



Department for  
Communities and  
Local Government



Homes &  
Communities  
Agency

## **2013-15 Affordable Homes Guarantees Programme Framework**

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## Ministerial Foreword

The Government is committed to a better functioning housing market, which provides a range of good quality housing choices. However, housing supply has simply not kept pace with demand. Too many families have become locked out of the housing market, unable to afford the homes they need.

We understand the need to help grow the whole housing market, from the owner occupied and private rented sectors to affordable housing, for which there is a particular need. This is why, despite the constrained public spending environment, we committed an additional £4.5 bn to affordable housing in 2011. This has leveraged in an additional £15 bn private funding to deliver, in partnership with registered providers, 170,000 affordable homes through the 2011-15 Affordable Homes Programme.

We have made good progress on delivering via this new investment model over the last year. Almost 63,000 affordable homes have already been completed in the first eighteen months – over a third of those due to be delivered. But I know there is an appetite and the capacity to do more.

That is why Government went further in September last year, and announced the Housing Guarantees Schemes. These innovative schemes will see us putting our hard-earned fiscal credibility behind up to £10bn of debt, in order that housing providers delivering new private rented and affordable homes benefit from the strength of the Government's balance sheet, making their borrowing cheaper.

This lower cost of borrowing, means that additional affordable homes can be delivered with a lower per-unit Government capital investment than in previous programmes, offering taxpayers excellent value for money. To maximise the benefit of the Affordable Housing Guarantee, we have also announced up to £225m new capital grant, and additional asset management flexibilities, to enable providers to deliver up to 15,000 additional new affordable homes by March 2015.

This Government has cancelled the last Administration's Pathfinder programme, and has instead put in place a programme of measures to get empty homes back into use. Government Ministers' clear preference is to support refurbishment as far as possible rather than demolition. Further details of where demolition of existing structures may be acceptable as part of this Programme are outlined in chapter five.

We have already gone to the market to tender for delivery of the housing guarantee scheme, looking for a delivery partner, or partners, that will maximise the benefit of the guarantees for the borrowers, delivering funding at the lowest possible cost. We intend to appoint those partners in April, and expect them to be open for business soon afterwards. We have also already

published the scheme rules for the guarantees. This document sets out how the associated Government funding and asset management flexibilities will complement this.

Government is offering extra support in every way we can. Ultimately though, delivery depends on you working with us and taking up this offer, so that together we can deliver the homes we need.

A handwritten signature in black ink, reading "Mark Prisk". The signature is written in a cursive style with a large, sweeping initial "M". A horizontal line is drawn underneath the signature.

Mark Prisk, MP  
Minister for Housing

# 1. Overview

## Government guarantees and funding for affordable homes

- 1.1 As part of the housing and planning package on 6 September 2012, the Government announced its proposal to guarantee up to £10 bn of housing providers' debt. The Housing Guarantee Schemes are intended to help expand the provision of private rented and affordable housing and support economic growth.
- 1.2 The schemes will use the Government's fiscal credibility to reduce the cost of borrowing for housing providers. They will also attract investment from fixed income investors seeking a stable, long term return on their investment without exposure to residential rental property risk.
- 1.3 The Government launched the scheme rules for the housing guarantee schemes, clarifying their terms on 1 February 2013, and an invitation to tender for delivery of the scheme on 31 January 2013. The scheme rules define the terms of the schemes for borrowers, including those governing the types of project that are eligible and the financial requirements that must be met.
- 1.4 There will be two guarantees: one to support the delivery of new homes purpose built for private rent and a second to support delivery of additional new affordable homes. This document outlines details for the latter, where either grant funding and/or agreement to convert existing stock to deliver additional affordable homes is sought.
- 1.5 As well as the affordable housing guarantee, the Government confirmed that it would make £300m available (to 31 March 2015) to support up to 15,000 new affordable homes in England, and to bring up to 5,000 empty properties back into use.
- 1.6 £225m of that funding is available for new affordable housing, for use (where needed) alongside the guarantee, as well as in conjunction with asset management flexibilities for providers to convert existing stock to an affordable rent or other tenure (shared ownership or market sale). This is covered by this Framework.

## Applicability of this document

- 1.7 This Framework applies to England outside London, and builds on the existing 2011-15 Affordable Homes Programme [Framework](#), published on 14 February 2011. Providers are advised to read the existing Framework, and this document will refer to sections of the existing Framework where those remain applicable in full to the Affordable Homes Guarantees Programme.

- 1.8 In re-reading the existing Framework, providers should note that any references to the Tenant Services Authority in the existing Framework which remain current for the Affordable Homes Guarantees Programme should be read as applicable to the Social Housing Regulator (the Regulator), which superseded the Tenant Services Authority on 1 April 2012.

### London

- 1.9 A proportion of the funding available will be administered by the Greater London Authority on behalf of the Mayor in London. For information on how arrangements will work in London, providers should refer to separate documentation to be produced by the Greater London Authority.
- 1.10 References in the original Framework to London are not applicable for the purposes of this document.

### Eligible products

- 1.11 The Affordable Homes Guarantees Programme makes the Government guarantee, grant and conversions (where needed) available for the provision of new build affordable housing for Affordable Rent and for affordable home ownership (shared ownership) on schemes which will support economic growth.
- 1.12 Further details of products and conversions are contained within chapters three and four. In chapters five and six, we outline how the Homes and Communities Agency (the Agency) will assess offers and how programme management will operate under this model. We also outline the role of the Regulator.
- 1.13 In response to this updated Framework we are seeking offers from providers who wish to work with us and are able to deliver (additional) new supply of affordable housing. We are inviting providers to put forward bids for additional new supply where either grant funding and or asset management flexibilities are required for delivery, alongside the guarantee.
- 1.14 The timetable for the Affordable Housing Guarantees Programme is set out in chapter seven.

### Overview of conditions for the Affordable Housing Guarantees Programme

- 1.15 This section highlights conditions for the new Affordable Homes Guarantees Programme where those differ from the original Affordable Homes Programme. Further detail, and those conditions which continue to apply from the original programme, are set out in chapter

five of this document.

### Value for money

- 1.16 It is anticipated that available grant funding (and asset management flexibilities) will be used, where needed, alongside the Government guarantee, and that the lower cost of borrowing available under the guarantee will lead to a lower grant requirement (per unit) than under the current Affordable Homes Programme.
- 1.17 Providers may apply for grant (and asset management flexibilities) without also taking advantage of the guarantee (if they already have sufficient borrowing facilities in place to deliver additional new affordable housing). However, we expect such bids to form a minority of the programme and they will need to demonstrate similar or better value for money to bids which are also seeking to take advantage of the guarantee.
- 1.18 Where grant is needed, new provision will need to achieve delivery (ie both start on site and practical completion) by 31 March 2015 and all grant, where awarded, must be claimed by then, in accordance with the Agency requirements for drawdown. Details of the requirements for grant draw down can be found in the Affordable Housing Capital Funding Guide.

### Identified schemes

- 1.19 Because of the need to achieve delivery by 31 March 2015, and because the Affordable Homes Guarantees Programme is intended specifically to support economic growth, bids should be for identified firm schemes.
- 1.20 In exceptional circumstances, where completions were scheduled for 2014/15 but have been affected by unscheduled delays, there may be limited flexibility to pay for some completions in 2015/16. Bids should be submitted, and will be assessed on the basis that they are programmed to achieve completion by 31 March 2015. If flexibility exists to pay for some completions beyond that point, where, exceptionally, delays have occurred, the validity of those reasons will be assessed at the point at which they occur.

### Interaction with other programmes

- 1.21 Schemes proposed for the guarantee (and/or grant funding) **must not** form part of any existing Affordable Housing programmes, including the current 2011-15 Affordable Homes Programme and the Care and Support Specialised Housing Fund, once allocated. This restriction applies to both funded schemes and schemes to be delivered at nil grant (through s106 obligations for example). It also applies whether the scheme is an identified firm scheme within the Affordable Homes

Programme, or is intended to be brought forward as a firm scheme to fulfil a provider's obligations for delivery of a currently indicative scheme.

- 1.22 We will require providers to certify, as part of their bid, that no scheme bid for under the Affordable Homes Guarantees Programme will displace delivery under their existing Affordable Homes Programme. The Agency will seek to test this by comparing forecast schemes under the existing Affordable Homes Programme (and other Agency programmes) against bids under the Affordable Homes Guarantees Programme. We reserve the right, where insufficient progress has been made in forecasting bulk lines under the Affordable Homes Programme to enable a detailed comparison, to disregard bids under the Affordable Homes Guarantees Programme, which we will not assess.
- 1.23 We will also take account of delivery progress to date under the Affordable Homes Programme and provider performance against their delivery forecasts, in our assessment of bids under the Affordable Homes Guarantees Programme, where we will prioritise bids from providers which offer identified firm schemes which have a demonstrable likelihood of achieving delivery, *in addition to* achieving delivery of existing programme commitments.

#### Who can bid?

- 1.24 The Affordable Homes Guarantees Programme is available to registered providers classified to the private sector. Where an application for grant is submitted alongside an application to the debt guarantee delivery partner (once appointed) for guaranteed debt, the applicant will need to be the body (registered provider) who will be the long term stock owner who will therefore hold the long-term debt.
- 1.25 Applications from private sector bodies who are not currently, but intend to apply to become, a registered provider, will be considered. However, it is expected that they will form a small minority of applications (if any) as there will be a need to demonstrate that the provider is likely to achieve registered provider status within a short timescale, to be able to hold the guaranteed debt, and receive grant funding, and critically demonstrate the ability to deliver new affordable housing within the timescales identified.



## 2. The Affordable Homes Guarantees Programme delivery model

- 2.1 The aims of the Affordable Homes Guarantees programme are to:
- support economic growth;
  - maximise delivery of new affordable housing supply in addition to existing programmes by 31 March 2015
  - meet housing need at a local level; and
  - ensure that public funds (and funds generated from conversions) are properly and effectively spent.
- 2.2 The Affordable Homes Guarantees Programme extends the new, more flexible form of social housing, Affordable Rent, introduced as the main type of new supply under the 2011-15 Affordable Homes Programme. Details of the Affordable Rent product are set out in chapter three of the existing Affordable Homes Programme Framework.
- 2.3 As part of the Affordable Homes Guarantees Programme, there is flexibility for funding to be used for affordable home ownership (shared ownership). Details are set out in chapter 4.

### Affordable Homes Guarantees Programme - delivery model and provider offers

- 2.4 Building on the main Affordable Homes Programme, new (additional) Affordable Rent and affordable home ownership homes may be delivered through a combination of:
- (i) the benefit of the guarantee
  - (ii) grant funding where needed
  - (iii) agreed flexibilities on the use of existing assets
  - (iv) provider own capacity and
  - (v) other sources
- 2.5 The combinations in which the three strands of funding listed in (i) to (iii) above can be used to fund additional new supply are set out in annex one. Where a provider wishes to bid only for guaranteed debt (to the debt guarantee delivery partner), they do not need to also bid to the Agency – but will need to enter into a short form agreement with the Agency to be able to charge an Affordable Rent on the resulting new properties.
- 2.6 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 Agency in line with this bidding guidance. Where that is the case, the Agency and the Regulator will work with the debt

guarantee delivery partner, once appointed, to agree and streamline information requirements to each body wherever possible. We will also seek to co-ordinate assessment timetables so that the outcome of requests for guaranteed debt are known in broadly the same timeframes as the outcome of bids for grant and/or asset management flexibilities and vice versa.

- 2.7 Further details will be provided once a debt guarantee delivery partner has been selected, and bidders are advised to regularly check for updates on the Agency and Department for Communities and Local Government section of the [www.gov.uk](http://www.gov.uk) website.

(i) Guaranteed debt funding

- 2.8 Bidders who wish to access guaranteed debt should apply to the debt guarantee delivery partner, once appointed. If an application for guaranteed debt funding is made, where grant is also needed (alongside asset management flexibilities) it is expected that the grant required will be lower than under the main Affordable Homes Programme, reflecting the lower cost of debt anticipated under the guarantee.

(ii) Grant funding

- 2.9 Where grant is requested bids should be submitted to the Agency and must comprise wholly of identified firm schemes which demonstrably do not displace delivery from current programmes and which meet identified local needs.
- 2.10 Provider requests for Agency funding to support delivery of new supply under the Affordable Homes Guarantees Programme are expected to be the minimum necessary for delivery to be viable, taking account of contributions from the other sources of funding outlined.
- 2.11 If a bidder wishes to apply for grant funding for (additional) new affordable housing, without also taking advantage of the guarantee, bids will have to offer as good, or better, value for money in terms of the grant required, as bids which will also make use of the guarantee.
- 2.12 As bids must be for identified firm schemes, in a change from the current Affordable Homes Programme, payment of the start on site tranche, and practical completion tranche (each at 50 per cent of the agreed grant), will be based on the grant agreed for the individual scheme, and the agreed grant will not alter the average payment rate for the existing Affordable Homes Programme where a provider already has a framework delivery agreement in place with the Agency.

(iii) Asset management flexibilities

- 2.13 Where providers wish to make use of asset management flexibilities they should set out their proposals covering how they will manage their existing assets and capacity – and in particular how they will use the flexibility to convert some of their current stock to Affordable Rent (or other tenures) to support delivery of additional new supply.

### Conversions

- 2.14 Providers are advised to read paragraphs 2.13 to 2.19 of the original Affordable Homes Programme Framework for information on converting existing social rent stock to generate capacity to support (additional) new supply.
- 2.15 Asset management flexibilities will allow a proportion of social rent properties to be made available at re-let at an Affordable Rent, with the additional capacity generated from those re-lets applied to support delivery of new supply. These flexibilities will be in addition to any conversions already agreed under the main Affordable Homes Programme (where applicable), and providers will need to demonstrate that they have the capacity to undertake further additional conversions.
- 2.16 Providers who are already undertaking conversions as part of the existing Affordable Homes Programme, under a signed Framework Delivery Agreement, should set out as part of their Affordable Homes Guarantees Programme bid how additional conversions for the guarantee programme will affect their existing stock and re-lets, alongside any on-going existing conversions. Providers should set out any relevant information based on their experience of undertaking conversions to date, and any changes to their approach to conversions for the Affordable Homes Guarantees Programme as a result of that experience.
- 2.17 We recognise that it may take longer than the period between agreeing (additional) new supply proposals under the Affordable Homes Guarantees Programme and end of March 2015 to generate sufficient conversions to support that new supply. We will therefore consider proposals for the Affordable Homes Guarantees Programme which require a proportion of conversions to continue to March 2016. Bidders should clearly indicate where they consider there will be a need for them to make use of such an extended period for conversions.
- 2.18 Providers should note that capacity generated from conversions outside London cannot be used to support (additional) new supply under the Affordable Homes Guarantees 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 Agency as a result of this bidding document which is only relevant to (additional) new supply

under the Affordable Homes Guarantees Programme outside London, providers should not include any assumptions about capacity generated from conversions in London.

- 2.19 In line with the main Affordable Homes Programme, the contract will focus on the capacity to be generated by conversions, which should be no more than that needed to support the proposed programme of (additional) new supply. Flexibility will be applied where the mix and rate of conversion varies from that originally proposed.

#### Disposals

- 2.20 The information at paragraphs 2.20 to 2.22 of the original Affordable Homes Programme Framework remains applicable to the Affordable Homes Guarantees Programme.
- 2.21 Restrictions on using conversions in London to support new supply out of London (or vice versa) also apply to capacity generated by disposals.

#### (iv) Provider capacity

- 2.22 The information at paragraphs 2.23 to 2.25 of the original Affordable Homes Programme Framework about providers' own capacity remains applicable to the Affordable Homes Guarantees Programme.

#### (v) Other sources of funding and reducing costs

- 2.23 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 s106 agreements to deliver affordable housing, and the application of other sources of funding such as from the New Homes Bonus, or Community Infrastructure Levy (for associated infrastructure costs).

#### Meeting local needs

- 2.24 As with the main Affordable Homes Programme, the Affordable Homes Guarantees Programme must meet local needs and we will seek confirmation from local authorities that schemes meet identified needs.
- 2.25 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.

- 2.26 Identified needs might include for example, the provision of larger homes; supported housing for vulnerable and older people; housing in rural areas and housing which will be targeted to meet the needs of disabled people, faith groups and black minority and ethnic communities. Providers should ensure that their schemes take account of the needs identified by local authorities (including any equality priorities) where appropriate through the housing mix they contain.
- 2.27 For the 2011-15 Affordable Homes Programme we did not split available funding into budgets for different Agency operating areas, and do not intend to do so for the Affordable Homes Guarantees 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.
- 2.28 The scope for individual providers to generate financial capacity through conversion of re-lets will not be uniformly distributed between areas, and may not match those areas with new supply opportunities. Providers will need to take a flexible and strategic approach to generating financial capacity through conversion. A requirement to ring-fence capacity for reinvestment in new supply within a particular area does not allow the new model to work in practice. The 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.
- 2.29 Where conversion from one type of social housing to another takes place, e.g. from social to Affordable Rent, we anticipate that allocations will remain subject to existing nomination arrangements with local authorities.
- 2.30 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, including consultation with the local authority, before seeking disposal consent.

### 3. Affordable Rent

- 3.1 Providers are advised to read chapter 3 of the Affordable Homes Programme Framework which outlines the key attributes of Affordable Rent homes. Where there are changes or updates to the information in chapter three of the Framework, which are relevant to the Affordable Homes Guarantees Programme, these are set out below. Providers should work on the basis that the requirements of Chapter 3 of the original Framework continue to apply, unless specifically varied by the below.
- 3.2 Providers should note that the current rent and tenure components of the Regulator's tenancy standard can be found at [www.homesandcommunities.co.uk/sites/default/files/our-work/regfwk-2012.pdf](http://www.homesandcommunities.co.uk/sites/default/files/our-work/regfwk-2012.pdf). These requirements supersede references in chapter 3 of the Affordable Homes Programme Framework to future proposals or consultation outcomes.
- 3.3 Royal Institution of Chartered Surveyors has also published guidance on valuing Affordable Rent properties. That guidance is available at [www.homesandcommunities.co.uk/sites/default/files/our-work/regulatory\\_framework\\_annex\\_a.pdf#page=41](http://www.homesandcommunities.co.uk/sites/default/files/our-work/regulatory_framework_annex_a.pdf#page=41).

#### Rents

- 3.4 As with the existing Affordable Homes Programme, Affordable Rent homes will be made available to tenants up to a maximum of 80 per cent of market rent and allocated in the same way as social housing is at present.
- 3.5 As set out in the Department for Work and Pensions white paper *Universal Credit: Welfare that Works* housing benefit payments for Affordable Rent will be based on the actual rent charged for that property. Government has already announced its intention to limit housing benefit payments to social rented sector tenants of working age who under-occupy their properties from April this year, and this policy will therefore also apply to Affordable Rent homes. Other than this, we do not anticipate further changes in the short to medium term. A tenancy where a registered housing association (note that this term includes private registered providers) is the landlord is excluded from mainstream local housing allowance rules.
- 3.6 The Regulator is therefore not proposing to restrict the maximum rent that registered providers can charge for Affordable Rent properties based on the local housing allowance. However, landlords will wish to consider the local market context when setting rents, including the relevant local housing allowance for the broad rental market area in which the property is located. They should also take into account wider benefit policy such as the forthcoming introduction of the cap on total

household benefit payments which will ensure that workless families do not receive more in welfare than the median earned income after tax and national insurance contribution earnings of working families. Households entitled to working tax credit, and households with a member in receipt of attendance allowance, disability living allowance, personal independence payments, industrial injuries benefits or the support component of employment and support allowance will be exempt from the cap, as will war widows and widowers. Housing support provided to claimants living in supported exempt accommodation will be disregarded for the purposes of the cap.

- 3.7 While offers which include Affordable Rent for new supply and/or conversions at less than 80 per cent of market rents will be considered, it is expected that providers utilise the flexibility to charge rents of up to 80 per cent of market rents to maximise financial capacity. The Agency would need to understand how any proposal to charge lower rents would help to meet particular housing needs, deliver value for money for the taxpayer and generate the capacity required to deliver new supply aspirations.
- 3.8 There may be specific circumstances where it is appropriate to set rents at less than 80 per cent of market rents. For example, providers may wish to charge a lower rent where a rent at 80 per cent of market rent would exceed or be close to the relevant local housing allowance cap; or if the local rented market was considered to be particularly weak or fragile (for example on an existing estate where there may be few market rented properties); or in regeneration schemes, where decanting existing social tenants into new homes is necessary.
- 3.9 The Agency would wish to explore with providers the rationale for considering rents at less than 80 per cent of market rents. In all cases, an Affordable Rent should be no lower than the rent calculated based on the current target rent regime. In cases where an Affordable Rent would otherwise be lower than the target rent for a property, the target rent will constitute a 'floor' for the rent to be charged.

### Tenancies

- 3.10 The following updates references to requirements in paragraphs 3.18 and 3.19 of the original Framework which were then subject to the passage of the Localism Bill. Since the publication of the original Framework, the Localism Act has now been passed, requiring local authorities to publish tenancy strategies by 15 January 2013. It is not the role of tenancy strategies to take a view on rent levels.
- 3.11 Registered providers are now able to offer Affordable Rent homes on flexible tenancies and may have also begun to review their own tenancy management policies. Registered providers are to have regard to local authority tenancy strategies, but they remain responsible for deciding what their own tenancy management policy

should be, and what type of tenancy, including flexible tenancies, they will offer.

### Affordable Rent and planning

- 3.12 The National Planning Policy Framework provides definitions for Affordable Housing, including Affordable Rent  
[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6077/2116950.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf).
- 3.13 Local authorities, in planning for affordable housing, should take into account that new rented homes built under this programme should be at Affordable Rent levels, and that guarantees and grant funding will be provided on that basis.



## 4. Other options to meet local needs

### Range of products

- 4.1 The Affordable Homes Guarantees Programme is applicable to new supply through Affordable Rent and affordable home ownership. Where a provider requires grant to deliver affordable home ownership homes, these must be for shared ownership. We will consider the inclusion of affordable home ownership in proposals, where it is a local priority and offers value for money.

### Affordable home ownership

- 4.2 Affordable home ownership options have a role to play in helping first time buyers who may be excluded from purchasing a home by affordability or deposit constraints. The 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. Affordable home ownership will need to provide good value for money and increase overall affordable housing supply. Offers from providers that only include affordable home ownership, with no Affordable Rent within the overall proposal, will not be considered.
- 4.3 Paragraphs 4.14, 4.16 4.18 and 4.19 of the original Affordable Homes Programme Framework continue to apply.
- 4.4 Further guidance on shared ownership is available in the Affordable Housing Capital Funding Guide.

### Supported housing and housing for older people

- 4.5 Where proposals under the Affordable Homes Guarantees Programme are for new supply for supported housing or for housing for older people, the requirements at paragraphs 4.24 – 4.29 of the original Framework continue to apply, with the exception that, given that the Affordable Homes Guarantees Programme is intended to promote economic growth, we would normally expect proposals to be for new build schemes rather than for improvements to existing stock.
- 4.6 Bidders should note that we do not expect overlap between schemes under the Affordable Homes Guarantees Programme and the Department of Health's Care and Support Specialised Housing Fund (once allocations are confirmed) As outlined in the prospectus for the fund, guaranteed debt is not available for delivery under that programme.

### Other programmes

- 4.7 The Affordable Homes Guarantees Programme does not cover bespoke elements of the existing Affordable Homes Programme for other purposes such as Mortgage Rescue, Homelessness Change, Traveller Pitch or Empty Homes. Paragraphs 4.30 to 4.37 of the original Framework do not therefore apply.

#### Affordable Housing Capital Funding Guide

- 4.8 References are made throughout this Framework to the Affordable Housing Capital Funding Guide where detailed guidance is available on the requirements for the products outlined in this document. That detail supplements but does not alter the information provided in this Framework.

## 5. Programme Requirements

- 5.1 The 2011-15 Affordable Homes Programme introduced a new delivery model. This Framework invites providers to submit offers to deliver (additional) new supply under the Affordable Homes Guarantees Programme, where grant funding and/or conversion income is required to support that (additional) new supply. The costs will be met from a range of funding sources – as set out in chapter 2 above.
- 5.2 Offers should demonstrate that the aggregate of anticipated funding sources will meet (but not exceed) the anticipated costs of delivery of new homes. This key principle of the new delivery model will be maintained during the assessment process and subsequently, through contract management – i.e. funding identified and capacity generated must be applied to support the delivery of new supply. Through the assessment process all offers will be tested to ensure that no more funding than is required is being requested by providers.

### Value for money

#### Costs

- 5.3 Given constrained public finances, it is important to make the best use of the range of sources of funding for new supply. The Agency wishes to see providers consider and maximise value for money by bearing down on the costs of new supply.
- 5.4 Under the original 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 2011-15 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 (additional) new supply under the Affordable Homes Guarantees Programme will be expected to build on and supplement good procurement approaches, and continue to focus on driving down the costs of new supply.
- 5.5 To maintain a strong focus on the management of costs under the Affordable Homes Guarantees Programme we will require providers to work with us on an open book basis, sharing their cost data on specific projects, and to publish comparable cost data on a regular basis.
- 5.6 The Agency will consider the value for money of the costs of supply of offers received and will take account of costs in its assessment.

### Use of public land

- 5.7 Publicly owned land is a valuable resource and providers should work in partnership with public sector landowners to deliver affordable housing.
- 5.8 Providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as Agency funding. Where public land is not being transferred for free or for minimal consideration, we would encourage the landowner to use deferred receipts.

#### Schemes requiring demolition

- 5.9 This prospectus invites bids for new affordable homes on named firm schemes. In that context, bidders are reminded that, where demolitions of derelict existing structures are required, those are expected to be for redundant structures such as garages and other non-housing. It is not expected that this programme will lead to demolitions of existing housing stock. Schemes on previously cleared land (regardless of the previous use), are acceptable.
- 5.10 Bidders interested in bringing empty homes back into use are encouraged to bid for the £75m grant funding available to bring empty homes back into use (See bidding guidance published in December 2012).

#### Section 106 schemes

- 5.11 Paragraphs 5.14-5.19 of the original Framework document continue to apply.

#### Provider offers

- 5.12 This section replaces in full the provider offers section in the original Affordable Homes Programme Framework.
- 5.13 Any registered provider classified to the private sector may submit proposals for delivery under the Affordable Homes Guarantees Programme. Where an application for grant is submitted alongside an application to the debt guarantee delivery partner (once appointed) for guaranteed debt, the applicant will need to be the body (registered provider) who will be the long term stock owner who will therefore hold the long-term debt.
- 5.14 The need to demonstrably be able to deliver identified firm schemes within a fixed timeframe (by 31 March 2015 where grant is required) means that we will expect providers to have a clear, demonstrable track record of good delivery.
- 5.15 All providers will be expected to offer value for money in delivering new supply. Providers will have to meet the costs of new supply

through a range of sources which will supplement new Agency funding. This is likely to mean a provider will need to have existing stock which can be converted to generate capacity, or access to other resources, to minimise the call on Agency funding.

- 5.16 Applications from private sector bodies who are not currently, but intend to apply to become, a registered provider, will be considered. However, it is expected that they will form a small minority of applications (if any) as there will be a need to demonstrate that the provider is likely to achieve registered provider status within a short timescale, to be able to hold the guaranteed debt, and receive grant funding, offer conversions and be able to demonstrate the ability to deliver new affordable housing within the timescales identified.
- 5.17 Under the 2011-15 Affordable Homes Programme, a number of investment partnership arrangements were put in place. There will be no need for providers to change such consortium working arrangements although they may wish to identify new consortium members who may be able to bring additional capacity to an offer under the Affordable Homes Guarantees Programme. 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 Affordable Homes Guarantees Programme where that capacity can be applied to the timely delivery of (additional) new supply.
- 5.18 Providers are encouraged to include smaller, rural, specialist (including supported housing and housing for older people) and community based organisations in existing consortia arrangements where opportunities for identified firm schemes which offer (additional) new supply exist, so that proposals will better reflect local need. We will favour in assessment offers which include a range of provision and meet a range of needs, including where this is delivered through smaller local providers who can bring forward capacity and who are likely to be well placed to meet local needs, as identified by local authorities.
- 5.19 Consortium leads will be expected to work closely with other consortium members throughout the contract period to deliver the supply envisaged, and will be responsible for collating and providing information from consortium members to the Agency on delivery of the various parameters included in the framework contract. The contract flexibilities outlined for conversion capacity will allow for variations across all consortium members.

#### Design and quality standards

- 5.20 Paragraphs 5.27 – 5.32 of the original Framework document continue to apply.

## Assessment

- 5.21 The overall objective of the assessment process is to agree a programme of identified firm schemes with providers for the supply of affordable homes that:
- meet local needs and priorities in their proposed locations;
  - offer good value for money;
  - can clearly demonstrate that they will achieve delivery within the programme timeframe (ie by 31 March 2015 where grant is needed);
  - are social housing (as defined by sections 68-71 of the Housing and Regeneration Act 2008); and
  - confirm registered providers should continue to meet the Regulator's economic standards
- 5.22 The assessment process will consider how offers meet local needs and will verify fit with the local authority in whose area a firm scheme is proposed.
- 5.23 Offers will be assessed to ascertain value for money of the costs of supply and of the requirements for new Agency funding to establish that the proposed delivery of new supply provides value for money comparative to other providers. Assessment will take account of the costs of supply (and how those compare to offers from other providers and to the current costs database) and the extent to which sources of funding other than Agency funding are available to the provider and are being applied to support delivery of new homes.
- 5.24 The current approach to funding, introduced with the Affordable Homes Programme with a greater proportion of the development costs of new homes coming from sources other than the Agency, may impact loan covenants, including gearing ratios. The advice of the Regulator on a registered provider's continued viability will be key in the Agency's decision on whether to proceed with any or all of the schemes proposed.

## Role of the Social Housing Regulator

- 5.25 The Regulator will assess offers as they are submitted and provide advice to the Agency on whether the registered provider(s) involved in delivering the offer are:
- currently in compliance with the Regulator's standards, including their 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 offer; and
  - likely to be able to continue to meet their Standards, including the viability element of the governance and viability standard if the offer is

agreed, taking account of the impact in addition to any existing programme agreements.

- 5.26 In assessing the impact of proposals on future viability the Regulator will consider a range of factors including the deliverability of conversion / disposal assumptions, funding requirements, sales risk and interest cover and gearing. Where registered providers submit offers to both the Agency and the Greater London Authority, the Regulator will assess the combined impact of these offers on future viability.
- 5.27 The Regulator's review of offers will form part of the overall assessment process for the Affordable Homes Guarantees Programme. Registered providers will need to submit relevant information direct to the Regulator including an updated financial forecast return. This should be the latest version of the financial forecast return template which contains specific information requirements relevant to the Affordable Homes Guarantees Programme bids.
- 5.28 The Regulator will also consider any requests for statutory consent to specific social housing disposals that registered providers are ready to submit alongside offers. As noted in paragraph 3.23 of the original Framework, the Regulator will expect providers to meet its requirements for consultation with a local authority before seeking specific disposal consent.
- 5.29 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 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.
- 5.30 When an extension to an existing framework delivery agreement is in place, or where required, a new framework delivery agreement has been signed following agreement of an offer, providers may begin to convert existing social rent homes at re-let to agreed new tenures (including Affordable Rent).

#### Offers – information requirements

- 5.31 This section sets out the information required from providers submitting offers. The level of information needs to be sufficient to allow the Agency (and where appropriate – in respect of financial viability and where consents will be needed - the Regulator) to:
- establish that proposals for new supply meet identified needs and will address local priorities;

- allow comparison of provider offers (particularly comparative value for money) and provide assurance that the cost of delivering new supply can be met from the range of funding sources proposed; and
- test that proposals are realistic and that identified firm schemes are demonstrably likely to be deliverable;
- 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.

5.32 Providers must submit their offers using the Agency's Investment Management System and complete the standard offer template for additional information available at:

[www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes)

### Geographic spread

5.33 Given the expectation that offers will be delivered through identified firm schemes, the individual local authority in which the scheme is located should be identified.

### Conversion information

5.34 Conversion proposals should outline the number and location (based on the agreed geographies outlined above) of homes to be converted to Affordable Rent and other tenures at re-let, and the proportion of anticipated annual re-lets this represents. We expect this to be supported by an analysis of historic void rates and, where applicable, experience of undertaking conversions needed to generate capacity for the existing Affordable Homes Programme.

5.35 The estimated average existing and new rent levels (and service charge) and the additional borrowing capacity generated (taking account of the benefit of the guarantee where this is sought) 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.

### Scheme information

5.36 Bids must include the local authority and site name for each identified firm scheme and identify whether the scheme is located in a rural area.

5.37 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 Affordable Homes Programme or other Agency programmes. Bidders will be required to certify that there



is no overlap between the Affordable Homes Guarantees Programme and other Agency programmes, particularly the Affordable Homes Programme.

- 5.38 Scheme bids will include the anticipated unit mix, tenure (Affordable Rent and shared ownership) and any specific provision being offered (supported housing, housing for older people) and where known, specific needs (faith groups, disabled people, black and minority ethnic ).
- 5.39 Bids for schemes which meet a diverse range of needs - including supported housing and housing for the elderly - and housing in rural areas are strongly encouraged.
- 5.40 Bids should outline the anticipated timing of delivery (expected starts on site and completions by quarter). Given the imperative to deliver promptly within the available timescales where grant is requested, we would not expect to see significant changes in delivery dates for successful bids at allocation profiling stage. Where there is significant slippage, the Agency will consider whether the scheme(s) remain on track to deliver by 31 March 2015, and may consider re-allocating funding if necessary.
- 5.41 Proposals must outline the estimated scheme costs and the amount and sources of funding to meet those costs.
- 5.42 Offers should outline the proposed number of homes to be delivered at nil grant through section 106 agreements which require no additional funding over the price paid based on the principles outlined in chapter 5 (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).
- 5.43 Proposals should outline the design and quality standards to be achieved.

#### Registered provider board approval

- 5.44 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.

#### Supplementary requirements

- 5.45 The supplementary information outlined below should be provided in written statements, unless specified otherwise.

#### *Achieving procurement efficiencies*

- 5.46 We wish to see on-going reductions in the costs of new provision, through innovative and efficient approaches to procurement.
- 5.47 For providers with an existing framework delivery agreement, they should provide an update of how any additional schemes funded under the Affordable Homes Guarantees Programme will supplement any procurement plans proposed under their original Affordable Homes Programme, and give an update on progress in achieving procurement efficiencies under the Affordable Homes Programme. Where providers do not have a framework delivery agreement for the current Affordable Homes Programme, and therefore do not have an existing procurement statement and strategy being implemented, they should include a statement of how they are, or propose to, introduce procurement efficiencies and bear down on costs. The approach outlined will be reviewed annually and providers will be asked to assess the savings achieved.

#### *Employment and skills – supporting jobs*

- 5.48 Paragraphs 5.64 – 5.65 and 5.67 – 5.68 of the original Framework document continue to apply. Paragraph 5.66 is updated slightly as below.
- 5.49 For providers with an existing framework delivery agreement, they should provide an update of their current employment and skills statement, and give an update on progress to date under the Affordable Homes Programme. Where providers do not have a framework delivery agreement for the current Affordable Homes Programme, and therefore do not have an existing employment and skills statement they should include a brief employment and skills statement as part of their offer, outlining in particular how they will create or support apprenticeships, reflecting the Government priority for apprenticeships at level three. This can take account of the wider range of provider activity. We are particularly interested in collaborative approaches with local partners (particularly local authorities). Providers in consortia are encouraged to take a group approach to the provision of employment and skills opportunities.

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

- 5.50 Paragraphs 5.69 – 5.73 of the original Framework document continue to apply.
- 5.51 We will expect providers to confirm that schemes, will meet key equalities priorities that are identified and agreed by local authorities. Providers are asked to confirm through the relevant section of the standard information template that they will work with their local authority partners to agree nominations arrangements which comply with a local authority's allocation policies (which will have been

developed in line with the local authority's statutory equalities responsibilities).

### Organisation information and requirements

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

### Financial information and viability

- 5.53 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 offer 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](mailto: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.
- 5.54 By submitting offers, registered providers will be giving consent that relevant financial information provided to the Regulator may be shared with Agency Investment on a confidential basis.
- 5.55 Providers who are *not* registered with the Regulator must provide their audited accounts for the last three years to the Agency for assessment.
- 5.56 For registered and un-registered providers, the Agency and the Regulator reserve the right to make additional financial checks and request further financial information if necessary.
- 5.57 The Agency and the Regulator will work with the debt guarantee delivery partner, once appointed, to minimise, where possible and consistent with appropriate due diligence, the need for registered providers to duplicate information requirements.
- 5.58 Should a bidder wish to take advantage of the guarantee, and submit a bid for grant (or conversions) to the Agency, and, following due diligence, the guaranteed debt is not offered, the Regulator may require updated financial information if it is proposed to proceed with a grant allocation, but without the bidder benefitting from the guarantee.

### Registered provider status

- 5.59 Bidders must be registered providers (classified to the private sector) or intend to become registered providers. Full details of how to register are available on the Agency website: [www.homesandcommunities.co.uk/ourwork/how-register-us](http://www.homesandcommunities.co.uk/ourwork/how-register-us) .

Providers should note the indicative timescales for registration included in the Regulator's guidance. As outlined at paragraph 1.25, 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.

### Investment Partners

- 5.60 Existing Agency investment partners are not required to submit a new pre-qualification application. Investment partner performance is reviewed annually and those already qualified through the 2011-2015 Affordable Homes Programme 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 2012-13.
- 5.61 Organisations who are not already qualified as investment partners with the Agency will need to submit an application for qualification. 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 standing. Providers must have achieved Agency investment partner status before payment under an agreed framework contract can be made. As with the requirements to be a registered provider, we anticipate that the number of bids under the Affordable Homes Guarantees Programme from providers who do not already have investment partner status will be relatively low, given the need to demonstrate an ability to deliver promptly within the programme timescales envisaged.

## **6. Contract and Programme Management Principles**

- 6.1 Given the timeframe within which any grant funded housing under the Affordable Homes Guarantees Programme must be delivered, we expect bidders to bring forward, and to allocate to, programmes constituted of identified firm schemes. Where there is subsequent slippage in delivery of an identified scheme, substitutes will be considered on an exceptions basis only, where the substitute scheme can demonstrably deliver within the timescales (ie achieve practical completion by 31 March 2015).
- 6.2 However, we recognise that re-let patterns may vary – impacting anticipated conversions. We will therefore operate contract and programme management in this regard on a flexible basis to take account of situations in which conversion parameters change.
- 6.3 Based on provider's offers and following agreement of a programme of identified firm schemes, payment will be made at start on site and at practical completion (based on a 50 per cent tranche for each) where schemes meet the payment requirements set out in the Affordable Housing Capital Funding Guide. Payment will be made based on the agreed scheme allocation, and not on an average payment rate basis, and allocations agreed under the Affordable Homes Guarantees Programme will not vary the average payment rate under the main Affordable Homes Programme.
- 6.4 Where required, changes in specific contract parameters will be dealt with through quarterly reviews with each provider. Quarterly contract reviews will consider (i) actual delivery achieved (of additional new supply and of conversions/disposals), and (ii) a forward look at additional new supply proposals to be delivered and anticipated conversions/disposals. Data will be provided on an open book basis. A strategic review of the operation of the framework contract will be undertaken, jointly with providers, on an annual basis.
- 6.5 Quarterly and annual contract reviews will be held as single reviews where a provider has an allocation agreed under the Affordable Homes Guarantees Programme and also has a framework delivery agreement for delivery under the main Affordable Homes Programme. Providers will be expected to deliver new supply in line with forecasts under both elements of the programme, and the Agency's view of delivery performance and certainty of delivery of future forecasts will be informed by both elements of the programme.
- 6.6 We wish to avoid a situation where there is displacement of delivery from the original Affordable Homes Programme into the Affordable Homes Guarantees Programme, and if delivery performance in either element gives reasonable cause for concern about a provider's ability

to deliver their combined outputs, we will take both elements of programme into account in discussions with providers about the need to withdraw and re-distribute allocations.

- 6.7 The key objective of contract reviews and the approach to variations will be to maintain (or increase) the number of new homes delivered, under both the main Affordable Homes Programme and the Affordable Homes Guarantees Programme.
- 6.8 It is unlikely to be possible at any stage during the programme period to respond to changes in contract parameters by increasing the rate of funding per unit for each completed home (if additional funding is needed - for whatever reason - to deliver the new supply outputs envisaged). Such additional funding would have to be generated from a provider's own resources or capacity (where that is achievable without adversely impacting their financial viability).
- 6.9 If sufficient additional funding cannot be generated by the provider, the number of new units envisaged under the contract may be reduced, and a proportionate amount of allocation withdrawn for re-distribution to other providers (in return for additional units).

### Contract

- 6.10 Providers who have an existing framework delivery agreement with the Agency for delivery under the 2011-15 Affordable Homes Programme will be required to enter into a standard form Deed of Variation to reflect any allocations agreed under the Affordable Homes Guarantees Programme and agree a separate schedule one which will list the identified firm schemes for which allocation has been agreed. Where providers do not currently have a framework delivery agreement for the existing Affordable Homes Programme, they will be required to enter into the **standard form** framework contract with the Agency for the delivery of new affordable homes and conversion of social rent homes at re-let to new tenures. A suite of Framework Delivery Agreements is available for review on the Agency's website at [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes)
- 6.11 We want providers to start bringing forward additional new supply schemes under the Affordable Homes Guarantees Programme as soon as possible, with the intention of having all extensions to existing or new contracts in place by early summer 2013. Where there is limited progress in agreeing new contracts, or extensions to existing contracts, we reserve the right to set a backstop date for agreement and to withdraw and re-allocate funding if necessary.

### Reporting and information requirements

6.12 These are outlined in the current standard form contract.

### Openness

#### *Transparency on costs and funding*

6.13 To encourage value for money, and in line with the approach under the main Affordable Homes Programme, we will publish information on the initially agreed allocations under the Affordable Homes Guarantees Programme and thereafter provide updates on a quarterly basis. This will include information on scheme costs and the sources of funding meeting those costs. This will be a valuable source of data for providers and support the continual drive for improved efficiency.

#### *Transparency on spend*

6.14 Paragraph 6.26 of the original Affordable Homes Programme Framework remains applicable to the Affordable Homes Guarantees Programme.

#### *Post scheme evaluation*

6.15 The Agency undertakes a programme of compliance audits on a sample basis through a provider's external auditors, as well as a programme of quality assurance and impact visits. These requirements will continue to apply under the Affordable Homes Guarantees Programme and schemes funded under that programme will be included in the sample population. Our intention is to ensure that the results from the compliance regime help the sector drive quality and efficiency in the delivery of new homes. The Agency will continue to work with partners to consider how best to promote and achieve dissemination of good practice and lessons learnt to benefit providers and end users. As with the main Affordable Homes Programme, providers are encouraged to use and implement the results from post-scheme evaluation questionnaires.

## 7. Timetable

<b>Milestone</b>	<b>Date</b>
Publication of the Framework inviting offers for the Affordable Homes Guarantees Programme	27 February 2013
Providers developing bids	March and April 2013
Deadline for submission of bids	23 April 2013
Assessment of bids	May 2013
National aggregation and analysis of programme and liaison with debt guarantee delivery partner	29 May – 7 June 2013
HCA Board and Ministerial sign off of aggregate programme	w/c 10 June 2013
Announcement of allocations	Mid-June 2013



# Annexes

## Annex One

### Funding combinations and bidding and contract requirements

Type of funding	Can be used in combination with	Bid to	Contracting requirements
Debt guarantees	<ul style="list-style-type: none"> <li>(i) Alone</li> <li>(ii) With grant</li> <li>(iii) With conversions</li> <li>(iv) With grant and conversions</li> </ul>	Debt guarantee delivery partner	<p>Extension or new framework delivery agreement if grant required</p> <p>Short form agreement with the Agency if only guaranteed debt needed</p>
Grant funding	<ul style="list-style-type: none"> <li>(i) Guaranteed debt</li> <li>(ii) Guaranteed debt plus conversions</li> <li>(iii) Only conversions (note value for money requirements)</li> <li>(iv) Alone (note value for money requirements)</li> </ul>	The Agency	<p>Extension to framework delivery agreement (existing Affordable Homes Programme providers)</p> <p>New framework delivery agreement (no current HCA contract or only currently a short form agreement)</p>
Conversions	<ul style="list-style-type: none"> <li>(i) Guaranteed debt</li> <li>(ii) Guaranteed debt plus grant</li> <li>(iii) Only grant (note value for money requirements)</li> </ul>	The Agency	<p>Extension to framework delivery agreement (existing Affordable Homes Programme providers)</p> <p>New framework delivery agreement (no current HCA contract or only</p>

			currently a short form agreement)
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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.