

# Innovation Housing Programme (IHP) & Modern Methods of Construction (MMC)

Guidance Document 2020-21 (Year 4)



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## 1. OVERVIEW

The following guidance is produced to assist applicants submitting bids for funding under the Innovative Housing Programme (IHP), which has been developed to help inform the Welsh Government about the type of homes it should financially support in the future.

For this year, the main theme of the programme is Modern Methods of Construction (MMC) and is only open to schemes located in Wales from registered social landlords (RSLs) and local housing authorities (LHAs), including local authority owned companies. This year's scheme will be a combination of IHP grant support and Financial Transaction Capital (FTC) loan support (for clarity, both sets of finance will be referred to as IHP from here on in)

Schemes will be evaluated against the Technical Specification by an Independent Assessment Panel (IAP). The IAP will make recommendations to Welsh Ministers on the schemes to be supported. The Ministers' decisions will be final.

Multiple, separate applications are acceptable and bidders from previous years, included previously rejected bids can apply again in 2020-21. The programme is competitive process and seeks to encourage innovation, so resubmitting previous schemes or any similar to those funded previously is no indicator of potential success.

Supported innovations in Year 4 IHP will need to demonstrate innovations that have not been previously tested, or demonstrate that the scheme is aligned and delivering against the key objectives of social housing building strategy, 'Re-imagining social house building in Wales'<sup>1</sup>.

Within the guidance, some themes are highlighted to help focus schemes into areas where innovative solutions are sought. Successful schemes will be closely monitored and evaluated and bidders will be required to adopt an open book approach as a condition of applying for support.

Creating good quality design and place making is a key objective of the programme and all schemes will be subject to a Design Commission for Wales (DCFW) design review to be eligible to apply for funding.

Welsh Government officials will be holding the launch events on the Thursday 30 July. In addition, Government officials will also be holding virtual surgeries, to allow applicants the opportunity to discuss the programme and ask questions relevant to potential bid(s) in more detail.

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<sup>1</sup> [https://gov.wales/sites/default/files/publications/2020-02/social-house-building-strategy\\_0.pdf](https://gov.wales/sites/default/files/publications/2020-02/social-house-building-strategy_0.pdf)

## 2. STRATEGIC CONTEXT

In February 2017, the Cabinet Secretary for Communities and Children announced the IHP. This followed the publication of the Farmer Report<sup>2</sup> into the construction industry which indicated that the construction sector must 'Modernise or Die' and the 'More: Better' Report into MMC.

The IHP had a target of 1,000 affordable homes as part of the Welsh Government's 20,000 affordable homes target for this term of government, and had approval for three years, with a budget of £90 million.

In 2019, a wholesale independent review of the social housing system in Wales was undertaken and the Affordable Housing Supply Review<sup>3</sup> was published. The report set out a key number of recommendations; one of which was trailing the use of innovative techniques and MMC to increase the scale and pace of social housing delivery. The report also recommended the production of a MMC strategy to map the use of off-site manufacturing for social housing.

In February 2020, the Housing Minister launched 'Re-imagining Social House Building in Wales'<sup>4</sup>, in response to the recommendations from the Affordable Housing supply Review panel. The strategy is aimed as social housing providers in Wales and sets Welsh Governments expectations and ambitions to see more social housing built in Wales built using MMC.

Alongside the strategy launch, the Minister also announced an extension to the IHP for an additional year, with a capital grant budget of £25m and Financial Capital Transaction (FTC) loan funding of £10m to support MMC to build the next generation of social housing in Wales.

It is against this policy backdrop that IHP year is themed as an 'MMC special'.

RSLs applying for funding must be registered with Welsh Government, and LHAs must be based in Wales. Public / Private partnerships can apply and are encouraged; but the funding will be directed via the RSL or LHA. Only schemes located in Wales will be eligible for funding.

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<sup>2</sup> [https://www.designingbuildings.co.uk/wiki/Farmer\\_Review\\_2016:\\_Modernise\\_or\\_die](https://www.designingbuildings.co.uk/wiki/Farmer_Review_2016:_Modernise_or_die)

<sup>3</sup> [https://gov.wales/sites/default/files/publications/2019-04/independent-review-of-affordable-housing-supply-report\\_0.pdf](https://gov.wales/sites/default/files/publications/2019-04/independent-review-of-affordable-housing-supply-report_0.pdf)

<sup>4</sup> [https://gov.wales/sites/default/files/publications/2020-02/social-house-building-strategy\\_0.pdf](https://gov.wales/sites/default/files/publications/2020-02/social-house-building-strategy_0.pdf)

### 3. AIMS AND OBJECTIVES

The scheme seeks to support innovation in a broad context covering construction techniques, delivery pathways and housing types across all tenures.

The main aims of the IHP grant and loan are to:

- Increase the supply of high quality affordable housing as part of the 20,000 additional affordable homes target;
- Do this in a way that aligns the design and delivery of affordable housing with the seven goals of the Well-being of Future Generations (Wales) Act (WFGA);
- Address cost and value in new homes, and develop housing that meets specific current and future housing needs;
- Provide support for those willing to innovate through the use of alternative approaches;
- Demonstrate benefits associated with alternative approaches, with a view to encouraging wider uptake;
- Promote uptake of MMC solutions to increase the scale and pace of social housing as set out in Welsh Governments MMC strategy;
- Harness opportunities to deliver jobs, skills training, and develop local industry – including ‘Better Jobs Closer to Home’ and ‘Valleys Taskforce’ initiatives;
- Help to tackle poverty by providing homes which are more energy efficient and cheaper to run;
- Contribute to Welsh Government policy objectives around reduction in waste and circular economy;
- Support wider regeneration and economic development of indigenous Welsh supply chains and the use of materials and resources, where possible and within the current procurement regulations and rules; and
- Publicly disseminate key findings and maximise learning;

The Technical Specification for the IHP was developed reflecting these aims. All schemes must demonstrate compliance with the Well-being of Future Generations (Wales) Act<sup>5</sup>. The application will need to set out how the scheme will support meeting the well-being goals, and how the ways of working will be used to improve the scheme through its life.

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<sup>5</sup> <https://gov.wales/well-being-future-generations-wales-act-2015-guidance>

## 4. TIMESCALES

The following key dates for Year 4 should be noted:

Stage	Date in 2020
Launch event:	30 July
DCFW Design Review sessions:	17 & 19 August 8, 16, 21 & 23 September
Closing date for applications:	25 September
Clarification Interviews for shortlisted schemes:	Mid-October
Ministerial announcement for successful schemes:	End of October

## 5. SCHEME REQUIREMENT

The IHP grant and loan will fund capital schemes that either:

- New build homes.
- Buildings subject to a change of use that have not previously been used as residential properties.
- Meanwhile Use i.e. homes that are meant for shorter term use to meet pressing housing need that can be reused or recycled later (e.g. flexible modular solutions).

The programme exists to increase the supply of dwellings, and therefore refurbishment of existing homes will not be considered within IHP – this is covered under the Optimised Retrofit Programme (ORP) guidance.

The loan element of IHP will be provided as a ‘private finance swap out’ and is available only to RSLs.

## 5.1 SCHEME ELIGIBILITY

IHP is part of the Welsh Government's affordable housing programme. Funding under IHP is available in accordance with the below:

Eligible costs for IHP funding	Part of another WG grant funded housing programme	Not part of another WG grant funded housing programme
	Affordable homes <sup>6</sup>	Wider affordable homes <sup>7</sup>
Land	No	Yes
Buildings	No	Yes
Innovation	Yes	Yes

Schemes included in the Rent to Own (RTO) programme are only eligible for innovation costs.

### Definitions:

Type of homes	Type of scheme
Affordable homes (TAN 2)	<ul style="list-style-type: none"> <li>• Social rent/tenure neutral</li> <li>• Intermediate rent</li> <li>• Low Cost Home Ownership (LCHO)</li> </ul>
Wider affordable homes definition	<ul style="list-style-type: none"> <li>• Help to Buy</li> <li>• Rent to Own</li> </ul>

## 5.2 WARRANTIES

Consideration will be given to funding the costs of warranties on successful schemes. This will be subject to key information for example on the cost, type, nature and extent of the warranty being detailed in the application process and whether it is deemed supportable by the IAP.

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<sup>6</sup> Social Housing Grant (SHG), Housing Finance Grant (HFG).

<sup>7</sup> Meanwhile Use schemes are only eligible for a proportion of total scheme costs excluding land.

### 5.3 SCHEME ACCEPTABILITY

The following types of schemes will be considered by the Independent Assessment Panel:

- Schemes must deliver MMC homes as per the MMC definitions framework
- Those tendered and due to start on site in 2020-21;
- Those which will be tendered before 5 March 2021 with start on site no later than 30 April 2021.

All applications **MUST** be able to provide a signed build contract by **5 March 2021** containing a start on site date no later than **30 April 2021**.

### 5.4 MONITORING AND EVALUATION

Meeting the research aims set out in the technical specification is integral to the success of the IHP. Welsh Government intends to build an evidence base of what works and what doesn't, to inform future policy and investment decisions. All applications are on an "open-book" basis, and details of innovation design, costs and other parts of the application (whether successful in their bid for funding or not) may be published as part of the learning from IHP.

All successful schemes will be required to participate in the monitoring and evaluation exercise as a condition of grant. Specific additional evaluation may be commissioned in order to investigate an individual scheme's innovation focus, and the nature of this evaluation will be discussed and agreed on a scheme specific basis. Further information about monitoring and evaluation requirements will be available from the IHP team.

Some additional costs may be incurred by schemes to meet the monitoring and evaluation requirements. These costs should be included as part of the application process.

After initial analysis the data collected will be open sourced to enable further analysis and research to take place.

## 6. FUNDING FOCUS AREAS

This year the IHP will include both capital grant and capital loan funding elements.

### **IHP Grant:**

Grant funding will be provide to support innovation that align with the aims and objectives of the programme and the Welsh Governments MMC strategy. Schemes will need to demonstrate how the funding will enable the development of MMC solutions that also advance the delivery of place-making and design quality beyond the usual expected standard of good quality design.

This may, for example, include innovation that facilitates greater use of active travel, consideration of innovative approach to the delivery of density for place-making benefits, the integration of different uses, tenures or unit sizes, and will involve consideration of the layout, mix of uses, connections beyond the site, green infrastructure and facilities as well as the design of individual homes.

Other areas of interest in this years' 'MMC special', should demonstrate solutions that encourage the wider adoption of MMC. Submissions that further the evidence base and understanding of the levels embodied energy in new homes as well as potential overheating risks of MMC. Schemes may wish to consider opportunities for Circular Economy as part of a low embodied energy model.

The IHP is interested to receive schemes that explore the resilience of new homes and their capacity to offer future flexibility through their likely lifespan. Welsh homes are the oldest stock in the western world, and new homes in Wales may have a similarly long life.

### **IHP FTC Loan:**

**Please note: - FTC loans are only available to RSL and not LHA's. This is due to UK Treasury restrictions on the allocation and use of FTC**

- FTC loans to RSLs will act as a private finance loan 'swap out' – i.e. swapping traditional private bank loan finance to develop social housing – specifically MMC social housing. This is to incentivise the uptake of MMC solutions bypassing private lender barriers to MMC such as mortgage constraints, valuations and portfolio securitisation

- Loans will only be provided for MMC solutions as defined by the UK MMC definitions framework<sup>8</sup>.
- Loans will only be provided for affordable homes (as per definition in TAN 2).
- Loans will be provided to RSLs at **0% interest, over a maximum 20 year repayment timeframe**, for affordable housing.
- Confirmed order with a MMC producer will be a requirement of the loan.
- Additional details of the loan can be found in Appendix A.

## 7. APPLICATION PROCESS

### 7.1 DESIGN REVIEW

Creating good quality design and place making is a key objective of the programme and all schemes will be subject to a DCFW design review to be eligible to apply for funding. A design review is carried out free of charge by the DCFW.

The design review should be sought early in the design development process prior to finalising schemes proposals. Please see additional guidance and contact DCFW directly to arrange a design review slot.

Applicants will be expected to respond to suggestions made at the design review as far as is possible. If recommendations are not considered, applicants will need to provide clear reasons and/or mitigation actions for consideration by the IAP.

### 7.2 SUBMITTING APPLICATIONS

Applications should be sent electronically to: [Innovativehousingprogramme@gov.wales](mailto:Innovativehousingprogramme@gov.wales)

The application window opens on 3 August 2020 and will remain open until 25 September 2020. To note, the IHP is highly competitive, and it is expected that all available budget will be committed.

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<sup>8</sup> [http://www.cast-consultancy.com/wp-content/uploads/2019/03/MMC-I-Pad-base\\_GOVUK-FINAL\\_SECURE.pdf](http://www.cast-consultancy.com/wp-content/uploads/2019/03/MMC-I-Pad-base_GOVUK-FINAL_SECURE.pdf)

### 7.3 COMPLIANCE ASSESSMENT

Applicants should note the following:

- More than one application can be made but each application must be for a single scheme
- Applications must be made in the name of the applicant who will receive the support for the specified scheme
- Joint applications between public and private sector partners are permitted – however, the lead partner and recipient of the support must be a RSL or LHA. For the avoidance of doubt, if private sector partnerships are entered you the lead RSL and LHA are responsible for full and continual due diligence in respect of any grant or loan agreement entered into with a private sector partner.
- **ALL** sections of the application forms must be completed. Applications which do not meet these requirements may not be considered
- The Application should clearly demonstrate how the scheme meets the eligibility criteria detailed in the technical specification
- It is not necessary to innovate in all the areas covered in the technical specification, but just in those specific to the scheme.

Welsh Government will carry out a compliance assessment of applications to ensure they meet the requirements below before being passed to the IAP. Any schemes which do not meet the following requirements will be rejected:

- A **fully** completed application form and any necessary attachments
- Applicants have committed to meet all **MUST** criteria in the technical specification.
- Applicants have committed to participate in the monitoring and evaluation of funded schemes. It is intended this will be undertaken by an independent contractor to be appointed by Welsh Government
- Applications must meet [State Aid](#) eligibility requirements. This will be verified by Welsh Government.

## 8. ASSESSMENT PROCESS

Schemes will be assessed against the IHP's Technical Specification by an IAP.

Applications are required to meet the MUST criteria and all SHOULD criteria in the Technical Specification. However applications which do not meet all the SHOULD criteria may still be eligible for IHP provided there is a detailed explanation setting out why derogation is necessary for the purposes of demonstrating the innovation proposed. Derogations from requirements will only be acceptable in relation to the innovative elements of a design.

The Programmes key purpose is to identify designs for future publicly supported housing, and therefore derogations from the standards that we expect housing to have, could reduce the potential for funding support to be agreed.

Applications are required to meet at least one and up to three of the WILL criteria in the Technical Specification.

Where schemes submitted by social landlords do not comply with Development Quality Requirements (DQR) (including Extra Care and Supported Housing) an indication of the baseline standards should be provided and demonstrate that the design solution responds to and meets the needs of prospective tenants in the short, medium and long term. Where appropriate, this will include a list of relevant Good Practice guidance used.

Applicants may be invited to present their proposals to the IAP. The IAP will make recommendations to Welsh Ministers who will take the final decisions.

### 8.1 CLARIFICATION INTERVIEWS

For all successful applicants a clarification interview will be undertaken to confirm details of the scheme, its timescales and costs. These are expected to take place in mid October.

**Until this process is completed to the satisfaction of Welsh Government, the scheme's funding, the level of support and the terms on which it is given are not guaranteed.**

### 8.2 SCHEME APPROVAL

Schemes will be recommended to Welsh Ministers for approval for funding by the IAP. Ministers' decisions on which schemes to support will be final.

## **9. INTERVENTION RATES**

### **9.1 SCHEMES BY SOCIAL LANDLORDS**

For grant funded schemes, applicants will only receive innovation costs as land and building costs are provided from existing grant programmes.

For IHP capital grant:

- Social rent/tenure neutral – up to 58% plus up to 100% of the additional costs relating to innovation.
- Intermediate rent/tenure neutral – up to 25% plus up to 100% of the additional costs relating to innovation.
- Meanwhile use – up to 58% of total costs excluding land.

For FTC loan:

- Social homes only – up to 100% of the capital costs. The maximum loan value is at the discretion of Welsh Government and will be determined on a need basis against other sources of funding requested or secured and the number of MMC homes delivered via the project.

## **10. PAYMENT OF GRANT AND LEGAL CHARGES**

### **10.1 IHP GRANT OFFER**

An in-principle letter will be made following the successful completion of all the checks and processes referred to above.

A proposed payment profile specific to each scheme must be submitted with the application form and may need to be revised to reflect final levels of financial support offered.

Where final costs of successful schemes are higher than the estimate the rationale for the increase must be clearly stated and verified as being reasonable or unforeseeable by an independent cost consultant before the Grant Offer Letter is issued.

A Grant Offer Letter will only be issued when final costs are known and agreed.

## **10.2 FTC LOAN OFFER**

Formal loan agreements will be issued to successful applicants. Full terms and conditions are included in Appendix A.

## **10.3 VALUATIONS**

If grant or loans are required for the purchase of land social landlords will be required to obtain a valuation of that land:

- If purchased from the public sector or valued at more than £350,000 the valuation must be undertaken by the District Valuer.
- If purchased from a private vendor or valued at less than £350,000 an independent valuer can be used.

## **10.4 FREEHOLD AND LEASEHOLD ARRANGEMENTS**

The land/property used for IHP schemes can be freehold or leasehold. The following criteria must be met:

- a lease of a flat or apartment must be for a term of 125 years or more;
- a lease of a house must be for a term of 250 years or more;
- the maximum acceptable ground rent must be limited to 0.1% of the value of the property;
- ground rent reviews will be linked to the United Kingdom General Index of Retail Prices ("RPI") or other equivalent published verified index and must be reasonable (as determined by the Lender).

For Meanwhile Use schemes there is no minimum term requirement however they are funded on the understanding that the units must be capable of being recycled and reused in a different location.

## **10.5 LEGAL CHARGES**

Prior to any RSL applicants receiving the grant monies they will be required to provide the Welsh Government with a legal charge over the freehold or leasehold property that is the subject of their scheme. This will be a pre-funding condition under the grant and loan offer letter(s).

With Local Authority applicants, the grant offer letter will contain a pre-funding condition that will require a restriction to be registered against the freehold or leasehold property prior to the grant funding being released. Such a restriction will prevent the disposal of the property without the consent of the Welsh Government.

## **11. LOCAL AUTHORITY SUPPORT REQUIREMENTS**

All RSL applicants must discuss their schemes with their local authority housing strategy teams prior to submission and include confirmation of local authority support on their application form.

If local authorities are unable to support the scheme Welsh Government cannot guarantee that funding will be allocated. Should this situation arise, Welsh Government will contact the relevant local authority with the aim of jointly agreeing the way forward.

## **12. PROCUREMENT**

Social landlord applicants should ensure the procurement of both specialist design services and appropriate delivery agents are undertaken in line with the organisation's standard procurement policies and procedures.

For RSL and LHAs contracts over the OJEU thresholds need to comply with European Procurement Directives. Procurement should also be aligned with the Wales Procurement Policy Statement.

The use of existing framework agreements is acceptable provided they were awarded appropriately and are OJEU compliant.

Scheme developed which can be accelerated using COVID related changes to permitted development rights and direct procurement awards will be eligible for the programme.

### **13. COMMUNICATIONS AND BRANDING**

Welsh Government support on all publicity, press releases and marketing material produced in relation to the scheme, as well as on site during development must be acknowledged.

Such acknowledgement must be in a form approved by Welsh Government and must comply with the Welsh Government's branding<sup>9</sup> guidelines.

### **14. FURTHER INFORMATION**

If you want further advice or information about the IHP, please email us at [Innovativehousingprogramme@gov.wales](mailto:Innovativehousingprogramme@gov.wales)

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<sup>9</sup> <https://gov.wales/welsh-government-logo-guidance>