



The Housing Corporation

Evaluation of the Developing New Approach to Investment

Final Report



October 2006

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1. INTRODUCTION AND METHODOLOGY

1.1 Introduction

1.1.1 The Housing Corporation commissioned Campbell Tickell to evaluate the new arrangements made for providing grants to unregistered bodies, through their New Partnerships in Affordable Housing (NPiAH) programme and the National Affordable Housing Programme (NAHP) 2006/08.

1.1.2 This is an early evaluation of the process. It is important to recognise that as yet no homes have been built under the NPiAH or NAHP 2006/08. The Corporation will naturally wish to develop its evaluation work as the programmes are delivered over the next year and beyond.

1.1.3 The provision of grant to non-RSLs is a radical new departure for the Corporation. It has inevitably created major challenges at all levels of the organisation to make the process a success.

1.1.4 The core purpose of this evaluation exercise has been to examine:

- (a) What has worked effectively in terms of the new arrangements for making grant available to non-RSLs;
- (b) What needs improvement; and
- (c) How those improvements can be made in future.

1.1.5 A large number of people have participated in this exercise, in completing questionnaires, participating in focus groups and interviews, and in otherwise providing advice and assistance. We have sought to list everybody concerned at Appendix 1. We would like to thank all concerned for giving their time positively and freely, and for speaking to us openly and frankly.

1.1.6 We would especially like to thank Abdul A Ravat (Evaluation Project Manager), Steve Trueman, Gail Newton, Richard Hill and Lisa Smith for their support with the process.

1.2 Methodology

1.2.1 The approach involved the following:

- (a) Review of documents;
- (b) Review of bids;
- (c) Questionnaire survey;
- (d) Focus groups;
- (e) One-to-one interviews.

1.2.2 Documents reviewed included:

- (a) Reports to and Minutes of Corporation meetings: Board, Investment Committee, Executive Management Team, Grants to Non-RSL Product Board and ad hoc internal meetings;

- (b) Minutes of meetings between the Corporation, Office of the Deputy Prime Minister (ODPM), and the Corporation's advisors PricewaterhouseCoopers (PwC) and Trowers & Hamlin;
- (c) Correspondence: internal Housing Corporation memos, and with ODPM, Treasury, professional advisors and stakeholders;
- (d) File notes, correspondence and reports produced by Trowers & Hamlin;
- (e) File notes, correspondence and reports produced by PwC;
- (f) Housing Corporation documents such as risk registers and internal audit reports;
- (g) Housing Corporation consultation papers, and invitations to submit EOI, PQQ, IDB.

From this analysis, we identified the key issues which required further analysis.

- 1.2.3 The review of bids for the NPiAH and NAHP programmes took two approaches, reviewing both the *quantitative* and *qualitative* aspects of bids and allocations.

The *Quantitative Review* comprised a sample of successful bids (i.e. allocations) which were examined in detail, looking particularly at the following areas:

- (a) Tenure mix;
- (b) Number of homes;
- (c) Total Social Housing Grant (SHG) required;
- (d) Total Scheme Costs (where available);
- (e) Level of grant per home;
- (f) Grant per person;
- (g) Total scheme costs per home;
- (h) Total scheme costs per person;
- (i) Average occupancy per home;
- (j) Level of grant as a percentage of total scheme costs.

In addition, a more detailed comparison of bids and allocations between non-RSLs and RSLs was undertaken by the Corporation in the course of the evaluation, the findings of which were fed into this report.

Bids for individual organisations were compared by tenure, and differences between bids for both programmes were also identified. In addition, the average bids by tenure for each type of organisation (RSL and non-RSL) in both the NPiAH and NAHP programmes were compared.

The *Qualitative Review* compared a number of bids on both programmes from the sample organisations. These were also reviewed in detail to compare qualitative aspects such as the number of incomplete or missing data fields, supporting information, differences between bids for different tenures and other factors. This information was obtained from IMS for the NAHP programme and both IMS and copies of the spreadsheets provided by the NPiAH bidders.

The review also referred to internal quality control documents produced by the Housing Corporation and their consultants.

A summary of the findings from the review of bids is contained in the Technical Appendices, which are available separately.

- 1.2.4 A generic questionnaire was developed to collect the data required, which was then tailored to reflect the nature of involvement of the different parties. Each variant included all questions from a core set which were appropriate for the particular recipient group. Where appropriate, questions were reformulated in order to reflect the particular perspective of members of the recipient group on the subject of the question. This tailoring of formulation permitted common choices of answer to be used, and hence comparison made across different groups.

Of the 72 questionnaires sent out, 48 were returned, representing a 67% response rate, which was felt to be particularly good. This pattern was repeated across most of the categories into which recipients had been divided. This suggests that the sample returned was broadly representative of all recipients.

Wherever appropriate, multiple-choice answers were used in the questionnaire to facilitate statistical analysis. However, in most cases, respondents were able to submit additional text comment to provide further explanation or detail.

A summary of the responses and findings from the questionnaires is contained in the separate Technical Appendices.

- 1.2.5 Focus groups were held with the following groups:

- (a) Housing Corporation field staff in the South West and East of England offices; the second part of these discussions also included RSLs and non-RSLs active in those regions;
- (b) Housing Corporation executive and headquarters staff;
- (c) Non-RSLs;
- (d) RSLs;
- (e) Stakeholders and representative organisations.

These focus groups developed issues identified in the documents review, bids review and questionnaires. A summary of the findings from the focus groups is contained in the Technical Appendices.

- 1.2.6 One-to-one interviews were held with:

- (a) Key stakeholders;
- (b) Key staff in the Housing Corporation and their professional advisors;
- (c) Questionnaire respondents where more detailed information or clarification was required;
- (d) Representatives of organisations that withdrew from the bidding process, in order to understand their reasons better.

The interviews developed issues identified in the document review, review of bids and questionnaires. Summaries of these interviews are contained in the Technical Appendices, which are presented separately.

- 1.2.7 For the record, we would add that the questionnaires were collected, and the focus groups and interviews conducted on the basis of anonymity. We have reflected this commitment in preparing the evaluation report.
- 1.2.8 The evaluation exercise was conducted by a project team from Campbell Tickell, comprising Jon Watson, Mike Best, Sarah Hackney, Nick Reed and Greg Campbell, with support from Holly Holder.
- 1.2.9 Throughout this process, there was regular contact with a Housing Corporation Reference Group, and a Steering Group comprising the following representatives from the Housing Corporation and ODPM/DCLG:

Paul Abey	Housing Corporation
Michael Clegg	Housing Corporation
Steve Douglas	Housing Corporation
Richard Hill	Housing Corporation
Kevin Lavery	Housing Corporation
Fiona MacGregor	Housing Corporation
Gail Newton	Housing Corporation
Abdul A Ravat	Housing Corporation
Mark Ripley	Housing Corporation
Peter Ruback	ODPM/DCLG
Liam Sage	ODPM/DCLG
Martin Thomas	Housing Corporation
Steve Trueman	Housing Corporation

2. BACKGROUND

2.1 Introduction to the Project

- 2.1.1 The Corporation is a non-departmental body charged by the Department for Communities and Local Government (DCLG – formerly ODPM) with responsibility for investing grant in affordable housing through Registered Social Landlords (RSLs) and now unregistered bodies; and protecting that investment through regulation and contract.
- 2.1.2 Under new powers from Section 27A of the Housing Act 1996 (as amended by the Housing Act 2004) the Corporation became able to make grants available to unregistered bodies. The Corporation has established a system whereby the grant given to unregistered bodies will be protected through a Grant Agreement: a legally binding document which aims to protect public investment and to ensure equality of outcomes for tenants compared with those achieved by the regulatory regime for RSLs. NPiAH was originally conceived as a pilot programme of £200m through which the approach to a new competitive process would be developed and tested. The NAHP 2006/08 was the Corporation's biennial bid round and had a value of £3.9bn. Both programmes were open to RSLs and non-RSL bidders alike.
- 2.1.3 The primary purpose of the NPiAH was to begin to develop a market in the private affordable housing provider sector. This also became a major feature in the NAHP 2006/08. Both investment programmes required a level of information that the Corporation felt was commensurate with a process which was fair in comparing bids from different sectors, and could demonstrate best value for money in terms of its final outcomes. The Corporation developed a new value for money framework for both programmes by introducing and applying investment appraisal tools, in particular a Grant Index and financial workbooks.
- 2.1.4 Specific key objectives for all of the Corporation's investment programmes are:
- (a) To achieve greater efficiency and value for money in the procurement of affordable housing in England;
 - (b) To deliver a housing programme that meets local, regional and national objectives;
 - (c) To provide the right mix of homes with greater certainty of delivery and the achievement of added value through the planning system;
 - (d) A greater emphasis on innovation in design, partnership arrangements, extension of Modern Methods of Construction and promotion of sustainable development;
 - (e) To maintain and develop safeguards for tenants and the highest standards of service;
 - (f) To test new approaches to procurement and supply chain management;
 - (g) To provide an opportunity to evaluate the value for money afforded by this approach.

- 2.1.5 Specific key objectives for the NPiAH were outlined in the Corporation's *New Partnerships in Affordable Housing: Prospectus for a £200m pilot programme* (March 2005). These were:
- (a) To secure greater efficiency and better value for money, so as to increase the supply of affordable homes without either increasing public funding or compromising quality.
 - (b) To ensure that the right mix of housing is built, in accordance with Regional Housing Strategies.
 - (c) To encourage innovation in design and construction that will improve quality, including the increased use of modern methods, to ensure that minimum standards are met or exceeded.
 - (d) To ensure effective and stable management for all the homes, so that residents' rights are protected and a high standard of services is provided both to them and to applicants for homes.
 - (e) To test this new method of procuring homes through a relatively small programme, in order to learn lessons for future programmes.
- 2.1.6 The Corporation was keen to ensure that their new approach to the competitive selection of investment partners and the assessment and selection of bids was evaluated from a number of perspectives. They requested that the project consider the following contextual parameters and achievement of objectives:
- (a) Consider whether the model developed by the Corporation is the best for achieving its aims and objectives and what more could be done to encourage non-RSLs to compete for grant;
 - (b) Whether the approach to increased competition from a mixed economy of providers has delivered enhanced value for money from the Corporation's investment programme resources and how this can be maximised;
 - (c) Assessment of the approach used in attracting bids from unregistered bodies and retaining them through to approval and into their investment programmes; and what was effective;
 - (d) Whether the systems set up (e.g. timetable, contracts, Grant Index, regional fit with local need, bidder tests, financial workbooks, milestones, tax arrangements, etc.) are most suitable for non-RSL housing provision – in particular, whether the balance was right on information requirements and risk sharing. If not, what might be done to make it work better?
 - (e) Analysis of bids received and supported against value for money, scheme mix requirements and comparing the results from NPiAH and the NAHP 2006/08 with the 2004/06 Approved Development Programme;
 - (f) Consideration of innovative approaches to procurement with particular reference to variant bids and whether these would meet the objectives.
- 2.1.7 Supplementary issues which the Corporation wished to be considered as part of the project included:
- (a) The nature of the organisations and the arrangements under which they have adopted to bid – single entities, consortia or special purpose vehicles;

- (b) Unregistered bodies' long-term intentions with regard to ownership and management;
- (c) The prospects for ensuring 'equivalence in outcomes' from RSLs and unregistered bodies in relation to:
 - Tenants and potential tenants:-
 - Who gets priority in the access to that housing;
 - Protection of rights for tenants, residents and leaseholders in respect of those unregistered bidders who wish to retain ownership and a long-term housing management and maintenance function;
 - Development delivery:
 - Standards of design, construction and amenities that the housing is expected to offer;
 - Scheme delivery;
- (d) Assessing whether the new tools and systems introduced for both investment programmes were the most suitable in delivering non-RSL housing, in particular regarding the balance of information requirement and risk sharing.

2.2 Historical Context

2.2.1 The following 'timeline' sets the context for the introduction of the New Approach to Investment:

1974 - Housing Act providing payment of HAG to registered Housing Associations; loan finance to match that grant provided through public sector.

1988 - Mixed funding introduced, providing HAG payable alongside private finance raised by Housing Associations; HAG rate set at 75%.

1989 - Strongest Housing Associations were allowed to use tariff system, where norm grant was payable (TCI x standard grant percentage), no detailed scheme scrutiny, and Housing Associations carrying risk and reward.

1990s - Continuing development of private finance into social housing, with the increased appetite to lend to Housing Associations/RSLs leading to a gradual decline in grant rates. Norm grant had fell to 53% by 1996. Eligible grant was derived from a grant model which was relatively mechanistic, looking at the interaction of TCI, grant rate and allowances. Standards related to SDS, with post-completion audit of both systems and built product. Bidding against this system continued until 2003.

2000-01 - Move away from HNI as basis for geographical targeting and distribution.

2002 - *Partnering through the ADP*: building on Egan, looking to develop long-term partnering relationships with a smaller number of key partners, to develop sites, supply chain improvements and economies of scale.

2002 - Challenge Fund: testing partnering, quicker delivery systems, MMC; increased range of products, and move from 'social housing' to 'affordable housing'.

2003 - *Reinventing Investment: the New Approach to the Investment Programme* built on Challenge Fund experience, and acknowledged that current systems discouraged long-term planning and were inflexible.

2003 - Two-year bid round 2004/06 was launched, with a limited number of RSLs entering into Partnering Programme Agreements, based on *Partnering Through the ADP*. Partnership status was available to RSLs with programmes larger than £10m per annum. TCI framework was identified as an inappropriate constraint, and costs of development were no longer taken into account when assessing value for money in the partner programme.

2004 - Housing Act introduced grants to non-RSLs.

2.2.2 During this period, the assessment criteria of value for money, and the approaches to risk and reward for Housing Associations/RSLs included the following:

- (a) HAG and public loan finance 1974: apart from any non-qualifying costs for public subsidy, this was a totally risk free regime for Housing Associations. When final costs were known, the nett borrowing supported by rental income was calculated and the residue represented HAG. Inflation in rent levels meant that Housing Associations generated revenue surpluses from year two onwards.
- (b) Mixed funding 1988: HAG set at 75%, but with a safety net to cover increased costs or increased borrowing costs.
- (c) Tariff: HAG eligibility was calculated with reference to norm grant percentage and TCI, and HAs took all risks in relation to outturn costs and costs of borrowing.
- (d) Mixed funding 1990s: mechanistic grant calculation based on grant rate model, with limited safety net; the Corporation did not receive or inspect RSL appraisal criteria, nor initially actual rent levels.
- (e) Housing Plus: an initiative by the Corporation in the early 1990s to raise awareness that value for money (VFM) selection was not just on the basis of unit costs, but also of achieving other forms of added value.
- (f) Total public subsidy: Housing Benefit implications of rent levels were factored into calculation of total public subsidy (i.e. SHG + NPV of rent levels).
- (g) Rent restructuring: introduced controls on rents to achieve full convergence with harmonised rents for LA and RSL stock by 2011.
- (h) Scheme Development Standards: standards of completed dwellings plus process requirements for the development period, subject to audit at completion. These have been progressively supplemented over the years, with reference to Housing Plus, Ecohomes, etc.

2.2.3 The regulatory controls over RSLs, including process requirements through SDS, represent a framework that is difficult to replicate through contractual terms on individual schemes through a Grant Agreement. The Corporation has said that the New Approach to Investment is the first step in a process of change, and

this report makes recommendations for further improvements. However, we are making no judgements as to the ultimate extent of any changes that may be introduced, nor on what changes may be made to the regulatory framework for RSLs, which the Corporation is currently examining.

2.3 Market and Policy Context

- 2.3.1 Until the late 1980s, almost all Housing Association development was on land acquired by the Housing Association, using a general contractor and a full consultant team. Contractual requirements were set out in the Corporation's Design & Contract Criteria. Therefore, there was little interaction between house-builders and housing associations. As part of risk management techniques linked to the introduction of mixed funding, Housing Associations started using Design & Build, sometimes linked to the use of standard housetypes, during the late 1980s/early 1990s. At this stage, house-builders became involved in Housing Association development activity.
- 2.3.2 Tightening land supply in the mid/late 1990s strengthened this relationship, as RSLs became increasingly dependent on house-builders to access sites for development.
- 2.3.3 Developing policy in relation to PPG3 led to an increasing use of Section 106 Agreements to secure the provision of affordable housing during this period. RSLs' development activity moved from developing their own product to purchasing completed product developed by house-builders. This further increased the relationship between RSLs and house-builders, and thus the involvement of house-builders in the delivery of the Housing Corporation ADP.
- 2.3.4 During the 1990s, there was also a move from the provision of Housing Corporation funding to provide social housing for those in greatest need, to a wider product range of affordable housing. This led to a blurring of the edges between social and market developments, in recognition of affordability problems for first-time buyers, particularly amongst public sector key workers. RSLs built for sale and market rent as house-builders built for RSL social rent.
- 2.3.5 This increasing involvement of house-builders, and the blurring of edges between social/affordable and market product led to calls for grant to be paid direct to commercial developers. This was considered by government prior to 1997, but was not implemented at that time.
- 2.3.6 Following the change of government in 1997, a number of reviews were commissioned, in order to look at ways in which delivery of public services could be more effective. Three key themes were apparent in this work:
- (a) A focus on what works, and how systems can be improved irrespective of traditional practice;
 - (b) A rejection of producer interests driving delivery of public services;
 - (c) A reduction in the general level of regulation.

- 2.3.7 A key milestone in the development of policy was the Egan Report *Rethinking Construction* published in July 1998. This was then followed by *Accelerating Change* in September 2002. These reports identified ways in which the construction industry needed to change in order to be more customer focused and thus deliver higher quality and improved value for money. Government saw the RSL sector as a key player in promoting this agenda. This led to greater use of long-term partnering, promotion of modern methods of construction (MMC), etc. through the Corporation's ADP. That in turn informed policy development within the Corporation on their relationships with the wider construction industry supply chain, as well as their relationships with RSLs.
- 2.3.8 The *Sustainable Communities Plan* in 2003 identified the need for a wider range of responses to housing problems in the country, addressing a wider range of affordable housing provision and increased numbers in the growth zones, as well as addressing housing market failure in other areas. The Communities Plan resurrected the proposal that grant should be paid to non-RSLs in the provision of affordable housing.
- 2.3.9 The Gershon Review *Releasing Resources for the Front Line* was published in July 2004, and identified back office and procurement savings as key elements in improving the value for money of public investment. The Gershon Review findings were built into the Spending Review 2004, and specifically set a target of 2.5% per annum efficiency savings from public sector service delivery.
- 2.3.10 The context for the development of the New Approach to Investment can be summarised as:
- (a) A progressive shift of risk from the Corporation to RSLs;
 - (b) An increasing involvement of private developers in the supply of affordable housing;
 - (c) A blurring of edges between social/affordable and market provision;
 - (d) A focus on outcomes, irrespective of producer interests;
 - (e) Government policy initiatives to improve the value for money of procurement generally, and within the construction industry specifically;
 - (f) Increased use of competition to achieve better product for the same input of public subsidy;
 - (g) A shift away from the Housing Needs Index, and the emergence of regional and sub-regional housing strategies;
 - (h) A recognition of the need to gain a longer-term perspective on planning, preparation and delivery, assumed to result in a move to on-going partnering frameworks for investment, to replace bid rounds.

3. THE PROGRAMMES: PROGRESS TO DATE

3.1 Development of Systems and Approach

- 3.1.1 The Corporation sought to adopt a thorough process in taking forward the programmes, with the following characteristics:
- (a) Clear objectives set at the outset, albeit not prioritised;
 - (b) Adequate resourcing internally and externally, including the use of appropriate legal and financial advice;
 - (c) Involvement of staff across the Corporation;
 - (d) Comprehensive risk mapping, review and management.
- 3.1.2 In September 2003, an internal policy paper on the provision of grant to non-RSLs set out:
- (a) Drivers for change: Egan, Challenge Fund, Communities Plan, improved efficiency (i.e. pre-dating Gershon).
 - (b) A framework developed from Partner Programme Agreements, operational frameworks, Investment Policy and the regulatory framework.
 - (c) An assessment of benefits and risks.
 - (d) Methods for partner selection.
 - (e) Implementation.
- 3.1.3 Initially, a programme of £200m open to non-RSLs was proposed. This would test the provisions of the Housing Act 2004, which was being developed at that time. Notes of meetings within the Corporation identified that this was seen to offer opportunities in relation to:
- (a) Positioning the Corporation to demonstrate that it was at the cutting edge in relation to innovation, not just adapting existing systems;
 - (b) Developing a positive relationship with English Partnerships;
 - (c) Using grant to developers to drive through change in how grant should be used, as well as to whom it should be given.
- 3.1.4 At the time that the 2004/06 allocations were announced in May 2004, Government indicated that all of the ADP 2006/08 would be open to non-RSLs.
- 3.1.5 Risks were identified as:
- (a) Insufficient resources e.g. funding for legal advice and expertise.
 - (b) Insufficient time to run a competition before preparation was complete.
 - (c) Grant conditions which may be too onerous for non-RSLs.
 - (d) Grant conditions which could be seen as less effective than the RSL regulatory regime.
 - (e) New provision representing substitution rather than additionality.

- 3.1.6 At this stage it was recognised that a fundamental issue was that of control (of non-RSLs) as opposed to regulation (of RSLs). This would require the development of:
- (a) Pre-qualification checks;
 - (b) A robust contractual framework;
 - (c) Compliance and performance monitoring;
 - (d) Legal charges to enable grant recovery.
- 3.1.7 The key events in the process of developing the new systems through NPiAH were as follows.
- (a) A comprehensive report on the implications of the (then) proposed legislation was finalised by the Corporation's legal advisers (Trowers & Hamlin) in August 2004.
 - (b) A market testing exercise was carried out by the Corporation's financial advisers (PwC) and a report produced in September 2004.
 - (c) A policy paper *New Partnerships in Affordable Housing* was published in November 2004; at this stage interested parties were asked to submit Expressions of Interest (EOI).
 - (d) In January 2005, 171 EOI responses were received.
 - (e) A consultation paper was published in March 2005 on the management accreditation arrangements designed to govern the management of any housing remaining in the long-term ownership of unregistered bodies.
 - (f) A prospectus and prequalification questionnaire (PQQ) were issued in March 2005 to organisations who had expressed an initial interest in the programme, including both RSLs and non-RSLs.
 - (g) A bidders' conference was held in March 2005
 - (h) In April 2005, 60 completed PQQs were returned. These were appraised by a joint team of Corporation staff and consultants.
 - (i) Invitations to bid were issued in June 2005 to the 31 organisations who had successfully passed through the PQQ stage, and who were indicating that they would be in a position to bid for £880m grant, i.e. good 'cover' against the £200m programme.
 - (j) At the end of August 2005, detailed bids were returned by 23 of the 31 short-listed bidders. These bids represented approximately £331m of bids delivering 9,700 units, against the programme of £200m.
 - (k) The quality of the bids submitted, particularly from non-RSLs, was felt by the Corporation to be 'variable'. By the end of September 2005, 21 clarified bids with a value of £237m were confirmed.
- 3.1.8 The equivalent events for NAHP were:
- (a) June 2005 - Launch of Pre-Prospectus; Launch of PQQ; bidders' conference; Regional Housing Strategies submitted to Ministers;
 - (b) July 2005 - Submission of PQQs; Comments on issues raised in pre-prospectus to the Corporation;
 - (c) August 2005 - Announcement of organisations qualified to bid as potential partners; Launch of bid prospectus; launch of 2006-08 bid round;

- (d) October 2005: Submission of bids to the Corporation;
 - (e) March 2006: Investment programme submission to ODPM/Ministers.
- 3.1.9 Following the Government's decision that the whole of the 2006/08 NAHP would be open to non-RSLs, the intention had been that NPiAH could be an initial programme valued at £200m grant. The knowledge gained in that programme could then be applied to the NAHP. In the event, the implementation of the NPiAH bidding process was delayed, as a result of which the two qualification and bidding processes overlapped and a number of bidders withdrew, preferring to concentrate on the main NAHP programme.
- 3.2 Risk Management**
- 3.2.1 Risk registers and internal audit reports were produced at key stages throughout the process of developing NPiAH and NAHP procedures for non-RSL bidders.
- 3.2.2 The Corporation risk registers appear generally comprehensive and thorough. However, although the first risk listed in the initial risk map related to market acceptability of grant and conditions, this risk area appears not to have been given priority in the further development of the model and processes.
- 3.2.3 In light of the decision to open the whole 2006/08 ADP to non-RSLs, the Corporation commissioned PwC to assess the risks of running NPiAH and NAHP simultaneously, and the actions necessary to mitigate those risks. This exercise was commissioned separately, and undertaken by a discrete team within PwC, which was separate from those who were already advising on the development of the new systems.
- 3.2.4 Their advice was received in May 2005. Their conclusion was that there was a high probability that NAHP would fail to demonstrate successfully that the Corporation had fully managed and implemented the requirements arising from the Housing Act 2004. This was due to the risks of transition from NPiAH to NAHP having increased as a result of the two programmes overlapping and thereby reducing opportunities for knowledge transfer.
- 3.2.5 The greatest risks of failure were identified as relating to:
- (a) Delivery;
 - (b) Non-RSL participation;
 - (c) The need to achieve improved value for money.
- 3.2.6 A number of mitigation measures were proposed:
- (a) An incremental or delayed transition from NPiAH to NAHP;
 - (b) Simplification of processes;
 - (c) Increased resources.
- 3.2.7 The measures proposed were not implemented. However, the study provided the Corporation with the information and guidance that enabled them to focus management activity on reducing:

- (a) The probability of failure
- (b) The potential impact of any failures.

3.3 Legal Advice

3.3.1 Trowers & Hamlins acted on behalf of the Housing Corporation, and sought appropriate Counsel's opinion on both the powers available to the Corporation and the ways in which the public interest could be protected in making grant available to non-RSLs. Specific issues which were the subject of advice were:

- (a) Comparison of powers available to the Corporation, through regulation of RSLs and contractual arrangements with non-RSLs.
- (b) Securing the Corporation's interest in relation to recovery of grant or entry into grant-funded properties in the event of non-performance.
- (c) Treatment of Stamp Duty Land Tax.
- (d) EU procurement legislation.
- (e) Control of rent levels.

3.3.2 It was noted at the outset that the range of powers available to the Corporation was extensive and diverse, in relation to enforcement against RSLs. On the other hand, powers under Section 27A in relation to the provision of grant to non-RSLs, were much narrower. Counsel questioned the appropriateness of the two different approaches, suggesting that it was not possible to establish a 'level playing field'. However, in light of the limited time available, the Corporation decided not to explore options for increased flexibility and improved efficiency in relation to RSL regulation as part of the NPiAH programme. The Corporation is considering these areas currently.

3.3.3 It was established at the outset that the Corporation's protection of public investment was best achieved by a combination of:

- (a) Contractual conditions;
- (b) Charges on completed properties;
- (c) Management accreditation.

3.3.4 The decision was made to secure this interest by the use of a rent charge on those properties where non-RSL bidders proposed to retain ownership and management.

3.4 Market Assessment

3.4.1 A market testing exercise was undertaken by PwC during summer 2004, leading to their report of September 2004. Questionnaires were issued to a shortlist of 58 developers, advisers, facilities management providers, RSLs, funders and representative organisations, drawn up by PwC in conjunction with the Corporation. The short list was felt to reflect a good cross-section of organisations that were likely to be interested in the proposals. It did not include any property investment or management companies. Whilst the overall response rate was 62%, that amongst house-builders was only 55%, compared with 88%

for RSLs. All respondents were positive about and interested in the NPiAH competition.

- 3.4.2 Potential benefits identified by respondents were improved value for money, joined-up/faster delivery, and improved efficiency. A number of non-RSL respondents expressed interest in owning/managing affordable housing stock.
- 3.4.3 Concerns expressed by respondents included:
- (a) The need for a level playing field;
 - (b) The strength of relationship between the Corporation and RSLs, placing non-RSLs at a disadvantage;
 - (c) The need for a light touch in respect of regulation or contractual arrangements.
- 3.4.4 The report recommended a pilot of NPiAH, which would run for a number of years up to the implementation stage before the launch of the 2008/10 NAHP. It was intended that the knowledge gained could lead to a comprehensive overhaul of the systems in place for the procurement and management of affordable housing. By the time of the issuing of the report, however, Government had already determined that NAHP would be open to non-RSL bidders, and it was therefore no longer feasible for NPiAH to remain as a pilot. .

3.5 Expressions of Interest

- 3.5.1 Following the market testing exercise, the Corporation published its NPiAH policy document, and invited interested parties to submit Expressions of Interest (EOI). Organisations were invited to submit EOI by 11 January 2005. A total of 171 EOI responses were received by the deadline, and were analysed by the Corporation's professional advisors, PwC.
- 3.5.2 Key points from this analysis were:
- (a) Of the 171 EOI received, 37 (or 22%) indicated that the lead applicant was an RSL. Single entities made up 29% of EOI responses, with the majority indicating that they were in the process of forming consortia. This contrasts markedly with the eventual number of consortia/SPVs that submitted bids (8) and received allocations (1) through NPiAH.
 - (b) The returns indicated a level of interest that greatly exceeded the available funding. In total, the organisations submitting returns indicated that they would be interested in grant funding for more than 150,000 homes over a 5-year period.
 - (c) 145 responses (92%) included an indicative number of homes that they would be interested in applying for grant to fund. Of these, only 20% indicated a likely programme of more than 1,000 homes, with the majority either giving no response or indicating a programme of fewer than 200 homes.
 - (d) Greatest interest was in London (37%), the South East (19%) and Eastern (11%) region, which does not correlate with the distribution of actual allocations.

- (e) Although 55% of the indicative programme nationally was for social rented homes (with 30% Shared Ownership, 6% Homebuy and 9% intermediate rent), the distribution between regions varied considerably (e.g. between 38 and 66% of regional programme), with the highest potential social rented programme in the North East.
- (f) 29 responses (17%) indicated that they were not considering mixed tenure development, and 6% only considered bidding on one site.

3.5.3 Over 40 responses were received to the proposals in the New Partnerships paper. Overall these represented a cautious welcome to the proposals, but raised a number of questions, particularly:

- (a) The proposed 400-unit threshold for allocations, which some considered might disadvantage smaller organisations and programmes outside growth areas;
- (b) The bidding procedure. Local authorities and their representative bodies considered that more account should be taken of local authority priorities and sub-regional strategies;
- (c) Arrangements for programme management, control and audit and the accreditation of management agents;
- (d) Proposals for equity growth in the event of disposal - local authorities argued that any grant or equity recovered should be reinvested locally.

3.6 Pre-qualification

3.6.1 PwC recommended that qualification for NPiAH should be a two-stage process:

- (a) A general PQQ
- (b) Detailed/costed proposals.

This approach was adopted.

3.6.2 The initial PQQ collected information under five headings:

- (a) General information about the organisation;
- (b) Information on its 'good standing';
- (c) Financial strength: indicators of longevity and resilience;
- (d) Technical ability;
- (e) Development pipeline.

3.6.3 Financial assessment applied the following tests:

- (a) Examination of audited accounts;
- (b) Analysis of financial strength;
- (c) Approach to financing;
- (d) Adjustment for post-balance sheet events.

3.6.4 Analysis was carried out by a joint Corporation/PwC team, assigning scores to each of the tests and then weighting results to generate an overall score similar to a credit rating. On financial strength, the larger RSLs and non-RSLs scored well, whereas consortia and SPVs did not.

- 3.6.5 Of the 60 completed PQQs returned, 31 organisations were shortlisted to bid. A small number of those organisations that were rejected at this stage were SPVs. It may have been that the scoring criteria had the effect of disadvantaging them in terms of the nature of the risk in relation to grant recovery, and in interpreting programme delivery questions as indicating a lack of resources of the SPV (as opposed to those of the company behind them).
- 3.6.6 The pre-qualification process for NAHP was simplified from that for NPiAH. All prospective bidders had to complete a basic questionnaire. Only organisations that had not worked with the Corporation previously had to complete a detailed questionnaire and provide supporting information on their financial capacity, statement of good standing and technical skills. Bids through the partnering route were expected to be in excess of £20m or 500 units. There was also a 'specialist route' available to RSLs in NAHP, which enabled smaller associations to bid for specialist provision such as housing for BME communities, supported housing and rural provision where they had not pre-qualified through the partnering route.

3.7 The Bidding Process

- 3.7.1 A much more structured approach to bidding was adopted for NPiAH than hitherto with traditional ADP bid rounds. This reflected the Corporation's desire to demonstrate increased scrutiny of value for money and transparency between RSLs and non-RSLs, and to focus on equivalence of outcomes across more diverse providers.

- 3.7.2 The package of information provided to NPiAH bidders (IDB) was comprehensive. This was released initially in three volumes:

Volume 1: Invitation to Submit Detailed Bids

- Introduction
- Bid Conditions and Compliance Requirements
- Bid Contents
- Bid Completion Instructions
- Further Guidance for Bidders
- Bid Evaluation

Volume 2: Documents to be Completed by Bidders:

- Form of Bid Application
- Scheme Details Spreadsheet
- Financial Workbook

Volume 3: Information for Bidders:

- Development Brief
- Grant Agreement
- Management Brief

This was then supplemented by two further sets of guidance and other information dealing primarily with clarification of detailed issues arising from bidders' use of the initial package.

- 3.7.3 The bidding process for NAHP was more complicated than for NPiAH, particularly for organisations that were unfamiliar with the Corporation's systems. The range of products that organisations were able to bid for increased from the 4 covered by NPiAH (MFRent, MFSale, New Build Homebuy and Intermediate Rent) to 11, including:
- (a) Rehabilitation to existing properties;
 - (b) Miscellaneous works;
 - (c) Temporary Social Housing;
 - (d) Reimprovements;
 - (e) Acquisition for Demolition.
- 3.7.4 Bids were also required via the Corporation's Investment Management System (IMS), rather than submitted as a spreadsheet, as in NPiAH. The IMS required specific scheme information such as OS grid reference, site area and postcode, as well as detailed costs and grant requirements for each phase and tenure type.
- 3.7.5 As a result of feedback from NPiAH, the financial workbooks were streamlined for the NAHP, and were capable of being submitted electronically rather than by paper copy. Those organisations that were involved in both programmes commented that completing them was more straightforward in NAHP, compared to NPiAH. However, the majority of organisations who had not been involved in submitting detailed bids for NPiAH still found the workbooks to be complicated to complete, and were frustrated that they did not link with the data they were entering on IMS.
- 3.7.6 The Corporation felt that the quality of bids from non-RSLs was disappointing. Problems reported included inadequately completed workbooks and Grant Agreements (i.e. changes to the Grant Agreements suggested by bidders) not submitted by some bidders.
- 3.7.7 The number and value of NPiAH bids was less than expected. This can probably be explained in part by the overlapping of the NPiAH and NAHP bidding processes. A number of non-RSL bidders decided to postpone bidding for NPiAH and go straight to NAHP. Further research with a small sample of non-RSLs that were invited to submit detailed bids but did not do so, revealed a variety of reasons behind their actions. These ranged from an understanding that the provisions of the grant agreement in the NAHP would be less onerous, to the timing of the bid process coinciding with a take-over of another company. The majority of these organisations either currently bid in some form in the NAHP (independently or through RSLs), or would consider doing so in the future.
- 3.7.8 Of the 31 shortlisted bidders for NPiAH, 23 returned detailed bids, and 21 of these were accepted following clarification meetings. The value of these bids

totalled £237m, against the programme of £200m. Whilst 17 of these 21 received allocations, only four of these were non-RSLs, and allocations to them totalled £19.17m.

- 3.7.9 Bids to the value of £8.374bn were received for the NAHP (i.e. 2.3 times the available allocation of £3.6bn). Allocations were made to 7 non-RSLs to the value of £71.98m (2,411 homes).

3.8 Bid Assessment Processes

- 3.8.1 The bid assessment process for both NPiAH and NAHP was far more structured and nationally consistent than had been the case with ADP bid rounds in the past. The Corporation saw this as a part of its drive for continuous improvement, and the need to:

- (a) Demonstrate transparency of process and equivalence of outcomes between RSLs and non-RSLs;
- (b) Manage the risks of transition associated with provision of grant to non-registered bodies.

- 3.8.2 The assessment criteria for NPiAH were:

- (a) Compliance with bid requirements: pass/fail;
- (b) Value for money: using the Grant Index tool, which generates a comparison of value for money of schemes, normalised to take account of tenure type and type of organisation;
- (c) Fit with local and regional/sub-regional Housing Strategies;
- (d) Impact of bidder-proposed amendments to Grant Agreement: as noted above, none were flagged at bid stage.

- 3.8.3 Those for NAHP were:

- (a) Compliance with bid requirements: pass/fail;
- (b) Value for money;
- (c) Quality, measured through HQI;
- (d) Fit with local and regional/sub-regional Housing Strategies;
- (e) Deliverability, e.g. planning status.

- 3.8.4 An Assessment Manual was developed through NPiAH, and further developed and amended for use in appraisal of NAHP bids. This set guidance to Corporation field staff in relation to:

- (a) An assessment of bids against compliance criteria;
- (b) Use of the Grant Index tool;
- (c) Methods of assessing strategic fit;
- (d) Assessment of bidder proposed amendments.

- 3.8.5 Financial workbooks were required for:

- (a) All NPiAH schemes
- (b) All NAHP schemes over 15 units.

3.9 Outcomes to date

3.9.1 NP_iAH

In January 2005, the Housing Corporation received 171 responses to the invitation for Expressions of Interest in NP_iAH. As part of the Pre-Qualification process, 60 bids were received with a total value of nearly £1.7bn, meaning that the indicative programme allocation was oversubscribed by 800%. The HC considered that this 'represented an excellent response from the market'. The composition of organisations bidding at this stage was as follows:

- (a) 31 single entity bidders (of which 22 were non-RSLs);
- (b) 24 bids from consortia (of which 16 were a mix of non-RSLs and RSLs);
- (c) 5 bids from special purpose vehicles (SPVs) established specifically for the NP_iAH initiative.

3.9.2 From the Pre-Qualification submissions, 31 organisations were invited to submit detailed bids (IDB), of which 15 were non-RSLs. 23 detailed bids to the value of £237m were received, of which £39m (16.45%) were from 8 non-RSLs. The total allocation to all organisations was £137m (to provide 3,621 new homes), of which £19m (14%) was made to non-RSLs. This equates to 49% of non-RSLs' bids successfully receiving allocations. The following four non-RSLs received funding in the NP_iAH:

- (a) Bellway;
- (b) Bovis;
- (c) First Base;
- (d) Persimmon.

3.9.3 NAHP

NAHP attracted bids of £8.374bn for 169,666 new homes. Of this, only £300m (3.58%) was from non-RSLs. The total NAHP allocation was £3.559bn, of which £67m (2%) was for non-RSLs – a bid to allocation success rate of 22%.

3.9.4 Seven non-RSLs received allocations in the NAHP programme, with allocations ranging from £3.5m to £33.5m. A summary of these allocations (including reserves), and those to non-RSLs in the NP_iAH programme, is set out below.

Allocations to Unregistered Bodies in the NP_iAH and NAHP 2006-08

	NP _i AH		NAHP		Total	
	Value (£m)	Units	Value (£m)	Units	Value (£m)	Units
Barratt	-	-	£4.37	153	£4.37	153
Bellway	£3.29	116	£4.92	149	£8.21	265
Bovis	£4.13	59	-	-	£4.13	59
First Base	£4.32	76	-	-	£4.32	76
Gentect	-	-	£5.30	211	£5.30	211
Lovell	-	-	£3.43	100	£3.43	100
Persimmon	£7.43	386	£9.10	544	£16.53	930

	NPiAH		NAHP		Total	
Taylor Woodrow	-	-	£11.31	242	£11.31	242
Wimpey	-	-	£33.55	1012	£33.55	1012
Total	£19.17	637	£71.98	2,411	£91.15	3,048

Source: 'Involvement of Unregistered Bodies in the Housing Corporation's Investment Programmes' (HC - May 2006)

3.9.5 Within a short period of time therefore, and from a standing start, the Corporation has achieved the following to date across the two programmes:

- (a) Over 150 expressions of interest from non-RSLs;
- (b) 16 unregistered bodies invited to submit detailed bids;
- (c) Bids to the value of £339m from non-RSLs to produce 9,288 new homes;
- (d) Allocations to 9 non-RSLs worth £91.15m which are programmed to produce 3,048 new homes;
- (e) Agreed heads of terms of the Grant Agreement with most of the non-RSLs to whom allocations were made.

4. KEY FINDINGS

4.1 In this section, we address the findings and issues of this evaluation in the key areas for examination identified in the project brief. Each sub-section introduces a group of objectives in the project brief, following which we list our key findings in that area.

4.2 The Model

4.2.1 The project brief included the following objective:

Consider whether the model developed by the Corporation is the best for achieving its aims and objectives and what more could be done to encourage non-RSLs to compete for grant.

4.2.2 The development of a mixed economy of providers should generate benefits in terms of improved value for government investment. Because of the stage that the process has reached, it is possible only to comment on the qualification and bidding processes. Programme delivery and ongoing management can only be evaluated when those stages are reached.

4.2.3 Whilst most parties seem to be positive about the benefits of a mixed economy of providers, interest in this came almost exclusively from house-builders, and there was limited interest in holding completed stock.

4.2.4 The decision by Government to open NAHP 2006/08 to non-RSLs prevented the testing of approaches and systems over an extended period, before rolling out to the whole programme in 2008/10. The overlapping of NPiAH/NAHP qualification and bidding processes reduced the value of NPiAH as a pilot, and thus the potential for knowledge transfer into NAHP.

4.2.5 The initial emphasis on better ways of working and risk sharing was lost in the development of systems which the Corporation felt were necessary to protect the public interest. Risk management concentrated on protecting the public interest and recovery of grant, rather than developing new systems to maximise benefits of non-RSL involvement. This limited the scope for more radical solutions and reduced the potential to improve supply chains. Perceptions of the appropriateness of risk sharing were very different:

- (a) Housing Corporation staff felt that it was 'about right';
- (b) RSLs were evenly divided;
- (c) Non-RSLs all felt that it was inappropriate and that all risk was carried by them.

4.2.6 There were concerns from both RSLs and non-RSLs about the 'level playing field'. Both felt that they were at a disadvantage, for different reasons. Because of the limited time available, there was no consideration of ways in which existing regulatory controls over RSLs could be relaxed in order to improve the efficiency of their delivery. Interviews with some Corporation staff indicate that

they felt they had lost an opportunity by not exploring this issue at the same time.

- 4.2.7 The biennial bid round for specific schemes requires considerable up-front resources in preparing bids, and does not reflect the reality of the development process or the timescales to bring large and complex sites to fruition.
- 4.2.8 Reasons given by non-RSLs for withdrawal from the qualification/bidding process fell under three headings:
- (a) The administrative burdens of the competition;
 - (b) The balance between risk and reward, e.g. adverse cash-flow risk of payment of grant at practical completion, Grant Agreement terms too onerous;
 - (c) Business strategy, e.g. other options such as market value sale were more attractive and carried less resource implications.
- 4.2.9 Reasons for failure of non-RSL bids included:
- (a) The bid round was too early/late for schemes, i.e. non-RSLs were not attuned to the Corporation bidding cycle; it could also be argued that the bidding cycle does not reflect the reality of development activity;
 - (b) Lack of fit with sub-regional/local priorities in terms of mix and VFM;
 - (c) PQQ risk scoring.
- 4.2.10 There was considerable confusion about what was meant by partner status. Different respondents had very different perceptions. However, there was a common view that what was on offer through the Grant Agreement did not represent real 'partnership'. It was felt that what was needed was a longer term, programme relationship to manage the evolution of each programme, flexibly responding to the development process and able to achieve improvements to the procurement supply chain.

4.3 Systems and Tools

- 4.3.1 The project brief included the following objectives:
- (a) *Assess the approach used in attracting bids from unregistered bodies and retaining them through to approval and into their investment programmes; and what was effective.*
 - (b) *Assess whether the systems the Corporation set up (e.g. timetable, contracts, Grant Index, regional 'fit with local need', bidder tests, financial workbooks, milestones, tax arrangements etc.) are most suitable for non-RSL housing provision. (In particular, whether the balance was right on information requirements and risk sharing.) If not, what might be done to make it work better?*
 - (c) *Assess whether the new tools and systems introduced for both investment programmes are the most suitable in delivering non-RSL housing, in particular regarding the balance of information requirement and risk sharing.*

- 4.3.2 The work to attract non-RSL bidders involved three stages, which were broadly comparable with other forms of public procurement:
- (a) Market assessment;
 - (b) Invitation to pre-qualify;
 - (c) Invitation to bid.
- 4.3.3 This process was based on a 'given' offer, rather than a detailed evaluation of what would attract non-RSL bidders. This appears to have been the result of the tight timescales within which the Corporation had to work. It is plainly an area to address in future. Nonetheless, the prospectus was seen as good, and presented the objectives and opportunities clearly. It could have been improved by inclusion of a 'process map' and guidance to those unfamiliar with the biennial bid round system.
- 4.3.4 However, the approach was significantly less successful in *retaining* non-RSL bidders through the process. Timescales and information requirements were challenging to them. Virtually all non-RSLs that have been contacted had used consultants to support their bid compilation, and much of the information required was seen by them as an unnecessary extra cost. Terms such as 'challenging', 'steep learning curve' and 'bemusing' were used to describe the experience.
- 4.3.5 The PQQ process was felt to be onerous but probably correct, other than in the assessment of SPVs. The appraisal system was similar to credit rating, which may have been appropriate for security of grant when paid, but was unlikely to be a reflection of the risk of programme delivery, which was dependent on the performance of the individual parties behind that SPV.
- 4.3.6 The need to provide large amounts of information for scheme specific bids was challenged by all non-RSL respondents. Four specific components of the system were identified by respondents as requiring revision:
- (a) The amount of information required at bid stage;
 - (b) The Grant Index, which was seen as valuable by Corporation staff, but was evidently not understood by many bidders;
 - (c) Financial Workbooks, which were felt to require excessive amounts of information that would inevitably change through the development process, and were described as 'user unfriendly';
 - (d) The Grant Agreement - whilst less onerous than say, some PFI project agreements, the terms were felt by non-RSL bidders to be inappropriate and onerous. The Agreement was not seen as reflecting the 'partnership' title of the programme, nor the approach that is used increasingly across the private development industry.
- 4.3.7 Previous ADP bidding rounds had been evaluated against TCI and locally-determined criteria. The development of an assessment manual represented a significant step forward in terms of consistency and transparency of bids appraisal.

- 4.3.8 There were tensions in terms of balancing strategic fit, scheme viability and site availability. These were exacerbated amongst non-RSLs, in that their traditional local authority contacts tended to be the Planning Department, unlike RSLs and the Corporation, who tend to deal predominantly with the Housing Department. There appears to be a lack of corporate decision-making within a number of local authorities, chiefly between the Housing and Planning functions.
- 4.3.9 Particularly in NAHP, changing guidance and requirements/criteria through the bid process led to considerable amounts of abortive work for bidders, in terms of re-inputting data. This is an example of the problems created by the overlapping of NPiAH and NAHP bidding processes.
- 4.3.10 It was felt by many bidders that the appraisal tools and assessment of whole-life costs were applied mechanistically. In contrast, these same tools were valued by the Corporation's field staff. They believed they were using them to support decisions, not determine them mechanistically.
- 4.3.11 Whilst the information provided in the financial workbooks was felt to be helpful for Corporation staff, feedback from interviews and focus groups indicated that:
- Whilst the principle of collecting this information was accepted, the format in which the information was required could be improved;
 - In the time available for bidding, the volume of information required represented a significant problem;
 - They experienced difficulties in dealing with some 'non standard' scheme types adequately; although a small problem in terms of the number of schemes involved, this was a significant deficiency.
- 4.3.12 These issues were exacerbated by a lack of linkage between the financial workbooks and IMS, as a result of which double entry was necessary for the same data. Although the requirement for workbooks was reduced for NAHP, many of the bidders surveyed and interviewed felt that the information required to complete workbooks was excessive at this stage, and would be superseded before a scheme was developed. More particularly, doubts were expressed regarding whether all the information provided could actually be taken into account by Corporation staff on all schemes, something borne out to a certain extent by staff responses.
- 4.3.13 It is important to recognise that the nature of the development process is such that any commercial bidder will wish to provide only the minimum information necessary to 'open the door', and will also try to ensure that the information provided shows its proposal in the best possible light. Even though the bids were *detailed* bids, requiring this level of information at this stage has two consequences:
- A proportion of the effort in providing and evaluating the information is wasted because it will change as schemes develop;
 - There will be a degree of inaccuracy in the information provided.
- 4.3.14 Field staff felt that the timetables to prepare for bidding and appraise submitted bids were inadequate. Bidders complained that field staff were unable to

respond to queries, and that there were problems with communication during the bidding process. They felt that feedback on unsuccessful bids was inadequate, and in some cases had not been received at the time of interviews.

4.3.15 The strong message is that, in order to succeed in the longer term, a less onerous and more flexible process is needed, with an earlier 'approval in principle', followed by greater flexibility in bringing individual projects into the programme, which tie in with their development progress.

4.4 Value for Money, Quality and Sustainability

4.4.1 The project brief included the following objectives:

- (a) *Whether the approach to increased competition from a mixed economy of providers has delivered enhanced value for money from the Corporation's investment programme resources and how this can be maximised.*
- (b) *Analysis of bids received and supported against value for money, scheme mix requirements and comparing the results from NPIAH and the NAHP 2006/08 with the 2004/06 Approved Development Programme.*

4.4.2 The Corporation has exceeded the national efficiency gain targets (compared to 2003/04 programme) for new supply set for 2006/07 (£140m) and 2006/07 (£160m) in the NAHP, which were set as part of the Gershon review process.

4.4.3 A direct comparison between the national average grant per unit on the NAHP programme and that of previous years (excluding nil-grant schemes), shows a reduction in the headline grant levels of 7% on the rented programme and 13.6% on the LCHO programme:

	2004/6 avg. grant/unit*	2006/8 avg. grant/unit**
Rent	£66,886	£61,907
LCHO	£31,057	£26,828

*= from Ministerial Submission 2004/6

**=from Ministerial Submission 2006/8

4.4.4 However, although the headline national average grant per unit has reduced, with a number of regions where grant per unit is significantly lower than previous years, there are a number of regions where this pattern was not replicated, as shown in the table below.

	LCHO 2004/06	LCHO 2006/08	Rent 2004/06	Rent 2006/08
East Midlands	21,690	20,111	43,753	44,150
East of England	23,230	14,749	48,215	39,563
London	46,792	42,368	100,932	100,683
North East	34,517	18,725	57,831	60,449
North West	30,506	33,663	63,841	63,177
South East	26,913	18,271	58,939	53,711
South West	18,537	18,995	41,021	44,239
West Midlands	31,605	20,278	56,248	49,722

Yorkshire & Humberside	28,619	26,643	53,093	52,816
National	31,057	26,828	66,886	61,907

Ministerial submissions 2004 and 2006

- 4.4.5 Differences in regional costs and programme distribution may distort a comparison of headline average grant levels. Therefore, in order to carry out a more accurate 'like for like' comparison between different years, the Housing Corporation applies a standardisation model (Laspeyres methodology) to the programme. This 'evens out' the effect of differences in unit size, type and regional distribution between different years, to create a directly comparable figure, to which an inflationary factor can be applied.
- 4.4.6 When the Laspeyres methodology is applied to allocations in both the 2004/06 and 2006/08 programmes, it demonstrates the following average saving in real terms (taking account of land and build cost inflation):

Programme	2004/06 (inflation adjusted)	2006/08 (standardised)	Average saving in 2006/08
Rent	£69,366	£66,234	4.7%
LCHO	£37,073	£34,428	7.7%
Intermediate Rent	£22,896	£20,572	11.3%

- 4.4.7 Whilst grant per unit appears to have improved between 2004/06 and 2006/08 bid rounds, it is not possible to establish whether this results from supply chain efficiency and development costs on the one hand, or reduced land costs and opportunistic pricing on the other. Our review can conclude that the New Approach to Investment process has introduced competitive pressures on bidders. But it is not possible to state categorically that the savings which appear to have been delivered compared with the 2004/06 programme are real, or represent reduced land costs resulting from Section 106 conditions or historic land bank.
- 4.4.8 The overall proportion of allocations to schemes on Section 106 sites nationally has remained constant between 2004/06 and 2006/08 programmes. All non-RSL allocations are on Section 106 sites, compared with around 50% on RSL sites. Therefore, discounted land values have reduced total development costs and thus grant requirements disproportionately in the non-RSL programme. The value of this discounted land is very considerable, being greater than the value of the grant going into the schemes. Thus it is not possible to judge whether non-RSL schemes represent better value for money than those put forward by RSLs.
- 4.4.9 There were very different views about what is meant by sustainability, particularly between Corporation staff and bidders (both RSL and non-RSL). It is unclear how issues of sustainability were factored into the bid appraisal process.

4.5 Equivalence of Outcomes

- 4.5.1 The project brief included the following objectives:

The prospects for ensuring 'equivalence in outcomes' from RSLs and unregistered bodies in relation to:

a. Tenants and potential tenants:

- *Who gets priority in the access to that housing;*
- *Protection of rights for tenants, residents and leaseholders in respect of those unregistered bidders who wish to retain ownership and a long-term housing management and maintenance function;*

b. Development delivery:

- *Standards of design, construction and amenities that the housing is expected to offer;*
- *Scheme delivery.*

- 4.5.2 The language of much of the documentation concentrated on the production of additional stock and the creation of new communities. That was undoubtedly applicable for non-RSLs, particularly where they were involved in larger, multi-tenure developments, whether on greenfield or brownfield sites. That was less applicable to RSLs, where community regeneration is a mix of new build, rehabilitation/modernisation and non-housing activities.
- 4.5.3 Much of the existing programme is delivered by RSLs working with non-RSLs that control the land supply. Creating relationships directly with those non-RSLs should improve certainty of delivery, once any initial 'teething troubles' resulting from unfamiliarity have been resolved. An increasing number of RSLs are land banking, which addresses this issue in a different way.
- 4.5.4 Use of HQI and setting of clear development standards should ensure equivalence of outcomes in terms of product quality, although independent audit arrangements have to be established and seen to work.
- 4.5.5 Interest in management of completed stock by non-RSLs focuses mainly on Homebuy and similar products. Whilst an accreditation scheme has been established for unregistered landlords or management agents, all but one non-RSL intended to transfer completed rented stock to RSLs, either by transfer of the property or lease.
- 4.5.6 Feedback from questionnaires, the focus group with non-RSLs and interviews with the non-RSLs in receipt of NPiAH and NAHP allocations all indicate consistently that the Grant Agreement in its present form presents some difficulties for non-RSLs. Concerns were expressed about the terminology of the agreement, and its balance of interests between the Corporation and non-RSLs. Some of the non-RSLs which withdrew from the bidding process stated that they did so because of the Grant Agreement conditions. At the time of writing, the majority of non-RSLs that received allocations have agreed heads of terms, but feedback from some of the non-RSLs suggests that they have 'taken a view' on an agreement on the basis that it represents a relatively small programme, rather than being satisfied that they are an acceptable basis for a long-term relationship.

4.5.7 Although the objectives of the new approach to investment did not include a review of RSL regulation, nor did it form part of our brief, there is undoubtedly a need to look at RSL regulation, in order to sharpen its focus and to reflect the contractual framework applied to non-RSLs. We recognise that this is currently being addressed.

4.6 Innovation

4.6.1 The project brief included the following objectives:

- (a) *Consideration of innovative approaches to procurement with particular reference to variant bids and whether these would meet the objectives.*
- (b) *The nature of the organisations and the arrangements they have adopted to bid under – single entities, consortia or special purpose vehicles.*
- (c) *Unregistered bodies' long-term intentions with regard to ownership and management.*

4.6.2 The focus to date has been very much on the bidding process, as opposed to procurement or longer-term outcomes. There is little evidence of any innovation in terms of supply chains or technological solutions. Few bidders thought that there was real scope for developing innovative approaches in the bidding timescale. There appeared to be a belief that this could follow the establishment of longer-term partnerships with the Corporation.

4.6.3 Access to developable land seemed to be a more important consideration in terms of deliverability and flexibility, rather than supply chains.

4.6.4 A small number of joint venture companies and SPVs promoted bids, but with the exception of Gentect and First Base, these appeared in practice to represent little more than simple vehicles to bring together groups of organisations rather than being ends in themselves.

4.6.5 There appeared to be relatively little interest amongst non-RSLs in holding stock long term, particularly in relation to social rented housing. What interest there was in holding stock in the main focused on Homebuy and similar products.

5. CONCLUSIONS

- 5.1 Our overall conclusions from the evaluation are as follows.
- 5.2 Prior to the NPiAH, the Corporation had no experience as an organisation of working with the private sector as a direct partner, in terms of evaluating and funding bids for development funding. A steep learning curve was required.
- 5.3 Despite this, within a short period of time and from a standing start, the Corporation has to date achieved the following, across the two programmes:
- (a) Over 150 expressions of interest from unregistered bodies;
 - (b) 16 unregistered bodies invited to submit detailed bids;
 - (c) Bids from unregistered bodies totaling £339m to produce 9,288 new homes;
 - (d) Allocations to 9 non-RSLs worth £91.15m, which are programmed to produce 3,048 new homes.
- 5.4 This represents a considerable achievement by the Corporation. It has made significant changes to its development grant systems, and has brought in a new group of players that operate on a quite different basis from those it has dealt with in the past. Inevitably, there are a number of areas in which, especially with the benefit of hindsight, one can identify the need for significant change. Overall however, the foundations have been laid to develop this process in the future, and to engage with a greater number of new partners.
- 5.5 New systems were developed within tight policy constraints. These were based on a thorough and rigorous approach, but consultation and the evaluation of options were limited as a result of these constraints.
- 5.6 The systems were implemented through processes of qualification and detailed bidding. Bids were received and appraised, and allocations made. The response rate amongst non-RSLs was limited. Major factors influencing the number of bids appear to have been the complexity of the qualification/bidding process, the information requirements for bidding, and what were seen as onerous conditions associated with the payment of grant.
- 5.7 The decision to open the whole of the national programme 2006/08 to non-RSLs meant that there was no opportunity to run the two systems (i.e. grant to RSLs and non-RSLs alike, and the traditional approach limited to RSLs alone) in parallel over an extended period, prior to rolling out the national programme in its entirety to both RSLs and non-RSLs in 2008/10.
- 5.8 The timescale for developing and introducing the new systems was in our view too tight. The resultant overlapping of the NPiAH and NAHP evaluation and bidding processes reduced the likelihood of learning lessons from NPiAH in time for the NAHP bidding round.

- 5.9 Whilst the initial emphasis was on capturing the benefits of involving new providers and streamlining the supply chain, the subsequent emphasis on protecting the public interest limited the prospects of fully achieving those benefits.
- 5.10 The selection process for non-RSL bidders was rigorous and logical.
- 5.11 Non-RSLs were more successful in the NPiAH bid round than in NAHP, with a success rate of 49% based on bid value, compared to 22% in NAHP. This was probably due to a more limited take-up by non-RSLs in NAHP, and a selection process in NPiAH that may have focussed more on value for money than strategic fit.
- 5.12 Non-RSLs found the systems, and particularly the Investment Management System (IMS), challenging. They have been critical of the complexity of the decision-making process, and the amount of information required at an early stage in the bidding process. They have also been critical of a perceived inadequacy of feedback on unsuccessful bids. Nonetheless, a mixed economy of providers of affordable housing is now beginning to develop.
- 5.13 The Corporation has exceeded the national efficiency gain targets (compared to the 2003/04 programme) for new supply set for 2006/07 (£140m) and 2006/07 (£160m) in the NAHP, which were established as part of the Gershon review process.
- 5.14 A direct comparison between the national average grant per unit on the NAHP programme and that of previous years (excluding nil-grant schemes) appears to show a reduction in the headline grant levels of 7% on the rented programme and 13.6% on the LCHO programme. When the Laspeyres methodology is applied, average savings are demonstrated of 4.7% on rent, 7.7% on LCHO and 11.3% on intermediate rent. However, there are differential impact on land costs of opportunistic pricing from land banks and Section 106 conditions. This suggests that it cannot conclusively be stated that the savings result from supply chain improvements or increased competitive pressures. Furthermore, it cannot be determined whether any differences in value for money between RSLs and non-RSLs result from lower land costs or from other factors.
- 5.15 In order to increase interest from new providers, and to maximise the benefits of their involvement, it may be that a more radical approach is necessary in relation to streamlining systems, and uncovering ways in which risks and rewards are shared. Indeed, in our view, it will be necessary to make changes to the bidding process and/or introduce in-year bidding. This is a reflection both of commercial developers' ability to pursue options other than Affordable Housing, and the reality of the process of development of large and complex multi-tenure schemes.
- 5.16 It is plain that although the majority of negotiations have been completed in a short space of time (for instance compared with typical periods for PFI deals), there remains dissatisfaction amongst non-RSLs about the terms of the Grant Agreement. This suggests that non-RSLs have 'taken a view' on an agreement

relating to a relatively small programme, rather than being satisfied that the terms represent an acceptable basis for a long term relationship. By definition, the non-RSLs that have participated in the NPiAH and NAHP, and have been awarded grant, are drawn from those that have been prepared to tackle this new programme. Equally by definition, other non-RSLs that have chosen not to participate in these new programmes, are less certain of the benefits of doing so. It may be harder to persuade current non-participants to do so in the future, if they perceive that their colleagues and competitors are unhappy with the terms of the Grant Agreement.

- 5.17 Although a real start has been made, a process of positive engagement with a wider range of commercial organisations, and in particular property investment or management companies, is necessary to attract new players. At present, the New Approach to Investment has attracted little interest other than from house-builders that see it as an adjunct to the development of sites for market value sale.

6. RECOMMENDATIONS

6.1 The Model

The following changes to the model are recommended.

- 6.1.1 The Corporation should engage in a carefully planned, long-term programme of developing relationships with non-RSLs in order to understand better their business drivers and to elaborate on the requirements of the New Approach to Investment to encourage their participation. This programme should aim to increase engagement amongst investors, private property managers and large scale commercial developers, as well as the house-builders that are already engaged.
- 6.1.2 A bidding process should be developed which is more closely attuned to the realities of the private development process, particularly in relation to large, complex, multi-tenure and mixed use developments. This is likely to involve:
- (a) A two-stage bidding process, the first stage of which will establish regional fit and 'in principle' commitment on the basis of less detailed information than the current system requires; only if proposals pass that stage would more detailed information be required;
 - (b) The flexibility to bring sites forward as and when available, rather than having to fit into a biennial bidding cycle;
 - (c) Forward commitment to strategic housing schemes whose development lies partially or wholly further in the future than the current budgeting regime.
- 6.1.3 Grant conditions should be reviewed, in order to enable a greater sharing of risk *and reward* between the Corporation and non-RSLs. This should facilitate a collaborative framework of procurement, which overcomes current adversarial relationships, and promotes risk sharing and team work to sort out problems together.
- 6.1.4 In conjunction with the amended bidding process suggested above, an open book approach following in-principle commitment should form an integral part of this. In order to respect the commercial confidentiality of cost information provided under the existing system, and the danger that such information may be disclosed as a result of the provisions of the Freedom of Information Act, a different approach to project appraisal is outlined below.
- 6.1.5 These improvements to the system should apply equally to RSLs and non-RSLs. The use of different regulatory systems for organisations providing and managing social housing is not sustainable in the longer term, and if a contractual approach is to be maintained for non-RSLs, then such an approach should also apply to RSLs. This will require:
- (a) Setting out minimum standards of product, service and procurement processes, which are consistent between RSLs and non-RSLs;

- (b) A loosening of restrictions on RSLs, and thus a less prescriptive approach to their regulation.
- 6.1.6 A network of 'regional champions' or 'centres of excellence' should be developed across the Corporation's field offices, to disseminate knowledge and improve understanding of the system objectives and tools, among both Corporation field staff and bidders alike.
- 6.2 **Systems and Tools**
The following changes to the systems and tools are recommended.
- 6.2.1 The bidding and appraisal process should be streamlined to enable an 'in principle' decision to be made more quickly and on the basis of less information, as outlined above.
- 6.2.2 Consideration should be given to developing a 'rolling bid process' to avoid the concentration of activity over a very short period.
- 6.2.3 For Partner organisations (whether RSLs or non-RSLs), allocations should be for a programme rather than individual schemes, and should provide a framework that allows flexibility without breaching the requirements for Resource Accounting. Such a programme agreement could set parameters (timescale, locations, average grant requirements, etc.) and guarantee that, in return for a minimum level of grant from the Corporation, the bidder will provide a minimum number of dwellings. That would be the allocation. However, the agreement would also contain a 'reserve schemes list' and set parameters for substitutions or additions to the programme. The programme could then be managed with both parties comfortable in the knowledge that there was a pool of acceptable substitutes should one of the initial schemes be delayed or fail. Establishment of a programme agreement such as this would allow greater emphasis to be placed on longer term, strategic schemes.
- 6.2.4 The basis of scheme appraisal should be *value* as opposed to *cost*, at least for added stock. This would allow the valuation impacts of Section 106 conditions to be recognised in the appraisal of value for money of proposals. It would also help overcome concerns amongst non-RSL bidders about the disclosure of commercially sensitive information under the Freedom of Information Act. Bids would provide the open market VP value (i.e. with no constraints on user) and open market value (i.e. investment value taking account of any constraints on user resulting from Section 106 or site acquisition conditions). Grant would then be expressed as a percentage of the unencumbered OMVP, and any clawback provisions in the Grant Agreement could then simply be the same percentage of a new OMVP at the time of disposal or transfer. In order to establish such a system, discussions should be held with RICS to review the 'Red Book'.
- 6.2.5 Assessment and selection criteria should be more prominent and clearly understood by bidders. Subject to any changes arising from the above recommendation, information on the operation of the Grant Index tool and the Grimley model should be available so that bidders could 'self assess' prior to submission of bids.

- 6.2.6 The technological infrastructure available to bidders and Corporation field staff should be improved. This would require improvements to IMS and better integration of data to avoid any double-entry.
- 6.2.7 If recommendations 6.2.1 and 6.2.4 are adopted, then the requirement for detailed financial workbooks would no longer apply at bid stage. Even if these recommendations are not accepted, financial workbooks should either be abandoned or the amount of detail drastically reduced. If they are retained, in whatever form, then they must be designed and operated in a manner that is linked directly to IMS data and/or bidders' own data systems.
- 6.2.8 If recommendation 6.1.3 is adopted, then the terms of the Grant Agreement should be simplified radically. Specifically, requirements for collateral warranties should be removed, relying instead on defects insurance such as NHBC, or Third Party Rights Act.

Appendix 1**PEOPLE AND ORGANISATIONS SURVEYED***Non-RSLs:*

Barratt Developments plc
 Bellway Homes
 Berkeley Homes
 Bovis Homes
 Crest Nicholson
 Croudace Homes
 David Wilson Partnership Homes
 Dunelm Property Services
 Fairview Homes
 First Base
 Galliford Try plc
 Kier Partnership Homes
 Lovell
 Lovell
 Merlion Homes
 Merlion Homes
 Miller Homes
 Persimmon Homes
 ROK Group
 Taylor Woodrow
 Urban Splash Ltd
 Wimpey

Harold Walker
 Colin Blakey
 James Walker
 Stephen Baines
 Colin Smith
 Paul Underwood
 David Saffhill
 David Halfacre
 Jeff Bishop
 Zoë Littleton
 Geoff Peters
 Dennis Seal
 Stewart Davenport
 Mary Lynch
 Andy Quek
 Andy Quek
 Stan Mills
 Richard Briggs
 Shelley Kinton
 Terry Fuller
 Nick Johnson
 Rob Huntley (consultant)

RSLs:

Bedfordshire Pilgrims Housing Association
 Bedfordshire Pilgrims Housing Association
 Chevin Housing Group *on behalf of Synergy Group*
 Circle Anglia Housing Group
 Devon & Cornwall Housing Association
 Guinness Trust Group
 Home Group
 Housing 21
 Hyde Housing Association
 Hyde Housing Association
 Manchester Methodist Housing Association
 Manchester Methodist Housing Association
 Metropolitan Housing Partnership
 Metropolitan Housing Trust
 Nene Housing Society

David Keeling
 Graham Hill
 Steve Close
 Jeanne Bateman
 Derek Gifford
 Raj Upadhyaya
 Steve Pearson
 Tayo Bilewu
 Clive Astall
 Mick McGuire
 Kevin Mullin
 Matthew Harrison
 Mark Leffler
 Angela Epps
 Adam Broadway

Notting Hill Housing Group	Jane Cranitch
Notting Hill Housing Trust	Nigel Lane
Orwell Housing Association	Wendy Evans-Hendrick
Places for People Group Ltd	Paul McEvoy
Riverside HA <i>on behalf of Riverside Partnership</i>	Bill Taylor
Sanctuary Housing Association	Rowan Kirk
Sanctuary Housing Association	Martin Bird
Servite Houses	Iain Muir
Swaythling Housing Society	Richard Izard
Swaythling Housing Society	Andrea Taylor
Thames Valley Housing Association	Gill Greenhalgh

Stakeholders:

Association of London Government	Louis Gavriel (London Borough of Camden)
Association of London Government	Anne Gray (London Borough of Croydon)
Association of London Government	Maggie Rafalowicz (London Borough of Brent)
Cambridge City Council	Suzanne McBride
East Hants District Council	Julia Potter
Home Builders Federation	Andrew Whitaker
Local Government Association	Gayle Gibson
Local Government Association	Hayley Frankham (Brighton and Hove City Council)
London Borough of Barnet	Nicola Bird
National Housing Federation	Neil Griffiths
National Housing Federation	Nick Powell
ODPM	Peter Ruback
ODPM	Liam Sage
Pricewaterhouse Coopers	Maarten Wolfs
Pricewaterhouse Coopers	Andrew Osborn
Trowers & Hamblins	Tonia Secker

Housing Corporation Staff:

Paul Abey	Richard Hill	Jon Rouse
Margaret Allen	Peter Jones	Lisa Smith
Charles Amies	Versha Koria	Nick Taylor
Becky Ashley	Judi McPherson	Martin Thomas
Derek Baggs	Gail Newton	Andy Todd
Michael Clegg	Naisha Poliane	Steve Trueman
Roger De La Mare	Abdul A Ravat	Ged Walsh
Steve Douglas	Mark Ripley	

Appendix 2

DOCUMENTS REVIEWED

Chartered Institute of Housing: Response to 2004 Spending Review, 2004

Chartered Institute of Housing & Tribal HCH: Investment Partnering: An Evaluation of the Pilot Programme, 2005

Davies, Mark and Zitron, Jeff: Efficiency in Delivering the Housing Corporation's Investment Programme: A Discussion Paper, Chartered Institute of Housing, 2005

DETR : Review of the Housing Corporation, 2000

Housing Corporation: Board Papers and Minutes, 2002-2006

Housing Corporation: Guide to the Allocation Process 2003/04, 2002

Housing Corporation: Partnering Through the ADP – Discussion Paper, 2002

Housing Corporation: Guide to the Allocation Process 2004-2005 & 2005-2006, 2003

Housing Corporation: IMS Bids System User Guide for Partnering Programme Agreements 2004/05, 2003

Housing Corporation: Re-Inventing Investment (Housing Corporation Policy Paper), 2003

Housing Corporation: Internal Audit Reports and Risk Registers, 2004-2006

Housing Corporation: 40 Years of Affordable Homes, 2004

Housing Corporation: Investment Bulletin 2004, 2004

Housing Corporation: Assessment Manual (Drafts and Final Versions for NPIAH and NAHP), 2005

Housing Corporation: Correspondence with ODPM, 2005/06

Housing Corporation: Correspondence with Stakeholders, 2005-2006

Housing Corporation: Grants to Non-RSLs: Project Initiation Document, 2005

Housing Corporation: Grants to Non-RSLs Board: Reports and Minutes, 2005

Housing Corporation: Notes of Meetings re New Approach to Investment: Internal and with Professional Advisers, 2005

Housing Corporation: New Partnerships in Affordable Housing: Analysis of Expressions of Interest and Consultation Responses, 2005

- Housing Corporation: New Partnerships in Affordable Housing Pre-Qualification Questionnaire Documentation & Guidance, 2005
- Housing Corporation: NPiAH IDB Documentation & Guidance, 2005
- Housing Corporation: NAHP 2006/08, Prospectus and supporting material, 2005
- Housing Corporation: Further Guidance to IDB, Financial Workbook Guidance, 2005
- Housing Corporation: The National Affordable Housing Programme 2006/08: Ministerial Submission, 2006
- Housing Corporation: Capital Funding Guide, 2006
- Housing Corporation: Involvement of Unregistered Bodies in the Housing Corporation's Investment Programme, 2006
- LH Magazine: Developer Grants Ready to Roll, 2005
- Malpass, Peter and Aughton, Henry: Housing Finance: A Basic Guide: 5th Edition, 1999
- New Start Supplement on 30 years of SHG: How Cathy Came Home, 2005
- ODPM: Year 2000 Review of the Housing Corporation, Prior Options Report, 2000
- ODPM: An End to End Review of the Housing Corporation: 2004
- ODPM: Spending Review, 2004
- ODPM: Evaluation of English Housing Policy 1975 – 2000, theme 2: Finance and Affordability, 2005
- ODPM: Housing and Housing Policy in England 1975 – 2002, 2005
- ODPM: Lessons from the past, challenges for the future for housing policy, 2005
- PwC: NPiAH PQQ Research Papers and Reports, 2005
- PwC: NPiAH IDB Research Papers and Reports, 2005
- PwC: New Partnerships in Affordable Housing: Pilot Programme. Evaluation of Expressions of Interest and Associated Information, 2005
- PwC: NAHP evaluation – Review of the Grant Index 'Error and Checks', 2005
- PwC: Review of NPiAH and NAHP, 2006
- Joseph Rowntree Foundation: Housing Investment: Lessons for the Future: Findings, 1996
- Joseph Rowntree Foundation: Effective and Protected Housing Investment; Findings, 1998

Ravat, Abdul A (Housing Corporation): Using the Housing Corporation's £200m New Partnership in Affordable Housing pilot programme; Bradford University School of Management, 2006.

Wilcox, Steve: Housing Finance Review 1993: Joseph Rowntree Foundation, 1993

Appendix 3**EXAMPLE QUESTIONNAIRE****EVALUATION OF THE NEW APPROACH TO INVESTMENT*****INFORMATION SURVEY:******YOUR EXPERIENCE AND OPINIONS OF THE
PREQUALIFICATION AND BIDDING PROCESS***

This questionnaire forms a key element in the evaluation of The Housing Corporation's new approach to investment which is currently being undertaken by Campbell Tickell.

Its aim is to help build a complete picture of the experience gained by those involved in the first use of the approach in preparing the New Partnerships in Affordable Housing (NPIAH) and the National Affordable Housing Programme (NAHP) for 2006-08. This picture will cover not only the facts of the experience, but also the opinions developed by participants regarding how the approach might be improved in the future.

It is hoped that all those invited to contribute to the evaluation by completing a questionnaire will seize this opportunity to inform the Housing Corporation's learning process. The report of our findings, influenced by the information you provide, will be published at the end of the evaluation. **All information provided by you will be anonymised and kept confidential.**

The questionnaire is designed to be completed electronically, to minimise your effort in completing it. The *tab* key can be used to move through the document from each data entry field to the next. How to enter information should be clear; and please note that no limit is imposed on text fields in which you are invited to comment. It would be advisable to save the document for your own records.

Should you have any query regarding the questionnaire, its context or how the contents will be used, please contact Nick Reed on 0116-2674850 or 07889-796687. Queries to the Housing Corporation should be addressed to Abdul A Ravat on 0776-6421123

Once completed, please return a copy of the questionnaire to Holly Holder at Holly@campbelltickell.com by 15 March 2006.

Part A: Contextual Information

A.1 In what capacity were you involved in the NAHP? **sole bidder**

Explain your reasons for this choice:

A.2 In which regions were you bidding to receive allocations of funding for new housing?

North West

North East

Yorkshire & Humberside

West Midlands

East Midlands

East of England

South West

South East

London

A.3 What was the scale of your bid for new affordable homes (include the whole of a consortium bid if appropriate)?

Number of schemes	0
Number of grant-funded homes	0
Number of total homes	0
Value of grant being sought (£ million)	0
Total procurement costs (£ million)	0

A.4 Were you involved in bidding for the NPiAH? If so, what did you learn from this to inform your bidding for the NAHP?

A.5 What kind of organisation is yours? **commercial / residential developer**

(other)

A.6 Did you complete the bidding submission in-house, or did you employ external consultants? If the latter, what experience did they have of the sector? Give reasons for your choice, and are you happy with the result?

Part B: Aims and Objectives

- B.1 How clearly defined did you find the aims and objectives of the NAHP when you sought to inform your decisions regarding whether to become involved and in what way? very good

Explain with illustrative details:

- B.2 What were your reasons and objectives for becoming involved in the process for bidding for the NAHP?

The Housing Corporation required bids to fit within regional, sub-regional and local housing strategies.

- B.3 How useful did you find the contents of the respective strategy documents in helping you fulfil this requirement? very good

Explain with illustrative details:

- B.4 What was the main driver in your selection of which schemes to include in your bid? priority areas in strategies

Comments:

- B.5 Did you choose not to bid for any schemes because of their lack of fit to regional, sub-regional or local strategies?

Elaborate:

- B.6 To what extent did you engage with local housing authorities and other stakeholders to ensure that your planned schemes would fit within local strategies? always

What was the nature of your engagement, and why?

- B.7 Did the need to fit your schemes into local housing strategies create problems in ensuring the schemes in question would stack up financially?

always

How did you respond?

- B.8 Do you think the Corporation's new approach to investment as it emerged in the bidding guidance obliged your organisation to adopt an approach different from what it had previously been expecting?

strongly

If so, why was this and how did you change?

- B.9 Did the information from the Housing Corporation provide you with a clear understanding of what it would mean to become formally one of its investment partners?

very good

Please describe what you understood partner status would mean:

- B.10 What do you understand the Housing Corporation to mean by the term 'sustainable' when applied to the schemes in which it invests? Does your view of sustainability correspond with this?

Explain with illustrative details:

- B.11 What did you do to meet the Housing Corporation's requirements for sustainability in your bidding?

Explain with illustrative details:

The Housing Corporation's new approach to investment was intended to facilitate more efficient procurement of new housing.

B.12 What did you understand 'efficient' to mean in the context of bidding?

B.13 In what ways did you believe you were offering greater efficiency?

Explain with illustrative details:

B.14 Do you think the new approach to investment was the best way to achieve the intended efficiency? strongly agree

Please explain and, if appropriate, offer suggestions for alternative approaches which would offer greater efficiency?

B.15 Partners in the investment programme were expected to make full use of the planning system to improve the quality of their bids. What did you understand this to mean? How did you respond to this?

Explain with illustrative details:

B.16 The Housing Corporation requested bidders to be innovative. What did you understand by this? In what ways did you feel encouraged to be innovative in formulating your housing schemes? Do you think this has been valued?

Part C: Guidance, Support, Communication

C.1 Was the Invitation to Bid and other guidance issued by the Housing Corporation fit for purpose? **strongly agree**

Explain with illustrative details (including whether too much or too little detail):

C.2 Did the various guidance documents published by the Housing Corporation after the Invitation to Bid provide the assistance you needed? **strongly agree**

Explain with illustrative details:

C.3 How did you find the responses from the Housing Corporation to any requests you made for explanation and elaboration? **very good**

from the Head Office: **very good**

from field offices: **very good**

Explain with illustrative details:

Part D: Process**Pre-qualification**

- D.1 Did you think the pre-qualification process was asking the right questions? **broadly correct**

Explain with suggestions for improvement:

- D.2 Did the documentation you were asked to provide contain the appropriate level of detail for the stated purpose? **too much**

If not, explain with illustrative details:

- D.3 Were the benchmarks for qualification challenging in the important areas? (i.e. would they enable the suitability of would-be partners to be correctly identified?) **strongly agree**

Explain with any suggested improvements:

Bidding

- D.4 Did you find the documentation required from you for the bidding process to be generally fit for purpose? (There are questions on detail following.) **very good**

Explain with illustrative details:

- D.5 Do you believe the volume of information required from bidders was correct in terms of the need to inform competitive value-for-money selection? **too much**

If appropriate, what changes would you have suggested?

- D.6 Did the 'technical infrastructure' for the bidding process – IMS, on-line

access, workbook operation, etc. – live up to the demands of the new approach? Did it meet your previous expectations?

If not, please illustrate with examples:

- D.7 Was there sufficient time for you to prepare all the required bidding information to the required standard and to your own satisfaction? **more than sufficient**

Comments (in particular, if you think there was insufficient time, please indicate what aspects of your bid suffered and how much longer you would realistically have needed):

- D.8 The Housing Corporation is keen to move towards taking account of real, whole-life costs in selecting schemes for investment. Do you think the information required for bids enabled a view to be taken of the whole life costs of schemes? **strongly agree**

Explain, with reference to your own way of calculating whole-life costs:

- D.9 The quality of the housing to be produced was indicated to be of significant importance in the Corporation's assessment of your proposed schemes. Do you think HQIs were a suitable measure of quality in comparative evaluation of competing schemes? **strongly agree**

Explain, and indicate how you would prefer quality to have been handled:

- D.10 Do you think you were able to demonstrate adequately the sustainability of your proposed schemes in the information you were asked to provide in your bid? **strongly agree**

Explain with illustrative details, and indicate how this might have been improved:

- D.11 The Housing Corporation was looking for additionality in the value offered by housing **strongly agree**

schemes. Did you find that the information required for bids was able to capture all the added value your schemes were offering?

Comments, in particular on any aspects of added value you felt unable to fit into the bid information, and any way in which you think your view of additionality differed from the Corporation's:

- D.12 How do you rate the financial workbook as tool for providing useful information about the schemes in your bid?

very good

Explain with illustrative details and, if appropriate, suggestions for alternatives:

- D.13 Local planning authorities impose a variety of Section 106 requirements on residential developments, in terms of their scale, non-housing obligations, and provision of affordable housing. In what ways did this affect your bid?

Explain with illustrative details:

- D.14 To what extent did you engage with local planning authorities to ensure that the schemes in your bid would not suffer delays in delivery because of planning permission, s106 negotiations, etc.?

always

How effective was this?

- D.15 Were there any schemes included in your bid which you had originally planned to bid jointly with an RSL partner? If so, why did you make this change?

- D.16 What proportion of the schemes in your bid would you have been submitting to the Housing Corporation at a different time, had you not been constrained by the timing of the bid round? [assume different to mean >6 weeks earlier or later]

70-100%

In what ways does the constraint of meeting the bid deadline impact on the schemes and the quality of your submissions?

- D.17 What proportion of the sites in your bid would you be developing if there were no grant available from the Housing Corporation?

70-100%

In what ways would the schemes be different without grant?

Scheme Selection

- D.18 In formulating your bid submission, it was important to anticipate what selection process would be used by the Housing Corporation. Was the guidance successful in providing you with a clear understanding of this?

strongly agree

Explain any problems you might have had and what the implications were:

- D.19 Was the guidance successful in providing you with a clear understanding of how the relative value for money of individual schemes would be assessed by the Corporation, helping you select and design the schemes in your bid?

strongly agree

Explain any problems you might have had and what the implications were:

- D.20 In your opinion, does the Corporation's Grant Index provide an appropriate tool for comparing individual housing schemes?

very good

How would you suggest improving it?

Part E: Looking to the Future

The Housing Corporation's aim in its new approach was to introduce a radical change in its method for creating an investment programme.

- E.1 If you had previously liaised with RSLs in their bids for earlier years, in which areas did you find your own experience under the new approach was radically different from what you had come to expect?
- aims and objectives
 - type of process
 - information required
 - competitiveness
 - communication
 - Not applicable
 - not different, or don't know

Was this because of your lack of exposure, or do you think they were real changes? What reaction did this bring in your own organisation's behaviour? Explain with illustrative details:

- E.2 In which areas do you think the Housing Corporation's new approach was not radical enough to achieve the desired changes?
-

- E.3 What do you see as the measures of success which should be applied in judging the Housing Corporation's new approach to investment?
-

- E.4 Which factors do you think hold the key to the future success of the initiative of increasing the quantity and quality of new affordable housing?
- the Housing Corporation's new approach?
 - local authorities' input and involvement?
 - the planning process?
 - building costs?
 - other? (please specify)
 - don't know

Explain why:

- E.5 What suggestions do you have for improving or replacing the new approach to investment used in putting together this programme?

E.6 Do you plan to handle the legal aspects of your Grant Agreement in-house, or would you employ external commercial lawyers? If the latter, what experience did they have of the sector? Give reasons for your choice, and are you happy with the result?

E.7 What are your views on the commercial principles embodied in the framework through which you would be delivering the Housing Corporation's investment of public grant? How did this affect your bid?

Please provide details on aspects such as payment on completion, clawback arrangements, assumed site ownership and collateral warranties:

E.8 What are your views on the regime of independent inspection and certification which is to be used?

E.9 What is the likelihood that you will deliver your allocated programme of schemes, on time and with no significant changes? (this information will be anonymised before it is seen by the Housing Corporation, so please be realistic and honest) almost certain

If you do foresee delivery problems, to what extent are they likely to be a result of bidding on a 'snapshot' basis or any other particular factors?

E.10 What issues do you anticipate arising in association with the management arrangements planned for programme and scheme delivery?

E.11 The Housing Corporation has sought a proper sharing of risk in its partnering approach, and a balance between risk and reward. Do you think this has been achieved?

strongly agree

Comments (including, if appropriate, why you think the approach failed in this respect, and how this could be improved):

E.12 As a confirmed investment partner for the Housing Corporation, how do you believe this relationship should now be carried forward?

E.13 How important to your bid was the fact that you hold a landbank which provided access to cheap land? Will a similar volume of cheap land be available in future programmes?

E.14 What percentage of your annual turnover would you like to see in future directed at the NAHP on a rolling programme basis?

70-100%

Explain why:

E.15 How far ahead do you feel you could develop a pipeline of schemes in collaboration with the Housing Corporation? Would you feel confident in doing this on the basis of a 2-year bid-round cycle?

E.16 Do you foresee your company's future involvement in the sector being alone or in partnership through an RSL? If both, in what proportions?

E.17 Do you plan to retain ownership of properties you develop with Housing Corporation funding? wholly

E.18 If so, do you plan to retain management? wholly

Please provide details:

E.19 If you will be selling properties to a RSL, what arrangements are in place for doing this, and how satisfied are you with them?

E.20 Do you feel your competition with RSL bidders was fair? If not, why? And how might the situation be improved?

E.21 Would you be happy to bid again for Housing Corporation funding? Possibly using the same bidding process a second time?

Explain (and if not, why not?):

Part F: Additional comments

Please provide here any other comments you have which are not covered above.

Thank you very much for your assistance.

We would be grateful if you could return this completed form to Holly Holder at Holly@campbelltickell.com by 15 March 2006.

Appendix 4**GLOSSARY OF TERMS**

ADP	Approved Development Programme
BME	Black and Minority Ethnic
DCLG	Department for Communities and Local Government
EOI	Expression of Interest
GI	Grant Index
HAG	Housing Association Grant
HNI	Housing Needs Indicator
HQI	Housing Quality Indicator
IDB	Invitation to submit Detailed Bids
IMS	Investment Management System
MFRent	Mixed Funding for Rent
MFSale	Mixed Funding for Sale
MMC	Modern Methods of Construction
NAHP	National Affordable Housing Programme
NPiAH	New Partnerships in Affordable Housing
NPV	Nett Present Value
ODPM	Office of the Deputy Prime Minister
PQQ	Prospectus and Prequalification Questionnaire
PwC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors
RSL	Registered Social Landlord
SDS	Scheme Development Standards
SHG	Social Housing Grant
SPV	Special Purpose Vehicle
TCI	Total Cost Indicator
VFM	Value for Money
WLC	Whole Life Cost