Competing for attention

identifying and selecting sites for housing associations new-build development

May 1998

THE HOUSING CORPORATION
The Housing Corporation
working to improve
people's quality of life
through social housing

The Audit Commission
promotes proper
stewardship of public
finances and helps those
responsible for public
services to achieve economy,

efficiency and

effectiveness
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Preface

The role of the Audit Commission in advising the Housing Corporation (the Corporation) on value-for-money measures and practices that housing associations should adopt was established under the Housing Act 1996. The Commission has produced five reports, including *Within Site* (Ref. 1), a study of key aspects of the development process, published in May 1996. Based on data from more than 6,000 rehabilitation and new-build schemes, the study showed that site-related costs – both acquisition and external works costs – are the most variable elements in the total cost of a scheme, even within the same local authority area.

*Within Site* highlighted the link between the estimate of scheme costs when capital funding is approved, and the scheme's final costs. Stakeholders – local authorities, housing associations and the regional offices of the Corporation – know in advance that a particular scheme will be expensive. Therefore the report recommended that the Corporation's approach to assessing value for money in new-build development should focus on the choice of site, and proposed research to identify the factors influencing scheme choice; these factors are addressed in this study. A complementary scrutiny of the alternatives to new-build development was recently published under the title *To Build or Not to Build* (Ref. 2).

This report focuses on the efficiency in selecting schemes and sites for development. It also considers the role of stakeholders in deciding where to build social housing in order to satisfy need, and examines:
• the extent to which housing associations compete for sites;
• the quality of inter-agency linkages; and
• factors influencing the Corporation's decision-making procedures.

Full details of the study methodology are given in Appendix 1. In summary, there were three phases to the work: the first was an analysis of the Corporation's data on bids and allocations for all new-build, general needs schemes in the years 1994/95 to 1996/97. This analysis informed the second phase which involved fieldwork in six local authorities and twelve housing associations; four regional offices of the Corporation and two private developers were also visited. The fieldwork sought to identify the main sources of land for new-build development, and to establish the various approaches to site selection and scheme appraisal in different geographical areas and among different types of association. The final phase was a questionnaire-based survey to confirm the findings of the first two stages; it included returns from 83 associations and covered 270 schemes.

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1 The term Registered Social Landlords (RSLs) was introduced in the Housing Act 1996 to encompass housing associations and other social landlords; however, this analysis focuses exclusively on housing associations and the report therefore uses that term rather than RSLs.
The project was managed by Susan Fenwick, with assistance from Doug Edmonds, Angie Smith, Paul Smith and Peter Catterick, under the direction of Kate Flannery. The study has benefited from excellent cooperation from the local authorities and associations visited and from helpful contributions from numerous other sources. The Commission is grateful for this assistance but responsibility for the conclusions and recommendations rests with it alone.
1. The role of housing associations as developers of new-build housing grew in importance throughout the 1980s and early 1990s. The annual sum available to associations for new development – the Housing Corporation's Approved Development Programme (ADP) – reached a peak in 1992/93 at £2,300 million. However, since then the trend has been one of sharp decline – the allocation in 1997/98 was £650 million. As Corporation investment has reduced, so have the resources made available by local authorities. The total local authority-funded grant programme in England fell from £443 million in 1993/94 to £349 million in 1996/97. But the declining support from the public purse for development activity has not been matched by a fall in demand for additional affordable housing. An Audit Commission report (Ref. 3) published in 1992 showed that even the most optimistic forecast of social housing, combined with substantial reuse of empty properties, would still imply a shortfall of 12,000 lettings a year. Recent estimates of the need for new affordable housing units vary, but the evidence of a shortfall in supply nationally is not disputed.

2. In any situation where demand outstrips supply, it is vital that the best use is made of the available resources. Housing associations need to demonstrate that they are using grant funding as effectively as possible. The Corporation and local authorities should distribute the shrinking resource pot wisely – their allocation mechanisms must be efficient. But a drop in funding is not the only problem for associations. In many areas they also face a shortage of land. Research commissioned by the Corporation in 1995 (Ref. 4) revealed a diminishing supply of local authority land (a vital source of development sites for housing associations) which has constrained new-build programmes. This brings the issue of site selection into sharp focus – how can associations maximise their chances of success in identifying, and sometimes competing for, suitable development sites?

3. In an attempt to answer this question, the report tracks the progress of a typical new-build scheme from site selection to the allocation of development funding by the Corporation, focusing on five key stages above. Each chapter highlights the problems met at successive stages, identifies the success factors for associations and other major stakeholders (local authorities and the Corporation) and uses case studies to illustrate good and poor practice.
Finding a Site

4. When a housing association decides to develop new-build housing in a particular area (ensuring that such development will reflect the local authority’s priorities), it needs to identify a suitable plot of land on which to build. The key issues for associations at this stage are:
   • identifying the different sources of land in the selected area and assessing which option offers the best prospect of securing a site;
   • the extent to which the policies and practices of the local housing and planning authorities facilitate housing association development;
   • the weak position in the land market of organisations dependent on public subsidy compared with private and cash buyers; and
   • the suitability of a given site for the purpose of affordable housing – in particular, its proximity to housing need.

Sources of land for development

5. There are five sources of land for new-build development by associations:
   • land already owned by the association;
   • land owned by a local authority;
   • land owned by other public bodies such as health authorities;
   • a site ‘introduced’ to the association by a private developer; and
   • private sites identified by the association and acquired from the landowner.

6. The majority of development takes place on land sold to the association by the local authority, or where a private developer has approached an association with a development proposal.¹ Of the twelve fieldwork sites, nine were local authority disposals and two of the three private sites were acquired by the developer. Associations are disadvantaged in acquiring private sites because of the time lag – typically three months – between bidding for funds and receiving a confirmed allocation from the Corporation. In a competitive property market, associations often lose out to competing bidders, particularly if the latter are cash buyers. Local authorities are more likely to honour an agreement

¹ Based upon analysis of 270 schemes in 31 local authorities, covering seven Housing Corporation regions.
to dispose of the site to an association, especially if they wish to secure more social housing, and this introduces a greater degree of certainty into the process.

7. Co-operation between associations and local housing/planning authorities should be a vital element of successful development, but how effective is it on the ground? Local authorities contribute to housing association development programmes in a number of ways:

- providing the land, from their own land holdings or through site assembly;¹
- providing financial subsidies;
- through the planning process, by prioritising affordable housing and applying ‘exception site’ policies II or Section 106 agreements,¹¹ and/or
- providing clear and robust evidence of housing need in their area.

**Provision of land**

8. The extent to which authorities earmark their own land for housing association building projects depends on land availability, the need for sites for other services such as education or economic development, and each authority’s policy priorities. Almost half the authorities surveyed earmarked all of their surplus housing land (land under the control of the housing committee) for disposal to housing associations, and the majority provided some non-housing land [TABLE 1].

<table>
<thead>
<tr>
<th>Local authority site disposal policy</th>
<th>Percentage of total respondents*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sites earmarked for affordable housing</td>
<td></td>
</tr>
<tr>
<td>(a) All housing committee sites</td>
<td>44</td>
</tr>
<tr>
<td>(b) Some housing committee sites</td>
<td>44</td>
</tr>
<tr>
<td>(c) Other committee sites</td>
<td>59</td>
</tr>
<tr>
<td>(d) Other</td>
<td>4</td>
</tr>
</tbody>
</table>

* A number of respondents ticked more than one option.

Source: Audit Commission survey of 31 local authorities

¹ Local authorities can either use their compulsory purchase powers or negotiate to purchase private sites in order to help assemble a scheme for affordable housing.

II Releasing sites for social housing where there is a proven need, in areas where development would not normally be permitted and which were not originally included in the Local Plan.

¹¹ Section 106 of the Town and Country Planning Act 1990, whereby local authorities can require developers to include an element of affordable housing on designated sites.
**Provision of subsidy**

9. Some authorities provide associations with direct subsidy in the form of a capital grant – Local Authority Housing Association Grant (LAHAG); others subsidise development by selling land to associations at discounted or nil value. Of the 54 local authority disposals surveyed, 35 were sold at nil consideration or discounted value, and 19 at open market value. However, the 'open market value' may not be a truly unfettered market value if the vendor has placed restrictions on disposal or on rent levels that put downward pressure on the value. Where the council has decided to dispose of the site to a nominated association, it effectively makes that association a 'preferential purchaser'. Although the site valuation may still be the subject of negotiation, the likely outcome is that the price obtained by the council will be less than that obtained if the site had been sold through open competition.¹

10. Authorities with the most pressing supply problems, either of land or affordable housing, are more likely to adopt a flexible approach to site valuation [CASE STUDY 1]. One fieldwork authority tendered all its sites on the open market, but this is not typical. Most will base decisions about disposal on factors such as the size of the site and its strategic importance – for example, if it is in a Single Regeneration Budget (SRB) area.

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¹ There is provision for such arrangements in General Consent 93.1, issued under Section 25 of the Housing Act 1988; this allows local authorities to dispose of land to housing associations at below market value, other than where the proposed scheme relates to housing for outright sale.

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**CASE STUDY 1**

**Flexible approaches to valuation – Bristol**

In the past four years, Bristol City Council has released 54 sites to housing associations at nil or discounted value, providing 650 new homes. There are no greenfield (land not previously developed) sites remaining in the city and most available brownfield (redevelopment land) sites will take no more than ten units. All disposals of city land are leasehold, with the premium reflecting an array of restrictions on the use of the land and the rights retained by the authority to nominate tenants to the completed dwellings. Historically, associations and their funders have argued that the land has no actual value. However, a formula has now been agreed for all associations that values acquisitions at 7.5 per cent of the market value of the completed dwellings. This compares with acquisition values of 25 to 30 per cent for the market as a whole and 15 per cent for shared ownership. The Council's pragmatic approach gives associations a degree of certainty in their financial planning and also facilitates the delivery of a greater number of viable schemes.
Planning policies that prioritise affordable housing

11. Local authorities can increase the supply of sites for affordable housing – and to some extent, control the acquisition cost of those sites – through planning policies that prioritise affordable housing. Ideally, they should involve the Corporation, associations and private developers in the process, as recommended in the Department of the Environment Circular 13/96 (Ref. 5). Some local authorities help associations to find sites by making their own site disposal plans openly available, and by liaising with associations over programme issues and development strategy. The involvement of planning department officers and Housing Corporation representatives improves day-to-day liaison about schemes and enhances the chances of projects being delivered on time [CASE STUDY 2].

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CASE STUDY 2

Close co-operation between housing, planning and legal departments is beneficial – Mendip

Mendip District Council is a West Country shire district covering 5 small towns and 64 rural parishes. In the district as a whole, housing land supply exceeds demand and is projected to do so up to the year 2001. However, the needs of the urban and rural areas present different challenges, and the distribution of the limited resources for affordable homes requires a complex process of planning and co-ordination.

The council has committed significant amounts of LAHAG in recent years, often exceeding Corporation investment in the district. In 1996 it achieved 70 per cent development on brownfield sites, against a government target of 60 per cent. Major housing and regeneration projects are managed by cross-departmental project teams, and close co-operation between housing and planning departments is evident. The Council effectively used its compulsory purchase powers to assemble a site in a priority regeneration area which has now been developed by two major associations.

Most rural development is on exception sites because of a lack of land within the villages; generally, the price paid for these sites is two to three times their agricultural value. Needs are identified locally by the parish councils, and parish and district officers and housing associations then work together to identify appropriate sites. Where the council has resources to support development in only one village, a number of associations are invited to submit proposals in different villages. The council then decides which bids to support on the basis of the relative value for money offered, the most pressing need and the extent to which the proposals are in harmony with existing dwellings.
Providing evidence of need

12. In order to attract Corporation investment, and to give housing associations clear guidance about local needs, councils must show that they have carried out a comprehensive assessment of housing needs across their area. Failure to do so can impede their efforts to make sites available for social housing, and may also lessen their chances of attracting Corporation investment [BOX A].

13. However, there is much evidence of good practice. Some county councils combine with districts to carry out a county-wide housing needs survey, and some authorities research need at ward or parish level to inform their forward planning. The situation in rural areas is complicated by constraints on development in the green belt and the scarcity of available land in villages to meet local housing needs. Of the three rural local authorities in the fieldwork sample, two had 'exception site' policies to facilitate housing association development outside the village boundaries. The third authority had carried out a comprehensive survey but it did not provide evidence of the need for an exceptions policy.

**BOX A**

**Authorities must be able to provide strong evidence of housing need**

At the time of one fieldwork visit, the authority concerned did not have an approved Unitary Development Plan (UDP) despite submitting the draft for approval to the Planning Inspectorate in 1992. The delay was due to an ongoing dispute with the Planning Inspector about the allocation of sites for affordable housing. The authority had not carried out a comprehensive housing needs survey of the district and was thus unable to justify the earmarking of sites in the UDP.

Although the authority had developed individual ward profiles to help target future investment, these were based on subjective local knowledge rather than on quantitative analysis. New affordable housing development was therefore dependent on the availability of public land, as the authority could not require developers to provide an element of affordable housing on privately owned sites. However, cash constraints meant that the authority was rarely able to release its own land to associations at a discount. Decisions about disposal of housing land were made by the Policy and Resources Committee rather than by the Housing Committee, and were driven more by economic imperatives than by housing strategy considerations. Association new-build developments on local authority land were generally in Estate Action areas, where sites were unlikely to generate a significant capital receipt if sold on the open market. The capacity of the authority to facilitate the development of social housing was therefore impeded by several factors – limited potential to release its own land, an inability to require affordable housing on private sites, and very little capital support for housing associations.
Securing a private site is more difficult for associations than acquiring land from a local authority [EXHIBIT 1]. A private developer submitting a planning application for a private site usually intends to build housing for owner-occupation or the private rental market. However, if the local authority requires a social housing element, the process becomes more complex.

EXHIBIT 1
Process for securing private and local authority sites
The private site route offers less certainty for associations.

* Although associations sometimes acquire private sites directly from a landowner, they are twice as likely to work in partnership with private developers.

Source: Audit Commission
authority uses its planning powers to require an element of affordable housing on larger private sites, the developer must select an association partner to provide the social housing element. Developers often favour large associations for such partnerships because of their greater capacity to deliver schemes on major sites. Where land is scarce or there is pressure to commit an allocation, it is in the developer's interest to negotiate with several different associations for the site. Where supply of local authority land is limited but demand for social housing is high, local authorities may need to use a combination of their planning powers and collaborative working [CASE STUDY 3].

CASE STUDY 3

Effective use of planning powers – Hammersmith and Fulham

The inner London Borough of Hammersmith and Fulham has substantial housing need in a densely populated, high-cost area; its three-year projection estimates a need for around 10,300 additional homes.

The Council is known as an effective enabler and has consistently received Housing Corporation investment in excess of 100 per cent Housing Needs Index. In the last two years it has contributed £14 million in grants (LAHAG) and made available land at discounted prices to the value of £5 million. Sites under the control of Education and Social Services Committees, as well as those on Housing Committee land, are released regularly to housing associations. The Council prioritises the development of affordable housing; for example, it uses its planning powers to ensure that virtually all new development is designated for this objective.

A nominated officer in the planning department gives pre-application advice to potential developers and carries out feasibility studies, in conjunction with housing associations and the housing department, to maximise the development capacity of sites. The same officer also appraises housing association tenders and comments on their compliance with the Council's UDP.

The Council's exception site policy means that any site previously in employment or community use can be redeveloped only for affordable housing (if a change of use to housing is proposed). As a result, 658 of the borough's 753 new homes completed between 1992 and 1995 were developed by housing associations for rent. A large site was recently developed solely for private housing but, because the existing buildings did not lend themselves to conversion for social housing, the developer entered into a voluntary Section 106 agreement to pay £1 million to provide affordable homes on another site. Details of sites for disposal are released at the biannual developers' forum which involves housing associations and private developers.

1 Defined as sites with capacity for 40 or more dwellings (25 in London).

1 Housing Needs Index (HNI) measures the differences in housing needs among local authorities. Although this forms the basis for distributing the Housing Corporation's capital programme between areas, the system does allow authorities that perform well to receive a greater allocation than their HNI score merits (see Chapter 5).
How do associations assess the suitability of sites for affordable housing?

15. Associations use various approaches to assess the suitability of sites for development. Some target difficult sites, or sites in rundown areas where there will be little or no competition. Others set standards, such as visual quality, for the location as well as the design of schemes [CASE STUDY 4]. Associations which have both clear development strategies and local knowledge can often estimate a site's financial viability simply on the basis of its location and size.

16. The key selection criteria in some situations are the price of the land and its development potential in terms of the local authority's preferred mix. In other cases housing need and council priorities are more important factors in determining site suitability; for example, some sites are targeted because they are in an Estate Action area [EXHIBIT 2]. Proximity to amenities is also ranked highly.

Conclusion

17. In principle, associations seek to locate new social housing where it is most needed. Local authority land provides the most common and most 'secure' source of sites for associations. Most local authorities facilitate the provision of new affordable homes by providing associations with sites and/or selling them at a discount. The extent to which local authorities, acting corporately, co-ordinate the planning and provision of affordable homes is variable.

CASE STUDY 4

Some associations set standards for location as well as design

The Guinness Trust's Planning and Architecture Guide aims to 'create places which are better to live in, valued by residents and surrounding communities alike'. The Guide goes a step further than most association design briefs by setting standards for the visual quality of its new-build schemes. One of its key messages is that the development context of schemes – that is, the relationship of the site to the local neighbourhood and its community – should be properly understood.

Although small developments (up to ten units) may be single tenure, Guinness now requires that larger schemes incorporate 'an appropriate mix of uses, dwelling types and tenures, reflecting the wider needs of the neighbourhood'. The Guide also sets other standards on, for example, access routes and parking provision.
Local housing need and local authority priorities drive the site selection process.

Source: Audit Commission survey of 83 housing associations

The weighted ranking percentage in this and subsequent charts was calculated by weighting the score for each factor according to the ranking given by respondents. In this chart, with 11 options to rank, each factor scored 11 points each time it was ranked first, 10 points each time it was ranked second and so on.
Finding a Site – recommendations

Corporate planning

1 Local authorities should have a corporate approach to co-ordinating the assessment of housing needs, identifying development sites and disposing of council-owned land.

Local planning policy

2 Local authorities should collect evidence of housing need, in particular locations and generally across their area. They should regularly carry out a comprehensive land availability study with representatives from the private sector, Housing Corporation and housing associations.

Land disposal policy

3 In areas where planning authorities are unable to meet the demand for affordable housing from existing stock or from land owned by the housing committee, they should consider making other surplus land available for disposal to housing associations. Local authorities should review and, where appropriate, maximise their use of powers to dispose of land holdings to housing associations at below market value. A reduction in the acquisition costs of a scheme leads to a corresponding reduction in the grant requirement. This offers stakeholders the opportunity to increase the number of units that can be provided through the Approved Development Programme (ADP).
18. The bidding process, whether for Corporation or local authority grants, involves competition for funds between associations. Competition also exists for sites, although there is no statutory requirement that sites with development potential for affordable housing should be exposed to competition. The questions for local authorities at this stage are:

- **How to assess the benefits of competition** – will competition guarantee the local authority a higher quality scheme or a keener price, or both? Is the benefit similar for private and public sites?
- **How to manage the competitive process most effectively** – whether to limit competition to large sites and/or limit the number of associations invited to compete?

The considerations for associations are different:

- **Do they actually need to compete?** Are there other development options open to them, or are all local authorities now operating a competitive tender system?
- **Is there a business case for using cash surpluses or reserves to outbid competitors?** Should they pay an inflated price in order to secure a private site? Should they subsidise schemes on local authority sites to maximise the chances of winning the tender?

19. Local authorities have mixed views on the effects of competition for sites. Most believe that competition between associations for private sites has negative consequences because it drives up land prices [EXHIBIT 3, overleaf]. Associations with substantial cash resources have the potential to ‘bid up’ land prices for private sites. Bristol City Council was concerned that some associations were driving up the price of land by paying £10,000 to £11,000 per plot on private sites, compared with a typical price of £7,500 for inner-city sites owned by the Council. Some authorities see positive outcomes in value-for-money and innovation but others are concerned that design standards and co-operation between associations are sacrificed in the cause of economy [EXHIBIT 4, overleaf].
EXHIBIT 3
Impact of competition on land values
Most authorities believe that competition for private sites drives up land values.

Source: Audit Commission survey of 31 local authorities

EXHIBIT 4
Local authorities’ views on the effects of competition
Authorities have mixed views on the effects of competition, with only one-third citing wholly positive views.

Source: Audit Commission survey of 31 local authorities

Managing the competitive process

20. Councils can control the number of associations carrying out development activity in their area in various ways, such as requiring all associations to meet wide-ranging performance criteria on management standards, nominations or tenant participation. They can also control the extent of competition for council-owned sites, by discouraging double bidding – where more than one association bids for Corporation funding in respect of the same site – or by limiting the number of associations officially supported for development [TABLE 2]. There is concern about the potential waste of resources in administering competitive exercises. Most fieldwork authorities ran open competitions only for major sites; they were as concerned about associations incurring abortive costs during the
TABLE 2

Competition for local authority sites

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Competition for all sites</th>
<th>Selective bidding for specific sites</th>
<th>Single bids for some sites</th>
<th>Discourage double bidding</th>
<th>Limithousing associations active in area</th>
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</tbody>
</table>

Source: Audit Commission fieldwork

Should associations compete for sites?

The extent of competition

22. Competition prior to the bidding process is limited regardless of whether the land is in public or private ownership. Only 12 per cent of the development schemes surveyed had been subject to competition between associations for the site; a further 8 per cent were competed for by associations and other developers. Multiple bidding for the same site is rare; fewer than 3 per cent of new-build bids to the Corporation in 1996/97 fell into this category. However, the Corporation's regional offices reported that they had received more than one bid on 50 (19 per cent) of the 270 sites in the Commission's survey. (It is possible that one site given a different name by two different associations would not be counted as double bidding by BRASS, but may be known to be a double bid by the Corporation's area team.) The actual extent of double bidding in 1996/97 was therefore between 3 and 19 per cent. Associations are also aware that many local authorities have not yet wholly embraced the site competition ethos – fewer than half those surveyed said their local authority partners actively encouraged competition for sites.

1 Bids Recording and Allocations Set-up System (BRASS); see Glossary of terms, Appendix 3.

tendering process as they were about their own costs in administering the tender process [BOX B, overleaf].

21. Some authorities believe that if there are clear and consistently applied rules governing site competitions, and efficient administration, then a wide range of bidders should be encouraged. The benefits of competition are seen as lower development costs and improved quality [CASE STUDY 5, overleaf].
BOX B

Restricting competition limits choice and does not test value for money

Five associations are supported by this authority in relation to development, and are selected on the basis of complementary skills and areas of expertise. For example, one specialises in ‘do-it-yourself’ shared ownership while another provides temporary social housing. However, officers discuss proposals on an ad hoc basis with other associations, and have recently supported a bid from a large national association which was prepared to contribute substantial funds from its own resources.

Occasionally, the authority invites more than one association to bring forward scheme proposals; more typically, particular sites are assigned to individual associations. Private developers which approach the authority with sites are also encouraged to speak to a nominated association rather than to all associations active in the area. The authority does not release information collectively to associations about sites for disposal, and development issues are no longer discussed at the infrequent liaison meetings.

These policies militate against competition between associations for sites, in that the association selected as the partner for a particular site has no incentive to make efficiency gains in order to outbid competitors.

Source: Audit Commission fieldwork

CASE STUDY 5

Managing competition for development – Hammersmith and Fulham

Two years ago, the London Borough of Hammersmith and Fulham introduced a Housing Association Review Process (HARP). It was designed to enhance housing management and development standards; give greater accountability; and promote competitive bidding, with particular emphasis on rent control. Every developing association in the borough which meets the HARP criteria is invited to compete for major sites. The bidder with the lowest capital subsidy requirement receives the Council’s support, provided that the scheme design is acceptable to the planners (who are involved in the selection process). Smaller sites are still earmarked for individual associations if, for example, they own stock on adjacent land.

In 1995/96, the borough had the eighth highest Housing Association Grant costs per person despite having the fourth highest land prices, and in 1996/97 housing associations bid on average at 12 per cent below the norm grant rate for Total Cost Indicator (TCI) Group A. This can be explained by the competitive environment brought about by the Council’s policies.

Source: Audit Commission fieldwork

1 The TCI is an estimate of a scheme’s likely costs, allowing for differences in size and location. The ‘TCI group’ is a grouping of local authorities with broadly similar development costs; Group A covers most inner London authorities.
23. Competition prior to bidding is more difficult to quantify. Although anecdotal evidence from private developers and some fieldwork associations suggested that pre-bid competition is more extensive – developers and local authorities entering into closed negotiations with a number of different associations simultaneously – no widespread evidence was found to substantiate these claims.

The business case for competition

24. Most associations view competition for sites as beneficial (exceptions are smaller, community-based organisations which generally lack the resources to compete independently). Competition reduces the scope for ‘closed-door’ negotiated deals between local authorities and selected associations and opens up development opportunities to a wider range of players. However, there are disadvantages, notably the abortive costs of failed bids and the greater risk of cash-rich ‘predatory’ associations gaining a foothold in new areas. Growth can improve operational economies of scale and increase an association’s financial capacity by enhancing its capital asset base. Therefore, it can be good business sense for large associations to outbid local associations for a site in order to establish themselves in a new area. Small associations that wish to maintain a development programme tend either to confine themselves to small sites which are less likely to attract competitors, or bid for larger sites in a consortium of local associations.

Conclusion

25. Most local authorities encourage competition between associations for development opportunities, but recognise that competition can have negative effects. Some authorities have formal assessments to choose their business partners, others adopt less structured approaches. Most sites are secured without competition.
3 Competing for the Site – recommendations

1 Competition should be the norm if an authority is disposing of a medium-sized or large site.

2 Bidder selection should take into account:
   • the extent to which the scheme meets local housing need and the local authority's brief;
   • the cost in use to both landlord and tenant, including rents;
   • the value in housing management service terms;
   • total scheme costs, including associations' contributions; and
   • the extent to which the contractor is bound by the estimated build price.

3 To ensure that competition enhances value for money in new-build development, local authorities need to:
   • be clear and consistent about the rules of competition and the rights of entry;
   • ensure that the administrative procedures for bidders and competition organisers are time and cost efficient; and
   • promote a positive image of competition which does not inhibit co-operation and partnership between associations.

4 If there is no competition for a particular site, the Corporation should be aware of this at the bid selection stage.
Creating a Successful Scheme

26. After selection, the successful association must prepare a detailed proposal to develop the site that both wins the approval of the local authority housing and planning departments and satisfies its own feasibility criteria [EXHIBIT 5, overleaf]. A successful scheme must take into account:

- the local authority priorities – for example, the size and type of dwelling required; and
- local planning policies and the approvals cycle.

Associations should also ask themselves:

- Will the scheme be financially viable? What flexibility does the association have to make an expensive scheme affordable? Can the land price be renegotiated? Is there scope to put more units on the site?
- Will the scheme succeed in housing management terms? Will there be a demand for the completed homes? And what impact will the new tenant population have on the existing community?

Understanding local authority priorities

27. Local authorities’ criteria for deciding which schemes they will support are a key component in securing value for money in housing association development. However, no two fieldwork authorities used the same criteria to assess schemes. Some put great emphasis on the rent levels proposed by the association, while others supported only those schemes on the authority’s targeted sites, such as those in SRB areas. However, meeting local housing need was given at least a medium rating by all six authorities [TABLE 3, p23] and is the key factor, nationally, in determining whether local authorities support a scheme. Authorities also consider the track record of the bidder and the extent to which the scheme offers value for money [EXHIBIT 6, overleaf].

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1 Survey respondents were not asked specifically about rent levels because Corporation decisions about the scheme bids for the relevant period (1995/96) did not take account of rent levels. Instead, these were considered by the Corporation as part of an overall value for money test.
EXHIBIT 5

Processing the scheme to bid stage*

There are a series of key decision factors in securing approval for a scheme.

* This chart illustrates the ideal order of events through the appraisal and planning process. In practice, the sequence may be affected by political or funding complications.

Source: Audit Commission
### TABLE 3

**Priority ratings used by fieldwork authorities**

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Scheme/unit cost</th>
<th>SRB/Estate Action/Capital Challenge</th>
<th>Meets local housing need</th>
<th>Design standards</th>
<th>Rent levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Low</td>
<td>n/a</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>2</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>3</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>4</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>5</td>
<td>High</td>
<td>n/a</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>6</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Source: Audit Commission fieldwork

### EXHIBIT 6

**Local authority criteria for supporting schemes**

The most important criterion for scheme approval is whether the scheme meets the authority’s priority housing need.

### Securing planning permission

28. The quality of the working relationship between housing associations and the local planning authority is critical for success. In one fieldwork area, associations were experiencing considerable delays in getting planning approvals. In response, they set up a special liaison group to work with senior planning officials, which succeeded in speeding up decisions. By contrast, another local authority gave priority to associations’ applications; it helped them develop viable affordable...
housing schemes on difficult sites by relaxing its usual density and parking requirements. Associations recognise the need to win public support for scheme proposals during the formal consultation stages of the planning process. However, attitudes towards consultation with local residents and community groups *in advance* of submitting a planning application are more variable. Involving local people at an early stage in the formulation of proposals for social housing development can be invaluable in gaining local knowledge about existing facilities – for example, safe play areas. Early consultation also allows residents to voice concerns about the scale and design of the development before being presented with detailed plans.

### Ensuring financial viability

29. Having secured a suitable site, associations normally carry out a detailed financial appraisal of the proposed scheme before bidding for funding. The initial appraisal may show the scheme to be too expensive – requiring funding above the guideline amount advised by the Corporation – and thus non-viable. The most common approach here is to re-negotiate the purchase price of the site [EXHIBIT 7]. Almost half the survey respondents always re-examined funding assumptions, such as void levels or major repair provisions, while more than 20 per cent sometimes increased the rents to make schemes viable. However, from 1997/98, the Corporation is unlikely to fund schemes with rent levels above published benchmarks, and this will limit an association’s capacity to finance high-cost schemes through high rents.

### Using associations’ own resources

30. Six of the twelve fieldwork sites needed an element of internal subsidy to make their schemes viable, and all associations considered it difficult to produce a viable scheme without capital or revenue subsidy, or both. Only 16 per cent of sites in the survey had not received any internal subsidy. Those which can afford to contribute more funds appear to have a greater chance of success at bid stage, with 11 per cent of successful schemes receiving more than 40 per cent internal subsidy [EXHIBIT 8].

### Other sources of funding

31. Although three-quarters of survey respondents sought other sources of funding to make schemes viable, few of the associations visited were proactive in seeking alternative non-HAG finance from, for example, charitable donations or bodies such as English Partnerships. The associations most successful in raising funds from other sources were those with more than 5,000 units and which employed designated fundraisers, and/or those involved in major partnership projects with private developers and local authorities.

---

1 The maximum number of habitable rooms to the hectare permitted by the local planning regulations.
Measures to make schemes viable

The most common measure is to renegotiate the purchase price of the site.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage of Associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renegotiate purchase price</td>
<td>80%</td>
</tr>
<tr>
<td>Re-examine funding assumptions</td>
<td>70%</td>
</tr>
<tr>
<td>Use other methods</td>
<td>60%</td>
</tr>
<tr>
<td>Seek other funding</td>
<td>50%</td>
</tr>
<tr>
<td>Increase internal subsidy</td>
<td>40%</td>
</tr>
<tr>
<td>Reduce specification</td>
<td>30%</td>
</tr>
<tr>
<td>Increase rents</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey of 83 housing associations

Internal subsidy as a proportion of total scheme costs

Most successful schemes are subsidised from associations’ own resources.

Source: Audit Commission survey of 270 schemes

Constraints of size and capacity

32. An association may win local authority support for a scheme because its location, size, rents and so on are acceptable, but it may still fail at bid stage if the subsidy requirement is too high. Many smaller associations do not have sufficient capacity to reduce this requirement by internal subsidy, land banking when the market is favourable, or fundraising. Even those associations with the resources to acquire the site ahead of an allocation
may decide that the risks are too great. The main risks are that the value of the site decreases before development and/or that the association fails to secure an allocation, leaving it with capital tied up in an unusable asset.

**Housing management considerations**

33. Some local authorities give preference to schemes in targeted regeneration areas, and therefore some associations have proceeded with schemes in locations that are unpopular with local people, with inevitable detrimental consequences for lettings [BOX C].

34. Schemes that address priority housing need in terms of location and mix (dwelling type and size), but fail to create an appropriate social and economic balance within a community, can be problematic. Three of the twelve fieldwork schemes visited are in areas with high levels of homelessness and social deprivation; and the units are let mainly to the local authority’s priority needs groups. The social imbalance created by this has, according to the associations concerned, exacerbated problems of crime, vandalism and harassment in the area.

**BOX C**

Problems in developing new homes in unpopular locations

One association developed a local authority site that was located in an Estate Action area; its bid had been given high priority support by the authority. In agreement with the local authority, the association transferred management of the completed dwellings to a black and minority ethnic association, partly in order to meet its national business plan target for stock transfers, and also in response to the Corporation’s strategy of supporting black and minority ethnic associations.

Unfortunately, members of the minority ethnic community did not wish to live in the area because of its remoteness from the rest of their community, its lack of amenities, and its bad reputation for prejudice and harassment. This was not the only factor explaining the managing association’s void problem. The anti-social behaviour of some tenants was also deterring new tenants from moving to the estate, a problem compounded by an unexplained dissipation of the waiting list for accommodation in that area of the borough.

The management of the estate has stabilised and the units have now been let – but none to members of the minority ethnic community. This case illustrates how a local authority, the developing association and the managing association failed to locate housing provision close to the priority need it was designed to meet.

*Source: Audit Commission fieldwork*
To win local authority support, associations must align their schemes with the relevant authority's priorities. Associations with the skills and resources to negotiate with planners, landowners and funders, and/or to subsidise expensive schemes, increase their chances of delivering a viable scheme on the selected site. The success of the scheme after letting is not always effectively assessed at scheme feasibility stage.
Creating a Successful Scheme – recommendations

For local authorities

1 Authorities need to target investment towards regeneration, but it is not advisable to channel all resources into one or two priority projects; authorities should consider the benefits of providing small clusters of social housing in non-estate locations which avoid concentrations of one form of tenure.

For housing associations

2 Associations can optimise their chances of successful schemes/partnerships by:
   • using reserves to acquire land when the market is favourable, rather than to subsidise high-cost acquisitions;
   • consulting on proposals early in the development process;
   • initiating partnerships with public and private organisations which open doors to other subsidies – for example, English Partnership or European funds – or to affordable sites; and
   • acquiring expertise in negotiating land transactions and in the planning process.
36. Once an association has overcome the hurdles of finding a site and putting together a viable scheme, it must determine how and when to make a bid for funds. Securing an allocation of funds, whether from the Housing Corporation or the local authority, or both, is a vital stage in the process of delivering a scheme. However, planning the bidding process is not always straightforward. Associations need to understand the Corporation’s procedure for distributing funds, and clarify:

- Which local authority areas are likely to be targeted?
- What are the current investment priorities – regeneration? homelessness?
- Do different regions have different priorities?
- How does the Corporation choose between two competing bids aimed at meeting the same need?

37. When an association has completed its research on these factors, it can then develop a bidding strategy. This will entail decisions on, for example, whether to bid for all the schemes in its pipeline or only those on sites favoured by the local authority. One strategic approach would be to submit high standard, innovative schemes, but in other circumstances an association might opt for schemes that require low grant input.

38. The Corporation’s procedure for distributing the ADP is published in its Guide to the Allocations Process [EXHIBIT 9]. Regional policy statements, issued to associations in August each year, give guidance on investment priorities and include summaries of all local authorities’ strategies. The statements also show the indicative levels of investment in each local authority area for the forthcoming financial year. However, the actual size of the ADP is not known until the Minister announces the Corporation’s cash limit in November. Following this announcement, the actual regional cash limits available to fund each region’s share of the ADP are calculated.

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1 The Corporation distributes the ADP through its eight regional offices; associations submit their bids to the relevant regional office.
39. The closing date for bid submissions is usually the end of November; ideally, the schemes put forward by associations will already have received at least outline planning permission by this stage. However, this is not always possible, particularly when the land market is dynamic. Associations may, therefore, have to submit bids for sites before plans have been drawn up or even before they have entered into competition for the site.

40. The regional cash limit determines how much cash individual associations will get within a given year. The allocation is the total amount of grant that a project, starting in a particular year, can expect over its development period (which may span several years) and associations are advised of their allocations in January or February. The Cash Planning Target (CPT) is the total amount of cash grant for all projects in an association's programme for that financial year, and the association decides how to allocate it between projects. The Corporation monitors association performance in meeting cash drawdown targets – for example, reaching a key stage for grant payment, such as site start.

41. The distribution of resources for the programme of new starts between regions and local authority areas is informed by the Housing Needs Index (HNI) score for each authority. Each area should receive at least 80 per cent of its HNI level over a three-year period. The Corporation's regional officers distribute the remaining 20 per cent according to their assessment of:

- the effectiveness of the local authority’s strategy – for example, the extent to which it is based on a comprehensive assessment of housing need;
- the effective use of dwellings in the area – for example, having an efficient process for nominating households to association vacancies; and
- general efficiency and economy – for example, making free or discounted land available to associations.

EXHIBIT 9
The allocations process
The Housing Corporation has a detailed procedure for allocating funding.
42. However, the Corporation does not use a formula to allocate resources to individual associations. Each bid for funds is judged on its merits, and regional officers agree allocations for those bids that meet identified needs in the most cost-effective way. The scale of allocation to each association also takes into account past operational performance and other regulatory information.¹

**Bid selection procedure**

43. In all areas, formal meetings take place at least twice a year between local authorities and the Corporation. In June/July, the focus is on respective strategy statements and priorities for the following year, while meetings in November prioritise the bids received from associations. The Corporation’s bid selection procedure involves early rejection of schemes which do not meet priority needs, or have not been discussed with the local authority.

44. In 1996/97, the rent levels proposed by bidders for their developments and their potential impact on housing benefit were taken into consideration on a trial basis. From 1997/98 this has been extended and formalised (Ref. 6) and there is a presumption in favour of schemes with rent levels below the benchmarks advised by the Corporation. If competing bids meet the same prioritised need, the regional office ranks the competitors on the basis of a value-for-money assessment that takes into account:

• the expected life of the proposed housing; ¹¹
• higher design standards than the specified minima (Scheme Development Standards Plus);
• the package of services offered (Housing Plus);
• wider community benefits (Housing Plus);
• the ability to deliver the project; and
• the opportunity cost of not accepting the cheapest bid.

45. The highest-ranking bidder receives the allocation, provided that its scheme costs and rent levels are acceptable. The Corporation’s 1997/98 Policy Statement has added site suitability as a factor in the bid selection process. In future it will also consider the optimal trade-off between the strategic importance and suitability of alternative sites, the development and procurement options for meeting the identified need, and the number of dwellings that can be produced.

¹ The Corporation’s Performance Assessment and Investment Summary (PAIS) evaluates associations against a wide range of operational (eg, rent collection) and financial (eg, asset cover) indicators.

¹¹ This is less relevant for new-build developments, but in the case of rehabilitation and temporary social housing projects, lower-cost schemes with shorter lives may not offer the best value.
46. Although the allocation process is based on an annual cycle, the bidding process enables associations to bid for funds over a three-year period – that is, for 'pre-allocations' in years two and three. This facility is particularly appropriate for long-term, phased developments, and it also gives associations an opportunity to land bank with a reasonable degree of certainty that funding will be forthcoming in subsequent years.

**Associations' bidding strategies**

47. Associations need to establish which elements are most likely to bring success in bidding, based on their interpretation of the Corporation's annual guidance and on past experience. Many associations bid for significantly more schemes than they know are likely to be supported (two fieldwork associations bid at a ratio of 4:1), perhaps in the mistaken belief that their allocation is determined by the size of their bid. Some associations bid for schemes without having identified a suitable site to develop and where there is little chance of delivering the scheme; or they bid for sites without support from the local authority. Such behaviour may stem in part from uncertainty about local authority priorities, but it inevitably entails a waste of time and resources. The Corporation needs to discourage 'over-bidding' by ensuring that it does not make allocations for speculative bids (as had occurred in some fieldwork associations).

48. Associations regard the local authority's priority rating as the factor most likely to secure an allocation. The most important cost factor is the total cost of bids to the public purse (taking into account housing benefit as well as capital subsidy) compared with that of competing associations [EXHIBIT 10]. Total scheme costs are regarded as less important at bid stage. As the Corporation does not know what the Scheme Cost Index (SCI) is at bid stage, associations believe that bids are assessed on the basis of their subsidy cost rather than their overall cost.

![EXHIBIT 10](image_url)

**Associations' perceptions of success factors**

A high priority rating by the local authority is seen as the determining factor in securing an allocation.

*Source: Audit Commission survey of 83 housing associations*
49. Two factors are particularly important in determining funding for general needs new-build development:

• the scheme(s) must meet the Corporation's priority needs and have been discussed with the local authority; and
• the association must have a good track record in development.

An association's performance, together with its financial indicators, will then determine the scale of its allocation.
Bidding for Housing Corporation Funding – recommendations

1. Housing associations should restrict their bidding for funds, as far as possible, to identified sites which they have a reasonable chance of securing.

2. The Corporation must ensure that it does not unwittingly encourage speculative bidding by making allocations in such cases.
Securing an Allocation

50. The final stage in the complex process of new-build development is to ensure that proposals are sufficiently competitive to win an allocation. In 1996/97, the average bid to the Corporation (excluding pre-allocations) had a one-in-four chance of success. Chapter 5 described the Corporation’s policies and procedures for selecting bids. This chapter assesses how those policies are implemented by regional offices, specifically:

- What features of a bid increase the prospect of securing an allocation? Is size, or location, or cost – or a combination of the three – the determining feature of a successful scheme?
- What are the main influences on the Housing Corporation’s investment decisions? Are regional officers concerned primarily with subsidy requirements or do they attempt to target the most acute need? Do they give preference to bids which address wider community problems such as unemployment?

51. To identify why some bids were more successful than others, the Corporation’s database was analysed using a number of value-for-money measures. The ‘best fit’ measure – the one which correlates most closely with a successful outcome – is the extent to which the bid is below the headline grant rate for the TCI group [EXHIBIT 11, overleaf]. In any given TCI area, bids with a lower than average grant rate have a higher chance of success. A typical bid in 1996/97 was about 5 per cent below the headline grant rate, while bids more than 15 per cent below had an even greater chance of success.

52. The average difference between bids and the headline grant rate varied significantly between TCI areas [TABLE 4, overleaf]. This can be explained in part by the competitive process between bidders – associations make educated guesses about where competitors are pitching their bids – and also by the impact of Housing Corporation guidance. Although the Corporation publishes headline grant rates for each TCI band as an indicator of the maximum level of grant allowable in the band, regional officers may also issue informal guidance to bidders on regional grant per person or grant per unit targets.
EXHIBIT 11

Effect of grant rate on bid success

Bids with a lower grant rate have a greater chance of success.

Source: Audit Commission analysis of BRASS database for 1996/97

TABLE 4

Grant rates and bids, 1996/97

<table>
<thead>
<tr>
<th>TCI</th>
<th>Headline grant rate (%)</th>
<th>Median bid (%)</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>64.6</td>
<td>60.0</td>
<td>-4.6</td>
</tr>
<tr>
<td>B</td>
<td>52.4</td>
<td>47.0</td>
<td>-5.4</td>
</tr>
<tr>
<td>C</td>
<td>46.5</td>
<td>40.0</td>
<td>-6.4</td>
</tr>
<tr>
<td>D</td>
<td>45.7</td>
<td>38.7</td>
<td>-7.0</td>
</tr>
<tr>
<td>E</td>
<td>44.4</td>
<td>40.2</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

Source: Housing Corporation

53. Other features of successful bids include a pre-allocation and links to large projects, especially those in regeneration areas [EXHIBIT 12]. Schemes with a firm pre-allocation had a 93 per cent chance of success (it was not 100 per cent because some projects were aborted subsequently); schemes with a provisional pre-allocation had a 67 per cent chance of success. Bids for schemes on local authority sites had a greater chance of success than those on private sites [EXHIBIT 13].
EXHIBIT 12
Success by investment codes
Larger schemes and those linked to regeneration schemes are most likely to succeed.

Source: Housing Corporation

EXHIBIT 13
Success rates by source
Bids for schemes on local authority-owned sites have a greater chance of securing an allocation.

Source: Audit Commission survey of 270 schemes

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Each bid to the Corporation provides a range of information coded using these headings.
When considering competing bids for new-build general needs development, the Corporation has access to the following details:

- total scheme costs;
- subsidy requirement;
- number of units and persons housed;
- needs group;
- additional features – for example, if scheme exceeds Scheme Development Standards (SDS);
- proposed rent levels; and
- Housing Plus features.

The Corporation does not have details of the Scheme Cost Index (SCI) nor the breakdown between acquisition and works costs. Investment decisions are therefore made without the regional office knowing whether or not it is supporting schemes with high acquisition costs or total scheme costs in excess of the TCI. In practice, however, the local authority (which is consulted by the Corporation prior to allocations decisions being made) is likely to have a detailed breakdown of the estimated scheme costs for major sites. Despite the lack of important cost information, it is evident from the scheme cost breakdowns supplied by surveyed associations that the Corporation is selecting schemes which are cheaper overall, have lower acquisition costs and have a marginally lower grant rate [TABLE 5]. As most of the local authority sites in the survey received land at a discount, the differential acquisition cost is not surprising.

Regional offices of the Corporation were asked to rank 11 possible reasons for selecting or rejecting schemes in the Commission’s sample of 270 schemes. The highest ranking factor was the priority given to competing schemes by the local authority [EXHIBIT 14].

### TABLE 5

<table>
<thead>
<tr>
<th>Bids</th>
<th>Average SCI</th>
<th>Average acquisition cost as percentage of total scheme costs</th>
<th>Average grant rate percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td>90.9</td>
<td>15.9</td>
<td>42.5</td>
</tr>
<tr>
<td>Unsuccessful</td>
<td>97.9</td>
<td>19.9</td>
<td>43.7</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey of 270 schemes
EXHIBIT 14
Housing Corporation regional offices
– bid selection criteria
Local authority priority rating is the most important factor influencing bid selection.

Source: Audit Commission survey of 270 schemes

Design, location and Housing Plus
57. According to the Housing Corporation’s published bid selection procedures, value-for-money comparisons between competing bids take account of ability to deliver the project, design standards which exceed SDS, and Housing Plus features such as ‘wider community benefits’. The Government has also retained the target set by the previous administration that 60 per cent of new housebuilding should be in designated regeneration areas. For the schemes surveyed (bids submitted in 1996/97), design standards and Housing Plus were not decisive factors in allocation decisions, and regional officers were not greatly influenced by whether or not the scheme was on a previously developed (brownfield) site [EXHIBIT 14, above]. It is important to note, however, that the concepts of Housing Plus, SDS Plus and the assessment of rents at bid stage (which affects total public cost) were at an early stage in their evolution at the time of this analysis.

The Corporation/local authority relationship
58. The Corporation does not initiate proposals for the development or selection of potential sites; it sees its role as the scrutiny of local housing strategies. Local authorities take a more proactive role – organising site competitions, initiating partnerships between associations and private developers, and drawing in other public or private funds. However, partnership is a core element in the process of developing social housing. Perhaps not surprisingly, the extent and nature of liaison between the Corporation, housing associations and local authorities varies both from region to region and from area to area. In some areas, local authorities and the Corporation co-operate to maximise the public subsidy available for development. In one area visited, the local authority topped up Corporation-funded schemes in order to pay for higher space standards.
In another area, there is an agreement whereby the authority funds the more expensive schemes which come lower down the prioritised list of bids. A pilot exercise has recently been introduced which formalises joint commissioning arrangements between the Corporation and local authorities. This should make more explicit their respective roles in investment decisions and consolidate local initiatives for collaborative working.

59. The regional office survey also showed that the Corporation had limited prior knowledge of the schemes put forward at bid stage. Prior to bidding, only 42 per cent of sites had been discussed by the region and the local authority, and 21 per cent by the region and the association. When asked how they made their assessment of the local authorities in their region, regional officers gave greater priority to strategic factors than to practical measures such as the provision of land [TABLE 6]. They also remarked that more than 75 per cent of local authorities included Corporation priorities in their housing strategies.

<table>
<thead>
<tr>
<th>Ranking by regional staff</th>
<th>Enabling activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Initiates public/private partnerships</td>
</tr>
<tr>
<td>2</td>
<td>Has empirical evidence to support needs assessment</td>
</tr>
<tr>
<td>3</td>
<td>Has a targeted new development strategy</td>
</tr>
<tr>
<td>4</td>
<td>Encourages competition for sites</td>
</tr>
<tr>
<td>5</td>
<td>Provides subsidy</td>
</tr>
<tr>
<td>6</td>
<td>Provides land</td>
</tr>
<tr>
<td>7</td>
<td>Assembles sites</td>
</tr>
<tr>
<td>8</td>
<td>Agrees site allocation strategy with region and with associations</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey of seven regional offices of the Housing Corporation

Conclusion

60. The Housing Corporation's investment decisions are influenced primarily by local authority priorities. Regional staff measure the effectiveness of a local authority as an enabler according to its overall strategic approach, rather than the practical help it gives to associations. There is evidence that the Corporation is successful in selecting schemes which are both cheaper overall and have cheaper acquisition costs, even though it does not have this cost information when allocations are made.
Securing an Allocation – recommendations

1. To give a fuller cost profile of competing bids, the Corporation should ask bidders for information on acquisition and projected site-works costs. This echoes one of the key recommendations made in *Within Site*, and would also assist the Corporation to fulfil its commitment to consider site cost issues at bid selection stage (Ref. 6). Consideration should also be given to introducing a sub-indicator of TCI that measures the price paid for sites.

2. The Corporation should ensure that it makes explicit the value it attributes to the quality features of a scheme, such as design standards or Housing Plus.
Summary of Recommendations

For local authorities

1. Adopt a corporate approach to the assessment of housing needs, the identification of development sites and the disposal of council-owned land.

2. Carry out comprehensive land availability studies at regular intervals, involving representatives from the private sector, Housing Corporation and housing associations.

3. Make fuller use of powers to dispose of land holdings to housing associations at below market value.

4. Make regular use of competitive procedures for all medium to large local authority sites.

5. To ensure that competition enhances value for money in new-build development, local authorities need to:
   • be clear and consistent about the rules of competition and the rights of entry;
   • ensure that the administrative procedures for bidders and competition organisers are time and cost efficient; and
   • promote a positive image of competition which does not inhibit co-operation and partnership between associations.

6. Avoid, where possible, the concentration of resources into one or two priority projects; instead, recognise the benefits of providing small clusters of social housing in non-estate locations to promote a balanced tenure mix in local communities.

For housing associations

7. Use available reserves to acquire land when the market is favourable, rather than to subsidise high-cost acquisitions.

8. Consult on proposals early in the development process.

9. Seek to initiate partnerships with public and private organisations that afford access to other subsidy schemes – for example, English Partnership or European funds – or to affordable sites.

10. Restrict bids to those with a reasonable chance of securing an allocation.

11. Acquire or improve expertise in negotiating land transactions and in the planning process.

12. Housing associations should restrict their bidding for funds, as far as possible, to identified sites which they have a reasonable chance of securing.

For the Housing Corporation

13. Obtain a fuller cost profile of competing bids by asking bidders for information on acquisition and projected site-works costs.

14. The Corporation should ensure that it does not unwittingly encourage speculative bidding by making allocations in such cases.

15. Give consideration to introducing a sub-indicator of TCI that measures the price paid for development sites.

16. Make explicit the value attribute to the quality features of a scheme, such as standards of design or Housing Plus.
References

5. DOE Circular 13/96, *Planning and Affordable Housing*, 1996.
Appendix 1  Fieldwork sites and study methodology

Fieldwork sites

The Commission and the Housing Corporation are grateful to the following organisations for their time and help with the fieldwork stage of this study:

Local authorities
- Bristol City Council
- Calderdale Borough Council
- London Borough of Croydon
- Gravesham Borough Council
- London Borough of Hammersmith and Fulham
- Mendip District Council

Housing associations
- Bristol Churches
- Croydon Churches
- Gravesend Churches
- Guinness Trust
- Hyde
- Knightstone
- North British
- Notting Hill Housing Trust
- Raglan
- Sanctuary
- Shepherds Bush
- Thames

Developers
- Hall and Tawse Ltd
- Lovell Partnerships

This selection of organisations sought information that enabled comparisons between rural and urban, small and large, unitary and non-unitary authorities, and which highlighted any regional variations. In each area, the study team interviewed representatives from the local authority housing department and, where possible, from the planning and valuation departments. Visits were also made to the two leading developing associations (those with the largest programmes) in the area and with the relevant regional office of the Housing Corporation.
The main focus of each association visit was to look in detail at a particular scheme, through examination of the files, discussion with the association and a visit to the site. As far as possible, the schemes selected comprised only general needs rented units which were recently or nearly completed. This enabled researchers to make a visual assessment of the scheme in terms of local amenities for residents. The team also sought to study newer schemes which were ‘fresh in the minds’ of the local authority and Corporation officers involved in their selection. The aim was to look at a mix of sites acquired from both public and private sources.

The team also collected data on each association's bids and allocations over a three-year period, rent policy and development strategy. The interviews explored the association's approach to finding sites, the financing of development, scheme appraisal and the bidding process.

The study team collected from each local authority information on:

- programmes and strategy over a three-year period;
- the approach to the enabling role, both departmentally and corporately;
- Unitary Development Plans and local plans;
- local land values; and
- the approach to the valuation of sites for affordable housing.

The Corporation was asked to provide allocation statements covering the last three-year period and any available data on bids (successful and unsuccessful) for the local authority in question. The interviews with relevant area managers explored the nature and mechanics of the relationship with the local authority and obtained their views on the performance of local housing associations as site finders and of the local authority as an enabler.

**Desk analysis**

In an attempt to build up an accurate profile of a successful bid, the study team looked at all new-build, non-SNMA (special needs management allowance) bids for 1994/95, 1995/96 and 1996/97. The data analysed was downloaded from the BRASS database containing 6,313 bids, both successful and unsuccessful. Various measures of their value for money were tested, including grant rate per unit and grant rate per person. A range of qualitative characteristics, such as the targeted need group, the size of the scheme etc, were also modelled using the eight investment codes and the additional codes provided by BRASS. The method used was logistic regression analysis (Appendix 2).

The key success factors were determined, and predicted success was compared with the actual success of bids in 1996/97. The comparison showed the reliability of the model [EXHIBIT A1].
The regression model is an accurate predictor of successful bids.

Questionnaire

The aims of the postal survey were to amplify the fieldwork findings and explore particular issues emerging from the desk analysis, notably:

- bidding below the headline grant rate;
- the extent of competition for sites;
- the priority given to design; and
- regional variations.

Choice of sample

The sample for the questionnaire was based on specific schemes included in the 1996/97 bidding round and covering approximately 4 per cent of all bids for new-build, non-SNMA funding, with equal numbers of unsuccessful and successful schemes in the sample of 270. To avoid sending questionnaires to every local authority and major association, 31 local authorities were selected at random and the sample was made up of all successful bids, and a corresponding number of unsuccessful bids, for schemes in their area using BRASS as the source of the sample. Questionnaires seeking information on the schemes were sent to the relevant association, local authority and regional office of the Corporation to establish:

- the source of the site;
- financial indicators of the scheme, such as grant rate, scheme cost indicator;
- whether there was competition for the site;
- why the local authority supported/did not support the bid;
• why the Corporation supported/did not support the bid; and
• whether the successful schemes appeared to offer better value for money than the unsuccessful schemes.

Each respondent was also asked about their organisation's general strategy and their perceptions of the issues affecting the cost and availability of sites. Two regions of the Corporation were unable to fully rank reasons for allocation of bids due to reorganisation.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing associations</td>
<td>73%</td>
</tr>
<tr>
<td>Local authorities</td>
<td>82%</td>
</tr>
<tr>
<td>Housing Corporation</td>
<td>96%</td>
</tr>
</tbody>
</table>
Appendix 2  Model for predicting bid success factors

The model aimed to explain variations in bid success rates by reference to the characteristics of the bid. The majority of factors were categorical in nature (i.e., the value was one of a small number of possible types – often only two) but the final model also contained a numeric continuous variable – the difference between the grant rate and the headline value for its TCI group. In fact, it was found that a quadratic term for this variable was helpful in explaining the large rise in likelihood for larger values. A number of options were tried, but this was the best in terms of explanatory power.

Because the dependent variable was binary (i.e., the bid was either successful or unsuccessful), logistic regression analysis was used. This uses a transformed dependent variable, \( \ln(p/(1-p)) \), where \( p \) is the probability that the bid will be successful. This term is the log of the odds ratio (probability of success/probability of failure) which has a zero value if \( p = 0.5 \). The odds ratio (and hence its log) increases as \( p \) increases, but its values range from infinity to —infinity, which makes it more suitable for regression analysis.

This is regressed against a generalised linear model, the coefficients of which determine the scale of the effect on the dependent variable:

\[
\ln(p/(1-p)) = \text{constant} + a.x + b.x^2 + \text{Sum} \{c_i.categ_i\} + \text{error}
\]

where \( p \) = probability of bid success

\( x = \) grant rate underbid

\( categ_i = 1 \) if bid in category \( i = 1 \), 0 otherwise

\( a = \) linear coefficient of grant rate underbid

\( b = \) quadratic coefficient of grant rate underbid

\( \{c_i\} = \) the set of coefficients for the categorical variables

The table overleaf shows which factors were found to be statistically significant, the estimated coefficients, its impact on the odds ratio (a multiplicative factor to apply to the odds ratio), and the equivalent impact on a 20 per cent probability. These show the relative scale of the effects.
MODEL

\[ \ln(p/(1-p)) = \text{constant} + \text{sum(factor} \times \text{coefficient}) - \text{where } p = \text{prob(success)} \]

- and Odds ratio = \( p/(1-p) \) [eg, doubling the odds ratio would improve probability from 20 per cent to 33 per cent, or from 33 per cent to 50 per cent]

<table>
<thead>
<tr>
<th>Factor</th>
<th>Coefficient</th>
<th>Impact on odds ratio</th>
<th>Impact on 20 per cent probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.273</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grant rate (bid-target)</td>
<td>Linear</td>
<td>-0.03022</td>
<td>2.603</td>
</tr>
<tr>
<td></td>
<td>Quadratic</td>
<td>0.0008808 (20 per cent underbid)</td>
<td></td>
</tr>
<tr>
<td>Scheme size</td>
<td>40-100 units</td>
<td>0.255</td>
<td>1.290</td>
</tr>
<tr>
<td></td>
<td>101-250 units</td>
<td>1.512</td>
<td>4.534</td>
</tr>
<tr>
<td></td>
<td>251+ units</td>
<td>1.047</td>
<td>2.848</td>
</tr>
<tr>
<td>SRB</td>
<td>Confirmed</td>
<td>0.820</td>
<td>2.271</td>
</tr>
<tr>
<td></td>
<td>Proposed</td>
<td>0.768</td>
<td>2.155</td>
</tr>
<tr>
<td>Part of phased development</td>
<td>Other part earlier</td>
<td>1.343</td>
<td>3.831</td>
</tr>
<tr>
<td></td>
<td>Other part included</td>
<td>0.142</td>
<td>1.153</td>
</tr>
<tr>
<td>Wheelchair</td>
<td>Wheelchair</td>
<td>0.312</td>
<td>1.367</td>
</tr>
<tr>
<td>Larger scheme with other housing associations</td>
<td>Larger scheme</td>
<td>0.513</td>
<td>1.671</td>
</tr>
<tr>
<td>Local authority scheme</td>
<td>Local authority estate</td>
<td>0.802</td>
<td>2.229</td>
</tr>
<tr>
<td></td>
<td>Ex-local authority stock</td>
<td>0.706</td>
<td>2.025</td>
</tr>
<tr>
<td><strong>Glossary</strong></td>
<td></td>
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<tr>
<td>---------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Acquisition</strong></td>
<td>Purchase of a site for development.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Approved Development Programme (ADP)</strong></td>
<td>The sum of money voted by the Government to the Corporation to fund its social housing programme.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Allocation</strong></td>
<td>The development grant to support new projects which the Housing Corporation commits each year to associations that are successful in the annual bidding round. This grant may be drawn down over a number of years as associations reach key stages in the development process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bids Recording and Allocations Set-up System (BRASS)</strong></td>
<td>The Corporation database which holds detailed information on the costs and features of all bids for capital finance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brownfield site</strong></td>
<td>Redevelopment land from which previous buildings have been removed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Committed sum</strong></td>
<td>Contribution made by a private developer in lieu of providing affordable housing on a particular site where the planning authority is entitled to negotiate such provision.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estate Action areas</strong></td>
<td>Areas designated for comprehensive improvements to the fabric and/or the management of the estate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estate Action funds</strong></td>
<td>Available from the DETR to improve an estate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exception site</strong></td>
<td>Sites designated by the local authority for social housing development where there is a proven local need and which were not originally included within the local plan.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Headline grant rate</strong></td>
<td>The maximum amount of HAG payable per scheme, in a given year in a given TCI area, expressed as a percentage of total scheme costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Housing Association Grant (HAG)</strong></td>
<td>The grant disbursed to associations by the Corporation for social housing development. It is now known as Social Housing Grant (SHG).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Housing Needs Index (HNI)</strong></td>
<td>A modified version of the General Needs Index (which measures differences in needs among local authorities), introduced in 1985 as the basis for the distribution of HAG to housing associations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Housing Plus</strong></td>
<td>Schemes offering 'Housing Plus' provide benefits to communities over and above improvements to housing conditions by, for example, forging links and building partnerships.</td>
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<td>------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td><strong>Local Authority HAG</strong></td>
<td>Capital grants paid by local authorities from their own resources (borrowing power or capital receipts) to housing associations in support of, or instead of, Corporation HAG. It is now known as Local Authority Social Housing Grant (LASHG).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Performance Assessment and Investment Summary (PAIS)</strong></td>
<td>A monitoring tool used by the Corporation to evaluate associations against a wide range of operational and financial indicators.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pre-allocation</strong></td>
<td>A promise of an allocation in a future financial year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Registered Social Landlord (RSL)</strong></td>
<td>The term introduced by the Housing Act 1996 to bring non-housing association social landlords within the Housing Corporation's framework; now used generically to include housing associations, local housing companies and other social housing providers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scheme</strong></td>
<td>A proposed or approved development which consists of a number of units of housing.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scheme Cost Index (SCI)</strong></td>
<td>A measure of a scheme's financial performance, which is calculated by dividing estimated outturn costs with equivalent normative costs, as measured by TCI, and expressed as a percentage.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scheme Development Standards (SDS)</strong></td>
<td>A set of basic design standards, published by the Corporation, to which developing associations must adhere, and a set of optional standards which associations may include in scheme plans.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Single Regeneration Budget (SRB)</strong></td>
<td>Government funding for private/public regeneration projects linked to outputs such as jobs created and homes improved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Special Needs Management Allowance (SNMA)</strong></td>
<td>The revenue grant paid to associations by the Corporation for schemes which provide extra housing management support for vulnerable tenants. It is now known as Supported Housing Management Grant (SHMG).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cost Indicator (TCI)</strong></td>
<td>Derived from a formula which the Corporation reviews each year, the TCI is an estimate of a scheme's normative costs which allows for differences in its size and location.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TCI group</strong></td>
<td>One of the elements in the TCI formula which allows for regional differences, and groups together local authorities with broadly similar overall development costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total public cost</strong></td>
<td>The total public subsidy requirement of a scheme, adjusted to reflect the</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
likely housing benefit requirement of the future tenants, based on projected rent levels.

**Total public subsidy**

The grant requirement of a scheme, payable either by the Corporation or the local authority and inclusive of subsidy in kind, such as free or discounted land.

**Unitary Development Plan (UDP)**

The development plan of local planning authorities in unitary authorities.
The role of housing associations as developers of new-build housing grew in importance in the 1980s and early 1990s. However, since reaching a peak in 1992/93 the funding available to associations to provide new affordable homes has seen a sharp decline. This decline has coincided with a diminishing supply of local authority land, which had been a vital source of development sites for associations. Declining resources have not, however, been matched by a fall in demand for more affordable homes. It is therefore crucial that the best use is made of the resources still available. But who is best placed to ensure that the right number of good quality homes are produced in the right location to meet the greatest need?

*Competing for Attention* focuses on the current system for selecting schemes and sites for development. It examines the role of the key stakeholders – housing associations, local authorities and the Housing Corporation – in deciding where to build social housing in order to satisfy need and asks how well they collaborate to achieve the best value for money. To what extent are associations encouraged to compete for development opportunities? Are local authorities really committed to their enabling role? Are local housing authorities and local planning authorities working towards the same goals? What factors influence the Corporation's investment decisions?

Addressing these and other questions, the report contains valuable messages for housing associations, local authorities and policy makers.

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