



Department for
Communities and
Local Government

Builders Finance Fund Prospectus

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Ministerial Foreword

The end of the unsustainable housing boom in 2008 devastated our construction industry. It led to the loss of a quarter of a million jobs, and housebuilding to fall to its lowest levels for any peacetime year since the 1920s.

Since 2010 we've been pulling out the stops to get Britain building again, to help aspiring homeowners and to create thousands of valuable and exciting career opportunities in the sector.

The £525million Builders Finance Fund is a crucial part of this. It's directly aimed at helping those smaller developers often worst hit by the aftershocks of the crash. Companies working on schemes of between 15 and 250 homes are eligible to apply for a share of the funding on offer, to get workers back on site and construction completed on homes for communities up and down the country.

This is on top of wider efforts we've been making, including helping nearly 20,000 households get on the property ladder thanks to our Help to Buy scheme – which over 1,900 small and medium sized builders have signed up to offer on their sites.

We're making £1billion available to unlock large-scale developments by building the infrastructure they need, and £50million of the Local Growth Fund will help Local Enterprise Partnerships play a key role in delivering homes in their areas.

Our combined efforts have already delivered 420,000 new homes since 2010, including 170,000 affordable homes. Measures like the Builders Finance Fund will help ensure we maintain this momentum.

A handwritten signature in black ink, appearing to read 'Kris Hopkins', with a horizontal line underneath.

Kris Hopkins MP
Minister for Housing

Introduction

1. This Prospectus sets out the detail on how to access the **£525 million** Builders Finance Fund which has been designed to help accelerate and unlock housing developments between **15 and 250** units that have slowed down or stalled completely.
2. The programme is intended to address difficulties in accessing development finance faced by some housebuilders, particularly smaller developers, and to help bring forward stalled but viable sites by sharing risk. It is intended to focus on unlocking deliverable projects which can start or re-start soon and achieve good value for money for the taxpayer. It is open to all private organisations which control the relevant site and will carry out development.
3. The fund will be available in England only and will be managed by the Homes and Communities Agency. The Greater London Authority will lead on the assessment of expressions of interest as they relate to London sites.
4. Funding has been made available by the government for this programme on the basis that it is fully recoverable. The programme will operate by making direct investments in specific projects through loans to address cashflow issues or taking an equity stake to build confidence through risk-sharing.
5. The Homes and Communities Agency will contact local authorities to seek their views on each application.
6. The fund will make investments over two years from 2015/16 through to 2016/17 and will be operated as an open competition, with this prospectus seeking bids from builders/developers taking forward smaller housing proposals. The total fund must be drawn down by 31 March 2017.
7. A second prospectus may be published inviting expressions of interest for funding available in 2016/17 only. A second prospectus will only be published where the full amount of funding has not been fully allocated in the first round and will only be available for draw down within the financial year 2016/17.
8. A phase of a wider site will be eligible if that individual phase complies with the eligibility criteria.

The Support Package

Capital Investment Finance for Accelerating and Unlocking Housing

9. The programme provides a **£525m fund for schemes between 15 and 250 housing units**. The nature and form of schemes is a local matter to be considered through the planning process. The local authority and community should determine the appropriate level of affordable housing, market housing and other uses as part of their wider aspirations for any site.
10. Funding will be made available to accelerate or unlock fundamentally viable housing schemes. Access to the fund is on a recoverable capital investment basis and for private sector developers.
11. Applicants can bid for funding to be drawn down between April 2015 and March 2017, but all applications must include an element of the funding required to be drawn down in 2015/16. Any 2016/17 funding not utilised through this prospectus will be the subject of a further bidding round for funding in 2016/17 only. The Homes and Communities Agency reserves the right to seek additional equity investments from bidders into schemes ahead of any Government investment.
12. Development Finance will usually be in the form of a loan offered with an appropriate interest rate applied with the State Aid matrix representing the minimum rate used (see Annex A for detail). Final offered rates may be in excess of those illustrated depending on the specifics of the project, the creditworthiness of the borrower, the nature of the proposed investment and security on offer. Other forms of investment will be considered, such as equity, if necessary in order to maintain flexibility and enable bespoke packages of support to be developed where needed and provided the investment is state aid compliant. All funding is invested on a fully recoverable basis. Grant/gap funding will **not** be considered.

Eligibility Criteria

13. We set out below those factors that will be used to determine both applicant and project eligibility and those that will be considered as part of the assessment process. These factors are relevant both at the Expressions of Interest (EoI) stage and through the Due Diligence process. To be eligible for funding schemes must meet the following criteria:
 - Schemes must be between 15 to 250 new housing units in size but may include elements of non-housing development where this development is integral to the overall project.

- Bids must be submitted by a private sector bidder who must have control of the site which is the subject of the application (this includes principally housebuilders, developers and private Registered Providers (principally organisations who were Registered Social Landlords), although other private sector organisations, such as joint venture partnerships, can apply.
- Public sector bodies (including local authorities) are not eligible to bid in their own right. If they have a private sector partner that will develop housing and is in control of the site, that private sector partner can bid.
- Organisations that have control of land (on a freehold, building lease or building licence basis) that has been disposed of by the Homes and Communities Agency (or its predecessors) are eligible to apply, subject to there being a legal agreement in place at the time the Expression of Interest is submitted.
- The site must have local authority support by having at least outline planning consent (including any relevant Section 106 agreement) in place at the time of the submission of an Expression of Interest. This will be tested by the Homes and Communities Agency (see paragraph 20 below).
- The site must have an implementable planning consent in place by 31st March 2015, to enable development to commence.
- Funding will be in the form of development finance to fund project costs necessary to deliver the scheme
- Funding will be provided on a fully recoverable basis i.e for loan funding the Agency shall expect all principle and interest due to be repaid, and for equity investments the Agency shall expect the capital invested plus a return commensurate with the investment risk to be repaid.
- Appropriate security for the investment will be required. Further information on the types of acceptable security is detailed at paragraph 24.
- 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 **31st March 2017, and must include some draw down of funds in 2015/16**. Funds not drawn down by March 2017 will not be available in future years. Repayment profiles will be agreed on a case by case basis.
- 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.
- Bidders must confirm that residential properties financed through this Fund will be marketed in the UK.
- Bidding parties must be able to demonstrate a robust delivery plan and investment proposals (see more detail in paragraph 31 below).
- Schemes which have received support from other Government programmes for the same purpose are not eligible for funding.

Bidding for the fund will be launched on 14th May 2014 and Expressions of Interest must be submitted to the Homes and Communities Agency by midday on 25th June 2014. Full details on how to submit an application with supporting guidance will be available on the Homes and Communities Agency website
<https://www.homesandcommunities.co.uk/ourwork/builders-finance-fund>

How will eligible schemes be prioritised?

14. Schemes which satisfy the stated eligibility criteria will be prioritised using the Homes and Communities Agency (and its advisors) professional judgement and the following aspects will be considered through a scoring process. The order of the following does not necessarily represent the order in which priority will be given.
 - Schemes which are most likely to achieve an early start on site date.
 - Schemes which offer the greatest proportion of early housing completions.
 - Schemes which offer the most impact in terms of the amount of funds requested and homes delivered (value for money considerations).
 - Schemes which offer the greatest prospect of investment recovery, including an assessment of the schemes viability, security and the type of funding requested, with preference given to loans over equity.
15. The Homes and Communities Agency will consider its overall exposure both in terms of organisation and geographical concentration on a portfolio level during the prioritisation process (and during due diligence) and reserves the right to manage this exposure accordingly.

Further Information and the Assessment Process

Expression of Interest Stage

16. Bids for capital loan finance must be submitted by 25 June 2014 using the online Expression of Interest form available through the Homes and Communities Agency's Partner Portal – see paragraphs 30 – 32 below. 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.
17. Any bid for capital funding must be submitted by a private sector organisation. Where 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 and receive the loan (see Eligibility criteria section for more information). We would expect evidence of demonstrable support for the scheme from local parties.
18. A single bidder can put forward bids for different sites. Each bid must individually comply with the eligibility 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.
19. The Expressions of Interest form asks bidders to identify the turnover and number of employees of the housebuilding element of the company's business to provide an indication of company size. This will not be a factor in the eligibility or assessment process. The data is sought to allow reporting.
20. The Homes and Communities Agency will consult with local authorities and may share non-financial information with them in order to seek their views on the application and to check the planning status of the project. Other verification, for example site visits, may be undertaken. Where the Homes and Communities Agency's view of likely timing and deliverability (including start and completion dates and the number of homes completed by certain milestones) differs from that of the bidder, the Agency's view will be final.

Shortlisting Stage

21. Shortlisting decisions will be made by the Homes and Communities Agency and the Greater London Authority. The Greater London Authority will lead on the

assessment of expressions of interest as they relate to London sites. The HCA will undertake due diligence, contracting and monitoring on all propositions.

22. Applicants will be notified in writing whether their application has been shortlisted for due diligence. It is anticipated that applicants will be contacted before the end of September 2014.

Due Diligence Stage

23. 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 repay the investment. Applicants will need to satisfactorily complete the due diligence process, demonstrate that their scheme offers the best value for money to the taxpayer and receive formal approval before investment is made.
24. The due diligence review will, in broad terms, consider the following:
 - What **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 fund scheme costs wherever possible 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 **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 **ability of the funding recipient to re-pay the loan and interest or equity investment and contractual profit share in full** – An assessment will be made of the ability to deliver against an agreed start on site, house sales programme and repayments schedule to correspond with this and deliverability of the entire scheme. 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 **level of security** required – investment will not be made without appropriate security being in place to assure full re-payment. Examples include a legal charge, parent company guarantee, performance bond or personal guarantee.

- 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 Agency is to receive security. Applicants should also be prepared to provide details of any other senior lending at the beginning of the due diligence process.

‘Know your Customer’ requirements

25. 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 Agency will require full details of the consortium structure and accounts information for each of the consortium members. Further details of the initial information that will be required at due diligence are included at annex C.
26. A due diligence pack will be issued to all shortlisted bidders which will contain greater detail than summarised here.

Contract Stage

27. Schemes that successfully pass the due diligence stage and achieve formal investment approval will enter into formal negotiations to contract terms before investments are made. Contracts will need to be completed in sufficient time to allow the draw down timetable to be met. The Homes and Communities Agency intends to complete contracts for schemes that pass the due diligence stage as soon as possible after due diligence is concluded and is currently targeting the completion of contracts by no later than 28 February 2015.
28. The interest rate on the loan will be calculated with reference to the European Commission Reference rate and may include a margin reflecting the Homes and Communities Agency’s view of overall portfolio risk or wider considerations. See Annex A for more detail. 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.

Management and Monitoring

29. The Homes and Communities Agency shall include a number of reporting obligations within the contract to allow the appropriate monitoring of the investments by the Agency. This shall include scheme specific financial and delivery related

information, typically on a monthly basis. In addition, the Agency may require corporate level information from the contracting parties throughout the term of the investment.

Who do I submit my application to?

30. All Expressions of Interest for the Builders Finance Fund should be submitted to the Homes and Communities Agency via the Partner Portal at <https://partners.hca-online.org.uk/> by midday on 25th June 2014. The Portal will be available from 14 May 2014. Annex B provides an overview of the information that will be requested through the Expression of Interest.
31. In addition to the Expression of Interest form, an investment proposal should also be attached outlining the delivery plan for the site. The template proposition will be available via the Homes and Communities Agency Builders Finance Fund webpage from 14 May 2014. This must be completed and uploaded for submission via the Partner Portal (see application guidance for further details).
32. Guidance on how to access the Partner Portal and complete the Expression of Interest will be available on the Homes and Communities Agency Builders Finance Fund webpage on 14th May 2014
<https://www.homesandcommunities.co.uk/ourwork/builders-finance-fund>

Further information

33. For further information, please contact the Homes and Communities Agency on 0300 1234 500, email Builders.FinanceFund@hca.gsi.gov.uk or visit its website <http://www.homesandcommunities.co.uk/>

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
CreditWorthiness	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. Final offered rates may be in excess of those illustrated depending on the specifics of the project, the creditworthiness of the borrower, the nature of the proposed investment and security on offer.

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).

Annex B – Expression of Interest – Evidence Required for the Builders Finance Fund

Applicant details:

- Name of organisation
- Contact name
- Contact email address
- Contact telephone number
- Address of organisation
- Company Registration Number
- Details of joint venture or consortium arrangements
- Confirmation of board sign-off
- Confirmation that prospectus has been read and understood
- Confirmation of involvement in any other Builders Finance Fund bids
- Annual turnover
- How many staff are employed

Site details:

- Name and location (including Local Authority area, co-ordinates and postcode)
- Confirmation that a site plan has been provided
- Size of site (hectares)
- Planning status
- Number of units
- Confirmation of applicant's control of site
- Confirmation that the site is not in receipt of funding support from other Government programmes for the same purpose.

Builders Finance 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
- 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:

- Number and tenure of residential units

Financial details:

- Cost profile for development 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

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 supported by a summary development appraisal

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, Greater London Authority or other government organisation has any on-going interest in the site

Investment Proposal:

- Confirmation that funds will be drawn down in full by March 2017 with a proportion of the funds drawn by March 2016.
- All Builders Finance Fund 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 for this will be available on the Homes and Communities Agency's Builders Finance Fund website from 14th May.

Further information:

Further detail of what is required in the Expression of Interest form can be found in the accompanying guidance which will be available on 14th May 2014 on the Homes and Communities Agency's website at

<https://www.homesandcommunities.co.uk/ourwork/builders-finance-fund>

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. Where possible, applicants are advised to prepare due diligence information in advance. Excessive delays in the Homes and Communities Agency receiving due diligence information may result in a scheme not proceeding.

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.