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Llywodraeth Cymru
Welsh Government

INNOVATIVE HOUSING PROGRAMME (IHP)

GUIDANCE – YEAR 3 (2019-20)

1. OVERVIEW

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

The programme is once again open to schemes across Wales from registered social landlords (RSLs) and local housing authorities (LHAs), including local authority owned companies, and both private sector organisations and social landlords.

Schemes will be evaluated against the Technical Specification by an Independent Assessment Panel. They 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 can apply again in 2019-20. However the IHP is competitive 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 3 will need to demonstrate innovations that have not been previously tested, or demonstrate a significant scaling up of previous innovation in ways that are cost competitive and drive local benefits. A number of themes have been proposed for Year 3 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 quality places to live is a major objective of IHP and all schemes will be subject to a Design Commission for Wales design review.

Welsh Government officials will be holding the launch events on the 27 February. This will give applicants the opportunity to discuss IHP and ask questions relevant to potential bid(s) in more detail.

We urge any organisation submitting an application to attend but it is emphasised that discussion of a scheme or schemes at the events is no guarantee of success in the bidding process.

2. STRATEGIC CONTEXT

In February 2017 the Cabinet Secretary for Communities and Children announced the IHP. This followed the publication of the Farmer Report¹ into the construction industry which indicated that the construction sector must 'Modernise or Die' and the 'More: Better' Report into modern methods of construction. The latter was commissioned by Welsh Government.

The IHP has 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 has been approved for 3 years, with a budget of £90 million. In Year 3 the IHP is again open to RSLs, LHAs including local authority owned companies and private sector applicants.

RSLs applying for funding must be registered with Welsh Government, and LHAs must be based in Wales. Private sector applicants can be based anywhere, although the scheme for which funding is sought must be in Wales.

Joint bids from public and private sector partners working together are encouraged.

¹ https://www.designingbuildings.co.uk/wiki/Farmer_Review_2016:_Modernise_or_die

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. Refurbishment of existing residential dwellings is not eligible.

The main aims of the IHP are to:

- Increase the supply of 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;
- Harness opportunities to deliver jobs, skills training, and develop local industry;
- Publicly disseminate key findings and maximise learning;
- Help to tackle poverty by providing homes which are more energy efficient and cheaper to run;
- Support wider regeneration and economic development.

The Technical Specification for the IHP was developed reflecting these aims. All schemes must demonstrate compliance with the Well-being of Future Generations (Wales) Act². 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.

² <https://gov.wales/topics/people-and-communities/people/future-generations-act/>

4. TIMESCALES

The following key dates for Year 3 should be noted:

Stage	Date in 2019
Launch event:	27 February
Design Review sessions:	3 and 25 April
	2, 8, 22, 30 May
Last date for booking design reviews	31 May
	5, 19, 21, 26 June
Exclusively for 2 nd reviews only	3, 5 July
Closing date for applications:	
Stream 1: Revenue	18 July
Stream 2: Capital - Themes	18 July
Stream 3: Capital - Up-scaling	Open bidding closes on the 18 July
Clarification Interviews for shortlisted schemes:	August/September
Ministerial announcement for successful schemes:	End of September

5. SCHEME REQUIREMENT

The IHP 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. containers).

The programme exists to increase the supply of dwellings, and therefore refurbishment of existing homes will not be considered for IHP funding.

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	SOCIAL LANDLORDS		PRIVATE SECTOR		
	Part of another WG grant funded housing programme	Not part of another WG grant funded housing programme			
	Affordable homes ³	Wider affordable homes ⁴	Affordable homes ⁵	Help to Buy	Market housing for outright sale and market rent
Land	No	Yes	Yes	No	No
Buildings	No	Yes	Yes	No	No
Innovation	Yes	Yes	Yes	Yes – level determined by State Aid rules on a case by case basis	

³ Social Housing Grant (SHG), Housing Finance Grant (HFG), Affordable Housing Grant (AHG).

⁴ Meanwhile Use schemes are only eligible for up to 58% of total scheme costs excluding land.

⁵ TAN 2 definition via Act of Entrustment for social homes in perpetuity.

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"> • Social rent/tenure neutral • Intermediate rent • Low Cost Home Ownership (LCHO)
Wider affordable homes definition	<ul style="list-style-type: none"> • Help to Buy • Rent to Own
Market housing <ul style="list-style-type: none"> • For outright sale • For rent 	With an open market value of no more than £300,000

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 supported by the Independent Assessment Panel.

5.3 SCHEME ACCEPTABILITY

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

- Those tendered (costed for private sector) and due to start on site in 2019-20;
- Those which will be tendered (costed for private sector) before 5 March 2020 with start on site no later than 30 April 2020.

RSLs and LHAs:

Successful social landlords **MUST** be able to provide a signed build contract by **5 March 2020** containing a start on site date no later than **30 April 2020**.

Private sector:

Successful applicants (or their partners building the homes) **MUST** submit to Welsh Government details of final works costs, start and completion dates etc. including verification by a suitably qualified independent cost consultant. Works costs **MUST** be finalised by **5 March 2020** and the start on site **MUST** be no later than **30 April 2020**.

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 by 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 STREAMS AND THEMES

This year the IHP will include both revenue and capital funding elements. The programme will see funding split between three funding streams. These streams have been created to ensure that we offer support for progressing conceptual ideas, which can be mainstreamed and become the norm.

6.1 FUNDING STREAMS

Stream 1: Revenue

This stream will provide revenue funding to explore topics such as social innovations, new procurement models and financial instruments to enable more homes to be built more quickly. The range of proposals will not be limited as we do not wish to stifle innovation. But proposals need to clearly align with the aims and objectives of the IHP and will be assessed by our Independent Assessment Panel.

Stream 2: Capital – Themes

This stream will provide capital funding to support innovation that hasn't previously been supported by IHP (innovation gaps). This funding stream also contains proposed themes that align with other Welsh Government priorities to maximum the wider policy benefits schemes can achieve.

Stream 3: Capital – Up-scaling

This stream will provide capital funding to demonstrate the ability of innovations that have worked on a small scale to be up-scaled and produced or built at volume. This is to see how innovations can be developed, then tested at scale before being mainstreamed into the standard Social Housing (SHG) and Affordable Housing Grant (AHG) Programmes. It will also help meet the 1,000 homes target the IHP is seeking to reach by 2020.

6.2 THEMES

Funding stream 2 will provide capital funding to support innovation that hasn't previously been supported by IHP. The funding stream also contains proposed themes that align with other Welsh Government priorities to maximum the benefits schemes can achieve. The following themes are proposed:

Youth Homelessness

The IHP has supported a number of schemes in the first two years that has target accommodation for homelessness. The IHP would be interested in submissions that explore further housing solutions for addressing Youth Homelessness in Wales.

Wales and particular the city regions have experienced an acute rise in homelessness and rough sleeping over the last few years. Innovation that can inform the ongoing development of a strategy for homelessness in Wales, by developing housing and service-led solutions are of interest.

Quality Design and place-making that incorporates Active Travel

Submissions within this theme should demonstrate how the funding will enable the development to advance the delivery of place-making and design quality beyond the usual expected standard of good quality design. The focus is on the creation of active, social, vibrant places that enhance the wellbeing of residents.

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.

Crossover to Retrofit

The IHP would welcome schemes that can demonstrate their innovation has the technical capacity and practical ability to be delivered at scale as part of the decarbonisation of existing homes in Wales.

This should not be assumed to simply mean products that can be installed in existing or new homes, but may range to contractual forms, community engagements, simple design measures and many other aspects. Innovations in this space will need to demonstrate their benefits to new homes, but show how those or similar benefits could realistically be extended through use in existing homes.

Low Embodied Energy and Circular Economy

The IHP would be interested in submissions that further the evidence base and understanding of the levels embodied energy in new homes, and consequential embodied carbon. Schemes may not be able to offer comprehensive embodied energy assessments for all materials used and/or running from raw material to installed component, but are encouraged to innovate around scalable methods to record and evidence primary construction materials.

Schemes may wish to consider opportunities for Circular Economy under this category as part of a low embodied energy model, where there will be a need to demonstrate a probable reuse rather than just potential for reuse.

Zero Carbon / Grid Carbon Emission

The IHP would welcome submissions that investigate innovations to evidence and progress the understanding of how carbon emissions vary dependent on when energy is used ranging from time of day through to time of year.

Generation of electricity via the National Grid has a variable carbon emission, hence claims of “zero carbon” that are reliant on feeding energy to the National Grid and drawing energy from the Grid do not necessarily achieve zero carbon if the underlying National Grid carbon intensity at time of feeding or drawing do not match. This potentially undermines both claims of zero carbon for developments and presents challenges to minimise emissions of the National Grid. Schemes providing evidence of practical ways to build evidence around this or mitigate this impact would be of interest.

Performance Gap / Delivering Quality on Site

Schemes proposing innovations that can support the delivery of actual construction on site more accurately replicating the scheme as reflected in the detailed design will be of interest to the IHP.

The “performance gap” in the construction industry is significant and well documented, and implicit in some of the issues raised in England’s Hackett Review⁶. Schemes which are proposing pragmatic and cost effectively replicable methodologies or building approaches to close this performance gap are of interest.

⁶ <https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-final-report>

Improving resilience and flexibility of homes

The IHP is interested to receive schemes that explore the resilience of their homes and their capacity to offer 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.

Applications that recognise and plan for their homes to be able to better recover from natural challenges (flood, fire, storm, cold, heat), human challenges (power failures, internet outages), and changing lifestyles (layout preferences, family sizes) are of interest where these solutions present replicable lessons that can be adopted.

7. APPLICATION PROCESS

7.1 DESIGN REVIEW

Creating places that people want to live is a criterion in the Technical Specification. Welsh Government expects all schemes submitted to have participated in a Design Review which is carried out free of charge by the Design Commission for Wales.

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 Independent Assessment Panel.

7.2 SUBMITTING APPLICATIONS

Applications should be sent electronically to: innovativehousingprogramme@gov.wales

The application window opens on 27 February 2019 for all three funding streams and will remain open until 18 July 2019.

Funding streams 1 and 2 will have all submitted schemes assessed at the same time.

Funding stream 3 will be on an open bidding basis, with the window closing on the 18 July 2019. Scheme submitted ahead of the closing date will be assessed periodically by our Independent Assessment Panel, with the expectation that scheme that are recommended for support by the Independent Assessment Panel will be approved by Ministers before September.

Applications for funding stream 3 submitted in July will be assessed at the same time as those in funding streams 1 and 2.

To note, the IHP is highly competitive, and it is expected that all available budget will be committed.

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
- **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 Independent Assessment Panel. 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 Independent Assessment Panel.

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.

Schemes which demonstrate significant impact in one WILL area could score higher than those which demonstrate low impact in more than one area.

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 Independent Assessment Panel. The Independent Assessment Panel will make recommendations to Welsh Ministers who will take the final decisions.

8.1 DUE DILIGENCE CHECKS – PRIVATE SECTOR

RSLs are regulated by Welsh Ministers and they already undergo due diligence. LHAs are public sector bodies audited by Wales Audit Office (WAO). Private sector bodies applying directly for support will be subject to checks. This includes:

- A due diligence check including providing details of the size of the organisation, turnover and ownership.
- Checks for grant eligibility and levels of support under [State Aid](#) rules.
- A risk assessment.

8.2 CLARIFICATION INTERVIEWS

Some months will have passed from the time a scheme is submitted until it is approved by Ministers. For all successful applicants a final clarification interview will be undertaken to confirm details of the scheme, its timescales and costs. These are expected to take place in August and early September.

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.

8.3 SCHEME APPROVAL

Schemes will be recommended to Welsh Ministers for approval for funding by the Independent Assessment Panel. 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.

- 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.

9.2 SCHEMES BY PRIVATE SECTOR

EU [State Aid](#) rules apply to the amount and purpose of aid that Welsh Government can give to undertakings. The level of aid will be determined on a scheme by scheme basis. This will be for a maximum of 100% of innovation costs and no contribution will be made toward other development costs including the costs of land or building homes.

If a private sector applicant develops affordable housing within the TAN (2) definition, and is prepared to enter into an Act of Entrustment to ensure that the homes remain affordable throughout their life, then Welsh Government would be able to offer the same level of aid as to public sector applicants.

Innovation costs must be separately and clearly shown and Welsh Government will apply the allowable level of aid intensity. This will depend on factors including company size, scheme location, and innovation category.

9.3 ALTERNATIVE FUNDING SOURCES

Private sector developers seeking funding for developing housing schemes may wish to contact the Development Bank of Wales⁷ who are able to offer support for example through the Property Development Fund.

Funding and support to develop innovative product is available through Welsh Government's SMART Cymru team⁸.

⁷ <https://developmentbank.wales/>

⁸ <https://businesswales.gov.wales/expertisewales/smartcymru>

10. PAYMENT OF GRANT AND LEGAL CHARGES

10.1 GRANT OFFER

An in-principle grant offer 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.

Local Housing Authorities and the Private Sector can only be paid in arrears.

10.2 VALUATIONS

If grant is required for the purchase of land social landlords will be required to obtain a valuation of that land. This will also apply to private sector developments where an Act of Entrustment is sought:

- 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.

10.3 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.

10.4 LEGAL CHARGES

Prior to any RSL or Private Sector 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 offer letter.

Where funding is being provided to a Private Sector applicant towards an innovation scheme then the Welsh Government will determine whether or not a legal charge is appropriate based on the details of the innovation scheme.

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 (social landlords only)

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.

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 branding⁹ guidelines.

14. FURTHER INFORMATION

If you want further advice or information about the IHP, please email us at Innovativehousingprogramme@gov.wales

⁹ http://gov.wales/contact_us/wglogoguide1/