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# FUNDING PROSPECTUS



## THE MAYOR'S HOUSING COVENANT

2015-18 PROGRAMME

**MAYOR OF LONDON**

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### **Note of Caution - Draft London Housing Strategy**

Potential bidders should note that this funding prospectus relates to the Mayor's draft London Housing Strategy, which is currently subject to consultation until 17 February 2014. Where that consultation results in material changes to the strategy that affect any offers received, this will be addressed through updates to the prospectus and in the assessment and negotiation stage of the bidding process.

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## FOREWORD



London's population is growing at its fastest pace since the 1930s, and in less than ten years there will be more Londoners than at any time in our history. Nothing is therefore more important than getting low cost homes built to sustain our economic success and get a better housing deal for hard working households.

My new draft housing strategy was launched for consultation last month and it sets out the challenge to build at least 15,000 affordable homes a year as part of a broader ambition to up the rate of home building across all tenures. With your support and enthusiasm, I am confident we can achieve our ambitions and this prospectus is your opportunity to bid for the funding to do so.

Just over a year ago I launched My Housing Covenant – a commitment that those who contribute to London's success should benefit from that success with a decent housing offer – and this new programme is the fourth and largest funding stream in that package. It will provide well over a billion pounds of funding to support the construction of 45,000 low cost homes from 2015 through to 2018, a programme that will directly help around 110,000 households into fantastic new low cost homes as well as an economic benefit worth tens of billions of pounds.

I want to see housing associations, local boroughs and commercial house builders doing more to get London building homes and this prospectus offers a unique opportunity to get longer term funding to plan ahead with confidence.

A handwritten signature in black ink, which appears to be 'Boris Johnson'.

**Boris Johnson**  
Mayor of London

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# PART 1 OVERVIEW

## A housing strategy for London

1. London's remarkable economic and social success comes at a cost; the capital is faced with a massive shortage of good quality homes, affordable to those who wish to live and work here. The overriding aim of the Mayor's draft London Housing Strategy, recently published for consultation, is to increase the supply of housing of all tenures. Building on the Mayor's 2020 Vision, it sets out a challenging ambition to increase supply to at least 42,000 new homes per annum for the next ten years, of which at least 15,000 should be affordable, and 5,000 for long-term private rent. It also addresses the specific shortage of homes for low and middle income working households, while continuing to provide homes for those in the most acute need.
2. Overall, the draft strategy sets the proposed policy context within which this Housing Covenant Programme for 2015-18 has been developed. As per the notice on page three, the draft strategy is currently being consulted on. This funding prospectus should therefore be read on the basis that the strategy is subject to change. Indeed, where the consultation results in any material changes to the strategy that affects the bidding process, this will be dealt with through updates to this prospectus and in the assessment and negotiation of received offers.
3. This prospectus covers GLA investment of £1.25bn to deliver affordable homes in London for the 2015-18 investment round. This funding will build on the earlier covenant commitments and, when combined with the forthcoming London Housing Bank investment, is expected to support the delivery of 45,000 affordable homes. Around 40 per cent of the affordable homes delivered will be for flexible low cost home ownership, with 60 per cent of the homes for Affordable Rent. The Affordable Rent product will be split equally between Discounted rent, for households unaffected by the benefit cap, preferably targeted at working households, with rents up to 80 per cent of market rent; and Capped rent, with properties let at lower levels, to households in greatest need.
4. The design and condition of homes is just as important as the numbers delivered. The Mayor is keen that all new homes should continue to be built to the current high design standards, set out in planning guidance. The Mayor will continue a dialogue with the government as to how best to ensure appropriate space standards and homes that are accessible and adaptable to people at all stages of life to respond to the need to house people living much longer. This programme also proposes to provide investment for specialist housing that helps support vulnerable people to retain or regain independence and to continue to be part of their communities.
5. Aside from dealing with the challenges of building new homes, it is important to consider who these homes are for. The Mayor believes that greater priority should be given to working Londoners whose modest earnings are eclipsed by the capital's high housing costs. The Mayor's Housing Covenant, launched last year, started this process by seeking to reward effort through an improved housing offer. This focus is

maintained in this investment programme, and boroughs will be encouraged to give greater priority in their allocations policies to local working households to help ensure mixed and sustainable communities on new and existing homes. The use of fixed-term renewable tenancies is encouraged, with exceptions for older people and the long-term disabled.

6. The Mayor is also proposing to end the current practice of compulsory sharing of nominations between boroughs. Instead, the GLA will take a share of nominations on affordable housing developments that will then be made available on a pan-London basis. This approach will help to support those needing affordable housing to move between borough boundaries.

### **Delivering affordable homes**

7. It is evident that public spending will remain constrained, so this new programme must ensure excellent value for money, leveraging maximum funding from all sectors, including new investment partners. The Mayor has secured substantial investment, of £1.25bn, for affordable housing delivery post 2015 and all resources must be efficiently and effectively spent. Providers should optimise value for money by bearing down on internal and construction costs and maximising cross-subsidy from asset management and other activities.
8. Offers are invited for funding to deliver homes which can complete by March 2018. The Mayor would also like to offer trusted delivery partners the opportunity to extend some completions into the 2018/19 financial year, but this will depend on the quality, volume and value-for-money of offers received. All homes must start on site before March 2018.
9. Due to the imperative for an increased supply of all homes at all tenures, it is expected that cross-subsidy will primarily come through the provision of open market housing. All providers will be expected to provide market housing, for rent and/or sale, alongside their affordable housing offer, where it is financially sustainable for them to do so. Those who do not will be challenged during the negotiation process. It is expected that only very small and specialist providers will not make some contribution to market supply.
10. The intelligent use of asset management will also be a significant source of cross-subsidy. Providers are strongly encouraged to give consideration to targeting disposals, or letting at market rents, of selective high-value or non-standard stock, where appropriate. To date conversions of re-lets to Affordable Rent has proved difficult in London, and many providers have found achieving sufficient financial capacity challenging, due to a range of factors. The Mayor believes that the case for conversions should be recalibrated, in particular as a way of introducing a range of incomes into mono-tenure estates. This could be through Affordable Rent let to working Londoners or through conversions to shared ownership.

11. In order to ensure valuable public funding is put to best use providers who choose not to participate in this programme will lose their automatic ability to operate a Recycled Capital Grant Fund (RCGF). Instead, unless the GLA agrees otherwise, they will be required to repay recycled grant back to the GLA. Providers that do operate a RCGF will be expected to combine this, with their Disposal Proceeds Fund (DPF), to provide homes through this programme. Investment from RCGF and DPF will be assessed on the same basis as new grant funding from the GLA.
12. A key element in the success of this programme lies in the partnerships and relationships the GLA has with providers and boroughs and those they have with each other. This is an affordable housing programme for London and it is important that there is a fair distribution of affordable homes, of all types, across the capital. Alongside the bidding period for this funding the GLA will look to work in partnership with each borough to agree a framework to guide how the programme will operate in their area so as to maximise the prospects for effective delivery.
13. For the avoidance of any doubt, providers should prepare offers on the presumption that the Mayor's design standards will continue to apply to all homes funded through this programme. The Mayor's London Housing Design Guide supports the development of sustainable and high quality homes that perform well for their occupants, that complement London's rich architectural history and that last the test of time. This approach recognises that there is a demand for diverse dwelling types for different users. The guide focuses heavily on internal design standards that will improve liveability. Minimum space requirements are at the core of these standards, such as adequate room sizes and generous levels of usable integrated storage and a requirement that homes should be accessible and adaptable to suit people at all stages of life. If the outcome of the Government's Housing Standards Review has implications for the London Housing Design Guide, the Mayor will provide further advice.
14. The delivery of the 2011-15 Affordable Homes Programme by March 2015 should be the primary focus of all GLA partners with homes yet to complete. In assessing offers for this programme, past and present delivery will be a key metric to inform decisions. All partners should ensure, therefore, that all of their delivery forecasts are up to date and all relevant starts and completions are claimed on IMS before the end of December 2013. Partners who are slow to log outputs or provide other information to the GLA will be disadvantaged in the bid assessment process, due to reduced confidence in their delivery forecasts.

### **Other opportunities**

15. Provided that sufficient high quality, deliverable offers with good value for money are made, the Mayor will initially look to allocate most of the London affordable housing grant allocation for 2015-18 during summer 2014. This would maximise certainty for successful providers and enable them to take full advantage of the relatively long

period of funding that is on offer. It is expected that an opportunity for bidding for smaller providers, who do not yet have certain schemes ready to submit, will open on an ongoing basis from Winter 2014.

#### *London Housing Bank*

16. The Mayor is particularly keen to explore the concept of a London Housing Bank focused on large-scale developments to generate additional supply. This could include purchasing market homes off-plan, or underwriting developments by offering guarantees through Build to Rent. Funding could come from a range of sources, including the public sector and institutional investors.
17. We have agreed in principle to offer funding of up to £200m, from the Government's new Affordable Rent to Buy programme. The Government is expected to publish a discussion paper on this in the New Year. This funding would enable a pilot of the London Housing Bank to operate, providing loans to develop affordable housing that will be available at Affordable Rent for a fixed period, at the end of which the homes can be sold on. The funding provided by the public sector would be repaid, potentially including value uplift, and then reinvested in delivering more homes. Instead of land lying vacant, sometimes for many years before being developed, the homes will be built earlier, thereby easing the housing crisis. Further information in relation to the London Housing Bank will be published in 2014.

#### *Revolving fund*

18. Organisations that are able to deliver affordable homes in London in the 2015-18 period and beyond, are also invited to submit expressions of interest for innovative ways of delivering affordable housing through a revolving investment fund. Should these be of sufficient high quality, and should further funding become available or sufficient funding is not initially allocated, these expressions of interest will be evaluated and further information sought to develop more detailed proposals. Such proposals may come from organisations who wish to deliver different affordable housing products from those set out in this prospectus, are interested in a different form of GLA investment or wish to have a longer-term contractual relationship. This opportunity may appeal especially to boroughs to assist in maximising housing outputs in one of the 33 Opportunity Areas across London.

# PART 2 PRODUCTS

## Affordable homes for London

19. The key aim of this programme is to deliver as many new homes as possible for working Londoners on low to moderate incomes. The Mayor believes more should be done to help such households.
20. Providers are invited to bid for either affordable homes to rent or to purchase in full or part, on income levels consistent with those specified in the London Plan, or to provide supported housing for vulnerable Londoners. Providers will be able to bid for two products:
  - Flexible home ownership – expected to be 40 per cent of the programme
  - Affordable Rent – expected to be 60 per cent of the programme

## Flexible home ownership

21. Home ownership has many benefits for the owner and for the wider community. It enables people to pass on a home as an inheritance, use as equity should the need arise and mitigates the risk of higher housing costs after retirement. It also contributes towards community cohesion and stability.
22. It is important to ensure that there is specific support available for those on low to middle incomes in London to help them access home ownership, therefore offers that enable working Londoners to own their home are particularly encouraged.
23. All providers are expected to increase the level of affordable home ownership they are providing. Some may choose to provide all, or close to 100 per cent of their homes as flexible home ownership. Only small or specialist providers are expected to provide no flexible home ownership as part of their offer.
24. We are building on the success of our existing flexible product in this programme. This product achieves the ambition to separate the tenure and financial product from the property. Providers are invited to bid on the basis of an expected mix of the following sub-products:
  - Rent to save
  - Shared ownership
  - Equity loan

*Rent to save*

25. This route is geared to households on low to moderate incomes without sufficient deposit to access a shared ownership mortgage. As the rent will be at a lower than market rate, the aspiring homeowner will be able to save throughout the period of their tenancy. Using typical assumptions for rental levels and mortgage deposits for shared ownership, a household regularly saving just the difference between their rent and market rent would have a sufficient deposit in less than two and a half years.
26. Providers are required to put in place a structure and process to identify necessary savings behaviour with the aspiring homeowner at the outset of the tenancy and to monitor this on an ongoing basis. This product is firmly aimed at assisting working Londoners to purchase their home and not simply providing a subsidised rent.
27. The structure of the rent to save product option is as follows:
  - Let at up to 80 per cent of the equivalent market rent for that property, with a fixed rate of inflation at CPI +1 per cent
  - A savings plan would be put in place for the tenant to raise a sufficient deposit to purchase (on shared ownership or equity loan terms) within five years.
  - The household could purchase (on shared ownership or equity loan terms) at any point in the tenancy
  - The property would be let on an assured shorthold tenancy with a fixed term linked to (but not necessarily the same as) the required savings period
  - The provider would be required to put in place regular reviews to check the progress of the household in saving for a deposit
  - The five year period could be extended if the tenant still wishes to move into home ownership but is not quite ready
  - The tenancy could be ended (subject to proper legal process) at any point (after the initial fixed term) if the tenant is not saving appropriately or no longer wishes to purchase
  - If the tenant moves out at any stage the property would be re-marketed as the flexible product or rent to save
  - If the tenant's household income increases over the maximum income cap they should be offered the opportunity to buy the home outright (with the landlord having discretion to offer a discount to reflect fees/costs that they would otherwise incur), in which case grant would be recoverable or rolled over into additional new supply

*Shared ownership*

28. Shared ownership is designed to provide options for households on low to moderate incomes sufficient to support the purchase of 25-75 per cent of the value of the property (with an option to staircase in part or to full ownership) and who can afford a deposit of around ten per cent of the share.

29. Rents on the unsold equity are capped at 2.75 per cent, as per the standard form of shared ownership lease. It is not expected that rents will be set significantly below this level, as this requires considerable levels of subsidy.

#### *Equity loan*

30. Equity loans are available to households on moderate incomes sufficient to raise a mortgage for 75 per cent of the value of the property and a deposit of five per cent of the property value. The twenty per cent equity loan would be repayable if the household moved, repaid their mortgage without simultaneously re-mortgaging or the expiry of the 25 year term. It is recognised that the *Help to Buy* equity loan product is likely to reduce consumer demand for this product to a low level, but some providers may still wish to retain it as an option. Further information on the equity loan product will be made available in the GLA Capital Funding Guide.

#### *Operation*

31. Providers will commit to deliver a set number of new build homes, without pre-determining the flexible product through which the homeowner will purchase. The purchaser will select the home in which they want to live and then select the product type most suited to their individual financial circumstances.
32. Bidders will set out estimated construction costs, income from a mixture of the three product types and the grant required to plug the gap between the two. The actual tenure of the homes will depend on the financial circumstances of the household wanting to live there.
33. There will be a reconciliation exercise at the point of completion. This will compare the initial assumptions around income (from sales receipts and rent/interest fees) and costs (e.g. build and marketing costs) to real, final figures. As part of this process providers will be expected to be proactive in marketing, and it is expected that all homes will be at least reserved by the build completion point, enabling this data to be analysed.
34. This product should significantly improve the customer experience for Londoners purchasing intermediate housing. Where the provider or site is constrained in some way, they will be able to offer only one or two of the above options. The flexible home ownership route is intended for working Londoners with incomes of up to £66,000 in most circumstances and up to £80,000 per annum for families purchasing a home with three bedrooms or more.

## Affordable homes to rent

35. In this funding prospectus the GLA is proposing a differentiated split within the Affordable Rent product. This recognises the need for lower rents ('Capped rent'), for those in greatest need, and offers an option ('Discounted rent') for those whose other choice would be to depend on the private rented sector. A proportion of all Affordable Rent homes will continue to be subject to nominations from London boroughs.
36. Homes provided at the lower Capped rent are intended to meet the needs of a range of households which is likely to include downsizers, households affected by estate regeneration and those in need of long-term support.
37. Whilst many middle income Londoners struggle to find a decent affordable home to rent in the market sector, they do not necessarily require rents as low as target rents for social housing or the new Capped rents. Providing rented homes, with a lower level of discount to the market, for these households greatly reduces the overall need for public subsidy. All nominated households to Discounted rent should be unaffected by the benefit cap. Boroughs will have flexibility on nominations as long as these give providers much greater certainty over the rental stream and consequently the viability of the product. The Mayor would like to see these homes prioritised for working households.
38. We therefore welcome offers for affordable homes to rent, within this Affordable Rent product each provider's bid must contain an equal split between the two rent levels:
- Discounted rent
  - Capped rent

### *Discounted rent*

39. Affordable homes to rent at a Discounted rent are an Affordable Rent product intended to provide sub-market rented homes, at a lower level of discount than Capped rent. These homes are not a form of intermediate housing. The Mayor would like to see these homes prioritised for households in work, many of whom will be in receipt of some level of welfare support, but boroughs will have flexibility in nominations as long as all nominated households are unaffected by the benefit cap. In order to maximise outputs, providers are expected to model initial rents at 80 per cent of market rents or, where it would be lower, at the Local Housing Allowance (LHA) level.
40. If a borough, or a provider, wants to provide additional levels of subsidy into the Discounted rent homes to reduce their rent levels this approach can be agreed at a strategic level or on a site-by-site basis. We do not have sufficient subsidy to fund the lowering of Discounted rents below the 80 per cent/LHA level so a decision to reduce

these, in the absence of additional subsidy from the borough, would need to be associated with a higher rent level for Capped rent homes which would have a net nil impact on subsidy levels.

41. Providers are required to assess the gross market rent the individual property would achieve and set the initial rent, inclusive of service charges, at 80 per cent or, where it would be lower, at the LHA level for the Broad Market Rental Area in which the property is located. In assessing the market rent level for any property landlords should use the standard RICS valuation method taking into account the individual characteristics of that property. All future increases should be in accordance with Government rent policy on Affordable Rent.
42. In order to provide protection and certainty for tenants, providers and funders, the maximum annual rent increase on a Discounted rent property will be Consumer Price Index (CPI) inflation + 1 per cent. CPI will be taken as at September of the previous year. Additionally there will be a requirement to rebase the rent on each occasion that a new Affordable Rent tenancy is issued, or renewed, for that property to ensure that in the long term the rent remains at the lower of 80 per cent of market rent or the LHA level, inclusive of service charges – this requirement overrides the CPI + 1 per cent limit. It does not apply where a probationary tenancy comes to an end and the provider re-lets the property to the same tenant.

#### *Capped rent*

43. Affordable homes to rent at a Capped rent are an Affordable Rent product intended to provide sub-market rented homes for households in greatest housing need. Rents will be no more than 50 per cent of local market rents (inclusive of service charge).
44. To maximise the number of homes funded we generally expect initial rents to be set at the level of this cap. However this may produce very high Capped rent levels in exceptionally high value areas; in those circumstances, we would consider bids with Capped rents set at around 50 per cent of lower quartile market rents.
45. Bids to deliver homes at target rent levels will not generally be accepted, subject to paragraphs 49 and 80 below, except where 50 per cent of local market rent would be below the target rent for a property. The target rent should act as a floor for the rent to be charged.
46. The minimum possible rent chargeable for Capped rent properties will be the target rent (inclusive of the rent flexibility level and exclusive of service charges) applicable for the property. Details of how to calculate target rents are set out in the Government's Guidance on Rents for Social Housing, currently being consulted on, and the Social Housing Regulator's Rent Standard Guidance.

47. All future increases should be in accordance with Government rent policy on Affordable Rent. This limits annual rent increases from April 2015 to no more than CPI inflation + 1.0 per cent.
48. We will seek to conclude a framework agreement with each borough (see paragraphs 144 - 150) that sets out the strategic approach to rents, nominations and accessibility for flexible home ownership.
49. As part of this agreement it will be possible to agree to a higher level of Capped rent, where a corresponding decrease to Discounted rent is also agreed. Where a borough, or provider, wants to provide additional levels of subsidy into the Capped rent homes to reduce their rent levels down to be closer to target rent levels this approach can be agreed at a strategic level or on a site-by-site basis. Lower rent levels, e.g. for estate regeneration decant purposes, may also be agreed on an exceptional, case-by-case basis (see paragraph 80).

*Government rent policy consultation*

50. The Government consultation on rents for social housing 2015-16 is open until 24 December 2013. After consultation the Government's proposals will be settled and incorporated into finalised guidance for local authorities and a new direction on rent to the Social Housing Regulator– these will form the basis of rent increases for all Affordable Rent, including Discounted and Capped rent properties.

## **Tenancies**

51. In line with the London Housing Strategy there is an expectation that only older tenants or those who are unable to work in the long-term would be given full secure or assured tenancies. We expect that all others will be given fixed term tenancies in order to ensure that the best use is made of housing stock and in particular under-occupancy is prevented.
52. We expect that most tenancies will be fixed-term for a maximum of five years, but renewable where appropriate (e.g. if the household is not under-occupying). Within the bounds of this expectation providers will have flexibility to apply their own policies in conjunction with their borough partners. The use of fixed-term tenancies should always be accompanied with appropriate safeguards.
53. Providers may wish to give rented tenants the option to purchase their property at the end of their tenancy through shared ownership, or outright market sale.

## Access

54. Access to flexible home ownership will be through the First Steps portal. It will be a condition of grant that all homes funded by the Mayor must be advertised on the Share to Buy website<sup>1</sup>.
55. Access to affordable homes to rent will be through a combination of borough nominations, a pan-London mobility scheme and direct lettings by providers.

### *Sub-regional nominations*

56. It will no longer be a condition of grant that nominations rights to new affordable homes are shared within a sub-region. This sub-regional nomination process will be replaced by pan-London mobility arrangement operated through Housing Moves. Individual boroughs and sub-regions are free to continue nomination sharing arrangements if they wish to.

### *Pan-London mobility*

57. We will incorporate the routine letting of new properties into the Housing Moves service to increase pan-London mobility in the affordable sector. As a new condition of grant all providers will be required to offer the nomination rights to 5 per cent of the new homes delivered on each site, to Housing Moves. For sites of 150 homes or more this will be increased to 10 per cent.

### *Direct lettings*

58. It is generally expected that providers will retain a minimum of 10 per cent of new lets for direct lettings. This will enable them to efficiently manage their own stock through internal transfers. This represents a lower percentage retention for a provider's own lettings than the 25 per cent which has been a feature of previous programmes.
59. In boroughs where the GLA is unable to agree a framework (see paragraphs 144 - 150) then the current level of 25 per cent of new lets should be retained by providers for direct lettings. The GLA will advise on the rate that providers should assume to retain in each borough, following the agreement of a framework with each borough.

### *Borough nominations*

60. The remaining nominations will be made by the borough. The draft housing strategy, currently out to consultation, sets out an expectation that boroughs will prioritise working Londoners for all forms of affordable housing within the boundaries of legislation and statutory guidance. Nominations to Capped rent properties should follow existing processes and policies.

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<sup>1</sup> [www.sharetobuy.com/firststeps](http://www.sharetobuy.com/firststeps)

61. To give providers certainty in relation to their income stream, nominations to Discounted rent properties should be made to households not affected by the benefit cap, this is most likely to be working Londoners. To achieve this objective, boroughs may need to vary their existing local housing allocation schemes or develop local letting policies within them.

## Specialist housing

62. While the primary focus of the programme is to reward the contribution of low income working households, it is equally important to recognise the contribution that older people have previously made to London's success, and to protect those who are unable to support themselves. By ensuring that all homes delivered are built to a high quality, adequately sized, accessible and adaptable the vast majority of general needs stock should be suitable for the needs of older and disabled households.
63. In some specific circumstances, however, the development of specially designed housing will be necessary in order to give older and disabled Londoners homes that are better suited to their individual needs. For some it may also provide an opportunity to downsize to a more manageable home which will, in turn, improve the wider housing market by freeing up larger properties, helping to tackle overcrowding.
64. We encourage providers to include within their offers the number of supported homes for vulnerable Londoners they will provide as part of their offer. There are three options to deliver supported housing under this programme:
- Care and support
  - Tackling homelessness
  - Other forms of supported housing
65. By the time a specialist housing scheme of any type, is profiled out on IMS we will require a clear statement detailing the revenue requirements and sources, and alternative use strategies where applicable. We will not provide capital funding to schemes with unfunded revenue requirements or with a built form which is not sustainable in the face of changing demand.

### *Care and support*

66. Care and support is specialist housing for older people and for adults with disabilities. We expect offers to include accommodation which offers 'homes for life', providing a long-term solution rather than a temporary stay. This is aimed at individuals who would benefit from a home adapted to suit their individual needs, and will provide, for many people, a genuine alternative to residential care.
67. The Department of Health will be contributing additional resource within this period, to fund the aforementioned clients groups. The Mayor and the Department of Health

wish to see proposals following the criteria set out in phase one of the Mayor's Care and Support Specialised Housing Fund prospectus, published in October 2012<sup>2</sup>, with a strong preference in solutions for adults with mental health problems and learning disabilities.

68. Offers are not restricted in the exact level of care provision that they offer, however, since offers will be judged on how well they are responding to local needs, bidders may wish to consider a mixture of provision within the same development. In all cases, bidders should demonstrate how their development will adhere to relevant guidance or best practice in the design of their scheme.

#### *Tackling homelessness*

69. Rough sleeping is the most acute manifestation of homelessness in the capital. The Mayor is committed to tackling this issue, and will continue to work with boroughs, government and voluntary sector partners, co-ordinating this action through the Mayor's Rough Sleeping Group.
70. Specialist accommodation services for former rough sleepers can prove transformative and allow individuals to build and sustain lives away from the streets. For this to function effectively there needs to be sufficient move-on opportunities and access to services for individuals who need them most.
71. We are making available funding to increase the supply and improve the quality of hostel accommodation and supported housing, and to provide greater move-on and accommodation opportunities for groups facing specific barriers, such as those under 35 years of age. This funding could support new build provision, refurbishment, change of use and innovative design and construction solutions.
72. We encourage providers to come forward with offers to deliver high quality accommodation to address rough sleeping and provide further opportunities for move-on. We expect that bids will have, and will be able to demonstrate, the support of the local authority in which the scheme is proposed.

#### *Other forms of supported housing*

73. Providers can also bid for other forms of supported housing for other vulnerable client groups, not limited to those outlined in this prospectus or necessarily threatened with or experiencing homelessness.

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<sup>2</sup><http://www.london.gov.uk/sites/default/files/The%20Mayor%27s%20Care%20and%20Support%20Specialised%20Housing%20Fund%20Prospectus.pdf>

## **Building homes of the right size**

74. Tackling overcrowding remains a priority in London. We need to make better use of London's affordable housing stock and deliver more family-sized homes. Although there has been a welcome decline in the number of severely overcrowded households in the sector there remain a larger number of households enduring overcrowding. At the same time there are a significant number of households under-occupying their affordable homes.
75. Reforms to the welfare system for under-occupying tenants in the social housing sector should encourage more working age tenants to find homes that better meet their needs or enter the world of work. This should free up under-occupied larger properties as households find homes that better reflect their needs. For this reason there will be an expectation that Capped rent properties will be predominantly smaller homes, with nominations targeted at those affected by welfare reform. In future bidding rounds a higher proportion of larger homes will be expected, once the temporary issues relating to housing benefit changes are worked through.
76. The provision of family-sized affordable housing remains a priority for the Mayor. Of the Discounted rent properties all providers are expected to deliver at least 36 per cent of homes as three-bedroom or above.
77. The provision of much larger homes, meaning four-bedrooms and above, is also encouraged where there is specific local need.

## **Estate renewal**

78. We encourage providers to bid for funding for new build homes in estate regeneration projects. Although this programme does not provide the opportunity for development beyond 2019 providers may bid for phases which fit within the parameters of the programme. To secure funding for estate regeneration, providers must be able to demonstrate value-for-money across their offer in line with the principles of the programme.
79. Some boroughs may wish to prioritise those moving out of properties to be redeveloped for estate regeneration for Capped rent and this is a local decision. A heavy focus on estate regeneration schemes within a given borough may be one justification for a higher proportion of Capped rent homes in that area. A reasonable number of Discounted rent homes will still be expected and providers are expected to achieve an overall equal balance between Capped and Discounted rent homes
80. Where it is necessary to decant existing social tenants into new homes, provision at target rent levels will be considered. A strong case will need to be made by the

provider, supported by the relevant borough, to demonstrate why Capped rent would not be a viable alternative. All such cases will be considered on their individual merits.

81. Proposals requesting funding for re-provided homes which honour commitments to existing tenants will not be excluded from the programme. To secure funding for re-provided homes providers must provide a business case which demonstrates the delivery of these homes is part of a longer term area strategy to speed up delivery, which will unlock additional development. Providers delivering estate regeneration will in addition be expected to submit an estate regeneration statement setting out the net position in relation to affordable and market homes that will be achieved following the completion of the development.

### **Section 106 schemes**

82. The Mayor would like to see the contribution which affordable housing makes to overall supply in London optimised. This can be achieved through maximising the number of affordable homes which can be delivered by the planning system, without any further public subsidy, and directing GLA grant funding to where it can have greatest impact.
83. As set out in the London Plan, the Mayor is seeking to maximise new affordable homes and expects developers to make the most effective use of resources to achieve this objective.
84. Mayoral Community Infrastructure Levy (CIL) has been set at a level which should allow for the policy compliant provision of affordable housing. Borough CIL should be set in the same way. Neither should be to the detriment of the delivery of much needed affordable housing.
85. Consequently in London, the expectation is that no affordable home delivered on a section 106 site<sup>3</sup> should require any grant. The capitalised rental stream and cross subsidy from shared ownership or other low cost home ownership products, should be the only contribution to the subsequently delivered affordable homes.
86. It is expected that each discussion with the planning authority at pre-application and full application stage regarding the quantity of affordable homes will be a three way dialogue between the borough, the lead developer and the chosen Registered Provider.

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<sup>3</sup> The definition of a section 106 scheme is one where affordable housing is delivered solely by virtue of the planning obligation required through the planning permission. This does not include land led opportunities controlled by Registered Providers.

87. However, where there is believed to be a case for grant on the planning obligation proportion of the scheme, the GLA expects to receive the following information presented as justification:
- Whole site build costs
  - Expected private sales receipts net to gross rental stream
  - Developer profit margin
  - Existing Use Value at point of land purchase
  - Red Book Valuation at point of land purchase
88. The GLA will not consider grant funding for schemes where rents (either for Affordable Rent or shared ownership) have been artificially capped through the planning permission or associated documents.
89. For the Affordable Rent homes:
- Net to gross rental stream
  - Net Present Value over 30 years
  - Discount rate
90. For the flexible home ownership:
- Initial sales assumptions
  - Net to gross rental stream
  - Discount rate
91. The GLA will only consider these proposals for grant where it can be demonstrated that:
- The scheme is unviable,
  - It provides additional affordable homes
  - It accelerates the delivery of the affordable housing

# **PART 3 QUALITY AND SUSTAINABILITY**

## Delivering quality and sustainable homes

92. A key aim of the programme is the delivery of quality homes that will stand the test of time. The ambition of the programme is that all homes meet the requirements of the London Housing Design Guide, enshrined in the London Plan.

## Design standards

93. The government's Housing Standards Review consultation closed on 22 October 2013. The Mayor has responded to the consultation, and the outcome will be announced by the Department for Communities and Local Government (DCLG) shortly. In the meantime the Mayor will continue a dialogue with the government about the implications of the government's review for the London design standards and providers should bid on the basis of the current design standards approach, with the qualification set out below. If the outcome of the Review has implications for the London Housing Design Guide, further advice will be provided.
94. Providers will no longer be required to meet standard 3.2.5 of the London Housing Design Guide which states that in "buildings with dwellings entered from communal circulation at the first, second or third floor where lifts are not provided, space should be identified within or adjacent to the circulation cores for the future installation of a wheelchair accessible lift". This is to avoid unnecessary expense in providing space for a lift which is unlikely to be retrofitted to a home.
95. In the event that the Code for Sustainable Homes (Code) is wound down in line with government's current proposals, providers will be required to achieve a sustainability certification equivalent to the requirements set out in the London Plan and the London Housing Design Guide through other means. DCLG has committed to put in place transitional arrangements to ensure that contractual commitments under the Code can be properly covered and the GLA will look to provide further guidance on any necessary transitional arrangements once the future of the code has been clarified.
96. Providers should be aware that all schemes should be designed in accordance with the London Plan energy hierarchy, and should meet the following minimum targets for carbon dioxide emissions reduction as set out in the London Housing Design Guide. Providers should note that as of 1 October 2013, these savings, for homes of all tenures, go beyond the minimum requirements of Code level 4 (25 per cent CO<sub>2</sub> saving beyond building regulations 2010). One way of demonstrating compliance with this requirement would be to achieve at least 4.4 credits under ENE1 (scheme dwelling emission rate) of the Code.

Table of minimum reduction requirements for carbon dioxide emissions

Year	Improvement on 2010 Building Regulations
2013 – 2016	40%
2016 – 2031	Zero Carbon

97. In line with London Plan Policy and the London Housing Design Guide, 10 per cent of all units across a scheme, both market and affordable, should be easily adaptable for wheelchair users; i.e. they should be designed from the outset with suitable space and circulation and should not require structural alterations, such as removing walls to enlarge rooms. For funding purposes, providers are not required to provide fully adapted units from the outset unless there is demonstrable local need. It is expected that normal practice will be to seek nominations for households who require an adapted property prior to fit out of the unit. If no such household is identified the property should be fitted out to a standard specification, with the possibility of adaptation to a wheelchair standard for future tenants.
98. In making their offers providers will be asked to submit a statement demonstrating their commitment to achieving the London Housing Design Guide, setting out any necessary departures.
99. The detail of the compliance and certification process will follow but it will be the same or less onerous than the process currently in place.

### **Pre-existing buildings and planning consents and specialist housing**

100. We recognise that not all of the standards in the London Housing Design Guide can always be achieved when providing new homes within existing buildings, supported housing which includes communal facilities or hostel accommodation. Providers should always strive to implement the London Housing Design Guide for all schemes but we will offer flexibility on the standards to be achieved for the types of accommodation according to the table contained at Annex 1.
101. Schemes which were submitted for detailed planning consent prior to 31 July 2011 will qualify as transitional schemes. These schemes will be subject to an equivalent assessment process, but some flexibility as to the actual standards to be achieved will be offered. The HCA's Design and Quality standards 2007 should be achieved as a minimum for transitional schemes. It is expected that these transitional schemes will be in the minority in the 2015-18 programme.

## Allowable solutions

102. The government is currently consulting on potential carbon offsetting measures which would allow developers to meet zero carbon standards for residential development through offsite contributions rather than on site, known as allowable solutions.
103. Allowable solutions may involve developers making payments to providers of renewable energy. It is not clear at this stage how such a payment would be calculated. We are seeking a measure which would allow the GLA to keep any money paid into this fund to use within London.
104. It is expected that all allowable solutions on developments funded as part of this programme are undertaken within London.

## Environmental retrofit

105. The Mayor has strong ambitions to reduce London's carbon footprint through retrofit measures to existing stock. A project support unit has recently been established to help support such measures in domestic property and activities are underway to secure this as a resource for London in the medium-term.
106. We have published a Guide to Funding and Financing Opportunities for Energy Efficiency Retrofit in London. The guide identifies potential sources of funding and finance available to boroughs, Registered Providers, private landlords and individuals to pay for energy efficiency retrofit measures in their housing<sup>4</sup>.
107. The Mayor is keen to work with all large landlords to understand their plans for environmental retrofit and provide support where necessary, in terms of advice, specification, procurement and access to funding, including through Green Deal and Energy Company Obligations.
108. All providers with more than 1,000 homes of existing stock are required to submit a brief statement on environmental retrofit, setting out how they will work with us to retrofit their entire stock by 2020, and what support they require in order to do so. Providers may also wish to respond to the London Housing Strategy consultation which seeks views on how this may be measured.
109. Where providers are considering applying for Feed in Tariffs (FITs) for eligible low carbon installations, they should consult the guidance on FITs and grants available from Department of Energy and Climate Change (DECC)<sup>5</sup> and Ofgem<sup>6</sup>. Where

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<sup>4</sup> [www.london.gov.uk/sites/default/files/Funding%20Guide%202021%20Aug%2013\\_0.pdf](http://www.london.gov.uk/sites/default/files/Funding%20Guide%202021%20Aug%2013_0.pdf)

<sup>5</sup> [www.decc.gov.uk/FITs](http://www.decc.gov.uk/FITs)

<sup>6</sup> [www.ofgem.gov.uk/FITs](http://www.ofgem.gov.uk/FITs)

providers are considering applying for Renewable Heat Incentive (RHI) payments, they should consult guidance available from DECC.

# **PART 4 WORKING WITH PROVIDERS**

## Contract management

110. The framework agreement contracts that will be used to manage the programme will be published shortly. There are three types of agreement, for ex-Registered Social Landlords, new Registered Providers and for boroughs. All contracts will be suitable for consortia or individual organisations. We expect successful bidders to return their signed framework agreements by July 2014. As part of the submission of an offer a statement accepting the terms of the framework agreement contract is required.
111. The Approved Offer for each partner will consist of a number of homes to be delivered across the programme for an agreed amount of funding. The agreed funding will be attributed to schemes in each programme as they become Firm Schemes. It will be for partners to determine how much grant to attribute to each scheme and payments will be made in accordance with the amount attributed to these schemes, rather than on an average payment rate method. 50 per cent of grant will be paid at start on site and 50 per cent on completion.
112. We will continue to hold annual and quarterly reviews with each provider. At these meetings programme delivery performance will be reviewed, comparing forecast and actual performance for starts on site and completions. At the annual reviews the development strategy, which is a new requirement setting out future development plans, and remaining starts to be profiled will be reviewed. The annual review will incorporate the continuing partner qualification process.
113. Whilst providers will enter into a delivery agreement with the GLA, there may be occasions when a provider is unable to fulfil their contractual commitments and need to request a change to their programme. It is expected that delivery forecasts will be accurate and maintained but where issues arise outside of the provider's control which are flagged at an early stage, we will be open and flexible in relation to the changes requested.
114. Where a firm scheme is unable to be delivered providers will have the flexibility to replace it with another suitable site. Reductions in delivery are not expected.
115. Where a scheme cannot be delivered or replaced by an equivalent scheme the GLA will reserve the right to review a provider's whole offer and grant requirements therein. This may occur, for example where there is a reduction in larger homes or the average funding per unit significantly increases. The equal balance between Capped and Discounted Rent is expected to be maintained at all times.

## Offers

116. Each partner will have an Approved Offer consisting of several Offer Lines; these will be either Firm or Indicative. Firm Offer Lines will be for each named scheme where the provider has a realistic opportunity of delivery. A maximum of two Indicative Offer

Lines will profile the balance of the Offer for Affordable Rent and flexible home ownership and within these set out the number of starts and completions to be delivered each year, across the whole of London.

117. The forecast starts in each Indicative Offer Line will need to be confirmed as firm by the December of the year preceding the year of start-on-site. For example the indicative starts in 2015/16 will need to be profiled out by scheme in IMS by December 2014. The GLA expects to reduce the Indicative Offer Line for the units and funding not profiled out by that time.
118. This profiling will be reviewed each January. As part of the confirmation process it may be necessary to review the agreed funding for each provider to ensure value for money is still being obtained.
119. Providers should set out the anticipated location(s) of firm schemes to be delivered in their programme. In all instances, where a firm scheme forms part of an initial Offer, the individual local authority in which the scheme is located should be identified and consulted with prior to bid submission.

## **Costs and contributions**

120. Whilst we will still collect and expect accurate cost information from partners the level and detail of information collected on the GLA's Investment Management System will be significantly reduced.
121. For each Offer Line (Firm and Indicative) providers will need to list the total scheme costs and total cost contributions to cover this.
122. Total cost contributions will need to be classified in the following categories:
  - Rental income (new lets for Affordable Rent or flexible home ownership)
  - Initial sales income from flexible home ownership
  - Income from asset management flexibility (disposals and conversions)
  - Cross subsidy from market sale/rent
  - Other provider resources
  - Input from Recycled Capital Grant Fund
  - Input from Disposal Proceeds Fund
  - GLA grant required (a balancing figure between the costs and other sources of income)

*Financial assumptions*

123. Providers will also be asked to submit a statement detailing financial assumptions to support the bid assessment process, these will include:
- Gross to net rent (i.e. gross rent less any management charges, voids, bad debt assumptions – for both Affordable Rent and flexible home ownership if different)
  - Discount rate applied to net rental stream (for both Affordable Rent and flexible home ownership if different)
  - Period over which the net rental stream is valued (period of Net Present Value calculation)

*Market supply*

124. All providers are expected to develop market homes as part of their programmes, whether for sale or rent, where it is financially sustainable for them to do so. Providers who do not will be challenged during the negotiation process. It is expected that only very small and specialist providers will not make this contribution. Market homes will generate additional capacity to both cross-subsidise sub-market rental homes and deliver additional new homes, increasing the overall number of new homes in London.
125. Providers who are not proposing to deliver any market homes are required to submit a statement explaining their rationale. This will be tested through the assessment and negotiation process.

*Asset management flexibility*

126. We encourage providers to make the best use of their existing assets to create additional capacity delivering new affordable homes, through a combination of tenure conversions and asset disposals.
127. All providers are strongly encouraged to consider disposals of appropriate and non-strategic high-value or non-standard stock to support their delivery of affordable housing. In some circumstances providers may prefer to consider renting these properties at market rent, in order to preserve their long-term asset ownership.
128. Conversions of existing social rented homes at relet are also encouraged, particularly as a way of introducing a mix of incomes into mono-tenure estates. This could be through conversions to Affordable Rent let to working Londoners or as conversions to shared ownership .
129. All homes to be converted or disposed of should be within London and the additional resources raised should be spent within London.

*Recycled Capital Grant and Disposal Proceeds Funds*

130. Each bid will be assessed on the basis of total grant. Total grant includes inputs from a provider's RCGF and DPF, as well as new GLA grant requested. Only RCGF or DPF generated in London should be included in provider's bids to the GLA. No RCGF or DPF generated in London should be applied outside of London.

### **Role of the regulator**

131. As outlined above, the programme relies upon development costs being funded from a range of sources of finance including borrowing. This has the potential to impact loan covenants, including gearing ratios (and will apply across the whole of a provider's proposed programme, including that to be delivered outside of London if applicable). Therefore the advice of the regulator on registered providers' ability to continue to meet the Governance and Viability standard will be key in the GLA's decision on whether to proceed to contract. The Social Housing Regulator will assess and consider the full impact of offers inside and outside of London and neither can be judged in isolation from the other.
132. The regulator is currently reviewing providers' compliance with its value-for-money standard in the light of the sector's recent Value for Money statements. As part of this work the regulator will be identifying where it has concerns about a provider's approach to value for money and will flag this in its Regulatory Judgements. Non-compliance with the value for money standard may lead to a downgrade in a provider's governance grading. The regulator will be undertaking this work in Q3 of 2013/14 and the early part of Q4, so when making decisions on allocations, the GLA will take account of the regulator's views as expressed in these judgements.
133. The regulator will assess offers as they are submitted and provide advice to the GLA on whether the registered provider(s) involved in delivering the bid are:
- Currently in compliance with the regulator's governance and viability standard. This will reflect the regulator's current assessment of compliance and will not be based on information submitted as part of the offers; and
  - Likely to be able to continue to meet the viability element of the governance and viability standard if the full offers submitted result in allocations, taking account of the impact in addition to any existing programme agreement.
134. In assessing the impact of proposals on future viability the regulator will consider a range of factors including the deliverability of conversion and/or disposal assumptions, funding requirements, sales risk and interest cover and gearing. Where registered providers submit offers both inside and outside of London, the regulator will assess the combined impact of these offers on future viability.
135. The regulator's review of offers received will form part of the overall assessment process for the programme. Registered providers will need to submit relevant information direct to the regulator including an updated financial forecast return. Completed FFR's should be submitted to [FAEnquiries@hca.gsi.gov.uk](mailto:FAEnquiries@hca.gsi.gov.uk). This should be

the latest version of the financial forecast return template which contains specific information requirements relevant to the 2015-18 Programme offers.

136. The regulator will also consider any requests for statutory consent to specific social housing disposals that registered providers are ready to submit alongside offers. And will consider a programme approach to these consents where that is appropriate. Providers considering the programme route should discuss this approach with the regulator as soon as possible.

#### *Consents*

137. It is recognised that providers may not be in a position to identify specific properties for disposal at the point that offers are made and agreed with the GLA. We will expect providers to have discussed their plans with local authorities before offers are submitted. Similarly the regulator will expect providers to meet its requirement for consultation with a local authority before seeking disposal consent.
138. Where a provider's plans include disposals for which specific consent will be required but the provider is not yet in a position to seek consent, the regulator will – where possible – alert the GLA to any potential barriers to consent eventually being given. Whilst the regulator will not be able to guarantee that consent will be given when it is eventually sought, subject to their usual requirements for disposal being met, consent will not be unreasonably withheld.
139. Providers who do not have an existing Framework Delivery Agreement under the 2011-15 AHP may only begin to convert existing social rented homes at re-let to agreed new tenures (including Affordable Rent) once a contract for 2015-18 has been signed with the GLA.

#### *Registered Provider status*

140. Bidders who intend to be the landlord of all completed properties must be registered providers or intend to become registered providers<sup>7</sup>.
141. Providers should note the indicative timescales for registration included in the regulator's guidance are for illustrative purposes only and timescales can be longer or shorter depending upon the volume of applications being processed at the time of application. Providers will need to demonstrate as part of their bid that they are likely to achieve registered provider status within a short timescale to ensure that they will be able to achieve delivery of new supply within the timeframes envisaged. Bidders that are considering whether to become Registered Providers of Social Housing are encouraged to talk to the regulator's Registration team at the earliest opportunity.

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<sup>7</sup> For full details of how to register see - [www.homesandcommunities.co.uk/ourwork/how-register-us](http://www.homesandcommunities.co.uk/ourwork/how-register-us)

# **PART 5 WORKING WITH BOROUGHES**

## Strategic priorities

142. Through the draft London Housing Strategy the Mayor is encouraging boroughs to give greater priority to local working households on low incomes in their allocations policies. In doing so, boroughs should balance this additional priority with the need to ensure the most vulnerable are looked after.
143. This approach meets the aims of both rewarding those who contribute most to London's economy, and protecting the elderly and vulnerable. It also means boroughs making the most of their new flexibilities to prioritise working households for affordable housing, while continuing to work within the statutory framework of reasonable preference categories.

## Agreement of frameworks with boroughs

144. We look forward to a comprehensive engagement with boroughs to agree the way the programme will work in different areas, delivering much needed affordable homes for Londoners. To do this we wish to work with boroughs, through their strategic, planning and enabling roles, to agree a framework to guide the operation of the programme in their areas during the bidding stage.
145. The framework will guide the borough, GLA and providers in the delivery of the programme. The framework will reflect the current position, but is likely to be an iterative process with the framework initially informally agreed prior to 10 March 2014, then reviewed in line with Offers received and approvals made.
146. Where a framework is agreed with a borough we intend to recommend providers to retain 10 per cent of new rented homes, this represents a lower percentage retention for a provider's own lettings than the 25 per cent which has been a feature of previous programmes.
147. The framework will cover:
- If the borough wishes to raise the cap on the Capped rent homes and any corresponding decrease in rent levels for Discounted rent homes
  - The distribution and proportions in each borough of flexible home ownership and Affordable Rent and the split within Affordable Rent between Capped and Discounted rents
  - The approach to flexible home ownership, including in relation to marketing cascades and income restrictions
  - Confirmation that only households unaffected by the benefit cap will be nominated to Discounted rent homes

148. Rents on Capped rent homes will generally be capped at 50 per cent of market rents. Where a borough wishes to see higher levels of rent this can be agreed through the framework, providing there is a corresponding decrease to the Discounted rent. Alternatively boroughs can use their own resources to bring down the rent levels for Discounted or Capped rent homes.
149. As this is a London wide programme there is a need to ensure a fair and equitable distribution of affordable homes across the capital. This will apply to the distribution of flexible home ownership and the Capped and Discounted forms of Affordable Rent within each borough. It will not be acceptable for a borough to choose to have only homes at Capped rent in their area. It is generally expected that flexible home ownership will make up approximately 40 per cent of supply in a given area; this may be less in areas where values are particularly high or more in areas where there is a desire for increased levels of home ownership.
150. Another key aspect of the Mayor's draft strategy, with regard to the investment programme, is the aim to encourage home ownership. There are several options available for delivering this product in the programme and we will agree with boroughs reasonable cascades for accessing flexible home ownership, to ensure as many Londoners as possible have the opportunity to get a foot on the housing ladder. We will fund flexible home ownership up to income levels as specified in the London Plan, even where this is higher than may be considered appropriate in local borough plans. Where boroughs do wish to have local restrictions on eligibility, these should not apply beyond the first three months of marketing, after which unsold homes should be made available to any Londoner within the relevant income threshold as defined in the London Plan.

## Supporting delivery

151. The agreement of a framework, as set out in the previous section, does not replace the need for each provider to engage closely with boroughs to shape their delivery programmes. All providers will be expected to submit a statement detailing their engagement with the boroughs in which they expect to deliver homes.
152. We will continue to seek borough feedback on each scheme that comes into the programme and we expect all providers to work proactively with the relevant boroughs in the formulation and delivery of their offers.
153. Publicly owned land is a valuable resource and we expect boroughs to work in partnership with providers, and indeed other public sector landowners, to deliver affordable housing. In particular, boroughs may wish to look for opportunities with providers to enter into long-term arrangements to build out their land banks.
154. Where providers have entered into an agreement to develop land previously owned by the public sector, it is expected that GLA grant, and public subsidy in the form of

RCGF and DPF, should be minimised. Where a borough, or another public body, is unwilling or unable to transfer the land at nil or nominal cost, then it should be willing to share in the risks of development, with the deferred value to be realised over the lifetime of a project.

*Boroughs as providers*

155. The Mayor is keen to encourage boroughs to develop affordable homes in their own right but strongly encourages them to consider working in consortia, with other boroughs or Registered Providers, to maximise efficiency in programme delivery. The option of an expression of interest for a revolving fund (see paragraphs 196 - 198) may appeal especially to boroughs to assist in maximising housing outputs in one of the 33 Opportunity Areas across London.
156. There are ongoing discussions with government in relation to some details of direct delivery of affordable housing by boroughs. If necessary, further guidance in relation to boroughs as providers of new affordable housing will be issued.
157. Boroughs are not permitted to use Right to Buy re-provision receipts in conjunction with GLA grant.
158. Boroughs delivering in their own right should be aware that their investment in new supply is protected by a special “cost floor” rule in relation to Right to Buy applications. The cost floor rule aims to provide a fair balance between safeguarding the investment put into properties by landlords and allowing eligible tenants to purchase them at a discount. It can have the effect of reducing the discount available, but does not prohibit eligible tenants from buying the property, albeit without the discount.
159. Under this rule the discount a tenant receives under the Right to Buy may be reduced if their home has been recently purchased or built by their landlord or the landlord has spent money on repairing and/or maintaining it. Under the cost floor, the discount a tenant receives must not reduce the price they pay below what has been spent on building, buying, repairing or maintaining it. Similar restrictions apply where the cost of works carried out over a number of years is greater than the market value of the home<sup>8</sup>.

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<sup>8</sup> For more information see - <https://www.gov.uk/right-to-buy-buying-your-council-home/discounts>

# PART 6 COMPETITION

## Funding allocation

160. Provided that sufficient high quality, deliverable offers which offer good value for money are made then the Mayor intends to allocate most of the London affordable housing grant allocation for 2015-18 in Summer 2014. This would maximise certainty for successful providers and enable them to take full advantage of the relatively long period of funding that is on offer. It is expected that an opportunity for bidding for smaller providers, who do not yet have certain schemes ready to submit, will open on an ongoing basis from Winter 2014.

## Who can bid?

161. This bidding round is open to any organisation that wants to deliver affordable homes in London. In particular we welcome organisations that are not currently working with us or those we do not currently fund. We envisage that this funding could be attractive to boroughs, housing associations and a wide range of other organisations.
162. Only organisations who are either themselves, or as part of a consortium, intending to manage the completed homes will be eligible to bid. Providers bidding for funding simply to transfer completed homes to other organisations are ineligible for funding.
163. Any bidding organisation not currently a GLA Investment Partner will need to submit an application for qualification. Applications for Investment Partner status assess an applicant's financial and technical capacity to undertake an agreed programme of new supply, and the organisation's good standing. Providers must have achieved GLA Investment Partner status before any payment of funding can be made.
164. Affordable Rent homes are a form of social housing. It is therefore a requirement that the landlord of all properties funded as Affordable Rent or Rent to Save must be registered with the Social Housing Regulator.<sup>9</sup>
165. Providers of Shared Ownership or Equity Loans do not need to be registered with the Social Housing Regulator. Unregistered providers who intend to provide Shared Ownership or Equity Loans without registering with the Social Housing Regulator should submit a statement detailing the equivalent protections they will offer to their leaseholders/mortgagors and the codes of practice they will follow. These statements will be shared with the Social Housing Regulator, as part of the GLA's consultation process.
166. We recognise the value and importance smaller providers can bring, but we strongly encourage smaller providers to form consortia with larger providers in order to take advantage of economies of scale and development expertise they offer. In general it is expected that any provider looking to deliver fewer than 100 homes over the 2015-18

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<sup>9</sup> For more information see - <http://www.homesandcommunities.co.uk/ourwork/regulation>

period will partner up with other organisations. Providers who do not form consortia prior to bidding will be encouraged to do so as part of the assessment and negotiation process. Larger providers with capacity and expertise are encouraged to support smaller providers, through consortia or other arrangements.

## What can be bid for?

167. Providers are invited to submit a Programme Offer based bid detailing the amount of funding they will need to deliver a set number of affordable housing starts in each year of the three year programme, through the product options outlined earlier in this prospectus.
168. Offers will be a combination of firm and indicative proposals, and we will prioritise offers that include identified sites and those with early starts and completions.
169. Firm proposals will be in the form of Firm Schemes. For the purpose of bidding a Firm Scheme is a development on a named site within the providers development programme. The site may not necessarily be owned by the provider, or have planning permission in place, but it should have a clear and firm timetable for delivery.
170. Indicative proposals will be in the form of three annual Indicative Allocations of starts for 2015/16, 2016/17 and 2017/18. The sites that make up these Indicative Allocations will need to be identified and agreed with the GLA by December of the preceding year. For example starts in 2015/16 will need to be profiled out by December 2014.
171. Offers are invited for funding to deliver homes which can complete by March 2018. The Mayor would also like to offer trusted delivery partners, with a proven track record of delivery, the opportunity to extend some completions into the 2018/19 financial year. This will depend on the quality, volume and value-for-money of offers received. All homes must start on site before March 2018 and complete by March 2019.
172. We encourage providers to include all deliverable homes within their offer, and detail, at a scheme level, the estimated costs and income contributions. We expect that some of these schemes may be deliverable without any GLA grant, RCGF or DPF.

### *Debt Guarantees*

173. Bidders who wish to access guaranteed debt should apply to the debt guarantee delivery partner, Affordable Housing Finance<sup>10</sup>. If an application for guaranteed debt funding is made, where grant is also needed (alongside asset management flexibilities) we will expect that to be reflected in the amount of grant requested. Providers will not need to bid directly to the GLA where they are only using guaranteed debt, but will need to enter into a short form agreement with the GLA to be able to charge

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<sup>10</sup> <http://www.thfcorp.com/ahf.htm>

Affordable Rent on the new homes. Where such bidders wish to undertake conversions to deliver new supply they will need to submit a bid in line with this prospectus.

## How to bid

174. Bidding will be through the GLA's Investment Management System (IMS). The system will open for the input of offers by 3 February 2014. All offers should be validated and submitted by **midday on Monday 10 March 2014**. Providers are encouraged to submit offers significantly in advance of this deadline to avoid technical issues preventing submission.
175. For providers that are already IMS users there is no requirement for a separate user account. Prospective bidders who do not already have a GLA IMS user account should email [glaims@london.gov.uk](mailto:glaims@london.gov.uk) to request a registration pack by 31 January 2014 so that they have time to familiarise themselves with the system and input the details of their bid.
176. There is a requirement to submit several additional statements at the same time as part of the overall bid submission. At this time we are expecting that this will be done directly in IMS, but will advise providers if this is not possible. The statements required will be:
- Estate renewal statement (paragraph 81)
  - Design standards statement (paragraph 98)
  - Environmental retrofit statement (for providers with 1,000 or more existing homes, paragraph 108)
  - Statement accepting terms of contract (paragraph 110)
  - Statement of capitalisation assumptions (paragraph 123)
  - Market supply statement (if no market supply homes are proposed alongside the programme, paragraph 125)
  - Borough engagement statement (detailing their engagement with the boroughs in which they expect to deliver homes, paragraph 151)
  - Flexible home ownership statement (if proposing to provide shared ownership or equity loans without registering with the Social Housing Regulator, paragraph 165)
  - Jobs and growth statement (paragraph 192)
  - Cycle safety statement (paragraph 195)

## Assessment and negotiation

177. The offers will be assessed on the basis of the following criteria:

- Value for public money
- Deliverability
- Strategic fit

178. We will share information on relevant offers with the borough in which they are located. By bidding all providers are confirming their willingness for all information to be shared with the relevant borough. In assessing offers we will consider the firm schemes in the context of the whole offer.

### *Value for public money*

179. The offers will be assessed against benchmarks for tenure type. We will reward offers that can be delivered for lower amounts of total public subsidy and where the impact on jobs and growth is maximised. For the purposes of our assessment RCGF/DPF will be treated in the same way as new GLA grant.

180. We will challenge individual grant levels against the benchmarks to make sure there are clear justifications for the grant rates requested and that they achieve good value for money.

181. Bidders will be expected to demonstrate where they have maximised their other sources of funding and cross-subsidy as set out in paragraph 122.

### *Deliverability*

182. We will reward offers that include Firm Schemes with earlier starts on site than others. Past performance, including deliverability in the Affordable Homes Programme 11-15, will also be taken into consideration. We will work with partners through the negotiation process to review their capacity to deliver to ensure that overall more affordable homes can be delivered in London.

183. In considering deliverability of offers we will have regard to published value-for-money statements issued by the Social Housing Regulator. Where these indicate that a provider could or should be working their assets harder, providers will be pushed during the negotiation process to provide more homes, reduce their request for grant, or both.

184. Where Offers are made by Private Registered Providers (PRPs – essentially Registered Providers who are not London boroughs) the GLA will consult with the Social Housing Regulator in the assessment of offers to ensure the continued economic viability of such providers. By bidding PRPs are confirming their willingness for all information to be shared with the regulator.

185. By submitting offers, PRPs will be giving consent that relevant financial and other relevant information provided to the regulator may be shared with the GLA on a confidential basis.
186. All providers will be subject to an assessment of financial standing to protect the GLA's investment. Any providers who are not currently GLA Investment Partners are required to submit the final version of their latest audited accounts.
187. Existing GLA Investment Partners or organisations on the GLA's London Development Panel will be subjected to a lighter-touch financial standing assessment than other organisations unknown to the GLA.

#### *Strategic fit*

188. We will look positively at offers that aim to achieve other Mayoral priorities such as demonstrating support for jobs, apprenticeships and growth, environmental retrofit, design quality. We will encourage developments that complement spatial priorities of the Mayor, including those located within Opportunity Areas that require additional GLA investment.
189. The assessment of strategic fit will also include reference to comments from the boroughs in relation to how any named sites help to achieve local priorities. Where offers include Firm Schemes we will share information on these sites with the borough in which they are located. By bidding all providers are confirming their willingness for all information to be shared with the relevant borough.

### **Jobs and growth**

190. The Mayor has a commitment to deliver 200,000 jobs and apprenticeships in his second term. We will ask providers for reasonable information on the number of jobs and apprenticeships estimated to be realised in schemes supported with funding from the Mayor of London.
191. The Mayor is committed to reducing the deprivation gap between residents in the six former Olympic host boroughs<sup>11</sup> and the rest of London as part of securing a regeneration legacy from the 2012 Games, known as 'Convergence'. We will ask providers proposing to deliver schemes in these boroughs to explain how they will take a proactive approach to support priority groups into employment, and provide workplace apprenticeship opportunities. We will ask these providers for reasonable information on the number and nature of new jobs and apprenticeship opportunities created, and the profile of recruits. We are hoping to put resource in place to support providers' and their contractors' best endeavours in this area.

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<sup>+11</sup> Barking and Dagenham, Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest.

*Jobs and growth statements*

192. In submitting their offers providers will need to provide a statement detailing the economic impact of proposals in terms of jobs and growth, including opportunities for apprenticeships for young Londoners. This should include, but not be limited to, information on any additional market sale homes or commercial or retail space which would be unlocked through schemes supported by the Mayor. Providers proposing to deliver schemes in the six former Olympic host boroughs should include within their Jobs and Growth Statements how they propose to maximise employment of priority groups, the number of apprenticeship opportunities that will be created through the contract over its lifetime, and how long jobs and apprenticeships are likely to last.

*London living wage*

193. The Mayor is committed to the London living wage and to this end all providers will continue to be encouraged to commit to paying the living wage throughout their organisation and their supply chain.

**Cycle safety**

194. The Mayor is committed to improving cycle safety across London. Collisions with Heavy Good Vehicles are disproportionately linked to cyclist casualties and those involved in the construction industry are in a powerful position to improve cycle safety and reduce the risks on London's road for cyclists.
195. We are therefore asking providers to submit a short statement setting out reasonable steps they will take to manage risks to cycle safety. For example, this may be by encouraging contractors and sub-contractors to have appropriate accreditation or training (e.g. FORS accreditation<sup>12</sup>) or ensuring that Heavy Goods Vehicles carry appropriate warning signage and/or safety equipment. Transport for London has produced helpful guidance for those procuring good and services that will be delivered by commercial road freight vehicles entitled 'Improving road safety through procurement' and providers may wish to consider this when producing their statements.

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<sup>12</sup> <http://www.fors-online.org.uk/resource.php?name=Improving%20road%20safety%20through%20procurement>

## Revolving fund

196. As set out in paragraph 18 expressions of interest for a potential revolving fund are invited from providers who wish to deliver different affordable housing products from those set out in this prospectus, are interested in a different form of GLA investment or wish to have a longer-term contractual relationship. This opportunity may appeal especially to boroughs to assist in maximising housing outputs in one of the 33 Opportunity Areas across London.
197. Expressions of interest should be submitted to [housingcovenant@london.gov.uk](mailto:housingcovenant@london.gov.uk) by **midday on Monday 10 March 2014**. Providers should include as much information as possible and ensure that the following points are addressed:
- The legal structure for the purchaser/tenant of the completed home (if different from standard products)
  - The legal structure for the GLA's investment
  - The timing of requested GLA investment and when and how it will be repaid
  - Where, when and to what scale the product has previously been delivered
  - Any legal, regulatory or financial issues which have been worked through, including copies of professional advice
198. The last bullet should include, but not be limited to, full State Aid advice setting out how and why such a proposal, if funded by the GLA, would not be in contravention of EU State Aid rules. Notwithstanding the advice provided the GLA will need to take its own legal advice.

## Announcement and contracting

199. Following the outcome of the assessment and negotiation process the Mayor will make an announcement of successful bidders in late June/early July 2014.
200. As the contracts are being released soon after the prospectus we expect all signed contracts from successful bidders by the end of July 2014.

## Timetable

Milestone	Date
Publication of prospectus	12 December 2013
IMS Offers System open for bid submission	3 February 2014
Deadline for Offer submission	Midday 10 March 2014
Assessment and negotiation	April – May 2014
Announcement of allocations	June/July 2014
Partners in contract	30 July 2014
2015/16 starts profiled out on IMS	31 December 2014

## Questions and clarifications

201. Any questions in relation to this funding should be directed to [housingcovenant@london.gov.uk](mailto:housingcovenant@london.gov.uk).
202. A list of Q&A and clarifications will be published on our website<sup>13</sup>.

## Note of Caution - Draft London Housing Strategy

203. As per the notice on page three of this prospectus, potential bidders should note that this funding prospectus relates to the Mayor's draft London Housing Strategy, which is currently subject to consultation until 17 February 2014. Where that consultation results in material changes to the strategy that affect any offers received, this will be addressed through updates to the prospectus and in the assessment and negotiation stage of the bidding process.

<sup>13</sup> [www.london.gov.uk](http://www.london.gov.uk)

# **ANNEX 1 – DESIGN STANDARDS**

Table of design standards expected for homes funded through this programme.

London Housing Design Guide Chapter	1: Shaping good places	2: Housing for a diverse city	3: From street to front door	4: Dwelling Space Standards	5: Home as a place of retreat	6: Climate Change and Adaptation
New build homes (general needs and self-contained supported housing).	To be met	To be met	To be met	To be met	To be met	To be met
Homes provided in existing buildings.	Not applicable in the context of existing buildings.	To be met	Flexibility offered in relation to: - Entrance and approach (3.1) - Dwellings accessed from a single core (3.2.1)	To be met	Flexibility offered on ceiling heights and dual aspect requirements where the constraints of the existing buildings mean these standards cannot be achieved and where the loss of amenity is made up for elsewhere within the dwelling. Ceiling heights of lower than 2.4m will preclude a scheme from funding eligibility.	Where code certification is not achievable an alternate, equivalent level of sustainability certification should be sought. As a minimum, a score of 30 should be achieved through the alternative sustainability assessment for refurbishment schemes contained within the HCA's HQI methodology. This will be republished as part of the GLA's methodology for collection of design information.

Supported housing featuring communal facilities.	To be met	To be met	To be met	Flexibility offered. For the purposes of assessing dwelling space standards communal facilities should be apportioned equally to the dwellings within the scheme. Standards for bedrooms, bathrooms & WCs, and Storage & utility (4.5, 4.6 and 4.7) should be met.	Flexibility offered on dual aspect requirement	Where code certification is not achievable an alternate, equivalent level of sustainability certification should be sought.
Hostel accommodation.	To be met	To be met	Flexibility offered on dwellings accessed from a single core (3.2.1) and access control system (3.2.2).	In recognition of the specific nature of this product flexibility is offered on dwelling space standards. Individual schemes will be assessed on a case by case basis but 10.5m <sup>2</sup> of private internal space should be provided to each resident as a minimum.	Flexibility offered on dual aspect requirement	Where code certification is not achievable an alternate, equivalent level of sustainability certification should be sought.

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## Other formats and languages

For a large print, Braille, disc, sign language video or audio-tape version of this document, please contact us at the address below:

### Public Liaison Unit

Greater London Authority  
City Hall  
The Queen's Walk  
More London  
London SE1 2AA

Telephone **020 7983 4100**  
Minicom **020 7983 4458**  
**www.london.gov.uk**

You will need to supply your name, your postal address and state the format and title of the publication you require.

If you would like a summary of this document in your language, please phone the number or contact us at the address above.

### Chinese

如果需要您母語版本的此文件，  
請致電以下號碼或與下列地址聯絡

### Hindi

यदि आप इस दस्तावेज की प्रति अपनी  
भाषा में चाहते हैं, तो कृपया निम्नलिखित  
नंबर पर फोन करें अथवा नीचे दिये गये  
पते पर संपर्क करें

### Vietnamese

Nếu bạn muốn có văn bản tài liệu  
này bằng ngôn ngữ của mình, hãy  
liên hệ theo số điện thoại hoặc địa  
chỉ dưới đây.

### Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি  
(কপি) চান, তা হলে नीचे फोन नम्बर  
বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

### Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος  
εγγράφου στη δική σας γλώσσα, παρακαλείστε να  
επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυ-  
δρομικά στην παρακάτω διεύθυνση.

### Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں  
چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر  
پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

### Turkish

Bu belgenin kendi dilinizde  
hazırlanmış bir nüshasını  
edinmek için, lütfen aşağıdaki  
telefon numarasını arayınız  
veya adrese başvurunuz.

### Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى  
الاتصال برقم الهاتف أو مراسلة العنوان  
أدناه

### Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ  
ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ  
ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

### Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં  
જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર  
ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

