



**NATIONAL  
HOUSING  
FEDERATION**

**Neighbourhoods and Sustainability**

## **Consultation Response**

**Title:** New Partnerships in Affordable Housing

**Reference:** NS.DV.2005.RS.03

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**Date:** January 2005

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## **New Partnerships in Affordable Housing**

*A response from the National Housing Federation*

### **Introduction and summary of key points**

The National Housing Federation represents some 1400 independent, not for profit housing providers in England. Our members include Registered Social Landlords, Housing Associations, Co-ops, Trusts and transfer organisations. They develop and manage more than 1.8 million homes provided for affordable rent, Supported Housing and Low Cost Home Ownership as well as delivering a wide range of community and regeneration services.

Our response to this paper is based on the premise that social housing grant is provided to deliver not just housing, but housing that will continue to provide affordable accommodation into the future for households with insufficient income to pay the full market rate. **The Federation considers that the *New Partnerships in Affordable Housing* proposals require a considerably stronger emphasis and expectation of the long term nature of the affordability benefit that public subsidy will be securing on behalf of the taxpayer.** Not only is this essential in order to assess the comparative value for money of scheme proposals in grant terms, but also in terms of ongoing consequences for housing benefit payments and indeed the poverty trap.

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The other key issues raised in our response may be summarised as follows:

- **Value for money** of proposals must adequately assess the **additionality** of homes delivered from subsidy, and reflect any **leakage** of homes and resources from affordable housing purposes. In particular value for money assessment must evaluate the lost benefits of potential equity growth via profit distributing organisations, or homes that may only be affordable for a limited time period. Although a robust framework to assess **long-term value** of proposals would ideally have been in place by February 2005 when bids are to be sought, we have concerns that a reliable assessment of the comparative value for money offered by RSL and non-RSL bids may still not be possible by the time funding allocations are made.
- **Section 106 and existing ADP pipeline schemes** require careful treatment in bid consideration and clarification in bid guidance. To ensure that local planning negotiations for affordable housing are not undermined, it will be important to publish clear funding criteria and approach for demonstrating the subsidy will secure additional homes. The Corporation will need to guard against the pressure simply to deliver homes quickly from this pilot, leading to inclusion of homes that would have been secured more cost effectively from other sources and that may not live up to the intention to create sustainable communities.
- **Equivalence of services to residents**, as promised to Lord Best in the Housing Bill debates, may be deliverable through an effective **independent accreditation and inspection system**. We do not believe that self-assessment and contractual



engagement of agencies by non-RSL managers can provide comparable assurance (or performance information for the Housing Corporation) as those set out for RSLs, ALMOs and local authorities by the Audit Commission.

- **The preference for RSLs to act as housing managers** for non-RSL developers is a welcome response to the need to ensure managers have a proven track record. However there is a need for the same tests to be applied to the approval and selection of any prospective housing management organisations, and for equivalence of **information and service inspection outcomes** to safeguard residents and public subsidy irrespective of the subsidy recipient. Should comparable monitoring and inspection of non-RSL services not be implemented, there would remain an efficiency and effectiveness argument in favour of the Audit Commission acting as the accreditation agency given its experience of local authority and ALMO inspection, as well as housing associations.
- Although the programme has been launched as a pilot, we stress that, in terms of long-term value for money, successful delivery of mixed and sustainable communities, affordability and service provision, **results cannot be fully evaluated for many years to come**. Further, we are concerned that the inevitable concentration of the programme in growth areas (as a result of the 400 home programme threshold and exclusion of specialist types of provision) will limit the conclusions that can be drawn ahead of the main 2006 ADP programme.
- **We also question the rationale for different thresholds of participation** in this new programme as compared with the most recent partnered allocations, both in terms of the ability of recently established consortia to participate and the potential for further unintended marginalisation of specialist providers. Given that this programme is understood to be partially resourced from slippage on current regional allocations, we also suggest that allocation of resources between regions reflect cumulative delivery requirements.
- In the interests of efficiency, rather than suggest that bidders individually take legal advice on their status for **EU Public Procurement Rules**, we believe that the Corporation should definitively state its view. Bidding RSLs, local authorities and ALMOs will already be disadvantaged through these requirements both in their construction procurement and housing management contracts. If the Corporation is unwilling to set out its understanding of the applicability of the Rules, including to consortia and unregistered subsidiaries of RSLs, then, for the avoidance of doubt, it could require all schemes funded under the programme to be treated as if falling within the Public Procurement Rules.
- The Corporation has traditionally used regulation and investment programme conditions as a means to **promote adoption of good practice corporately** as well as at scheme level. We note that under the pilot, this continues for RSL bidders. The proposals should consider taking this opportunity to use receipt of public subsidy as a lever to require environmental, diversity or rethinking construction strategies at corporate level with new private sector bidders as required for RSLs.



## **A) Delivery of mixed and sustainable communities**

The Federation welcomes the Corporation's statement that it will be looking for a balance and mix of tenures on the individual schemes that it funds. However we believe the Corporation may need to unpick the dilution of this expectation that seems inherent in suggesting that single tenure schemes below 25 units may be acceptable.

We agree that, mirroring the evolution of planning policy, there should be a firm presumption in favour of mixed tenure schemes in the Corporation's criteria for evaluating bids. Rather than applying a strict unit threshold for SHG supported housing, instead we would welcome an approach that considered the overall site mix and spatial distribution of tenures based on SHG funded and market homes. While offering improved flexibility, this would also enhance the contribution made by the Corporation to delivering the government's objectives on mixed and sustainable communities.

At a local level this would also allow consideration to be given to the extent to which bids respond to prevailing housing markets and housing needs. In some locations, when taking into account housing markets and the nature of market housing provided on site, this means that the appropriate balance for SHG funding may be skewed towards predominantly rented homes and, in others, low cost home ownership.

## **B) Features of the pilot programme**

With value for money and innovation key drivers for this programme, it is clear that the Corporation will require flexibility in responding to scheme proposals with the greatest potential.

The indicative criteria set out in the discussion paper will provide helpful information to potential bidders. However while some criteria positively reflect established corporation investment policy, others, such as the arbitrary threshold of 400 or more units will unnecessarily restrict the quality and value of potential innovation. As a consequence of this, we wonder whether the concentration of the initial pilot programme in the hands of such a small number of organisations will be capable of evaluation in a way that will inform the future. It may be better to consider a lower programme size, for example, 200 units, in order to maximise the creative contributions that a wider range of bids could generate. We also question the rationale for different thresholds of participation in this new programme as compared with the most recent partnered allocations, both in terms of the ability of recently established consortia to participate and the potential for further unintended marginalisation of specialist providers.



Given that this programme is understood to be partially resourced from slippage on current regional allocations, we also suggest that allocation of resources between regions should reflect cumulative delivery requirements. Strict adherence to regionally allocated splits will not necessarily make good any shortfall of homes planned for delivery from previous funding rounds. As a result, the Corporation may wish to consider the impact of its proposed programme on cumulative regional delivery, building on the most recent ADP round, rather than taking the indicative proportions for the pilot in isolation.

We consider that there are three further major areas where additional detail is urgently required to inform the nature of the pilot programme, and scheme proposals:

### **1. Section 106 and existing ADP pipeline schemes**

These will require careful treatment in bid consideration and clarification in bid guidance.

To ensure that local planning negotiations for affordable housing are not undermined, it will be important to publish clear funding criteria and approach for demonstrating the subsidy will secure additional homes.

Explicit exclusion of sites already in the ADP programme should also be considered in order to safeguard existing programme delivery.

### **2. EU Public Procurement Rules**

In the interests of efficiency, rather than suggest that bidders individually take legal advice on their status for EU Public Procurement Rules, we believe that the Corporation should definitively state its view. Bidding RSLs, local authorities and ALMOs will already be disadvantaged through these requirements both in their construction procurement and housing management contracts.

Of particular interest, given the potential involvement of unregistered subsidiaries and RSLs in consortia, is the legal position of organisations where an RSL is a partner rather than the lead agency and bidder.

If the Corporation is unwilling to set out its understanding of the applicability of the Rules, including to consortia and unregistered subsidiaries of RSLs, then, for the avoidance of doubt, it could require all schemes funded under the programme to be treated as if falling within the Public Procurement Rules.

### **3. Delivery timescales**

The paper does not make clear any timescale for the completion of units approved under the pilot programme. If there is a preferred end date for the programme (as with other recent pilots such as the Challenge Fund), or a preference for schemes with planning permission, clarification on these matter would assist bidders in focusing their proposals.



### **C) Bidding procedure, evaluation and value for money**

The Corporation will need to guard against the pressure simply to deliver homes quickly from this pilot, leading to inclusion of homes that would have been secured more cost effectively from other sources and that may not live up to the intention to create sustainable communities.

The approach taken to evaluating bidders and value for money will be fundamental to the success of the programme and to future decisions to amend or expand the pilot approach. We would expect that although the current political emphasis is on creating new housing supply, the nature, duration and quality of the affordability benefit provided, together with delivery of other government objectives, should feature in bid evaluation.

The affordability of new supply proposed under this pilot must be promoted within forthcoming guidance and the evaluation mechanism. While we assume that assurances regarding equivalence of outcomes for residents will mean that assured tenancies will be required for non-RSL social rented homes, explicit information on rent and tenancy expectations will be essential for bidders and for evaluation purposes.

Nominations criteria and target household affordability for sales would be valuable additions to the bidding guidance and evaluation approach. We would wish to see organisations that work in partnership with local authorities to deliver better affordability (whether for rent or home ownership) than the minimum expectation given credit within the bid evaluation mechanism. Similarly inclusion of pre-emption rights in shared ownership leases, offering ability to keep a home within the affordable stock through buying back, should also be promoted.

Simply considering measures such as subsidy per unit without reference to the relative affordability and duration of the home remaining affordable will lead to sub optimal investment decisions.

We are also concerned that areas such as housing management track record (as evidenced by inspection ratings) and reinvestment of equity growth and surpluses will see evaluation criteria diverge and prevent clear comparability of bids.

The Corporation has traditionally used regulation and investment programme conditions as a means to promote adoption of good practice corporately as well as at scheme level. We note that under the pilot, this continues for RSL bidders, with consequent implications for additional costs. The proposals should consider taking this opportunity to use receipt of public subsidy as a lever to require environmental, diversity or rethinking construction strategies at corporate level with new private sector bidders as required for RSLs.



Members have advised us that they would welcome clarification and publication of the full criteria for assessment of bidders and of bids with the prospectus in February.

## **D) Regulation, accreditation and compliance**

Equivalence of services to residents, as promised to Lord Best in the Housing Bill debates, may be deliverable through an effective independent accreditation and inspection system. We do not believe that self-assessment and contractual engagement of agencies by non-RSL managers can provide comparable assurance (or performance information for the Housing Corporation) as those set out for RSLs, ALMOs and local authorities by the Audit Commission.

The preference for RSLs to act as housing managers for non-RSL developers is a welcome response to the need to ensure managers have a proven track record. However there is a need for the same tests to be applied to the approval and selection of any prospective housing management organisations, and for equivalence of information and service inspection outcomes to safeguard residents and public subsidy irrespective of the subsidy recipient. Should comparable monitoring and inspection of non-RSL services not be implemented, there would remain an efficiency and effectiveness argument in favour of the Audit Commission acting as the accreditation agency given its experience of local authority and ALMO inspection, as well as housing associations.

Members are keen to see further details of the proposed framework contract at the earliest opportunity and how the technical requirements of the current funding conditions will be incorporated.

From a contractual performance standpoint, we remain concerned that arrangements for monitoring the service that is provided to tenants of non-RSL developers have not been announced at this stage. While we welcome the suggestion that residents will have recourse to the independent Housing Ombudsman it is unclear what systems will be in place to alert the Corporation if an accredited landlord is not providing a quality service and what remedies will be available.

## **E) Treatment of subsidy and equity growth**

Value for money of proposals must adequately assess the additionality of homes delivered from subsidy, and reflect any leakage of homes and resources from affordable housing purposes. In particular value for money assessment must evaluate the lost benefits of potential equity growth via profit distributing organisations, or homes that may only be affordable for a limited time period.



Although a robust framework to assess long-term value of proposals would ideally have been in place by February 2005 when bids are to be sought, we have concerns that a reliable assessment of the comparative value for money offered by RSL and non-RSL bids may still not be possible by the time funding allocations are made.

We understand the rationale behind the proposal to share equity growth with non-RSL developers in proportion to SHG invested in schemes. As a consequence of this however, this proportion of growth will inevitably be lost from affordable housing purposes. Although comprehensive value for money assessment may not be possible, it will be essential to estimate the impact of this distinction when compared to regulated providers. Sales and disposal records held by the Corporation should assist in establishing some reasonable assumptions on which to model the value of equity growth captured and reinvested by housing associations.

It is also important to appreciate that time lags between claw back of growth via the Corporation and future subsidy use will, particularly in a rising housing market, lead to a net loss of homes. Any significant gap in recycling is likely, because of inflation in land and work costs, to result in a lesser number of units being provided. The housing association model of reinvestment within permitted purposes clearly offers a value for money advantage and we would wish to see this reflected in the Corporation's evaluation approach.

## **F) Evaluation and extension of the pilot**

The Federation is concerned to ensure that the outcomes of this pilot programme are monitored and evaluated based on an appropriate timeframe if future investment decisions are to be informed by this new approach. However the policy paper states that size and scope of the programme is expected to increase. The timing of the pilot will presumably make it very difficult to properly evaluate bids from the pilot programme before the guidance is issued about PPA Round 2.

We stress that, in terms of long-term value for money, successful delivery of mixed and sustainable communities, affordability, and service provision, results cannot be fully evaluated for many years to come. Long-term issues relating to build quality, management and maintenance and the adequacy of future allocations and lettings arrangements are fundamental to evaluation of whether schemes offer value for money and whether contractual frameworks and enforcement can work.

Further, we are concerned that the inevitable concentration of the programme in growth areas (as a result of the 400 home programme threshold and exclusion of specialist types of provision) will limit the conclusions that can be drawn ahead of the main 2006 ADP programme.





Early announcement of the monitoring timetable, evaluation arrangements, and criteria for expanding the approach will be beneficial in demonstrating a real commitment to delivering equivalent outcomes to residents.

**The Federation remains of the view that the long-term value for money offered by the housing associations will continue to exceed that of profit distributing providers and is undertaking preliminary member surveys in this area. We look forward to working with the Corporation and members to quantify the additional benefits and value, beyond the basic affordable housing supply that is delivered from public subsidy.**

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11.01.05