



Homes &
Communities
Agency

AFFORDABLE HOMES PROGRAMME 2015-18

Prospectus

January 2014

Affordable Homes Programme 2015-18

Contents

Ministerial Foreword	3
Chapter 1 The 2015-18 Affordable Homes Programme	4
Programme aims	
Changes	
Invitation to bid	
Chapter 2 The funding model	6
Income from new properties	
Active asset management	
Conversions to Affordable Rent	
Other sources of capacity	
Other sources of funding	
Reducing the costs of new supply	
Access to guarantees	
Chapter 3 Bidding requirements	12
Setting up the programme – bidding for and allocating capital grant funding	
Bidding routes	
Mixed route (firm schemes and indicative proposals)	
Firm scheme only route	
Payment	
Allocating the available grant funding	
Bid requirements	
Value for money	
Achieving construction and procurement efficiency savings	
Competing for schemes	
Use of public land	
Section 106 schemes	
Funding for Section 106 schemes	
Treatment of nil grant Section 106 schemes in our value for money assessment	
Delivery	
Meeting local needs	
Schemes requiring demolition	
Other bid requirements	
Design and quality	
Chapter 4 Assessment	23
Meeting local needs	
Value for money (50%)	
Delivery (50%)	
Programme building	
Clarification	
Role of the Regulator	

Consents

Chapter 5 Provider and programme requirements 29

Who can bid?
Partnership working
Community-led
Local authorities
Limit rent
ALMOs
House-builders/private sector developers (who are not Registered Providers)
Provider level requirements
Registered Provider status
Investment Partner status
Information requirements
Bid information
General information
Conversion information
Supplementary requirements
Active asset management
Achieving procurement efficiencies
Employment and skills
Meeting the needs of a range of communities
Financial information and viability
Registered Provider Board approval

Chapter 6 Range of products 36

Affordable Rent
Rent setting
Rent increases
Social rent
Affordable home ownership
Supported housing and housing for older people
Other groups or forms of housing
Routes and forms of provision
Works to existing stock
Affordable Housing Capital Funding Guide
Homes let at an Affordable Rent for a fixed term

Chapter 7 Contract and programme management 41

Contract
Reporting and information requirements
Transparency on costs and funding
Transparency on spend

Chapter 8 Timetable 43

Chapter 9 Minimum geography 44

Annexes 45

Ministerial Foreword

In June 2013 this Government underlined its long term commitment to affordable housing, by providing £3.3bn of public money which, alongside around £20bn of private investment, will support the delivery of 165,000 additional affordable homes from April 2015. This builds on the already strong track record of this Government, with over 170,000 affordable homes built over the last three years.

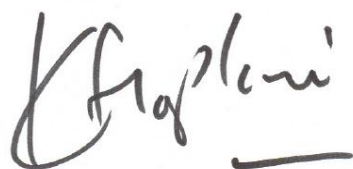
Every penny of public money must be spent wisely, to deliver the most benefit for our citizens. That is why we overhauled the model for funding affordable housing in the current programme. As a result, we now get more than twice as many homes from each pound of tax payers' money we spend on grant, compared to the 2008–2011 programme.

That drive to increase efficiency must continue into the new programme, so that we are able to help the highest possible number of people to access a high quality, affordable home. In particular, we expect more providers to undertake the active asset management which is already undertaken by the best, including a programme of disposals of vacant high value and costly-to-maintain stock to fund new affordable homes. I know this is a challenge for housing providers. But our grant funding, alongside the long-term social rent policy we announced in the summer, provides the platform that providers need to plan and to secure funding. So I am confident that the sector will rise to this challenge.

Local authorities have a particularly important role in providing land for development. Councils such as Plymouth and Cheshire West and Chester already have ambitious plans to use local authority land to help deliver more homes. As part of our 'something for something' deals under the new programme, I expect all councils to seek to identify suitable land to support the schemes put forward for funding.

Of course it is not just about numbers. We need to build the right types of homes, in the right places. Over the last few years it has become increasingly clear that in many places our affordable housing stock does not meet the changing needs of households. So this time, I intend to make sure that we support areas to build more of the homes that are in greatest need and shortest supply. In many places, this will mean more one and two bedroom homes for smaller households who need to move to more suitably sized accommodation.

Finally, I hope this new prospectus encourages more social landlords to start building. If we are to meet the needs of our communities, we need everyone with capacity to build to use this. I therefore hope that **all** affordable housing providers will read this document and think carefully about what they could do to help us provide the new homes our communities need.



Kris Hopkins MP, Minister for Housing

Chapter 1: The 2015-18 Affordable Homes Programme

Programme aims

1. £2.9bn capital grant funding has been made available nationally to fund affordable housing over the three year programme period, 2015–18. £1.7bn is the amount available (outside London) for which this prospectus invites bids. A separate programme for London will be administered by the Greater London Authority. For information on how arrangements will work in London, providers should refer to separate documentation produced by the Greater London Authority.
2. The programme seeks to:
 - Increase the supply of new affordable housing – for Affordable Rent and affordable home ownership (shared ownership). Products are described in Chapter 6;
 - Maximise the number of new affordable homes delivered with the available grant funding, supplemented by bidders' own contributions;
 - Build homes that address the demographic challenges facing social housing, including the need for more one and two bedroom homes that match the needs of smaller households;
 - Maximise delivery within the programme period and deliver new affordable homes by March 2018; and
 - Encourage providers with capacity who do not currently develop, or who could do more, to bring that capacity into use, utilising the skills and expertise of existing delivery partners as appropriate. In addition to accessing capacity, our aim is to drive good value for money through the competitive process.

Changes

3. The 2015-18 Affordable Homes Programme has much in common with the 2011-15 Affordable Homes Programme. This includes the products that will be funded using bidders' own resources to support delivery (including through the application of asset management flexibilities to generate capacity through conversions and/or disposals). Differences include our approach towards bidding (through either the firm only or the mixed route, which are described in Chapter 3) and retaining a proportion of funding for future market engagement. There will also be a focus on ensuring that the homes we fund help address any mismatch between the existing stock and the needs of households, for example by building more one and two bedroom homes in areas where tenants under-occupying social homes do not have the option of moving to a suitably-sized home. We also want to build on other priorities: encouraging bidders to seek efficiencies (including procurement efficiencies), and maximising the number of providers with capacity who can efficiently and effectively deliver new supply, particularly through partnership working.

Invitation to bid

4. This Prospectus invites bidders to submit bids to the Homes and Communities Agency to increase the supply of new affordable housing (Affordable Rent and affordable home ownership, shared ownership homes). The bidding routes for doing so are set out in Chapter 3.

5. This invitation to bid is open until noon on Wednesday 30 April 2014.

Chapter 2: The funding model

6. The following cost contributions should be fully utilised, where available, to contribute to the delivery of new supply, and to reduce the call on capital grant funding:
 - Borrowing capacity generated by the net rental income stream of the new properties developed;
 - The additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let;
 - Cash generated through the sale of existing stock (disposals);
 - Other sources of cross subsidy, including surpluses from existing stock and activities, Recycled Capital Grant Funding and Disposal Proceeds Funding and income from developing new properties for outright sale;
 - Other sources of funding or means of reducing the costs such as free or discounted public land, including local authority land, and local authority contributions such as from the New Homes Bonus; and
 - The benefit of Government backed guarantees.
7. Bidders will be required to set out the contributions they can make to support their proposals to deliver new supply. 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. We will expect efficient organisations to be able to bid competitively for capital grant funding. Bidders who do so, and as a result are able to offer good value for money for the grant funding requested are likely to be advantaged in this element of the assessment.
8. The Homes and Communities Agency will take account of the Regulator’s public judgements on the value for money standard, and will pay particular attention to the value for money of any provider’s bids where the provider’s governance judgement has been downgraded because the provider is not considered to have met the Value for Money standard.

Income from new properties

9. The 2015-18 Affordable Homes Programme continues the approach introduced in the current 2011-15 Affordable Homes Programme, and assumes that the main new supply product that will be delivered will be new Affordable Rent homes, and, where appropriate, affordable home ownership (shared ownership) homes. The income generated and contribution to the costs of supply is expected to be maximised, including charging rent at up to 80% of market rents.
10. Further detail of the products that are eligible for capital grant funding under the 2015-18 Affordable Homes Programme is provided in Chapter 6. Agreement for providers to charge Affordable Rent for new properties will be given through signing a contract with the Homes and Communities Agency.

Active asset management

11. The 2015-18 Affordable Homes Programme is intended to build on the “something for something” approach introduced in the 2011-15 Affordable Homes Programme. Bidders are expected to maximise the contribution they can bring forward to support delivery, and supplement available capital grant funding, including through the use of active asset management.
12. Under the current Affordable Homes Programme, some providers have taken a more active approach than others to using sales and conversions to maximise financial capacity for investment in new housing. In the 2015-18 Programme, we will expect all Registered Providers to take a strategic and rigorous approach to considering vacant properties, as part of their active asset management strategies, and whether they could be used to support the generation of capacity through sales or conversions which can be applied to the delivery of new homes, in order to help more people in need.
13. The former Housing Minister, Mark Prisk MP, described the Government’s expectations for the new programme in a speech on 27 June¹. He said that: *‘In considering bids for grant, we will expect providers to bring forward ambitious plans for maximising their own financial contribution. And we will expect this to include a rigorous approach to efficiency, along with ambitious plans to maximise cross-subsidy from the existing stock....Under the next programme we expect providers to take a rigorous approach in looking at every re-let and asking how it could best help build more homes to help more families. I expect the result to be a significant change in the numbers of homes that are either converted to Affordable Rent or sold when they become vacant.’*

Disposals

14. The approach set out by the former Minister requires landlords to understand the economic value of each of their homes, so that an active decision can be made, as and when each property becomes vacant, about how it can best be used to support the organisation to deliver more homes to help more people. We will therefore expect bidders to explain how many properties they are planning to sell to fund the programme and why they have chosen not to dispose of more. As part of this submission, providers should include evidence of how they identify properties with high market values or which are costly to maintain, and their approach to decide whether to hold, sell or convert these properties to another tenure.
15. Providers will need to obtain consent in advance from the Regulator for specific disposals of social housing where this is required by law. Where there is a planned programme of disposals providers can agree a ‘programme approach’ to obtaining consent rather than requiring consents for individual properties. Guidance is available on the [HCA’s website](#). If the Regulator’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. Where allocations are made and contracts signed based on an agreed level of capacity to be generated from disposals, this will constitute in principle agreement to indicative disposal plans.
16. Restrictions on using conversions in London to support new supply out of London (or vice versa) also apply to capacity generated by disposals.

¹ <https://www.gov.uk/government/speeches/housing-speech-by-mark-prisk>

Conversions to Affordable Rent

17. The conversion of existing stock to Affordable Rent is a crucial element in generating additional financial capacity and it is expected that, wherever available, it will be integral to bidders' proposals for funding new supply. Agreement for providers to convert existing properties will only be given (through signing a contract with the Homes and Communities Agency) where the provider commits to using that additional financial capacity for new supply.
18. Where a provider has the potential for conversions to create an income stream to support additional borrowing, we will expect them to include proposals for conversions as part of their funding bid. This will supplement financial capacity which can be generated from other sources, and ultimately lead to improved value for money for the new Homes and Communities Agency funding requested. Bidders who do so, and who are able to offer good value for money for the grant requested, are likely to be advantaged in this element of the assessment. Where providers' proposals include very limited, or no, capacity from this flexibility, we will wish to understand, and explore, the constraints which limit their ability to create an income stream from conversions. We will consider the value for money achieved through generating funding capacity from other sources available to them, and how that compares to other bids which can be supported through conversion capacity.
19. We anticipate that in the main, conversions will be to Affordable Rent. However, it may be that alternative approaches are appropriate or will generate higher capacity. For example, where there is demand for home ownership and/or where social rents are already close to 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.
20. Providers are encouraged to consider converting any remaining Intermediate Rent or Rent to HomeBuy properties, at re-let, to Affordable Rent or affordable home ownership.
21. Conversions to support delivery of new supply under the 2015-18 Affordable Homes Programme will be in addition to any conversions already agreed under the 2011-15 Affordable Homes Programme and/or the 2013-16 Affordable Homes Guarantees Programme (where applicable). Conversions will be expected to occur within the 2015-18 programme period.
22. Bidders are strongly encouraged to maximise the contribution they can make from conversions to support the delivery of new homes under the 2015-18 Affordable Homes Programme, taking account of their experience in achieving conversions under current programmes where applicable. Bidders' approach to conversions and how they will seek to best use and apply the asset management flexibilities that are available will be considered as part of bid assessment.
23. Bidders' proposals should be based on the borrowing capacity it is anticipated can be generated from the rental stream uplift associated with the conversion of existing social housing stock. We will also capture the anticipated number of re-lets and the proposed number of properties to be converted, as well as the rent before and after conversion. We recognise that the numbers of re-lets and conversions may vary in practice. However, capturing this data will allow us to consider whether the rent differentials and borrowing capacity generated appear to be realistic and consistent (compared to data from other bidders and from the current programme).

24. The data captured will also allow us to consider the proportion of re-lets bidders propose to convert and, where necessary, we may seek clarification of proposals to understand the extent to which they are reasonable, achievable and sustainable, taking account of the need to maximise cross subsidy from a range of sources, and the experience of undertaking conversions as part of current programmes.
25. Where necessary, we will seek to understand how individual provider experience of undertaking conversions in the 2011-15 programme, has informed any changes in approach to conversions in the period 2015-18.
26. Providers should note that capacity generated from conversions outside London cannot be used to support (additional) new supply under the 2015-18 Affordable Homes Programme inside London. Similarly, capacity generated from conversions inside London cannot be used to support new supply outside London. In bidding for grant or permission to undertake conversions to the Homes and Communities Agency as a result of this prospectus which is only relevant to (additional) new supply under the 2015-18 Affordable Homes Programme outside London, providers should not include any assumptions about capacity generated from conversions in London.
27. In line with the 2011-15 Affordable Homes Programme, the contract will focus on the capacity to be generated by conversions. Flexibility will be applied where the mix and rate of conversion varies from that originally proposed.

Other sources of capacity

28. Providers can, and do, cross subsidise their development programmes from a range of sources, and such cross subsidy is strongly encouraged to support bids for the 2015-18 Affordable Homes Programme. Those sources might include:
 - Surpluses generated from existing stock on current rent levels. Those surpluses will be greater in organisations who drive efficiencies in their operations;
 - Current Recycled Capital Grant Fund and Disposals Proceeds Fund, and anticipated increases in those funds from future forecast relevant events; and
 - Cross subsidy generated from the development and sale of new open market homes.
29. The Homes and Communities Agency will consider the extent to which cross subsidy is contributing to the delivery of new supply, taking account of the provider's existing financial capacity and the Recycled Capital Grant Fund (for which funding new supply is a priority use) and Disposals Proceeds Fund available in assessing bids.

Other sources of funding

30. Local authorities are strongly encouraged to consider the contribution that they can make to support providers bringing forward housing supply and meeting local needs through the use of their own land holdings, as well as through their negotiation of Section 106 agreements to deliver affordable housing.
31. Where local authority land can be brought forward at nil consideration, it is anticipated that this will reduce the call on capital grant funding. It also signals clear support that the proposed scheme meets local strategic priorities, as well as an expectation that the

scheme has a high degree of certainty of delivery. Taken together, it is anticipated that the provision of local authority land at nil consideration will have a positive impact on the assessment criteria applied by the Homes and Communities Agency, and consequently allow capital grant funding for affordable housing in the area to be supported.

32. Local authorities are also encouraged to consider the application of other sources of funding such as from the New Homes Bonus, or Community Infrastructure Levy (for associated infrastructure costs) to support the delivery of new supply. Such support will also be taken as a strong signal of local strategic fit, and should improve the value for money of the new capital grant requested which will be taken as positive factors in Homes and Communities Agency assessment of bids.

Reducing the costs of new supply

33. Bidders should seek to bear down on the costs of new supply wherever possible. Given constrained public finances, as well as making the best use of the range of sources of funding for new supply, reducing costs will allow those sources of funding to deliver more new homes. The Homes and Communities Agency wishes to see providers consider and maximise value for money by bearing down on the costs of new supply.
34. Under the 2011-15 Affordable Homes Programme we outlined the expectation that the new delivery model would give providers greater certainty over the sources of funding and proposed volume of development over the period of the Programme. Providers have been expected to apply this certainty to reduce costs through innovative and efficient procurement approaches when securing their development pipelines. Proposals for new supply under the 2015-18 Affordable Homes Programme will be expected to build on and supplement good procurement approaches, and continue to focus on driving down the costs of new supply. Further detail is contained in the sections on achieving efficiency and procurement savings in Chapters 3 and 5.
35. To maintain a strong focus on the management of costs under the 2015-18 Affordable Homes Programme, we will require providers to work with us on an open book basis, sharing their cost data on specific projects. The Homes and Communities Agency will publish comparable cost data on a regular basis.

Access to guarantees

36. Building on the 2013-16 Affordable Homes Guarantees Programme, new supply Affordable Rent and affordable home ownership housing may be delivered through a combination of the various cost contributions, including both grant and guarantees.
37. Bidders who wish to access guarantees should apply to the Government's Affordable Housing Guarantee scheme delivery partner, Affordable Housing Finance. In order to apply for guarantees alone, it will not be necessary to bid to the Homes and Communities Agency separately. However successful applicants will have to enter into a short form agreement with the Homes and Communities Agency to be able to charge an Affordable Rent on the resulting new properties.
38. If a bidder wishes to access grant funding, and/or undertake conversions to deliver new supply, alongside the guarantee, they must submit a bid to the Homes and Communities Agency in line with this bidding guidance.

39. If an application for guarantee debt funding is made, where grant is also needed (alongside asset management flexibilities) we will expect that to be reflected in the amount of grant requested.
40. Applications for guarantees must be made before March 2016, with starts on site occurring within a year of successful application.

Chapter 3: Bidding requirements

Setting up the programme – bidding for and allocating capital grant funding

41. The 2011-15 Affordable Homes Programme moved, for the first time, to making allocations for the full 4-year programme period at the outset, including allowing offers which were, initially, indicative of the supply that would be delivered. Our approach sought to respond to provider requests for certainty about allocations over a longer timeframe.
42. There have been advantages to such an approach; the ability for the Homes and Communities Agency to know, from the outset of the programme, which providers are responsible for delivery and that a programme is in place to deliver overall Government aspirations. However, the experience of the 2011-15 Affordable Homes Programme has also shown that it is important to ensure that indicative allocations are progressed to firm schemes at an early stage to ensure that delivery can be achieved.
43. We wish to take account of our experience of delivering the 2011-15 Affordable Homes Programme, and of individual provider delivery performance in formulating the programme delivery model for the three year programme period. That revised approach is set out in the following sections.

Bidding routes

44. The 2015-18 Affordable Homes Programme will offer two bidding routes:
 - A mixed (indicative and firm scheme) approach; and
 - A firm scheme only approach.
45. We intend to agree with bidders in advance whether they may bid under the mixed route.

Mixed route (firm schemes and indicative proposals)

46. Existing Investment Partners delivering affordable housing under the 2011-15 Affordable Homes Programme who wish to submit a mix of firm scheme bids and indicative proposals under the 2015-18 Affordable Homes Programme will need to agree that route in advance with the Agency. We invite providers to notify us of their intention to do so by 3 February 2014.
47. In agreeing whether a prospective bidder (including bidders working in partnership arrangements) may proceed through the mixed route, we will take account of scale and delivery to date under the current Affordable Homes Programme – including delivery over the first two and a half years of the programme (compared to the originally contracted programme), as well as actual delivery to the end of Quarter 3 2013/14 against forecasts. Quarter 3 outturn will be compared to the forecasts in the Investment Management System at the start of year and at close 30 September 2013. We will confirm whether bidders may proceed to bid through the mixed route by 10 February 2014.
48. Under the mixed route, bidders will be able to submit bids for a mix of both named, firm schemes and proposals which are indicative at this stage only where the total

allocation proposals for firm schemes exceeds £5m. Where bids include indicative proposals, these must not constitute more than 50% of the total units bid for. Our assessment will consider the extent to which individual firm schemes *and* individual indicative proposals meet our assessment parameters (see Chapter 4). In agreeing a provider's allocations, the proportion represented by indicative proposals will not exceed 50% (by number of homes to be delivered). Thus, if only some of the firm schemes bid for are to be taken forward for allocations, indicative proposals supported will not exceed 50% (by number of units) of the total, and may be lower than 50% based on our assessment of those indicative proposals.

49. Across the programme as a whole, our intention is not to allocate to more than 30% indicative units. Indicative programme funding will not be allocated where the final allocation for firm schemes falls below £5m.
50. Where allocations are made for indicative proposals, these must be progressed to firm schemes **by no later than 30 May 2016**. This will improve the visibility of provider delivery plans and enable the Homes and Communities Agency to more effectively manage the delivery of the programme.
51. Through allowing bids for, and allocating to, indicative proposals, we want to continue to offer providers some flexibility to respond to development opportunities as they arise (responding to provider feedback from the 2011-15 Affordable Homes Programme). However, this must be balanced with moving to certainty over programme delivery at a sufficiently early stage and at scale within the programme period to ensure that providers have well planned programmes which will maximise prompt delivery.

Firm scheme only route

52. Bids under this route must be for firm, named schemes only. Any bidder may bid through the firm scheme only route, and will not need prior agreement to do so. Any bidder who is new to the programme will be required to bid through this route. This route will be available to bidders where our view of delivery performance means that we are unable to agree that they proceed via the mixed route. Bidders may decide for themselves that they prefer to bid through the firm scheme only route.
53. Bids for firm schemes will be expected to include:
Minimum requirements:
 - The name of the scheme; and
 - The x,y co-ordinates.
 - Details of ownership or control by the bidder (for example. ownership of the land, or an option);
 - Planning stage reached (for example planning application submitted/outline planning achieved/detailed planning achieved); and
 - Tender stage reached (for example. scheme tendered/contractor selected/contract signed).
54. Forecast dates for start on site (and completion) will be taken into account in our assessment of deliverability. Schemes with earlier delivery dates will be advantaged in

assessment. We will expect forecast delivery dates for schemes which receive allocations to follow through into the contracted position as contracts are signed, and will reserve the right to withdraw any allocation offered where there is significant delivery slippage. This will allow allocations to be re-distributed to schemes with greater certainty of delivery. Withdrawal of an allocation will not preclude a scheme being brought back into the programme at a later stage once delivery becomes more secure – either through funding from slippage arising elsewhere in the programme, or through funding held back for future market engagement (see below).

55. Our assessment will consider each individual firm scheme bid and, where the mixed route is being used, each individual indicative proposal. This may lead to allocations being offered for some, but not all, of the firm schemes bid for and, where applicable, some, but not all, of the indicative proposals brought forward. We do not undertake to allocate to bids in their entirety, and providers should take account of this in their bidding approach, including the amount of grant requested for individual firm schemes and individual indicative proposals.
56. Where allocations are made for some, but not all firm schemes, and/or some, but not all, indicative proposals, we recognise that this will impact the capacity to be applied from asset management flexibilities and other sources of funding (such as Recycled Capital Grant Fund). We will expect such capacity to be applied on at least a pro rata basis to the agreed allocations, and will finalise the amounts involved in signing the contract. Where there may be scope to raise and apply capacity beyond that included initially in the contract we will include that in regular contract review discussions, including consideration of scope to bring forward additional new supply (and apply capacity) to take up slippage where it exists, or opportunities for future market engagement.

Payment

57. Payment under the 2015-18 Affordable Homes Programme will be on a per scheme basis. We will pay 50% at start on site and 50% upon practical completion except for schemes procured under off the shelf contracts. In addition, separate start on site and practical completion payments are not available to unregistered providers (including house-builders), who will be paid 100% of the funding at practical completion of the scheme, which avoids the need to take cumbersome additional security.

Allocating the available grant funding

58. The Homes and Communities Agency is inviting bids through this prospectus for £1.7bn of grant funding.
59. Subject to receiving sufficient good quality bids which meet our assessment criteria, it is our intention to allocate up to a maximum of 75% of the capital grant funding available at the outset of the programme. We intend to hold back around 25% of the capital grant available for future market engagement.

60. Our approach is intended to strike a balance between wishing to give providers certainty of funding at the outset to allow them to plan their programmes to maximise early delivery, and ensure that the lead in time to the start of the programme is put to good use in progressing schemes which will deliver promptly within the programme period, while recognising the nature of development programmes where schemes may come forward and firm up at varying rates throughout the programme period.
61. In operating future market engagement, it is our intention to allow bids to be submitted for the remaining funding available on an ongoing basis once the programme has commenced. Further details on how market engagement will operate, including any timetables and end dates will be published nearer the time. Where bids are received from partners with existing programme allocations, delivery of existing allocations will be taken into account in our assessment of new bids submitted.
62. Our approach to market engagement is also intended to assist smaller organisations, including community led organisations, with financial capacity and/or access to land, by allowing time to work up scheme proposals for delivery, including through working with and accessing the skills and expertise of existing delivery partners. The amount held back for future market engagement will be available to all bidders. Proposals will need to have achieved an allocation by no later than 30 May 2016 to ensure sufficient time remaining for delivery within the programme period. We will also seek to use the market engagement route to allocate any slippage funding arising from indicative allocations which have not progressed to named firm schemes by 30 May 2016. Indicative proposals which do not show progress towards delivery as a firm scheme in good time to meet this date are likely to result in the allocation for that proposal being withdrawn.

Bid requirements

63. Bids are sought for schemes which:
 - Offer good value for money (taking account of both grant requested and anticipated costs, as well as the extent to which bidders have applied their own resources, including through utilising flexibilities available to generate capacity);
 - Have a good and demonstrable prospect of delivery within the programme timeframe; and
 - Meet local needs and priorities in their proposed locations, including building homes that address the demographic challenges facing social housing and any mismatch between existing stock and household needs (for example, by building more one or two bedroom homes in areas where there is a shortage of these).

Our assessment will take account of the extent to which bids meet these parameters.

Value for money

64. Chapter 2 above outlines the range of cost contributions which providers will be expected to fully utilise to reduce the call on grant funding required. The value for money of the capital grant requested, and the contribution from other sources of funding will be key elements of bid assessment.

Achieving construction and procurement efficiency savings

65. Best practice in construction and procurement will drive down the initial and whole-life cost of building affordable homes, reduce risk in a volatile market and help deliver better quality homes. Best practice will be created and owned by providers, responding to commercial drivers and social objectives.
66. The Homes and Communities Agency aims to help performance by recognising and promoting effective innovation, offering appropriate challenge (including through comparison with other sectors), and evidencing the affordable housing sector's achievement. For example, homes started within the Affordable Homes Programme in 2012/13 had real average build costs 15% cheaper than a 2009/10 baseline (though with wide variation around this average) and this was achieved without compromising quality or sustainability requirements. These are savings which efficient providers are able to reinvest in their business, including in more new supply.
67. The construction industry and Government, in partnership, have published *Transforming Construction: An Industrial Strategy for Construction* (Department for Business, Innovation and Skills: June 2013). This sets out a joint ambition for 2025, including a 33% reduction, from 2009/10, in both the initial cost of construction and the whole life cost of assets. The Homes and Communities Agency want to ensure its programme aligns with this vision.
68. The industry-led *Offsite Housing Review* was published in February 2013. The Review concluded that offsite construction offers a route to delivering homes built to higher sustainability standards, as well as other potential advantages including build quality and speed of delivery, both of which are of key importance for affordable housing. The Homes and Communities Agency welcomes providers looking to realise the benefits of Offsite Manufacture.
69. In the 2015-18 Affordable Homes Programme we are looking to see bids where competitive grant levels are driven by efficient build costs. Our specific requirements are set out below:
 - Bidders are asked to specify estimated overall construction costs, and where costs are high (against national and local averages) we will seek to understand the drivers for this before a scheme is included in the Programme; we will continue to ask for an elemental breakdown of construction costs as and when schemes reach start on site.
 - Bidders (including those with a 2011-15 Framework Delivery Agreement in place) are asked to submit concise information (via structured questions through our on line systems) on how they plan to achieve efficiency in construction and procurement. Annex A describes the types of construction innovation and procurement methods known to be potentially effective and efficient. This information will be used in assessment of construction cost outliers and for the development of best practice case studies. Delivery against the approach outlined will be reviewed annually through contract review meetings.
70. The Homes and Communities Agency will consider the value for money of anticipated scheme costs of bids (both firm and indicative schemes). Scheme costs (including m2 build costs) will be compared to evidence from the 2011-15 Affordable Homes Programme and to all other bids received for the 2015-18 Affordable Homes Programme, both nationally and at Operating Area and sub-geography level. We will

wish to understand the reasons for any outliers on build costs (regardless of the impact on the amount of grant bid for).

Competing for schemes

71. Intensive competition to secure schemes is likely to drive up costs in the period up to submitting proposals and is strongly discouraged. The 2015-18 Affordable Homes Programme 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. We will seek to identify overlapping bids from multiple bidders for the same firm scheme [through x,y co-ordinates]. We will wish to support the bid which is furthest advanced in securing the particular scheme (and therefore offers best certainty of delivery), subject to meeting our assessment criteria, including Value for Money.
72. Our expectation is that successful bidders will be in a position to plan their programmes and delivery timetable, making the most of the lead in period to the commencement of the programme, to ensure that back loading of delivery is minimised, and therefore that competition to secure sites which may drive up prices is also minimised.
73. Where allocations are agreed for indicative proposals (see the “bidding routes” at Chapter 3), providers will be required to progress these to named, firm schemes by no later than 30 May 2016. Where providers are not able to convert indicative proposals into firm schemes, at the latest by this milestone, we will withdraw allocations and re-allocate via ongoing market engagement. In re-allocating, we will take account of the provider’s track record of successful delivery of the programme to that point.

Use of public land

74. Where public land is being provided for free or for minimal consideration, providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as Homes and Communities Agency funding.

Section 106 schemes

Funding for Section 106 schemes

75. Our expectation is that S106 schemes will be delivered at nil grant input for both Affordable Rent and for affordable home ownership.
76. For Affordable Rent, our assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes.
77. 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.
78. Detailed scheme specific scrutiny will be undertaken where:
 - Any grant is sought; or

- Where it is the intention to use Recycled Capital Grant Fund or Disposals Proceeds Fund monies.

79. We expect the Homes and Communities Agency funding (or the use of Recycled Capital Grant Fund or Disposals Proceeds Fund) to be agreed on S106 schemes only very exceptionally. 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 will test the economics of individual schemes through our Development Appraisal Tool, and reserve the right to request other information to inform our decision making if necessary. More detail on the Homes and Communities Agency's Development Appraisal Tool can be found [here](#) on its website, including the tool itself. If Homes and Communities Agency 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.

Treatment of nil grant Section 106 schemes in our value for money assessment

80. We will wish to be sure that homes due to be delivered through S106 agreements at nil grant have a strong and realistic prospect of delivery. We will therefore only accept such schemes into agreed provider delivery programmes where they constitute named, firm schemes. Such schemes may be added to providers' programmes over the programme period, as they become firm.
81. We therefore intend to assess the value for money of bids based on the grant requirement for schemes where funding is requested. That assessment will exclude nil grant S106 schemes. This approach acknowledges that we do not wish to encourage bids which include nil grant schemes which may, at the time of bidding, be at a more speculative stage. It will also allow a comparative value for money assessment to be undertaken with bidders who may have more restricted access to nil grant schemes.
82. However, as S106 schemes to be delivered without capital grant funding (the normal expectation) are firmed up, providers are strongly encouraged to add these to their ongoing programme delivery proposals.
83. In particular, it is a requirement that schemes where an Affordable Rent is to be charged must be included in a contract with the Homes and Communities Agency. We will also expect providers who enter into a contract with the Homes and Communities Agency to record all affordable homes delivered with nil grant. This will allow consistency of data and monitoring of delivery of such homes.
84. As we move to market engagement, the addition and delivery of nil grant schemes within the programme period will be taken as a strong indicator of good delivery and will be viewed positively in assessment of future market engagement bids.

Delivery

85. Bidders will be expected to demonstrate that bids for both firm schemes and indicative proposals will offer good prospects of delivery within the timescales forecast at bid stage. For firm schemes, bidders will be asked to provide the information outlined at Firm Scheme Only route above – and may be required to evidence the stage reached

in delivery to support assessment.

86. Early forecast delivery dates (for both firm schemes and indicative proposals), where those are considered to be realistic and demonstrably achievable will be prioritised in assessment, and will be expected to be maintained through to contracting and scheme delivery.

Meeting local needs

87. The 2015-18 Affordable Homes Programme is intended to be shaped by local affordable housing needs and we will seek views from local authorities about schemes bid for.
88. Local authority priorities are expected to include 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.
89. Providers should ensure that their schemes take account of the needs identified by local authorities (including any equality priorities where appropriate) through the housing mix they contain.
90. This should include consideration of the appropriate size mix of affordable housing needed in local areas, taking account of demographic changes and any mismatch between the existing stock and the needs of households. In areas where there is a particular shortage of smaller homes for under-occupying tenants to move to, we would expect local assessments of needs and bids to reflect this, by including a high proportion of one and two bedroom properties. Local needs may also include ongoing requirements for family homes or the provision of sheltered housing. It is possible that need might be met, in part, through re-allocation of properties which are currently under-occupied, by providing opportunities for households who are under-occupying to move to a smaller home.
91. Bidders and local authorities are expected to work closely together to ensure that the mix of housing offered by the individual bidder and long-term provision of affordable housing is appropriate for the local area and range of needs identified.
92. For the purposes of this programme, it is not expected that local authority priorities will include a preference for social rent over Affordable Rent – the intention of the programme is to provide new Affordable Rent homes (and, where appropriate, affordable home ownership homes). In general, Government policy does not support the argument that only rents at or close to social rent levels are capable of meeting local needs – particularly when support for housing costs through Housing Benefit and Universal Credit is taken into account.
93. While the local authority will be key in identifying local priorities and needs, the Homes and Communities Agency also recognises the role played by Local Enterprise Partnerships in providing strategic economic leadership for their areas, understanding the drivers and barriers to growth and identifying key priorities for their areas through, for example (in the case of Local Enterprise Partnerships), the preparation of Strategic Economic Plans and European Structural and investment Fund Plans and the deployment of the Local Growth Funds and EU Structural Funds. We therefore see it as important to engage in an ongoing strategic dialogue with Local Enterprise Partnerships in respect of the allocation of Affordable Homes Programme 2015-18

funding to ensure, as far as possible, that there is a close alignment of delivery priorities during the lifetime of the programme.

94. For the 2011-15 Affordable Homes Programme we did not split available funding into budgets for different Homes and Communities Agency Operating Areas, and do not intend to do so for the 2015-18 Affordable Homes 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 outside of London.
95. However, we expect bidders, where they receive allocations (for firm schemes and for indicative proposals) to be able to deliver those allocations in broadly the same minimum geography for which the allocations are initially made. Where bidders have a programme of allocations under the current 2011-15 Affordable Homes Programme, we expect them to take account of geographic patterns of delivery within that programme, and build on that experience in deciding where to bid for the 2015-18 Affordable Homes Programme. We do not anticipate having to make significant changes to the initial geographic profile of allocations as delivery progresses.
96. Where there are gaps in the geographic coverage following initial allocations, we will seek to address those (where possible, and where bids meet our assessment criteria) through ongoing market engagement.
97. However, where gaps in provision arise as a result of a lack of local authority support for delivery of Affordable Rent which prevents bidders from bringing schemes forward in specific areas, we will not be able to fill those gaps. Local authorities that work closely with providers to deliver affordable homes in line with the requirements of this prospectus should expect to secure higher levels of local affordable housing. Local authorities that put barriers in the way of delivery, for example by seeking to impose conditions on providers that are inconsistent with the requirements of this prospectus, (for example, setting onerous conditions on undertaking conversions or disposals) that would add to the costs of delivery, should expect to see fewer schemes funded in their area.
98. The scope for individual providers to generate the overarching financial capacity required to support schemes 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 conversions. A requirement to ring-fence capacity for reinvestment in new supply within a particular area does not allow the affordable housing funding model to work in practice. The Homes and Communities Agency will not apply such a ring-fence and cannot support individual local authorities in doing so, other than through the restrictions outlined above on financial capacity generated in and out of London.
99. 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 Regulator will expect providers to meet all relevant requirements before seeking disposal consent.

Schemes requiring demolition

100. This prospectus invites bids for new affordable homes. George Clarke, the Government's Independent Empty Homes Advisor, set out in his recommendations for housing regeneration areas that refurbishing and upgrading existing homes should always be the first and preferred option, and that demolition should always be the last

option². Ministers have affirmed their own preference for refurbishment rather than demolition³.

101. Where demolitions of derelict existing structures are required, those are expected to be principally for redundant structures such as garages and other non-housing. Where demolitions of existing housing stock are needed, these are expected to be on a small scale – for example where required to open up access to developable land, or where the housing being demolished is demonstrably no longer suitable nor viable for further use. We would generally expect such proposals to be based on demolition and re-provision of a single landlord's own housing stock. It is not intended that funding will be available for schemes which require multi-landlord, area-wide demolition. Schemes on previously cleared land (regardless of the previous use), are acceptable. In such circumstances, bids will be considered for the provision of new homes.

Other bid requirements

Design and Quality

102. The Government's consultation on its [Housing Technical Standards Review](#) closed on 22 October but the outcome is not yet known. An addendum to this prospectus will be published when there is further information about the Review. In the meantime, in working up schemes and indicative proposals, bidders should take their own view of their approach to standards. They may choose to consider the options outlined in the housing standards consultation paper to help inform this view, alongside their own internal design briefs and their own consideration of the needs of their residents.
103. Some elements in the Review are already Building Regulations, which bidders will need to comply with. Other elements proposed in the Review *may* become a requirement of Building Regulations in time, such as those on water, and accessibility, but bidders should not assume this is a given.
104. For specialist or supported housing for older and vulnerable people this may include consideration of good practice such as the Housing our Ageing Population Panel for Innovation principles and the Homes and Communities Agency's non-mainstream housing design guidance.
105. Providers may also wish to discuss their proposals with their local planning authority. In doing so they should bear in mind the Review proposed there will be a national policy expectation that local planning authorities limit the use of discretionary standards in future only to those which are proposed by the Review, for housing of all tenures.
106. We will take account in our value for money assessment of bidders' proposals on a comparative basis to consider how individual scheme proposals compare to the aggregate of bids received. Our aim is to ensure that, so far as possible, value for money assessments are made on a broadly comparable basis, for example, by considering the average m2 per person housed of a scheme, and taking that into account in our view of the value for money of the grant requested.
107. Where providers are considering applying for Feed in Tariffs for eligible low carbon installations, they should consult the guidance on Feed in Tariffs and grants available

² George Clarke's 10 recommendations for housing regeneration areas can be found at: <https://www.gov.uk/government/news/91-million-cash-to-tackle-over-6000-empty-and-derelict-homes>

³ See Mark Prisk's Written Ministerial Statement of 10 May 2013 at c13WS in Hansard.

from the [Department for Energy and Climate Change](#) and [Office for gas and electricity markets](#).

108. Where providers are considering applying for Renewable Heat Incentive payments, they should consult guidance available from the Department for Energy and Climate Change.

Chapter 4: Assessment

109. The overall objective of assessment is to make allocations to providers for the supply of new affordable homes that:
- Meet local needs and priorities in their proposed locations including building homes that address the demographic challenges facing social housing and any mismatch between existing stock and household needs (for example, by building more one and two bedroom homes in areas where there is a shortage);
 - Offer good value for money (taking account of both grant requested and anticipated costs, as well as the extent to which bidders have applied their own resources, including through utilising flexibilities available to generate capacity). Good value for money proposals are likely to be enhanced where providers are efficient across their operating base, and where they seek to achieve procurement efficiencies in the delivery of new supply;
 - Have a good and demonstrable prospect of delivery within the programme timeframe; and
 - Confirm Registered Providers should continue to meet the Regulator's Governance and Viability standard.

Meeting local needs

110. The assessment process will consider how bids meet local needs and priorities and will verify fit with local authorities in whose area new supply is proposed, in particular where firm schemes are identified. Local authorities will be asked to confirm whether the firm scheme or indicative proposal is supported and meets local needs.
111. Where a local authority indicates that it does not support a bid or indicative proposal, subject to the reasons for that lack of support being robust and linked to the bidding requirements of this prospectus (for example, demonstrably not meeting any local need), it is unlikely that the bid would be considered further or supported. As outlined above, a view that Affordable Rent prevents an authority from meeting local need would not be considered a robust reason not to support a bid.
112. Discussions with local authorities will also include understanding the alignment of bids with the strategic economic priorities of the Local Enterprise Partnership. Fit with local priorities will be considered to be particularly strongly evidenced where there is a clear fit with demand for particular sizes of accommodation; where land at reduced or nil cost is offered (and this improves both value for money and deliverability); and/or where other sources of funding (such as New Homes Bonus or Community Infrastructure Levy to support infrastructure) are being made available to support bids.
113. Strong evidence, including from the 2011-15 Affordable Homes Programme that a local authority and local providers have been able to work well together to support delivery of new affordable housing within the parameters of the programme, will be considered to offer particularly strong local fit.
114. We wish to encourage partnership working as outlined at Chapter 5 below – to access capacity and make efficient and effective use of skills and experience in delivering development programmes. Bids which include a range of types of provision (including, for example, rural provision, provision for the elderly, supported housing) and in

partnerships involving a range of providers, including specialist or small scale providers, are more likely to offer a good fit with local needs through offering a variety of housing provision.

Value for money (50%)

115. We do not intend to set a grant rate for the programme and no such grant rate can be extrapolated from dividing the capital grant available by the total number of homes which it is Government's aspiration to deliver (as set out in the Spending Round announcements), given that the total number of homes includes a proportion that are expected to be delivered without capital grant funding). A straightforward division of the funding available by the total number of homes to be delivered will not therefore lead to a grant rate for the programme. However, seeking to maximise the number of homes to be delivered with the available funding is a key aim of the programme. We are seeking to drive value for money through the competitive bidding process and expect bidders to submit bids which make best use of the other sources of funding that may be available to them, consistent with maintaining strong financial viability and meeting the Regulator's viability standard.
116. The Homes and Communities Agency will assess bids to establish whether they offer value for money comparative to other bids and bidders. Our assessment will take account of the grant requested and the costs of provision. We will use the metrics outlined below to identify outliers (based on how grant or costs compare to bids from other providers and to current grant or costs achieved through the 2011-15 Affordable Homes Programme) to ensure that we can understand the reasons, if any, for those outliers. We will also consider the extent to which sources of funding other than Homes and Communities Agency funding are (i) available to the bidder and (ii) are being applied to support the delivery of new affordable homes. The metrics outlined will feed into an initial ranking of bids.
117. The primary metric for assessment of value for money will be grant per unit, compared to the Homes and Communities Agency Operating Area average (and the national average) of the bids received. In general, lower grant requirements will score more highly. However, in considering comparative value for money, we recognise that in some cases, there will be reasons why scheme costs or the resources available to bidders may vary. We will seek to take account of the reasons for outliers in our assessment. Although we do not accept that particular forms of housing are inherently more expensive than others, there may be instances where a particular scheme, for example in a rural location or a scheme for very specialist supported or elderly provision, involves higher costs than the average for the bidder or area. Wherever possible, we will seek to take account of genuine comparators (such as other rural or older persons' specific schemes) and may seek further information from the bidder to understand whether there are genuine reasons for higher costs or grant requirements.
118. Our intention is that bidders will not be systematically disadvantaged where there are some higher cost/higher grant bids within their proposed programme. We do not intend to take a pro rata approach to overall programme allocations based on average value for money. However, the outcome of assessment may be a decision not to allocate to individual schemes which are outliers, particularly where the reasons for being an outlier are considered to be weak.
119. As noted, a key aim of bid assessment will be to reasonably maximise the supply of new affordable housing over the programme period. Thus the extent to which we are able to accommodate higher cost or higher grant schemes will need to take account of the overall numbers of homes which may be delivered with the capital grant available.

120. In addition, very low grant schemes will not *automatically* pass assessment. We will want to be assured that any schemes with very low grant levels offer strong certainty of delivery and that any very low grant rates do not constitute a risk to the delivery of the programme as a whole, given the likely difficulty in being able to find a replacement for any schemes that do not deliver within the timescales.
121. Indicators that will form a part of our assessment scoring are:
- Grant per unit compared to the overall Operating Area average (used to identify outliers, and in assessment of value for money);
 - Grant per unit compared to the national average (used to identify outliers);
 - Grant per unit compared to an appropriate comparable average (e.g. rural, supported housing);
 - Grant per person compared to the overall Operating Area average (used to identify outliers);
 - Grant as a percentage of total scheme cost (used to identify outliers, and in assessment of value for money. Note that a low total scheme cost driven by low build cost is welcomed, not penalised);
 - Works cost per m² compared to the area average (used to identify outliers); and
 - m² per person compared to the area average (used to identify schemes which appear to be abnormally small, or abnormally large).
122. As noted in Chapter 3, nil grant units will not be included in the value for money calculations.

Delivery (50%)

123. In order to promote a continued pipeline and prevent any hiatus between programmes, the Homes and Communities Agency wants to encourage bidders to bring forward schemes which can be built out early in the programme period. We want to minimise the risks presented by a heavily back loaded programme and we will aim to do so by advantaging bids in our assessment that can demonstrate both starts and completion of schemes in the early part of the programme. It is expected that forecast delivery dates will be carried through to the contracting and delivery stages. Significant slippage against forecast dates (on either firm schemes or indicative proposals) may result in an allocation being withdrawn and the grant re-allocated. The contract will contain provisions which allow for this. Withdrawal of an allocation due to slippage will not result in a scheme being precluded from being brought forward again for an allocation through ongoing market engagement once delivery becomes more certain.
124. The Homes and Communities Agency's assessment of deliverability will take account of the level of planning achieved where having already achieved full planning permission will be advantaged in our view of deliverability.
125. The status of land ownership will also feed into the assessment, with schemes being proposed on land already in the provider's ownership or being offered at nil consideration by the local authority scoring more highly. Local authority views will be

sought on all schemes. Strong support from the local authority, including both planners and housing officers, will also be seen as a good indicator of deliverability.

126. Scheme proposals with forecast start and completion dates in the first year of the programme, where those are considered to be realistic and robust, will be advantaged within this assessment heading. Our view of the realism and the robustness of early delivery forecasts will be informed by evidence of good delivery against forecasts for bidders who had allocations through the 2011-15 Affordable Homes Programme.
127. For providers with agreement to take a mixed approach, assessment of individual indicative proposals will take account of previous track record of delivery in the geography in which the proposal is located.

Programme building

128. All bids that have not been rejected because of lack of local authority support will be ranked at Operating Area level based on our assessment of value for money and of deliverability. Taking account of available funding and the number of homes to be delivered in 2015-18, this will lead to a proposed initial list of firm schemes and indicative proposals for each Operating Area.
129. The proposed list will be reviewed to ensure that an appropriate programme can be built which covers the needs of the area and which can, so far as possible, offer good geographic coverage. This may involve adding (or removing) bids from the proposed programme for the area. For example schemes, or indicative proposals may be added where those have a particularly strong local fit, or fill a recognised need not being filled through the programme proposed.
130. Any changes to the initially ranked programme to remove specific bids would only be undertaken, for example, where the proposed programme is considered to lead to an oversupply of a particular type of provision in an area, or lead to an enhanced delivery risk due to over dependence on one or a small number of providers.

Clarification

131. We expect bidders to submit their best bids at initial bid stage. In a small number of cases we anticipate that, during assessment, there may be a need for discussion and clarification with bidders. Where required, such discussions will be held with bidders across their proposed areas of operation, led by a Homes and Communities Agency contract manager. The Homes and Communities Agency may request bidders to submit revisions to bids and/or further information before offers of allocations can be finalised, and, subsequently, a completed contract.
132. Only where required, discussions will seek to:
 - Explore with bidders the potential for cost savings where costs appear to be outliers relative to other bids received with no apparent explanation as to why this should be the case;
 - Consider whether grant requirements can be reduced where the scope to make cost contributions from the provider's own capacity do not appear to be being well utilised;

- Ensure opportunities to maximise Recycled Capital Grant Fund and Disposal Proceeds Fund contributions have been fully utilised; and
 - Ensure opportunities to work with non-developing Registered Providers with development capacity have been explored.
133. If required, such discussions will run concurrently with our assessment period and conclude by the end of the assessment period 20 June 2014. Homes and Communities Agency Operating Area teams will undertake this dialogue with bidders as appropriate. Dialogue with bidders may take the form of individual meetings, telephone or email communication. The Homes and Communities Agency reserves the right to choose whether to seek further clarification from bidders at its absolute discretion.
134. However, bidders should note that our expectation is that they will submit their strongest bids at the outset. Doing so will enable early agreement of allocations within the assessment period. Where there is a need for additional clarification, this may lead to bids being rejected if assessment cannot be concluded within the time available. The timescale for reaching allocation decisions is intended to allow providers a long lead in period to commence delivery of new allocations. Those bidders who bring forward strong bids from the outset which meet our assessment criteria are likely to benefit from having allocations agreed at the initial stage, maximising the time available for setting up and achieving programme delivery.

Role of the Regulator

135. As outlined in Chapter 2, the funding model for the Affordable Homes Programme, relies upon development costs being funded from a range of sources of finance including borrowing. This has the potential to impact loan covenants, including gearing ratios (and will apply across the whole of a provider's proposed programme, including that to be delivered for both the Homes and Communities Agency and Greater London Authority). Therefore, the advice of the Regulator on Registered Providers' ability to continue to meet the Governance and Viability standard will be key in the Homes and Communities Agency's decision on whether to proceed to contract. The Regulator's assessment of the impact of bids will need to consider the full impact of bids to both organisations and neither can be judged in isolation from the other.
136. The Regulator is currently reviewing providers' compliance with its Value for Money standard in the light of the sector's recent Value for Money statements. As part of this work the Regulator will be identifying where it has concerns about a provider's approach to value for money and will flag this in its Regulatory Judgements. Non-compliance with the value for money standard may lead to a downgrade in a provider's governance grading. The Regulator will be undertaking this work in Quarter 3 of 2013/14 and the early part of Quarter 4, so when making decisions on allocations, the HCA will take account of the Regulator's views as expressed in these judgements.
137. We are keen to promote the long-term drive towards efficiency and value for money in the sector. It is likely that organisations which are achieving value for money across all their activities will also be able to deliver value for money in their bids to the Homes and Communities Agency, so when making investment decisions the Homes and Communities Agency will want to take into account the Regulator's assessment of providers' performance against the value for money standard.

138. The Regulator will assess bids as they are submitted and provide advice to the Homes and Communities Agency's investment team on whether the Registered Provider(s) involved in delivering the bid are:
- Currently in compliance with the Regulator's Governance and Viability standard. This will reflect the Regulator's current assessment of compliance and will not be based on information submitted as part of the bids; and
 - Likely to be able to continue to meet the viability element of the Governance and Viability standard if the full bids submitted result in allocations, taking account of the impact in addition to any existing programme agreement.
139. In assessing the impact of proposals on future viability, the Regulator will consider a range of factors including the deliverability of conversion and/or disposal assumptions, funding requirements, sales risk and interest cover and gearing. Where Registered Providers submit offers to both the Homes and Communities Agency and the Greater London Authority, the Regulator will assess the combined impact of these offers on future viability.
140. The Regulator's review of bids received will form part of the overall assessment process for the 2015-18 Affordable Homes Programme. Registered Providers will need to submit relevant information direct to the Regulator including an updated financial forecast return. Completed Financial Forecast and Returns should be submitted to FAEnquiries@hca.gsi.gov.uk. This should be the latest version of the financial forecast return template which contains specific information requirements relevant to the 2015-18 Affordable Homes Programme bids.
141. The Regulator will also consider any requests for statutory consent to specific social housing disposals that Registered Providers are ready to submit alongside bids and will consider a programme approach to these consents where that is appropriate. Providers considering the programme route should discuss this approach with the Regulator as soon as possible.

Consents

142. 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 Homes and Communities Agency. The Homes and Communities Agency will expect providers to have discussed their plans with local authorities before bids are submitted. Similarly, the Regulator will expect providers to meet its requirement for consultation with a local authority before seeking disposal consent.
143. 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 Regulator will – where possible – alert the Homes and Communities Agency to any potential barriers to consent eventually being given. Whilst the Regulator 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.
144. Providers who do not have an existing Framework Delivery Agreement under the 2011-15 Affordable Homes Programme may only begin to convert existing social rented homes at re-let to agreed new tenures (including Affordable Rent) once a contract for 2015-18 has been signed with the Homes and Communities Agency.

Chapter 5: Provider and programme requirements

Who can bid?

Partnership working

145. The Homes and Communities Agency wants to take advantage of the full range of affordable housing providers and access the capacity (both financial capacity and access to land holdings) of organisations that have not previously brought forward development programmes under previous funding rounds. At the same time, we are keen to ensure that development is undertaken or supported through routes which make best use of demonstrable skills and experience, including the ability to undertake the administrative requirements of delivering allocations (such as programme monitoring and reporting) and to promptly claim and account for outputs which have been delivered in line with the Homes and Communities Agency requirements.
146. Where the principle of partnership working (with a lead investment partner) has been developed, and where such partnerships include smaller Registered Providers, community, specialist and rural providers, we would strongly encourage providers to maintain such partnership working arrangements, and in addition, to identify new partnership members who may be able to bring additional capacity to a bid. 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 2015-18 Affordable Homes Programme.
147. As outlined above, we also wish to encourage providers with such capacity to access the skills and experience for example, of existing investment partners, to ensure that appropriate development, programme management and monitoring skills are deployed to support timely and efficient delivery. Working in a partnership arrangement can offer the advantage of a wider programme management approach to delivery, so that, for example, if there is slippage in individual scheme delivery, alternative proposals may be brought forward or accelerated to take up that slippage. A demonstrable track record of delivery against forecasts will be taken into account in assessment of additional bids submitted through ongoing market engagement.
148. New members may be identified both at the initial bids stage and during the course of the programme period. Where new partnership members who are Registered Providers are identified, the new Registered Provider will be subject to review by the Regulator at that time. For example, a new partnership member might be best placed to bring forward firm schemes to deliver new supply originally included in the contract as indicative. All indicative proposals must become firm schemes by no later than 30 May 2016.
149. 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.
150. Lead partners will be expected to work closely with other partnership members throughout the contract period to deliver the supply envisaged. In particular, lead partners will be responsible for collating and providing information from partnership members to the Homes and Communities Agency on delivery of the various parameters included in the contract.

151. As outlined above, it is considered that one of the advantages of partnership working is the ability to take a programme management approach to delivering allocations, such that if delivery of a scheme or indicative proposal falls through or is delayed, there may be options across the range of partnership members to bring forward alternatives. We will wish to strike a balance in our approach to contract management.
152. We will take account of successful delivery at partnership level in assessing further allocations through ongoing market engagement or when re-allocating slippage, including where bids will support further pipeline schemes to be brought forward.

Community-led

153. Where bids from community-led organisations are being considered, for the reasons set out above, such bids may be best delivered by working within a Registered Provider led development partnership which can also offer economies and more efficient procurement.
154. Any organisations, including community groups wishing to build their own homes, who intend to bid directly will need to achieve Investment Partner status with the Homes and Communities Agency (see Investment Partner status section below) in due course. This will include the need to demonstrate access to the technical skills and capacity (including administrative capacity) to deliver and draw down funding for the scheme bid for.
155. Unregistered providers must become a Registered Provider if intending to be the landlord of grant funded schemes. Community-led organisations, which are unregistered and not proposing to work with a Registered Provider partner, are first requested to make contact with the community lead in the relevant Homes and Communities Agency Operating Area office for further advice on eligibility and the submission process before making any bid.
156. Where a community-led organisation wishes to bid directly, the Homes and Communities Agency will want to explore the timescales needed to achieve registration and to ensure that the scheme can be delivered within the timeframes of the programme. If it is jointly considered that the timescales for achieving these requirements may put the project in jeopardy, options to work with an existing Registered Provider to support delivery can be explored. Unregistered providers considering registering should start discussions with the Regulator's registration team as early as possible.
157. Bids direct from unregistered community-led organisations will be expected to satisfy the supplementary eligibility criteria for community-led development as part of the [bid assessment process](#).

Local authorities

158. Local authorities with Housing Revenue Account borrowing headroom are able to bid in response to this Prospectus, in line with the timetable outlined at Chapter 8 below.

Limit rent

159. The Government has implemented a process to allow properties let on Affordable Rent terms by local authorities to be treated outside of the Rent Rebate Subsidy Limitation scheme.
160. To claim Housing Benefit subsidy above the limit rent for Affordable Rent properties provided under this programme, an authority must show the auditor of their subsidy claim form a letter signed by their Section 151 Officer, addressed to the Department for Communities and Local Government which:
- Lists the addresses of all Affordable Rent properties – broken down between existing homes that have been converted to Affordable Rent, and newly built homes let at Affordable Rent;
 - Confirms that the rents will not rise except in line with Government policy;
 - Confirms any properties re-let have had their rents re-set, if needed, to ensure they remain at no more than 80% of market rent;
 - Confirms that all income derived from the higher rent has been spent or will be spent – and only spent – on new affordable housing; and
 - Confirms the amount of capacity generated by conversions of existing properties to Affordable Rent is no greater than that specified in their delivery agreement with the Homes and Communities Agency.
161. The arrangements for local authorities who wish to develop new Affordable Rent properties without recourse to grant funding will continue to apply. In order for those properties to be exempt from the Rent Rebate Subsidy Limitation scheme local authorities must follow the process outlined in a letter sent from the Department for Communities and Local Government to local authority Chief Executives on 28 July 2011. The contents of that letter are replicated at Annex C.
162. Arms-Length Management Organisations are able to submit bids under the 2015-18 Affordable Homes Programme.

House-builders/private sector developers (who are not Registered Providers)

163. House-builders and private sector developers may opt to submit bids to receive funding allocations direct. However, we will expect house-builders and private sector developers to have carefully considered whether they are the most appropriate body to receive grant funding directly given the premise of the programme being built upon accessing conversion capacity and other sources of income. House-builders and private sector developers who bid directly will need to be able to evidence that sufficient cross subsidy is available to support schemes through the ultimate landlord being able to apply a range of sources of income.
164. As outlined in Chapter 3, all bidders who wish to access the mixed (firm and indicative) bidding route will have to achieve the Homes and Communities Agency's pre-agreement to do so. That agreement will be based on delivery performance over the course of the 2011-15 Affordable Homes Programme, including to the end of Quarter 3 2013/14.

165. The majority of house-builders work on the principle of agreed transfer at the point of practical completion. We will therefore expect house-builders to be able to name transferees for schemes they are bidding for.

Provider level requirements

Registered Provider status

166. Bidders who intend to be the landlord of all completed properties must be Registered Providers or intend to become Registered Providers. Full details of how to register are available on the Homes and Communities Agency's [website](#).
167. Providers should note the indicative timescales for registration included in the Regulator's guidance are for illustrative purposes only and timescales can be longer or shorter depending upon the volume of applications being processed at the time of application. Providers will need to demonstrate as part of their bid that they are likely to achieve Registered Provider status within a short timescale to ensure that they will be able to achieve delivery of new supply within the timeframes envisaged. Bidders that are considering whether to register to become Registered Providers of Social Housing are encouraged to talk to the Regulator's Registration team at the earliest opportunity.

Investment Partner status

168. Existing Homes and Communities Agency Investment Partners are not required to submit a new qualification questionnaire. Investment Partner performance is reviewed annually and those already qualified through the 2011-2015 Affordable Homes Programme will have had their partner status confirmed for the current financial year and will be subject to a further review following the outcome of delivery performance in 2013/14.
169. As outlined in Chapter 3, programme delivery by existing partners including to Quarter 3 2013/14 will inform our agreement to allowing bids to be submitted under the mixed (firm and indicative) route.
170. Organisations that are not already qualified as Investment Partners with the Homes and Communities Agency will need to submit an application for qualification (unless they are joining an existing, qualified, investment partnership). Assessment of applications for Investment Partner status considers an applicant's financial and technical capacity to undertake an agreed programme of new supply, and the organisation's good financial standing. Providers must have achieved Homes and Communities Agency Investment Partner status before payment under a completed contract can be made. Where new providers are joining an existing, qualified, investment partnership, the key check that will be required is to ensure that the provider has the financial capacity to undertake their proposed programme.

Information requirements

Bid information

171. Providers must submit their bids using the Homes and Communities Agency's Investment Management System. New bidders are able to apply for IMS access by telephoning our IT service desk 01908 353604 or email our service desk at servicedesk@hca.gsi.gov.uk.

172. Bids must contain sufficient information to clearly establish that they are different from firm schemes (or pipeline schemes which will deliver indicative allocations) under the 2011-15 Affordable Homes Programme and 2013–16 Affordable Homes Guarantees Programme or other Homes and Communities Agency programmes. Bidders will be expected to certify that there is no overlap between the 2015-18 Affordable Homes Programme and any of the preceding programmes, particularly the 2011-15 Affordable Homes Programme and 2013-16 Affordable Homes Guarantees Programme.
173. Firm scheme bids must include the minimum information requirement set out in Chapter 3 for each identified firm scheme.
174. Firm scheme bids will include the anticipated unit mix and size, tenure (Affordable Rent and shared ownership) and any specific provision being offered (supported housing, housing for older people) and where known, the specific needs being addressed (for example wheelchair accessible housing for disabled people) as well as whether the scheme is in a rural area.
175. Indicative proposals will include the outline mix and anticipated size to be delivered, as well as tenure, minimum geography and whether delivery will be in a rural area.
176. For the 2015-18 Affordable Homes Programme, the Homes and Communities Agency will continue to pay particular attention to delivery in population settlements of 3,000 or less. In order to classify whether a scheme is rural the Agency relies upon the Department for Environment, Food and Rural Affairs Government wide rural definition. The Rural – Urban classification has from 2012/13 been updated to include 2011 census data. It is this revised 2011 census data that will be fed in to our Investment Management System from the outset of the 2015-18 Affordable Homes Programme, at the level of output area, which will determine the rural classification of provider schemes. The rural urban classification can be found [online](#).
177. All bids and proposals must outline the estimated scheme costs, and the amount and sources of funding (including the grant requested) to meet those costs.
178. All bids and proposals should outline the anticipated, realistic, timing of delivery (expected month of start on site and completion).
179. All bids should include any named firm schemes where homes are to be delivered at nil grant through S106 agreements which require no additional funding over the price paid based on the principles outlined above (i.e. capitalised rental stream for Affordable Rent or reasonable assumptions on initial receipts and borrowing from the capitalised rental stream for affordable home ownership).
180. The level of information requested is intended to help the Homes and Communities Agency:
 - Establish that bids and proposals for new supply meet identified needs and will address local priorities;
 - Allow comparison of provider bids (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;

- Test that proposals are realistic and that identified firm schemes are demonstrably likely to deliver and be able to demonstrate that indicative schemes will become firm schemes by no later than 30 May 2016;
- Establish that proposals are clearly additional to plans needed to achieve delivery of existing agreed programmes; and
- Identify the role of individual providers within consortia bids.

General information

Conversion information

181. Conversion proposals should outline the number and location (based on the agreed geographies outlined below) 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 and, where applicable, experience of undertaking conversions needed to generate capacity for the 2011-15 Affordable Homes Programme and 2013-16 Affordable Homes Guarantees Programme.
182. 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, including those made about the guarantee and the borrowing rate assumed, should be included in the details provided to the Regulator which back up the financial forecast return.

Supplementary requirements

183. The supplementary information outlined below should be provided in written statements through our online systems except where otherwise specified.

Active asset management

184. All Registered Providers will be asked to submit a confirmation statement in the Investment Management System that they have taken a rigorous approach to considering the contribution that vacant properties can make to the delivery of new supply as part of their active asset management strategies.

Achieving procurement efficiencies

185. The Government has set targets for the reduction in the costs of new provision, through innovation and supply chain efficiencies.
186. All providers (including those with a 2011-15 Framework Delivery Agreement in place) will be asked to submit short statements on how they plan to achieve efficiency in construction (see Annex A) and procurement (see Annex B). Delivery against the approach outlined will be reviewed annually through contract review meetings.

Employment and skills

187. The Homes and Communities Agency is committed to work with providers to understand the impact of this programme on their employment and skills strategies. All providers will be asked to submit high level indicative quantitative information on apprenticeships created or safeguarded and employment opportunities created for 16-23 year olds as a direct result of this programme.

Meeting the needs of a range of communities

188. This programme is intended to meet the needs of a diverse range of housing needs. We encourage bidders to put forward bids that address the diverse needs identified by local authorities in the areas they are bidding in order to meet those local authorities' strategic priorities and equalities obligations. These are likely to include housing which is suitable for older people, people with disabilities, and people with other needs for specialist housing.

Financial information and viability

189. Providers who are already registered with the Regulator should provide, direct to the Regulator, an updated version of the financial forecast return which includes the financial information relevant to the bid being proposed. A schedule of the key current and proposed programme assumptions on which the financial forecast return is based and banking covenant information will also be required and should be submitted to: FAEnquiries@hca.gsi.gov.uk. These requirements will apply to individual Registered Providers, including where their proposals are being made as part of a consortium.
190. By submitting bids, Registered Providers will be giving consent that relevant financial information provided to the Regulator may be shared with Homes and Communities Agency's Investment team on a confidential basis.

Registered Provider Board approval

191. 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 Regulator.
192. Providers who are *not* registered with the Regulator who need to become Homes and Communities Agency's Investment Partners will need to submit a qualification questionnaire which tests prospective partners for technical ability to deliver, financial ability to deliver and the financial standing of the provider. The Homes and Communities Agency as part of its financial assessment will require the last two years audited financial statements if available and any other information necessary to gain comfort as to the providers' financial standing and ability to deliver.
193. For registered and unregistered providers, the Homes and Communities Agency's Investment team and the Regulator reserve the right to make additional financial checks and request further financial information if necessary.

Chapter 6: Range of products

194. Affordable Rent is expected to be the main element of bids. 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. Provider offers for affordable home ownership will only be accepted where these form part of an overall programme that includes Affordable Rent.
195. All bidders should note that **only** schemes that will bring forward affordable housing products as defined in this Prospectus will be eligible for funding.

Affordable Rent

196. It is expected that homes for rent which are funded with capital grant funding from the 2015-2018 Affordable Homes Programme will be let at Affordable Rent. While bids which include Affordable Rent at less than 80% of local market rent will be considered, in very specific circumstances, such as where an Affordable Rent at 80% of local market rent would exceed the Local Housing Allowance, we will generally expect providers to charge rents of up to 80% of market rents to maximise financial capacity.

Rent setting

197. Providers should have regard to the Government's policy on Affordable Rent which confirms that the rent level should be no more than 80% of gross market rent (service charge inclusive) which is based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors. 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). In establishing whether the rent to be charged is 80% of the gross market rent, the individual characteristics of the property should be taken into account, such as its location and size.
198. For both new supply and conversions Registered Providers will be required to assess the market rent (using the definition of the International Valuations Standard Committee as adopted by the Royal Institution of Chartered Surveyors) that the individual property would achieve and set the initial rent at up to 80% of that level (inclusive of service charges).
199. There are some circumstances however, where a target rent could exceed 80% of market rent. In such circumstances the target rent will constitute a floor for the rent to be charged. Where this is the case bids should indicate that these are Affordable Rent properties to which the target rent "floor" has been applied. The Homes and Communities Agency reserves the right to test the calculation used for rents in such circumstances.
200. For more detail on the Affordable Rent product providers are directed towards the [Affordable Rent Chapter](#) of the Affordable Housing Capital Funding Guide which includes details on rents to be charged and tenancy arrangements.

Rent increases

201. The 2013 Spending Review confirmed that the Government will consult on a formula for annual rent increases from 2015-16 onwards of Consumer Price Index + 1 percentage point each year for 10 years. Bidders should bid on this basis, pending finalisation of the policy.
202. This is a change from the current policy, which has an annual increase formula of Retail Price Index + 0.5 percentage points for Affordable Rent. A [consultation](#) on changes to rent policy was published on 31 October 2013. The Government will confirm its policy on rents, following consultation, in due course.
203. Landlords of Affordable Rent properties are required to rebase the rent on each occasion that a new tenancy agreement is issued (or renewed) for an Affordable Rent let (except where the property is re-let to the same tenant as a consequence of a probationary tenancy coming to an end). This requirement, which overrides the annual rent increase limit, is designed to ensure that the rent set at the beginning of each new tenancy is no higher than 80% of the market rent. For further details on Affordable Rent please refer to the Affordable Housing Capital Funding Guide [Affordable Rent Chapter](#).

Social rent

204. Social rent provision will only be supported in very limited circumstances. For example, social rent could be considered where decanting existing social tenants into new homes is necessary.
205. 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 merit.

Affordable home ownership

206. Affordable home ownership (shared ownership) has a role to play in helping first time buyers who may be excluded from purchasing a home by affordability or deposit constraints. The Homes and Communities Agency will consider proposals from providers which include affordable home ownership (shared ownership) as part of the overall mix where such schemes have the support of the local authority and fit with the local housing market. For the purposes of the 2015-18 programme, bids will be considered for affordable home ownership where the form of affordable home ownership is shared ownership as described in the [Affordable Housing Capital Funding Guide](#).
207. Bids that only include proposals for affordable home ownership, with no Affordable Rent within the overall proposal, will not be considered.
208. Further guidance on shared ownership is available in the [Affordable Housing Capital Funding Guide](#).
209. For the purposes of bidding for the 2015-18 Affordable Homes Programme, funding will be made available, subject to assessment, for shared ownership. This may include variant forms of shared ownership known as Home Ownership for people with Long term Disabilities and Older Persons Shared Ownership. Both are described in the [Affordable Housing Capital Funding Guide](#). No other alternative home ownership

models will be considered for funding under the 2015-18 Affordable Homes Programme.

210. Bidders are asked to note that the Government's Help to Buy scheme is the only form of Government funded equity loan product. Funding for equity loan products will not be available outside of that programme.
211. In addition to the options listed above, the Homes and Communities Agency 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 National Affordable Homes Programme are available in the [Affordable Housing Capital Funding Guide](#).

Supported housing and housing for older people

212. Bids which include proposals for supported housing and housing for older people are 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. We will particularly wish to ensure that supported housing meets local needs and that there is local strategic prioritisation for the proposed housing and associated services.
213. Bidders submitting bids for supported housing and housing for older people will be expected to:
- Have developed where appropriate a strategic approach to the provision of housing without support where tenants are ready to move on;
 - Have identified any necessary revenue funding source associated with the accommodation or the client group; and
 - Have in place exit plans or alternative uses for the building should commissioning priorities change in future.
214. Bidders submitting proposals for older persons housing or some specialist supported housing types should consider the typology, location and design of the accommodation to ensure it can continue to meet the needs of the relevant client group(s). This may include evolving good practice and consideration of the Housing Our Ageing Population Panel for Innovation principles and the Homes and Communities Agency's non-mainstream housing design guidance.
215. 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 nature of the accommodation, associated support services and strategic prioritisation of an individual scheme.
216. In all cases, funding from the Affordable Homes Programme is only available for the provision of accommodation and cannot fund other services.

217. Further information about housing for vulnerable and older people is available on the [Homes and Communities Agency website](#).
218. Bidders are asked to note that there should be no overlap between schemes bid under the 2015-18 Affordable Homes Programme, and those funded under Round 1 for affordable housing or bid through later phases of the Care and Support Specialised Housing Fund or the Department of Health's Hostels scheme. However, schemes may have different elements or phases each funded from different programmes which complement each other – for example, supported housing on a scheme funded from the Care and Support Specialised Housing Fund and funding for general needs homes sought from the 2015-18 Affordable Homes Programme.

Other groups or forms of housing

219. Providers should note that there is no separate funding for empty homes, homelessness accommodation (other than the Department of Health's hostels scheme) or for the provision of traveller pitches. However these are all legitimate forms of Affordable Rent provision that could be included in 2015-18 Affordable Homes Programme bids. Assessment of such bids will be undertaken in line with the assessment criteria outlined in Chapter 4 of this document. Particular requirements for these types of provision can be found on the [Homes and Communities Agency website](#). Bidders should note that bids for traveller pitches should be for the provision of new pitches only. As with other types of accommodation, we do not expect to receive bids for schemes on Green Belt land or other land with special environmental protections.

Routes and forms of provision

220. The following scheme types are all acceptable forms for new supply:
- New build including Acquisition and Works, Off the Shelf and Works only schemes;
 - Rehabilitation including Acquisition and Works, Existing Satisfactory, Purchase and Repair and Works only schemes; and
 - Re-improvement of Registered Provider owned stock but not Major Repairs.
221. For further information on all of the above please refer to the Affordable Homes Capital Funding Guide [Procurement and Scheme Issues section 3](#).

Works to existing stock

222. We expect works to existing stock to be funded through providers' existing business plans, and only by exception will the Homes and Communities Agency 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 Homes and Communities Agency will also consider proposals for re-improvements.
223. In both cases, such funding is only possible for rented properties funded under the pre-1988 Housing Act procedures, and some supported housing funded under the 1988 Housing Act 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 Affordable Housing Capital Funding Guide.

224. An example of where we have previously made funding available for this purpose has been our investment in almshouse charities, to ensure that these homes are refurbished and modernised to a standard that allows them to continue to remain habitable, where the individual charities do not have access to resources to undertake the work without assistance.

Affordable Housing Capital Funding Guide

225. References are made throughout this Prospectus to the Affordable Housing Capital Funding Guide, 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 Prospectus. Information will be posted on the Homes and Communities Agency [website](#) and providers are advised to check the website regularly.

Homes let at an Affordable Rent for a fixed term

226. The Spending Round in June 2013 announced a new scheme designed to help people who need a limited period of support through a sub-market rent before they are able to achieve their aspiration of home ownership. The £400m fund for that scheme is in addition to the funding for which this prospectus invites bids. More details on the scheme will be published in due course.

Chapter 7: Contract and programme management

227. As outlined above, bids which offer early (and certain) delivery of starts and completions will be prioritised in assessment. In all cases, delivery timetables set out at bid stage will be expected to be carried through into the contracting and delivery phase of setting up the 2015-18 programme. Where there is significant slippage compared to bids (which will have influenced assessment and allocation decisions) we may withdraw an allocation, and intend to ensure that the contract will allow for this.
228. Withdrawal of individual scheme allocations will not preclude a further allocation being made (from slippage or through ongoing market engagement) where delivery becomes more certain.
229. Bidders who receive allocations for indicative proposals should note that they must be able to convert these into firm schemes by no later than 30 May 2016 and this will be reflected in the terms of the Framework Delivery Agreement. Earlier forecast delivery will be prioritised in assessment. We will monitor progress against forecast delivery for indicative schemes, including the date at which they are anticipated to become firm, and may withdraw allocations if there is significant slippage against that anticipated date.
230. Changes in the range of contract parameters will continue to 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 contract will be undertaken, jointly with providers, on an annual basis.
231. Assessment of bids submitted through ongoing market engagement will take account of the delivery performance of bidders compared to forecasts, up to the point that bids are being assessed.
232. It will not be possible at any stage during the programme period to respond to changes in contract parameters by increasing the amount of funding for a scheme or for an indicative proposal. If additional funding is needed - for whatever reason - 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).

Contract

233. Providers will be required to enter into a standard form contract with the Homes and Communities Agency for the delivery of new affordable homes and conversion of social rent homes at re-let to new tenures. Contracts may vary marginally to take account of consortia delivery arrangements, or of the specific organisational type, but each of these does not depart significantly from the standard form.
234. Annexes to the standard form contract will record the anticipated outputs. This information will be taken from the information on the Investment Management System at the point at which allocations are confirmed.
235. The proposed Heads of Terms for the standard form contract will be published on our 2015-18 Affordable Homes Programme web pages in due course.

Reporting and information requirements

236. These are outlined in the standard form of contract.

Transparency on costs and funding

237. To encourage value for money, and in line with the approach under the 2011-15 Affordable Homes Programme and 2013-16 Affordable Homes Guarantees Programme, we will publish information on the initially agreed allocations under the 2015-18 Affordable Homes 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

238. It will be a condition of the framework contract that providers in contract for total allocations of more than £3m from across their affordable homes programmes delivering outputs in 2015-18 must publish quarterly all expenditure in excess of £500 relating to delivery of schemes which form part of the framework contract. The Homes and Communities Agency 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

Chapter 8: Timetable

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

Chapter 9: Minimum geography

239. Where agreement is reached with a partner to bidding through the mixed route, bids for indicative proposals must identify (as a minimum) delivery within a specific Minimum Geography. Minimum geographies have been determined by Homes and Communities Agency's Operating Areas in consultation with relevant local authorities and others and were introduced at the start of the 2011-15 programme. In most Operating Areas the minimum geography for the 2015-18 Affordable Homes Programme is largely unchanged, but there have been some minor amendments to take account of movement of local authorities within Local Investment Partnerships.

HCA Operating Area	Minimum level of geography for package offers bids	Areas for minimum level of geography
East and South East	Counties	Buckinghamshire, Cambridgeshire, East Sussex, Essex, Hertfordshire, Kent, Norfolk, Suffolk, Surrey, West Sussex
Midlands	Areas	Bedfordshire, Luton and Milton Keynes, 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	Local Enterprise Partnerships and Housing Market Areas	North East Local Enterprise Partnership Area; Tees Valley Local Enterprise Partnership; South Yorkshire; Northern Housing Market Area; West Yorkshire; North Yorkshire, The Humber
North West	Local Investment Plans	Cheshire, Cumbria, Greater Manchester, Lancashire and Fylde Coast, Lancashire – Pennine Lancashire, Merseyside, Mid-Lancashire (including Ribble Valley)
South West	Local Investment Plans	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, Partnership for Urban South Hampshire, Somerset, Swindon, Torbay, West of England, Wiltshire

Annex A: Examples of construction innovation

Offsite Manufacture

240. Offsite manufacture aims to add value through factory manufacture and assembly. The objective is to deliver to the construction site elements that are to an advanced state of completion thus reducing site activity. In some cases this may be time frame; Super Insulated Panels; open panels; or three dimensional volumetric modules. Potential benefits might include:

- Reduction of construction time can be achieved as buildings, or elements thereof, are manufactured concurrently with site preparation;
- The amount of site disruption is decreased as less work is performed on site;
- As most of the work is performed in the factory, manufacturing efficiencies can be gained and materials purchased in larger quantities;
- It can avoid issues of skills shortages such as brick and block laying;
- It can lead to improvements in on site health and safety; and/or
- It can provide improved energy performance.

On-site new technologies

241. Such as:

- Thin-joint masonry;
- Insulated concrete formwork;
- Tunnel-form construction; and/or
- On-site timber frame factories.

Standard House Types

242. By utilising standard house types the process of construction and the components required can also be standardised making procurement and construction more efficient.

Component Standardisation

243. Through the standardisation of components long term relationships can be built with suppliers making procurement more efficient. With the security of longer term relationships suppliers can provide discounts they might not otherwise be able to offer and this also enables the supplier to provide advice on use and maintenance of components as well as innovations to meet the specific needs of the client.

Building Information Modelling

244. Building Information Modelling is a process of managing an asset through its entire life-cycle, underpinned by the creation, collation and exchange of shared intelligent and structured data often illustrated through 3D models.
245. The benefits that can be gained through the use of Building Information Modelling depend on the level to which the client engages. To maximise benefits we would expect projects to be using this at level 2, which involves file based collaboration and library management and can be achieved through a series of different process and tools. Level 2 Building Information Modelling is a series of domain specific models (e.g. architectural, structural, services etc.) with the provision of a single environment to store shared data.

Annex B: Examples of procurement efficiency

Aggregation / commoditisation in procurement

246. By aggregating schemes (within a programme and/or with that of other providers) it is possible to increase the size and scope of the procurement. Combining this with the standardisation of components can build a level of on-going business with suppliers that can allow them to offer savings in costs.
247. Where the components have been commoditised and there is a lack of meaningful differentiation, and as such are sold on the basis of price and not brand, it is possible to build relationships where suppliers are more likely to offer lower prices through bulk purchasing.

Supply chain engineering

248. Supply chain engineering is based on analysis and comprehension of the essential principles of production and distribution systems. Working with suppliers to evaluate and optimise production systems, logistic networks and management policies can increase the effectiveness of demand and supply chains.
249. This might include:
- Integration of the activities that cover the whole production spectrum from customers' requirements to payment;
 - Flexibility in the face of customer demand changes; and
 - Reduction in production costs.

Cost-led procurement

250. The client puts in place a framework agreement with one or more integrated supply chain teams (encompassing designers, constructors, specialist suppliers and manufacturers). Teams are selected on their ability to work in a collaborative environment to deliver below the cost ceiling on the first project through continuous improvement, and achieve cost reductions on subsequent projects while maintaining the required quality outcomes. This is commonly referred to as target cost procurement and is often linked to a risk sharing mechanism whereby savings can be shared in a prescribed ratio.
251. There is early market engagement, and through competition, two to three integrated framework supply teams are then given the opportunity early in the life of projects to develop their bids with the client team, allowing them to bring their experience to bear to innovate and drive cost reductions. Provided at least one of the supply teams can beat the cost ceiling, it is then selected on the relative scored attractiveness of its commercial and physical proposition and of its team members before being awarded the contract to deliver the project.

Two stage open book

252. The Two Stage Open Book model sees the client invite suppliers on an existing framework agreement to bid for a project contract on the basis of an outline brief and cost benchmark. A number of contractor-consultant teams compete for the contract in a first stage with bidders being chosen based on their capacity, capability, stability, experience and strength of their supply chain, and fee (profit plus company overhead). The winning team then works up a proposal on the basis of an open book cost that meets the client's stated outcomes and cost benchmark as a second stage. A key outcome of this model should be to further reduce supply chain bidding costs. This is often linked to a risk sharing mechanism whereby savings can be shared in a prescribed ratio.

Integrated supply chain supporting product innovation

253. An integrated supply chain allows clients and manufacturers to look into business processes across multiple suppliers to follow materials and components wherever they are; expanding traditional supply chain management beyond tracking materials, information and finances as they move from supplier to manufacturer to end user.
254. By engaging with suppliers right at the beginning of the supply chain, the end user can involve them in the design of the final product and take advantage of their knowledge to bring about innovations and efficiencies.

Project Bank Accounts

255. Project Bank Accounts enable the supply chain to receive payment from a single bank account rather than through the main contractor. Effectively the employer makes direct payments to the subcontractors. This mitigates the risk to the employer and subcontractors of insolvency in the contractor's supply chain by ensuring that all participating subcontractors receive timely payment of monies due to them. It is hoped that the reduction in risk and greater efficiencies will lead to an overall reduction in costs. This is linked to the fair payments campaign.

Integrated Project Insurance

256. The client holds a competition to appoint the members of an integrated project team who will be responsible for delivery of the project, which will be delivered under a new form of insurance that covers cost overruns up to an agreed liability cap. The project is supported from the outset with an assurance team that ensures the right project cost plan has been agreed and which monitors and reports to the insurer on the key project risks including the levels of integration achieved by the team. Scoring may include elements assessing competence, capability, proven track record, maturity of behaviours, and fee declaration. The chosen team then works up a preferred solution that will deliver the outcome defined by the client, with savings against existing cost benchmarks.

Annex C: Letter from DCLG to councils on building new council housing using Affordable Rent

28 July 2011

To the Chief Executive of English local housing authorities

BUILDING NEW COUNCIL HOUSING USING AFFORDABLE RENTS

This letter will be of interest to any English local housing authority considering building new council homes for Affordable Rent, but without other financial support from central Government. (We are writing separately to authorities awarded financial support under the 2011-15 Affordable Homes Programme.)

This letter will be of less relevance to non-stock holding authorities, authorities whose council house rents are already 80% or more of market rents, and authorities who will have little or no capacity to increase borrowing in the short term under the forthcoming self-financing settlement.

Background

The Government's policy on Affordable Rents is to enable the building of more new affordable housing and thereby help tackle un-met housing need.

To effect this a local authority would charge up to 80% of market rents on new homes it has built and use this additional income to cover the costs of construction.

The maximum rent level for Affordable Rent should be assessed according to the individual characteristics of the property. Local authorities should 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 Tenant Services Authority has issued an explanatory note for private registered providers on RICS approved valuation methods, which may also be useful to local authorities and is available at:

http://www.homesandcommunities.co.uk/sites/default/files/ourwork/regulatory_framework_annex_a.pdf#page=41

It is for local authorities to decide whether to let Affordable Rent properties on flexible or conventional lifetime tenancies. (Provisions in the Localism Bill currently before Parliament will (subject to Royal Assent) enable post-March 2012 local authorities to offer fixed-term flexible tenancies.) In either case at the point the property becomes available for re-letting the local authority should review the rent to ensure that it remains at 80% (or lower) of prevailing market rents.

Government policy is that where an Affordable Rent has been set it should rise each year by no more than the Retail Price Index plus 0.5%. This will apply for the duration of the tenancy and at the end of the initial tenancy rents will need to be re-based to up to 80% of market rents.

Local authorities should offer Affordable Rent properties in line with their lettings and allocation policies.

Please note that we will permit only newly built properties to be treated outside the Rent Rebate Subsidy Limitation scheme. We will not permit existing homes to be excluded unless the local authority has entered into a Framework Delivery Agreement with the Homes and Communities Agency (HCA). This is because the Government does not intend providing additional public subsidy (via Housing Benefit) over and above that announced in the 2011-15 Affordable Homes Programme.

The Limit Rent

We have worked closely with colleagues in the Department for Work and Pensions (DWP) to devise a process of allowing Housing Benefit claimant rents higher than the Limit Rent without loss of subsidy to local authorities whilst at the same time ensuring value for money and guaranteeing new supply.

Because this process requires changes to the DWP's subsidy claim forms, charging a Housing Benefit claimant an Affordable Rent will not be possible until 2012/13.

The Process

The following sets out the process we have agreed with the DWP, the HCA and (for the London Boroughs) the Greater London Authority (GLA). Provisions in the Localism Bill will transfer the powers of the HCA in London to the GLA.

Any local authority intending to charge an Affordable Rent to fund new supply without any other financial support from central Government should set out their proposals in the form of a letter to its HCA Operating Area lead.

The letter should set out:

- The scheme name and its location;
- The number and tenure of the new homes proposed;
- Mix bed sizes;
- Whether any of the new supply is supported housing or in rural locations;
- Total Scheme Costs – including acquisition costs, works and on-costs (including making clear whether the land is already in the ownership of the local authority);
- Proposed new supply rents by tenure;
- An estimate of income from any low cost home ownership first tranche sales;
- The borrowing capacity generated by the additional income (and where this is less than Total Scheme Costs how the local authority is making up the difference); and

- The intended dates of both start-on-site and completion.

The HCA / GLA will then comment on the proposals in a return letter. In particular they will confirm (or otherwise) that the ratio of additional income to anticipated new supply represents value for money given the types of homes local authorities intend building and their location in the country.

To claim rent above the Limit Rent the DWP will amend their subsidy claim forms to include a category on Affordable Rents – this will enable specified properties to be treated outside the Rent Rebate Subsidy Limitation scheme. When the subsidy claim form comes to be audited the local authority will have to show the auditor a letter signed by the authority's Section 151 Officer addressed to Alison Cremin at this Department.

The letter from the Section 151 Officer must:

- list the addresses of all properties on which an Affordable Rent has been charged;
- confirm that the local authority's scheme's finances have been approved by the HCA / GLA;
- confirm that all income derived from the additional rent has been or will be spent - and only spent - on the new council housing;
- confirm that the higher rent set will not rise except in line with Government policy on rises in council house rent (RPI + 0.5% per annum); and
- confirm that where any property has come up for re-let the rent has been re-assessed to ensure it is no more than 80% of prevailing market rents (we appreciate that this will not be relevant in the early years, but confirmation is nonetheless necessary for consistency).

Where the local authority is unable to provide a signed letter from its Section 151 Officer confirming the above or where the auditor selects for inspection a property on which an Affordable Rent is being charged but which is not listed in the Section 151 Officer's letter, then that part of the subsidy claim will have to be qualified resulting in a potential loss of subsidy.

This process will need to be repeated each year that an entry against Affordable Rents has been made on the audit form.

If you have any queries on this letter please contact Alison Cremin (alison.cremin@communities.gsi.gov.uk).

Any queries on Housing Benefit or the Rent Rebate Subsidy Limitation scheme should be sent to Emmanuel Ibiayo (Emmanuel.Ibiayo@dwp.gsi.gov.uk).

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The Homes and Communities Agency is committed to providing accessible information where possible and we will consider providing information in alternative formats such as large print, audio and Braille upon request.