.  No consent from the TSA would be required provided that the shared ownership leases are on assured tenancies, which is usually the case. A shared ownership lease that is not an assured tenancy does require the TSA's consent but consent is already given in the TSA's General Consent 2010 - or <a href="#">CLG's General Consent "C" of 2005</a> when s.133 HA 1988 applies.	Yes – <u>but policy not to recover on initial sale provided receipts support new supply and where offer agreed with the HCA</u> . All grant recovered/recycled on staircasing as per current rules.
3. Social rent to market sale	HCA approval required as part of the agreement of the provider's offer.  Statutory consent from the TSA is required.	Yes - grant recycled through RCGF on sale. Identified additional capacity generated to fund new supply as part of agreed offer.
4. Intermediate Rent to shared ownership	Same as for converting social rent to shared ownership (see 2 above).	Yes – <u>but policy not to recover on initial sale provided receipts support new supply and where offer agreed with the HCA</u> . All grant recovered/recycled on staircasing as per current rules.
5. Intermediate Rent to market sale	Same as for open market sale of social rent (see 3 above).	Yes - grant recycled through RCGF on sale plus identified additional capacity generated to fund new supply as part of agreed offer.

## Annex five

### Geographic areas for offers

The table below shows the geographic level at which offers are to be grouped as recommended by the HCA local teams.

HCA operating area	Minimum level of geography for package offers	Areas for minimum level of geography
East and South East	Counties	Buckinghamshire, Cambridgeshire, East Sussex, Essex, Hertfordshire, Kent, Norfolk, Suffolk, Surrey, West Sussex
London	Areas	North East, North West, South
Midlands	Areas	Aylesbury Vale and Milton Keynes, Bedfordshire and Luton, Birmingham and Solihull, Black Country, Coventry and Warwickshire, Herefordshire and Shropshire and Telford and Wrekin, Leicester, Leicestershire and Rutland*, Lincolnshire, Northamptonshire, Nottinghamshire and Derbyshire, Stoke and Staffordshire, Worcestershire
North East, Yorkshire and The Humber	LIPs	Durham, Hull, East Riding, North Lincolnshire and North East Lincolnshire, Sheffield City Region (South Yorkshire and Northern HMA), Leeds City Region, Newcastle and Gateshead, North Tyneside, North Yorkshire, Northern HMA, Northumberland, South Tyneside, Sunderland, Tees Valley
North West	LIPs	Cheshire, Cumbria, Greater Manchester, Lancashire and Flyde Coast, Lancashire – Pennine Lancashire, Merseyside, Mid-Lancashire



South West	LIPs	Berkshire East, Berkshire West, Bournemouth, Poole and Dorset, Cornwall and the Isles of Scilly, Devon, Exe Authorities, Gloucestershire, Isle of Wight, North Hampshire, Oxfordshire, Plymouth, PUSH, Somerset, Swindon, Torbay, West of England, Wiltshire
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**\*Please note that as originally published, Rutland appeared in error in the East and South East as well as the Midlands. For the avoidance of doubt, all offers for Rutland should appear in the Midlands HCA operating area.**

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