



Department for
Communities and
Local Government

Local Growth Fund (Housing Infrastructure)

Prospectus

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Contents

Ministerial Foreword	4
Introduction and the Fund	5
How will eligible schemes be prioritised	6
Further Information & Assessment Process	7
Who do I submit my application to	9
Annex A – Interest Rates for Loans	11
Annex B – Expression of Interest – Evidence Required	13
Annex C – Due Diligence – Know your Customer requirements	16

Archived

Ministerial Foreword

Investing in infrastructure to support housing growth has a key role to play in not only stimulating and boosting the supply of new homes, but also supporting the UK economy and creating the environment for sustainable long term growth.

In 2013 we launched the Local Infrastructure Fund, inviting councils and developers to come forward with their proposals for large scale housing developments. Building on the success of this programme, we launched a new prospectus with opportunities for schemes of 1,500 units and over to bid into a further £1 billion fund and wider support package.

However, we know that the current tough financial climate is not only affecting these large scale sites but also the smaller schemes which, whilst below 1,500 units, are still significant in terms of their local importance and the impact they can have on their local economies. And just like their larger counterparts, many of these schemes although ready and willing to move forward into delivery, are unable to raise the upfront capital to pay for the key infrastructure that would provide the jump start necessary to enable homes to be built.

Local leaders, with their knowledge, creativity and ambition to identify local priorities, can play a crucial role in helping to move these schemes forward as they drive investment in housing and infrastructure to support local economic growth.

That is why, last year, we confirmed our commitment to work with Local Enterprise Partnerships to agree local Growth Deals and introduced the Local Growth Fund to provide the levers to do this.

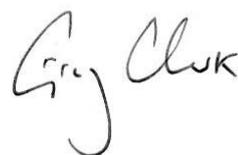
At the Autumn Statement, we also announced that the Local Growth Fund would include funding for investment in infrastructure to support new homes. This will be delivered through a £50m element of the Local Growth Fund for 2015/16 to help accelerate and unlock housing developments between 250 and 1,499 units which are struggling to move forward. This will be based on the successful Local Infrastructure Fund model, and will be aimed at supporting schemes that meet local growth priorities.

We are keen that we do all we can to provide house-builders with the opportunity to get on site and start building and to support these schemes which are important for local areas.

This Prospectus sets out the detail for how to apply for this Fund and we would encourage all parties to come forward with their proposals and take advantage of this opportunity.



**Kris Hopkins MP,
Minister for Housing**



**The Rt Hon Greg Clark MP,
Minister of State, Cabinet Office**

Introduction

1. This Prospectus sets out the detail on how to access the **£50m** part of the Local Growth Fund in 2015/16 that is designed to help accelerate and unlock housing developments between **250 and 1,499** units that have slowed down or stalled.
2. The Fund will operate in a similar way to the Local Infrastructure Fund – recoverable capital investment to the private sector on an open competition basis with interested parties invited to submit ‘Expressions of Interest’ for funding. The fund will operate for England only and will be managed by the Homes and Communities Agency. Key to ensuring the successful impact of this part of the Local Growth Fund are Local Enterprise Partnerships which have an important role to play in identifying local priorities and opportunities as part of their local strategies.
3. The aim is to support schemes which are important for local growth and which have the backing of Local Enterprise Partnerships, particularly schemes which are ready to go and which meet local priorities, but which may be finding difficulty attracting the necessary finance. We are therefore asking Local Enterprise Partnerships to work with developers to identify priorities in the Strategic Economic Plans they put forward and to identify potential schemes that meet local priorities and could therefore benefit from this Fund. **All Expressions of Interest must be formally endorsed by the relevant Local Enterprise Partnership** (as a minimum we expect this to consist of a written letter of support).

The Fund

Capital Investment Finance for Infrastructure

4. **The Fund is making available £50m of capital investment finance for housing schemes between 250 and 1,499 units.** Finance will be made available to private sector developers to deliver the key up-front infrastructure required to accelerate or unlock fundamentally viable housing schemes.
5. Investment Finance will usually be in the form of a **loan** with an appropriate interest rate applied in accordance with the State Aid matrix (see Annex A for detail). Other forms of investment will be considered if necessary in order to maintain flexibility and enable bespoke packages of support to be developed where needed, provided the investment is state aid compliant.

Eligibility Criteria

6. To be eligible for funding, schemes must meet the following criteria:
 - Schemes must be between 250 to 1,499 units in size.
 - Proposals **must** be endorsed by their Local Enterprise Partnership (at the minimum this should comprise a written letter of support).

- Be submitted by a private sector partner.
 - Able to demonstrate **local support** through either having at least outline planning consent, or the site being designated for development in an adopted local plan.
 - Have support from the relevant local authority (the Homes and Communities Agency will test this with the local authority).
 - Funding will be provided on a recoverable basis (with funds returned to the Homes and Communities Agency). An appropriate rate of interest will be applied (detail provided at annex A).
 - Appropriate security for the investment will be required. Further information on the types of acceptable security is detailed at paragraph 15.
 - All investments will have to be state aid compliant (see Annex A).
 - Schemes must be in a position to draw down funding in full prior to the **31 March 2016**. Repayment profiles will be agreed on a case by case basis.
 - Projects must involve capital expenditure in infrastructure and / or other site preparation works that will support economic growth
 - A minimum investment of £500k is required. There is however no upper limit subject to fulfilling the bid criteria and value for money.
 - Bidders must confirm that the project is fundamentally viable; they can support the repayment and have the consent of any existing lenders to access additional finance from this Fund.
 - Total public funding (including funding from other public sources) for the wider project that the infrastructure is serving must be below 50% of total project costs across the life of the wider project.
 - Bidding parties must be able to demonstrate a robust delivery plan and investment proposal.
 - Projects **must ultimately lead to the development** of housing.
7. **Expressions of Interest must be submitted to the Homes and Communities Agency by noon on 30 May 2014.** These will be considered and prioritised by the Homes and Communities Agency.

How will eligible schemes be prioritised?

8. Schemes which satisfy the stated eligibility criteria will be prioritised as follows:
 - a) Schemes that can demonstrate a clear link between infrastructure to be provided and homes delivered.
 - b) Schemes that offer the greatest prospect of quantified early delivery.
 - c) Schemes that offer the greatest acceleration of housing delivery.
 - d) Schemes that offer the most impact in terms of amount requested and homes delivered.
 - e) Schemes that offer the greatest prospect of investment recovery.
 - f) Schemes in areas of highest demand, measured by house price to income ratio.
9. The Homes and Communities Agency will consider its overall exposure on a portfolio level during the prioritisation process and reserves the right to manage this exposure accordingly.

Further Information and the Assessment Process

Expression of Interest Stage

10. Bids for capital finance must be submitted by noon 30 May 2014 using the online Expression of Interest form available through the Homes and Communities Agency's Partner Portal. Applicants must be able to demonstrate clearly that they can meet the eligibility requirements set out in this prospectus and indicate the amount of funding they are bidding for. **Capital funding will only be made available to private sector partners.**
11. Any bid for capital funding must be submitted by a private sector partner and must be formally endorsed by the Local Enterprise Partnership (as a minimum we expect this to comprise of a written letter of support). If the landowner is a local authority, they must have a private sector development partner which has a formal relationship with the authority and can make the submission. We would expect evidence of demonstrable support for the scheme from local parties.
12. A single bidder can put forward multiple bids. Each bid must individually comply with the gateway criteria and requirements set out in this prospectus. Applicants should note that the Homes and Communities Agency will be seeking to manage exposure at a portfolio level and the Homes and Communities Agency's decision is final.

Shortlisting Stage

13. The Homes and Communities Agency will assess capital bids against the eligibility criteria set out in this prospectus, with bids prioritised in line with the above stated prioritisation criteria. Our aim is that we should be able to short-list bids in time for Growth Deals in July 2014 to enable local areas to plan for local growth.

Due Diligence Stage

14. All shortlisted schemes will then undergo a technical due diligence review carried out by the Homes and Communities Agency to test value for money of the proposition and the ability of the bidder to pay back the loan. Applicants will need to satisfactorily complete the due diligence process and demonstrate that their scheme offers the best value against the investment criteria before funding is awarded. This will include agreement to the Homes and Communities Agency's key terms.
15. The due diligence review will, in broad terms, consider the following:
 - Whether **alternative sources of funding have been explored**.
 - The **level of funding** that is appropriate – consideration will be given to the minimum amount of public funding necessary for the scheme to get under way and might be less than the funding sought. It is expected that the private sector will be funding other scheme costs and, other than in exceptional circumstances, total public funding (including funding from other public sources) will comprise a maximum 50% of project costs.
 - Appraise the scheme's **financial, commercial and market position** and its ability to generate income to pay back the investment at a later date.
 - The **ability of the loan recipient to re-pay the loan and interest** – it is a requirement that all loans will be repaid with interest. An assessment will be made of the ability to deliver against an agreed start on site, house sales programme and re-payments schedule to correspond with this. Clear recovery schedules will be put in place with a longstop repayment date by which point the loan is expected to be paid back in full.
 - The **bidders financial standing** – bidders will be expected to provide up to date accounting and other financial information and an assessment will be made of their track record of paying back investments along with their overall credit rating.
 - The **level of loan security** required – loans will not be given without appropriate security being in place to assure its re-payment. Examples include a legal charge, parent company guarantee, performance bond or personal guarantee.
 - The **deliverability** of both the infrastructure and the wider project over the required timescales.
 - The **legal due diligence** will include, as a minimum, the provision by the funding applicant of a fully completed Certificate of Title. This will be required for the site (in its entirety) that the funding is to be provided for and any other site over which the Homes and Communities Agency is to receive security. Applicants should also be prepared to provide detail of any other senior lending at the beginning of the due diligence process.

Applicants should note that if shortlisted they will be required to provide the Certificate of Title and detailed information regarding any existing finance arrangements in the first instance.

‘Know your Customer’ requirements

16. The Homes and Communities Agency will require sufficient information to satisfy its ‘Know your Customer’ requirements. This includes, but is not limited to, the provision of appropriate financial accounts and evidence of any funding lines available to the bidder. Where the bidder is a consortium, the Homes and Communities Agency will require full details of the consortium structure and accounts information for each of the consortium members. Further details on the initial information that will be required at due diligence are included at annex C.
17. A due diligence pack will be issued to all shortlisted bidders which will contain greater detail than summarised here.

Contract Stage

18. Schemes that successfully pass the due diligence stage will enter into formal negotiations to contract terms before loans are issued.
19. The interest rate on the loan will be calculated with reference to the European Commission Reference rate plus a margin calculated on the basis of an assessment of creditworthiness and collateralisation. The Homes and Communities Agency will consider the interest rate that can be offered for a loan based on individual project circumstances at the due diligence stage (see Annex A). This will take into account the credit rating of the bidder and the level of security being offered for the loan.

Who do I submit my application to?

20. All Expressions of Interest for the Local Growth Fund (Housing Infrastructure) should be submitted to the Homes and Communities Agency via the Partner Portal which is available at: <https://partners.hca-online.org.uk/> by noon on the 30 May 2014 using the guidance at Annex B.
21. In addition to the expression of interest form, an Investment Proposal should be attached outlining the delivery plan for the site (max 15 pages). The template proposition is available [here](#). This must be completed and uploaded for submission via the partner portal (see application guidance for further details).
22. Guidance on the application process and completing your online submission is available on the Homes and Communities Agency’s website, [here](#).

Further information

23. For further information, please contact the Homes and Communities Agency at LGFHousing@HCA.gsi.gov.uk or visit the [website](#).

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Annex A – Interest Rates for loans

Based on European Commission guidance on calculating a “market rate” margin and the current European Commission Reference rate (0.88% at 01/01/14) as a variable base rate, loans can be offered at rates of interest from 1.48% to 10.88% (please see the matrix below). This is based on our assessment of the creditworthiness of the bidder and the collateral offered

Collateralisation		High	Normal	Low
Credit Worthiness	Strong	1.48	1.63	1.88
	Good	1.63	1.88	3.08
	Satisfactory	1.88	3.08	4.88
	Weak	3.08	4.88	7.38
	Financial Difficulties	4.88	7.38	10.88

These rates are illustrative and represent the minimum rates available depending on the categorisation of creditworthiness and collateralisation at the time of publication. Final offered rates may be in excess of those illustrated dependent on individual circumstances.

Creditworthiness

Where bidders have a rating from a recognised Credit Rating Agency this will be used. Where the bidder does not have an external rating, its creditworthiness will be reviewed at due diligence. This involves an assessment of the bidder’s financial standing and the risks associated with lending to that business - likelihood of default (encompassing both capacity and willingness to pay) is an important factor. Considerations may include:

- Financial analysis - profitability, net asset position/balance sheet strength, gearing, etc.
- Assessment of the trading history/development experience of a borrower - evidence of a “track-record” of delivery.
- The ability of the borrower to service the loan (interest and capital when required under the legal agreements) in the context of its existing commitments.
- Accounts, credit-checks, references - leading to an overall profile of a borrower
- Benchmarking against peer companies.

Collateralisation

This considers the security offered for the loan and the amount that the lender could expect to lose in the event of default. This will involve an assessment of the amount that could be recovered from the project, the security offered and also from the bidder’s balance sheet. We will require satisfactory demonstration of ability to repay the loan from the scheme cash flow and adequate security (supporting the level of proposed borrowing) to minimise its loss in a default scenario (e.g. a legal charge, parent company guarantee, performance bond, personal guarantee).

Shortlisted bids which clearly demonstrate satisfactory ability to repay the loan along with offering appropriate security will be treated as having “Normal” collateralisation. Should

the collateral offered justify a different categorisation, this will be taken into consideration in the interest rate offered.

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Annex B – Expression of Interest – Evidence Required for Local Growth Infrastructure Funding

Applicant details:

- Name of organisation
- Contact name
- Contact email address
- Contact telephone number
- Address of organisation
- Organisation type
- Company Registration Number
- Details of joint venture or consortium arrangements
- Confirmation and evidence of endorsement by the Local Enterprise Partnership
- Confirmation of board sign-off
- Confirmation that the prospectus has been read and understood
- Confirmation of involvement in any other bids

Site details:

- Name and location (including Local Authority area, site co-ordinates and postcode)
- Confirmation that a site plan has been provided
- Size of site
- Planning status
- Number of units
- Confirmation of applicant's control of site
- Confirmation of whether the site has other public funding.

Local Growth Fund bid details:

- Confirmation that the bid is the only one for the Fund on this site
- Confirmation that the proposed recipient of the funding is a private sector body.

Timescales and delivery:

- Start on site date of infrastructure works
- Details of anticipated build programme
- Confirmation of whether the funding is for unlocking or accelerating the development
- Confirmation of degree of acceleration of build programme if capital funding bid successful

Units and floorspace:

- Number and tenure of residential units
- Quantity and Planning Use Class breakdown of employment floorspace

Financial details:

- Cost profile for infrastructure works
- Profile of loan / equity funding requested
- Source details for balance of funding (bank loan, developer equity, other public funding)
- Profile of capital repayment to Homes and Communities Agency

Planning details:

- Confirmation of planning permission
- Confirmation of whether any other consents are required
- Confirmation that the site is fundamentally viable, can support the repayment of the fund and has the consent of any existing lenders to access additional finance from this fund
- Confirmation that a description has been given of the infrastructure / site preparation works required, including demonstrating a clear link between this and the delivery of the housing / employment floorspace in the Investment Proposal.

Wider project financial details:

- Confirmation of total cost (to include land value, profit and infrastructure costs)
- Confirmation of confirmed public funding
- Confirmation of unconfirmed public funding
- Gross Development Value

Wider project planning details:

- Detailed information regarding planning consents including reference numbers or links to the Planning Portal and information regarding outstanding Reserved Matters
- Details of any site characteristics that would delay start on site

Ownership details:

- Confirmation of whether the applicant has control of the site
- Details of the nature of control
- Confirmation of the freehold owner
- Confirmation of whether the site was disposed of by a public sector body
- Details of whether the Homes and Communities Agency, GLA or other government organisation has any on-going interest in the site

Investment Proposal:

All capital bids should be accompanied by an investment proposal of no more than 15 pages in length summarising the key points regarding the proposed project. A template document is available on the Homes and Communities Agency [website](#).

Further information:

Further detail of what is required in the Expression of Interest form can be found in the accompanying guidance which is available on the Homes and Communities Agency's [website](#).

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Annex C – Due Diligence – Know Your Customer Requirements

The following is provided for information and indicates the information which will be required should a scheme be shortlisted and entered into due diligence.

In the case of bidders acting alone:

- Latest audited financial accounts for the bidder (full accounts rather than abbreviated).
- Management or draft accounts where the audited accounts are more than six months old.
- Latest audited financial accounts for the bidder's ultimate parent company (full accounts rather than abbreviated).
- Details of any events occurring since the last audited accounts that have a material effect on the understanding of the bidder's, or its wider group's, financial standing, including but not limited to change of control or ownership, corporate re-financing, significant acquisitions, disposals or closure of subsidiaries or business units and potential contingent liabilities including litigation. If none of these apply then a statement confirming the fact.
- Evidence of funding lines available to the bidder, including up to date details of headroom within facilities and undrawn facilities.
- Where it is proposed that funding will be introduced from related parties then similar information in relation to headroom and undrawn facilities.
- Identity of proposed guarantor(s) (if applicable).

In the case of consortia bids:

- Details of the legal status of the bidder (examples include joint venture company, partnership, limited liability partnership, limited partnership).
- Details of the names of consortium members, structure of the consortium and roles of each consortium member.
- For existing joint venture vehicles the latest audited financial accounts for the bid vehicle (full accounts rather than abbreviated).
- Management of draft accounts where the audited accounts are more than six months old.

- In the case of newly formed joint venture vehicles details of the structure of the opening balance sheet, including details of partner's proposed equity and stakeholder loan investments.
- Latest audited financial accounts for each of the consortium members (full accounts rather than abbreviated).
- In respect of the bid vehicle and each consortium member details of any events occurring since the last audited accounts that have a material effect on the understanding of the bidder's, or its wider group's, financial standing, including but not limited to change of control or ownership, corporate re-financing, significant acquisitions, disposals or closure of subsidiaries or business units and potential contingent liabilities including litigation. If none of these apply then a statement confirming the fact.
- Evidence of funding lines available to the bidder, including up to date details of headroom within facilities and undrawn facilities.
- Similar information in relation to the funding lines available to each consortium member.
- Where it is proposed that funding will be introduced from related parties then similar information in relation to headroom and undrawn facilities.
- Identity of proposed guarantor(s) if applicable.

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