

Kickstart Housing Delivery Unlocking stalled sites

Round two guidance
September 2009

Contents

1 Introduction	3
2 What is the Kickstart Housing Delivery Programme?	4
3 Next steps	5
4 All Kickstart schemes – eligibility and assessment criteria	6
5 Investment Support – description and assessment criteria	9
6 HomeBuy Direct – description and assessment criteria	11
7 Affordable housing – description and assessment criteria	13
8 Bidder and scheme finance	15
9 Application and assessment	16
Annex 1: Regional Housing and Economic Strategies	19
Annex 2: HomeBuy Direct – further information	20

1 Introduction

In the 2009 Budget, the Chancellor announced a £400m package for sites currently unable to proceed, to support the construction of high-quality mixed tenure housing developments, including private, intermediate and social housing. The package included upfront Investment Support for infrastructure and development costs, complemented by support for affordable (intermediate and social) housing and HomeBuy Direct. Under the Housing Pledge, additional monies of up to £660m were allocated to the Kickstart programme in the *Building Britain's Future* announcement in June of this year.

The Kickstart Housing Delivery programme (KHD) is intended to address the difficulties facing stalled sites which are ready to develop (with planning permission in place) by using a combination of the Homes and Communities Agency's (HCA's) investment that best meet the needs of each scheme. Investment Support helps to address shortfalls in development finance arising from current market conditions, packaged together with funding for affordable housing, including affordable rent, intermediate rent, Rent to HomeBuy, New Build HomeBuy and HomeBuy Direct to allow the widest possible range of consumer choice to access the housing being developed.

As well as stimulating housing, we are keen to ensure that new construction maximises opportunities for creating and retaining apprenticeships as well as the use of local labour in the supply chain.

The first bidding round for the Kickstart programme was held earlier this year and at the end of July, a shortlist of 270 projects was announced. These projects have been undergoing due diligence to test assumptions and further explore risk and deliverability before the HCA confirms if it will support each scheme. The level and form of investment to support successful schemes will be announced over the coming months.

The *Building Britain's Future* announcement also signalled that the HCA would hold a further bidding round under Kickstart to support those schemes that could deliver homes up to 31 March 2012.

As with the first bidding round, bidders are invited to submit details of stalled sites on an Expression of Interest template, which is available on the HCA website. There is further information about the second bidding round for Kickstart on the HCA's website, which contains the bid template and a set of completion instructions to help bidders fill in the Expressions of Interest template. In addition, there is a 'Frequently Asked Questions' document, which will be updated regularly as the competition process continues and a dedicated email address – competition mailbox – for bidders to raise any queries.

Bidders are advised to check the Kickstart web page regularly: homesandcommunities.co.uk/kickstart_housing

Bidders are encouraged to discuss individual sites with the HCA regional teams before submitting an Expression of Interest and relevant contacts in each region are provided on the website.

2 What is the Kickstart Housing Delivery programme?

Kickstart provides the means for the HCA to support development and infrastructure costs on an investment basis and offers a way for that support to be invested alongside measures intended to create greater certainty on the demand side including funding for affordable housing and HomeBuy Direct (both of which will follow existing funding structures).

It aims to unlock stalled sites for the development of high-quality, mixed tenure (sale, intermediate and social rented) homes where HCA investment can unlock immediate delivery to facilitate starts on site in 2009-2010 and 2010-2011 and completions in 2010-2011 or 2011-2012.

As with the first bidding round, the HCA is making available:

1. Investment Support for infrastructure and development costs
2. support for shared equity through HomeBuy Direct
3. support for affordable housing.

The different forms of HCA investment can be 'packaged up' to support the development of stalled sites, in a combination of measures that best meets the circumstances of the particular scheme.

What Investment Support funding is available?

The HCA will offer a contribution to infrastructure or development costs for stalled housing projects which have a planning consent as set out in Section 4. This could take the form of a contribution to development costs or towards infrastructure costs, subject to the project's ability to deliver housing starts and completions within the programme timescale (see Section 4). The HCA will seek to recover its investment at an appropriate time and share in any uplift in values if and when market conditions improve.

What is HomeBuy Direct?

Through HomeBuy Direct, purchasers will be offered an equity loan of up to 30 per cent of the purchase price of a property. The equity loan will be co-funded by the HCA and the developer. Potential bidders should note that it is an absolute requirement of the programme that developers must provide match-funding equity. The maximum property price that will be considered for HomeBuy Direct is £300,000.

How will affordable housing be supported?

Funding will be made available to support affordable housing following the existing processes of the National Affordable Housing programme (NAHP). The affordable products which are eligible for support are described in the 2008-2011 Prospectus for the National Affordable Housing Programme which is available on the HCA's website: homesandcommunities.co.uk/national_affordable_housing_programme

3 Next steps

In the following sections, we set out the eligibility and assessment criteria for:

- Applicant and scheme – eligibility and assessment criteria.
- Investment Support.
- HomeBuy Direct funding.
- Affordable Housing grant.
- Bidder and scheme finance.

The application process is described in Section 9.

4 Applicant and scheme – eligibility and assessment criteria

We set out below the factors that will be used to determine both applicant and scheme eligibility and those that will be considered as part of the assessment process for both the Expression of Interest and due diligence stages.

At the heart of the HCA's investment decision-making will be deliverability and value for money. Delivering good quality homes remains as important an aim for the HCA and will also be a key part of the decision-making process.

Our assessment criteria are designed to help us ensure that the homes we fund play an important local strategic role in creating sustainable communities and that the schemes provide opportunities for the creation and retention of apprenticeships and provide local job opportunities as associated benefits of our investment.

Applicant

Who can apply?

Organisations that control land and plan to develop housing can apply. This includes principally housebuilders, developers and Registered Social Landlords (RSLs), although other organisations, such as joint venture partnerships, can apply.

Organisations that have control of land (on a freehold, building lease or building licence basis) that has been disposed of by the HCA (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. Where the land is still in the ownership of the HCA, i.e. it has not been disposed or is not currently under building lease or licence, the organisation is not eligible to bid.

Local authorities are not eligible to apply for Kickstart, as there is a separate funding pot available to local authorities, nor is it anticipated that ALMOs will apply as they are unlikely to own sites which meet the range of criteria outlined.

If you are uncertain as to whether you can apply, you should contact the competition mailbox to confirm your eligibility.

Scheme

The HCA will not fund schemes which would be viable and funded in the absence of HCA investment through Kickstart. We will test this and other eligibility criteria, including the certainty of deliverability within the given timescales, through local intelligence at both the Expression of Interest and due diligence stages.

Eligibility

- We will consider investment in stand-alone schemes or individual phases within larger schemes, in accordance with the timing and delivery criteria below.
- Stalled sites (which could be a stand-alone phase within a wider scheme) will be defined as those where there has been no construction activity on the relevant site or phase since 1 January 2009 (excluding site clearance/remediation, affordable housing delivery construction where it has been possible to progress this in advance of other elements of the site and/or limited activity to implement or maintain a planning permission).
- Sites that have previously received Kickstart funding are not eligible unless the bid is for a subsequent phase.
- The relevant scheme or stand-alone phase should be housing-led (at least 75 per cent of net internal area). Community floorspace required under a S106 agreement can be excluded from this calculation.
- Kickstart is additional funding to the existing NAHP and schemes which could be supported within the existing NAHP alone are not eligible. Therefore, schemes which require only NAHP are not eligible to bid under Kickstart.
- In addition, schemes which require Investment Support funding to meet the costs of affordable housing are not eligible under Kickstart.
- Outside rural settlements, the minimum size of a relevant site or phase is 50 homes.
- The minimum size in rural settlements is 30 homes. Rural settlements are defined as communities with a population of 10,000 or less. The list of rural settlements is available on the Kickstart web page and contained within the Expression of Interest template.
- The HCA will consider smaller schemes (with a minimum size of 15 homes) if they achieve Code for Sustainable Homes Levels 5 or 6.

Timing and deliverability

Eligibility

- Housing will be required to start on site during before 31 March 2011.
- All housing completions must be achieved by 31 March 2012 at the latest, apart from HomeBuy Direct funded units which must be build complete by 31 December 2011.
- The relevant site or phase must have detailed planning consent or be able to achieve detailed consent by 31 March 2010. For those sites without detailed consent at the time the Expression of Interest is submitted, a detailed planning application should have been made.
- All other necessary consents to allow start on site must be in place. There should be no technical, environmental, archaeological or other constraints to the scheme meeting the timescales described above.
- Land should be secured under clear terms (freehold or long lease, or in the case of sites disposed by the public sector, under building lease or licence) at the time the Expression of Interest is submitted.

Assessment

- We will favour those sites that have full detailed consent, with preference then going to those that are closest to detailed consent, potentially using both bidder submissions and local intelligence to assess.
- Preference will also be given to those sites that deliver early starts on site with schemes that start before the end of March 2010 scoring most favourably.
- The timing of potential HCA investment will also be considered in the light of the HCA's programme spend targets which include investment in financial year 2009/10.
- If Investment Support creates additional units after March 2012, these will be considered alongside other benefits.

Value for money

Assessment

- Value for money will be considered for each intervention type – Investment Support, HomeBuy Direct and Affordable Housing – against the value for money parameters of the relevant elements of those programmes.
- Value for money of the total Kickstart package sought for each site will also be considered with preference given to those schemes which offer best value for money on the basis of the Kickstart investment in the round.

Strategic fit, location, tenure and demand

Eligibility

- All HomeBuy Direct properties offered must be additional to any S106 housing, where applicable.
- Schemes will need to include market sale or market rent units (preferably market sale units).

Assessment

- We will favour schemes that contribute to spatial or thematic priorities identified in Regional Spatial, Housing and Economic Strategies. Annex 1 contains weblinks for each of these.
- We will also consider the contribution that schemes make to national, regional and local policies, programmes and priorities.
- Account will also be taken of the location of schemes and their role in their local context, for example, proximity to facilities, transport, etc.
- We will also consider the mix of unit types and the mix of one, two, three bedroom and larger properties provided in the context of the local market and will favour those schemes where the mix corresponds well to local need.
- The tenure mix proposed will need to be considered in its local context.
- Bidders may seek to increase the level of affordable housing (including intermediate tenures, such as LCHO) above the level required under any S106 agreement, where applicable.
- We are concerned to fund proposals where there is a demonstrable market need for the homes that will be built.

Quality and sustainability

We recognise that by definition, some stalled sites will already have achieved or be far advanced towards detailed planning consent and that at the detailed design stage, public investment in these sites was not anticipated. Whilst priority will be given to schemes delivering an optimum number of homes at best value for money, good quality homes remain an important aim for the HCA and will also be a key part of the assessment process.

The HCA will take advice from the Commission for Architecture and the Built Environment (CABE) as part of the design assessment process.

Eligibility

- Where funding is sought for affordable housing, the affordable homes are expected to meet the HCA's Design and Quality standards for affordable housing, including delivery to Code for Sustainable Homes Level 3. More information is available at:
housingcorp.gov.uk/server/show/nav.00100f00200f

Assessment

- For all other homes, priority will be given to those schemes intending to meet high environmental standards, measured by the Code for Sustainable Homes at Code Level 3 and above, with those at Code Levels 4 and above scoring more highly.
- Those schemes expecting to achieve higher scores under Building for Life will be favoured.

Employment

The funding announced in the 2009 Budget and through the Housing Pledge form part of a fiscal stimulus package which, as well as stimulating housing, is intended to create jobs in construction and associated professions. In particular, we are keen to ensure that new construction maximises opportunities for creating and retaining apprenticeships as well as providing local job opportunities. Sites where there is a commitment to using apprentices or the creation of local job opportunities or both will be advantaged, subject to achieving the other criteria outlined above.

Eligibility

- It is an expectation that those who receive funding under this round of Kickstart will have in place or work to offer an apprenticeship scheme and local labour opportunities.

Assessment

- Those schemes which offer more apprenticeships will score more highly.
- Those schemes which maximise the opportunities for local job creation will score more highly.

Existing HCA investment

Eligibility

- Sites already in receipt of First Time Buyer Initiative (FTBI), HomeBuy Direct or NAHP funding are eligible but will be required to demonstrate additionality, i.e. any funding bid must be for additional homes over and above those already in receipt of funding.
- Funding will **not** be available to individual units which are already in receipt of NAHP (i.e. no 'top-ups' will be available).
- HomeBuy Direct funding will only be available for homes which are **additional** to those which received an allocation in the 2008 bid round and not for projects which received HomeBuy Direct funding under Kickstart Round 1, as by definition those are no longer stalled.
- If the HCA (or its predecessors) is an equity/joint venture/housing gap funding investor, each scheme will need to be considered on a case-by-case basis to determine whether any investment under this route would impact on the legal (including European rules) or financial treatment of the existing investment. In such instances, you should speak with your HCA lead contact in the first instance.

5 Investment Support – description and assessment criteria

The HCA will offer a contribution towards the infrastructure or development cost of stalled sites where this is needed as part of a tailored package of investment. The HCA will put in place mechanisms to allow it to maximise recovery of its Investment Support, through loan repayment and interest, equity returns or clawback arrangements.

As part of their Expression of Interest, bidders will be asked to identify the level of the HCA's Investment Support sought. This element of the bid will be assessed on the basis of indicative value for money including:

- Indicative Investment Support as a percentage of scheme costs.
- Cost per unit.

The HCA will favour those schemes which maximise opportunities for recovery of the HCA's investment: through loan or equity.

At the due diligence stage, shortlisted bidders will be expected to provide a development cashflow in a standard form and manage the process on an open book basis with the HCA.

The HCA will review the cashflow to consider factors including:

- the reasonableness of cost, sales value and timing assumptions (including the impact of affordable housing on the cashflow)
- the level of developer equity
- bank debt (and any other investment finance) and security arrangements
- and alternative market scenarios.

Recognising that the sites in question are stalled we acknowledge that contractors may already be appointed. We will expect bidders to demonstrate that costs represent value for money and fair market prices. We will test that costs are competitive. Sales values will be reviewed against local comparators.

HCA investment will not substitute for existing development finance and on all sites, the HCA will want to test that bank loan finance to the scheme has been maximised, that the developer is making an equity contribution and to understand the minimum level of HCA investment needed to kickstart the scheme (subject to a maximum HCA investment as a percentage of scheme costs, see below).

Terms

It is expected that all schemes in which the HCA invests, will be managed on an open book basis.

The HCA will seek to structure its investment in the following ways:

- As a loan repayable to the HCA after senior debt is repaid. The HCA may seek to include provision for swapping debt for equity. The HCA will specify the date by which the loan will need to be drawn down. The HCA will seek to invest up to a maximum of 30 per cent of scheme costs as a loan, subject to value for money.
- Equity investment will also be available. Where the HCA investment matches housebuilder equity, the HCA may take an equity stake and secure its investment as equity with returns shared between the partners proportionately with their investment and risk. The HCA will specify the timing of draw down. The HCA will seek to invest a maximum of 30 per cent of scheme costs, subject to value for money.
- Subject to a thorough viability review, the HCA may consider making gap funding available. Gap funding would only be available to those schemes which offer additional benefits in terms of sustainability or community benefit. Clawback arrangements would be required. The HCA will specify the timing of draw down. The HCA will seek to invest a maximum of 15 per cent of scheme costs, subject to value for money. In appropriate circumstances, we will consider investing more than 15 per cent subject to the HCA's total investment being no more than 30 per cent of scheme costs. Different clawback arrangements would apply in such instances.

The HCA will invest no more than 30 per cent of scheme costs in any one scheme. HCA's liability will be limited to the value of its initial investment.

Resources for gap funding are highly constrained and the HCA will favour those schemes which offer maximum and/or early opportunities for recovery of the HCA's investment.

All of the HCA's rights to recover Investment Support will be secured through a second charge.

Scheme costs will be calculated as the sum of: current land value, infrastructure costs, construction costs, professional fees, S106, sales and marketing, legal costs, any other costs, contingency, non-recoverable VAT, finance charges and overheads. At the Expression of Interest stage, current land value should be submitted as either the acquisition cost plus sunk costs less write downs or the current Market Value of the site, including any sunk costs that have enhanced the value of the site if incurred after the date of the valuation site. All scheme cost assumptions including current land value may be subject to review by the HCA at shortlisting or due diligence stage.

Assessment

Through the due diligence appraisal we will therefore seek to:

- Appraise the scheme on an open book basis.
- Test that bank loan finance to the scheme has been maximised and that the developer is making an equity contribution.
- Identify the minimum funding needed to kickstart the development.
- Consider the most appropriate form of HCA investment.
- Secure potential for recovery of funding through loan repayment, interest, share of returns or clawback.
- Identify the level of Investment Support as a percentage of scheme costs and consider that across the programme, subject to the maxima described above.
- Consider the cost per unit.
- Favour those schemes which offer maximum and/or early opportunities for recovery of the HCA's investment.
- Understand and consider the financial risks associated with the project.

Model agreements for loan and equity investment (the 'Facility Agreement') and gap funding are available on the Kickstart web page, along with associated documents, including the Intercreditor Deed and information about loan rates. These can be found at: homesandcommunities.co.uk/kickstart-round-one

6 HomeBuy Direct – description and assessment criteria

Introduction

Buyers of HomeBuy Direct properties will be offered an equity loan of up to 30 per cent of the purchase price to be protected by an equity mortgage. The equity loan will be co-funded by the HCA and the developer on an equal basis. Bidders should note that it is an absolute requirement of the programme that they must provide match-funding equity.

The maximum property price that will be considered for HomeBuy Direct is £300,000.

Purchasers will be required to raise funding, (a mortgage plus any deposit where available) of at least 70 per cent of the purchase price. The buyer's mortgage loan is secured as a first charge on the property in the usual way and ranks ahead of the equity mortgage.

Both the scheme developer and the HCA will take an equal ranking second mortgage over the property to secure their interest.

The form of equity mortgage is prescribed by the HCA and both the developer and the HCA will lend on substantially the same terms. As with other HCA funded equity loan products, the use of a standardised charge is intended to simplify the conveyancing process, make the product more attractive to mortgage lenders and help with marketing the product to individuals. Each equity loan term is 25 years.

Consumer Credit Act

Consumer Credit Act licences

Successful bidders will be required to hold a current Consumer Credit Act (CCA) licence to participate in HomeBuy Direct. Bidders who do not currently hold a licence must have successfully applied for and received a licence before they receive any HomeBuy Direct funding. Bidders should be aware that the process of application to the Office of Fair Trading (OFT) can take six to eight weeks.

Consumer Credit (Advertisement) Regulations (2004)

Bidders will be required to comply with the advertisement regulations issued under the CCA. Due to the nature of the calculation of redemption of an equity mortgage, it is not possible to provide an APR calculation as prescribed by the Total Charge for Credit Regulations. Bidders will therefore be required to apply to the OFT for a Section 60(3) Direction prescribing the wording that can be used in place of the prescribed APR calculation. In order to provide this the OFT will need to approve the form of equity mortgage to be used.

Our intention in prescribing a standard form equity mortgage based on a format previously approved by the OFT is to ensure that this process is as streamlined as possible.

Applicant eligibility criteria

HomeBuy Direct is targeted at providing support for the first-time buyer market and for those returning to the market as a result of relationship breakdown or families who are overcrowded in their existing homes.

HomeBuy Direct aims to help eligible households who cannot afford to buy a suitable property on the open market without assistance in the area in which they live or work. This may be due to the higher cost of borrowing or other factors. Eligibility will be the same as for other HomeBuy schemes (i.e. households earning less than £60,000 and who cannot otherwise afford to purchase a suitable property on the open market unassisted). Within these broad parameters, priority will be given to social tenants and key workers.

Applicants for HomeBuy Direct will be required to undergo an eligibility check with the relevant local HomeBuy Agent, to ensure they qualify for assistance and to purchase the identified property.

The maximum (total) equity loan which a purchaser will be able to access is 30 per cent. However, the purchaser must maximise the amount of the contribution (mortgage plus deposit) which they can reasonably afford. Where this is the case, the minimum (total) equity loan allowable will be 15 per cent combined with 85 per cent finance to fund the outright purchase, including mortgage borrowing.

Marketing

We recognise that developers have considerable expertise in the area of sales and marketing of newly built homes. However, we are keen to ensure that the customer receives a consistent message about HomeBuy Direct from all participating developers. We will not seek to agree individual marketing strategies, but we have some fundamental parameters that developers participating in HomeBuy Direct will need to meet:

- HomeBuy Direct logo and brand guidelines are restricted for use only in conjunction with the marketing of schemes which have been formally approved for inclusion within HomeBuy Direct.
- Marketing material must include accurate descriptions of HomeBuy Direct. We will provide approved text for use by developers in promotional material.
- Promotional material must not be misleading for the customer.
- There will be an exclusive marketing period of six months after which we may withdraw our funding.

Price

Eligibility

By submitting a bid, bidders will be deemed to be confirming that they will provide match funding equity (up to 15 per cent depending on whether the purchaser can raise the minimum 70 per cent purchase finance, including mortgage borrowing, or more). This will not form part of the bid assessment criteria but is a fundamental requirement of being eligible to bid.

The maximum property price that will be considered for HomeBuy Direct is £300,000.

Assessment

Indicative property prices will be assessed based on their relation to local property prices and to local average incomes. We are seeking to assist a range of households, up to a maximum household income of £60,000. The wider the range of purchasers which can be assisted based on the relation between indicative prices for the properties offered and the income required to support a mortgage on that property, the higher the bid will score.

Terms

It is intended that 50 per cent of the HCA's share (15 per cent of the anticipated equity loan will be paid at start on site, i.e. 7.5 per cent of the anticipated property value. The balance will be paid as individual sale completions to eligible purchasers are achieved, adjusted where necessary to reflect the final equity loan required and the actual purchase price as each sale transaction is completed.

The HomeBuy Direct grant agreement is available on the Kickstart web page.

Where a HomeBuy Direct grant agreement has already been signed, a Deed of Variation will be entered into. This is also available on the Kickstart web page:

homesandcommunities.co.uk/kickstart_housing

Other information

Further information about the operation of and selection criteria for HomeBuy Direct is set out in Annex 2.

The HomeBuy Direct buyer's guide can be downloaded from the HCA website:

homesandcommunities.co.uk/public/documents/HCA_HomeBuy.pdf

7 Affordable housing – description and assessment criteria

Introduction

Kickstart is additional funding to the existing NAHP and schemes which could be supported within the existing NAHP alone are not eligible. Therefore, schemes which require only NAHP funding are not eligible to bid under Kickstart. In addition schemes which require Investment Support to meet the costs of affordable housing are not eligible under Kickstart.

Funding for affordable housing can be provided as part of the Kickstart package, in line with the existing processes of the NAHP. The National Affordable Housing Programme Prospectus for 2008-2011 can be downloaded from:

homesandcommunities.co.uk/national_affordable_housing_programme

The Prospectus explains the policy aims which underlie the assessment of bids, the national, regional and local context, national themes, the products against which bids are invited, the process we will use to assess bids and the criteria we will apply.

Requests for funding can be made for the following products:

- Homes for social rent
- Intermediate rent
- New Build HomeBuy (shared ownership)
- Rent to HomeBuy.

Bidders are strongly encouraged to ensure that they are familiar with each product before they submit their Expression of Interest as all schemes that receive NAHP grant funding through Kickstart **must** comply with the programme's requirements for setting of rents and service charges **before** the grant is awarded.

Detailed guidance is available through the following links:

housingcorp.gov.uk/server/show/conWebDoc.2370

housingcorp.gov.uk/server/show/ConWebDoc.15633

cfg.homesandcommunities.co.uk/intermediate-market-rent-rents.htm

cfg.homesandcommunities.co.uk/nbhb-rents.htm

The key elements of the guidance for each product are summarised below:

- **Homes for social rent**
Rents to be charged must be 'target' (formula) rents from day one of letting, reflecting that tenants will be living in new-build properties built to high standards. Rents are calculated according to a formula based on relative property values and relative local earnings.
- **Intermediate rent**
Rents should be set at no more than 80 per cent of current market rent
- **Shared ownership rents and service charges**
The initial rent must not exceed 3 per cent of the capital value of the unsold equity at the point of initial sale, but it can be less. In setting rents, providers must have regard to the affordability of the total housing expenditure of the residents, i.e. mortgage costs, rent and service charges (that must include the cost of management and insurance). Providers must comply with the Residents Charter and Landlord and Tenants Acts in respect of setting service charges.
- **Rent to HomeBuy**
Rents should be set at no more than 80 per cent of current market rent.

Terms

Payment will be made under standard NAHP terms.

For RSLs who have an existing signed Programme Partnering Agreement (PPA) for 2008-2011, that agreement, including the funding conditions, will apply to any funding for affordable housing awarded via this Kickstart programme. Similarly, where a non-RSL provider has a signed grant agreement for 2008-2011, that agreement will apply to any Kickstart funding awarded for affordable housing (assuming it is on the same basis as the existing agreement, either agreed transfer or the retention model, that the contracting party is the same and the land ownership arrangements with those envisaged in the existing agreement), varied to take account of the delivery timescales for the Kickstart programme.

Bidders should assume that funding can be drawn down 60 per cent at start on site of the affordable units and 40 per cent on completion.

The agreed transfer model will apply where it is envisaged that ownership will transfer to an RSL following completion, who will take on the landlord role and manage the properties. The model agreement for this arrangement is available on the Kickstart webpage. Where such an agreement has already been signed, a Deed of Variation will be entered into. This is also available on the Kickstart web page:

homesandcommunities.co.uk/kickstart_housing

Bidders who will be signing a grant agreement for affordable housing funding with the HCA for the first time under the Kickstart programme are advised that the retention model will not apply. This is where the developer intends to retain ownership of the properties following completion.

8 Bidder and scheme finance

Bidder

Pre-qualification (based on the current NAHP pre-qualification requirements) is not necessary at the Expressions of Interest stage however organisations who are not currently pre-qualified as an Investment Partner – but who bid successfully and are shortlisted – will be required to pass the NAHP pre-qualification tests (including the financial viability assessment) before allocations are made, under all investment routes. Funding will only be awarded to those organisations who have pre-qualified at the point of allocation. The NAHP pre-qualification assesses good standing and analysis of financial standing and financial and technical capacity.

More information about the pre-qualification process can be found at: homesandcommunities.co.uk/national_affordable_housing_programme

It is normally an eight week process and any bidder shortlisted, who is not already pre-qualified would be asked to begin the pre-qualification process as soon as shortlisting takes place. More information about the timing of the application process and pre-qualification process can be found in Section 9 of this guidance.

The HCA reserves the right to further review an organisation's legal standing and technical and financial viability and capacity before making final allocation decisions and to review the volume of investment with any one partner.

Scheme financing

As part of the application process for each scheme, bidders will be required to evidence that loan finance will be in place.

Bidders seeking Investment Support will also be asked to demonstrate that the delivery partner has invested or will invest its own equity in the scheme.

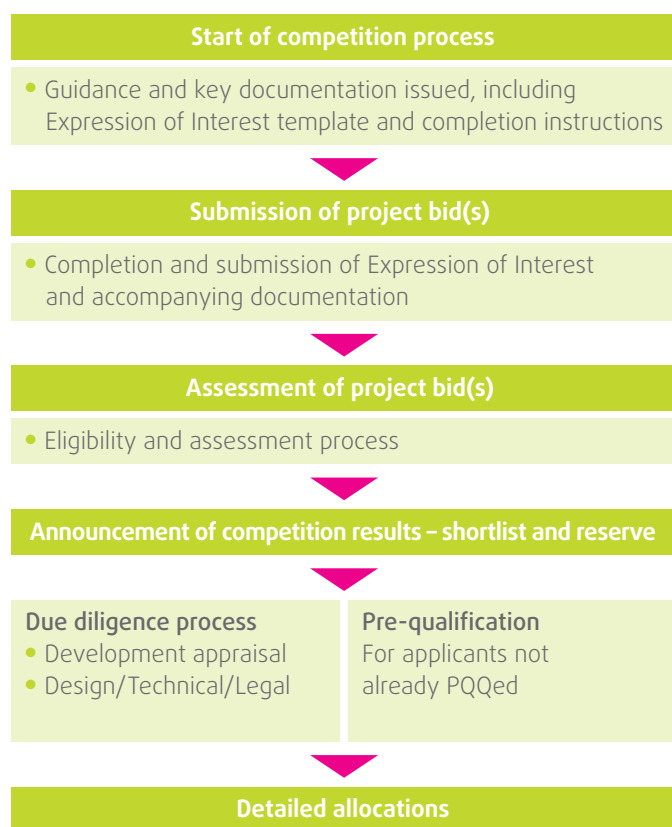
HomeBuy Direct

There are additional bidder requirements under HomeBuy Direct (see Section 6).

9 Application and assessment

Application

The chart below summarises the application process.



Timetable

- Start of competition process – 14 September 2009.
- Submission of Expressions of Interest – by noon on 12 October 2009.
- Assessment process (to include initial due diligence) – October/November 2009.
- Announcement of competition results; shortlist and reserve list – end November 2009.
- Due diligence/contracts – from December 2009.
- Starts on site – from Q4 2009/10 to Q4 2010/11.
- Delivery of completed homes by 31 March 2012 at the latest.

Assessment

At the heart of the HCA's investment decision-making will be deliverability and value for money. Delivering good quality homes remains as important an aim for the HCA and will also be a key part of the decision-making process.

Our assessment criteria are designed to help us ensure that the homes we fund play an important local strategic role in creating sustainable communities and that the schemes providing opportunities for the creation and retention of apprenticeships and provide local job opportunities as associated benefits of our investment.

Expressions of Interest

The Expressions of Interest template is available on the HCA website. Contact details are also provided and any queries should be sent to the competition email address in the first instance.

Expressions of Interest will be reviewed for eligibility against the following criteria:

- stalled site
- relevant minimum number of homes (based on urban/rural/Code for Sustainable Homes level)
- housing-led
- deliverability:
 - control of land
 - planning consent
 - ability to start on site and complete homes within stated timelines
- bid not solely for affordable housing
- HomeBuy Direct being additional to S106 (and where relevant, existing HomeBuy Direct allocations)
- agreement to accept the standard terms in the HCA's contract documentation;
- fit with criteria regarding existing HCA investment
- expectation to have in place or work to offer an apprenticeship scheme
- availability of development finance – Funding Commitment Letter

- HomeBuy direct price – a maximum £300,000. By bidding, it is confirmed that bidders are prepared to put in 15 per cent equity towards the purchaser’s maximum 30 per cent equity loan (see Section 6)

Bids will then be assessed on the basis of:

- indicative value for money:
 - against each of the funding programmes
 - across the total Kickstart investment sought
 - potential recovery of HCA investment
- deliverability:
 - planning
 - start on site and completion dates
 - absence of site constraints
 - demand and competition for homes
 - suitability of scheme (mix of tenures, unit types and number of bedrooms)
- quality:
 - design
 - sustainability
 - apprenticeships and local job opportunities
 - fit with local and regional policy priorities
 - reflecting local context
- timing of HCA investment
- additionality of affordable housing
- criteria relevant to the type of investment sought as outlined in sections 4-8 above.

Projects will be reviewed within the context of the programme as a whole and its strategic aims. The programme will be tested for risk prior to shortlisting and during due diligence.

Due diligence

Shortlisted bids will undergo a technical due diligence review. Those bidders which are not already pre-qualified Investment Partners, should submit their pre-qualification application in parallel (as soon as shortlisting is confirmed) and must have achieved pre-qualification process prior to allocation of funding.

Bidders will be expected to provide the following for shortlisted sites:

- a completed cashflow in standard format
- evidence of planning permission (including S106) and other relevant consents
- up to date Certificate of Title
- evidence of bank (and other investor) development finance and terms (including covenants)
- scheme drawings and Design Statement (as submitted with planning application)
- market assessment (demand and supply)
- Finance Plan
- confirmation of roles of developer, and other partners involved in delivering the scheme, e.g. RSL, bank, contractor
- confirmation of partner roles and responsibilities (including arrangements to own, develop and manage the affordable housing)
- programme – construction and sales

The due diligence stage will include assessment of:

- development costs, receipts, and timing
- funding – debt and equity
- quantum, timing and type of HCA investment sought and potential for return
- value for money against each of the funding programmes and the total Kickstart investment in the site
- design quality
- deliverability
- risk
- HomeBuy Direct bidder requirements (Consumer Credit licence etc)
- if a phase of a larger scheme, that it stands alone financially
- financial and legal issues
- partner roles and responsibility
- criteria set out under Sections 4-8 above.

Contracting arrangements

There will be separate contracts for loan and equity funding (through the 'Facility Agreement'), gap funding, HomeBuy Direct and affordable housing (for RSLs this will be their existing PPA). Model agreements are available on the Kickstart webpage.

Additional information

More information is available on the HCA's website at: homesandcommunities.co.uk/kickstart_housing

The web page will be frequently updated throughout the competition process and bidders should check regularly for updates.

Any queries should be sent to the competition mailbox: KHDcompetition2@hca.gsx.gov.uk.

Annex 1

Regional Housing and Economic Strategies

East of England

Regional Spatial Strategy – <http://www.eera.gov.uk/What-we-do/developing-regional-strategies/east-of-england-plan/east-of-england-plan-2001-2021/>

Regional Housing Strategy – <http://www.eera.gov.uk/GetAsset.aspx?id=fAAxADMANAAYAHwAfABGAGEAbABzAGUAfAB8ADAAfAA1>

Regional Economic Strategy – http://www.eastofengland.uk/com/res/files/RES_Complete.pdf

East Midlands

Regional Spatial Strategy – <http://www.gos.gov.uk/497296/docs/191913/237644/rss8.pdf>

Regional Housing Strategy – <http://www.gos.gov.uk/497296/docs/191913/232488/288818/strategy>

Regional Economic Strategy – <http://www.emda.org.uk/res/docs/RESflourishingFINALA4.pdf>

London

Regional Spatial Strategy – <http://www.london.gov.uk/thelondonplan/thelondonplan.jsp>

Regional Spatial Strategy (draft 2009) – <http://www.london.gov.uk/mayor/publications/2009/docs/london-plan-initial-proposals.pdf>

Regional Housing Strategy (draft 2009) – <http://www.london.gov.uk/mayor/housing/strategy/docs/strategy.pdf>

Regional Economic Strategy – http://www.london.gov.uk/mayor/strategies/economic_development/docs/sustaining_success_full.pdf

North East

Regional Spatial Strategy – <http://www.gos.gov.uk/nestore/docs/planning/rss/rss.pdf>

Regional Housing Strategy – <http://www.strategyintegrationne.co.uk/displaypagedoc.asp?id=365>

Regional Economic Strategy – <http://www.onenortheast.co.uk/lib/liReport/9653/Regional%20Economic%20Strategy%202006%20-2016.pdf>

North West

Regional Spatial Strategy – http://www.nwrpb.org.uk/whatwedo/issues/environment/?page_id=457

Regional Housing Strategy – [http://www.nwrpb.org.uk/downloads/documents/mar_09/nwra_1238084704_09_0120_RHS_Statement_2009_\(Lo.pdf](http://www.nwrpb.org.uk/downloads/documents/mar_09/nwra_1238084704_09_0120_RHS_Statement_2009_(Lo.pdf)

Regional Economic Strategy – <http://www.nwda.co.uk/PDF/RES06v2.pdf>

South East

Regional Spatial Strategy (2006 submitted version) – http://www.southeast-ra.gov.uk/sep_submitted.html

Regional Housing Strategy – http://www.southeast-ra.gov.uk/documents/housing/rhs_2008-11.pdf

Regional Economic Strategy – http://www.seeda.co.uk/RES_for_the_South_East_2006-2016/docs/RES_2006-2016.pdf

South West

Regional Spatial Strategy (2006 submitted version) – http://www.southwest-ra.gov.uk/nqcontent.cfm?a_id=836

Regional Housing Strategy – <http://www.southwesthousingbody.org.uk/media/SWHB/Regional%20Housing%20Strategy/strategy.pdf>

Regional Economic Strategy – <http://download.southwestrda.org.uk/res/general/RES2006-2015.pdf>

West Midlands

Regional Spatial Strategy – <http://www.wmra.gov.uk/documents/RSS%20Full%20Doc%20Jan%2008.pdf>

Regional Housing Strategy – http://www.wmra.gov.uk/Housing/Strategies/Regional_Housing_Strategy_2005.aspx

Regional Economic Strategy – http://www.advantagewm.co.uk/Images/WMES_tcm9-9538.pdf

Yorkshire and Humberside

Regional Spatial Strategy – http://www.gos.gov.uk/497763/docs/199734/199799/689582/1_Y_H_Published_RSS_May_2008.pdf

Regional Housing Strategy – <http://www.yorkshire-forward.com/sites/default/files/documents/Regional%20Economic%20Strategy%202006-2015%20progress%20update.pdf>

Regional Economic Strategy – <http://www.yorkshire-forward.com/sites/default/files/documents/Regional%20Economic%20Strategy%202006-2015%20progress%20update.pdf>

Annex 2

HomeBuy Direct – further information

Valuations and the purchase price

For the first (mortgage) lender's valuation process, valuations must match the purchase price. Each valuation will be carried out by an independent valuer on the basis of market value with vacant possession and will have a shelf life of three months. If a valuation is to be relied on for a period of more than three months after its effective date, the relevant valuer must produce confirmation that the value of the relevant property has not reduced since then, or confirm a longer period of validity of the mortgage valuation at the outset.

Incentives are excluded from the assessment of the market value for the purposes of calculating the amount of equity the HCA will invest (e.g. the investment equity calculation is undertaken on the purchase price after incentives have been discounted).

Incentives are allowable up to a maximum of five per cent of the purchase price. Incentives could include the payment of fees or provision of white goods. Incentives will need to comply with Council of Mortgage Lenders (CML) guidance and not exceed five per cent of the purchase price and therefore impact on the valuation of the property. Developers will also be required to use the CML disclosure of incentives form which is available to download at: cml.org.uk/cml/policy/issues/1223

Charges on the equity loan

For the first five years the beneficiary pays no interest. At the start of year six a low equity charge is levied of 1.75 per cent rising at RPI + 1 per cent per annum.

Future sales or equity loan redemptions

Buyers can redeem their equity loans in full at any time but can only part redeem them (staircasing) after 12 months of ownership. Both equity loans must be redeemed or partially redeemed simultaneously and in equal proportions. The minimum amount for each equity loan redemption will be 10 per cent (5 per cent from each loan). If a buyer opts to sell the property prior to the redemption date (of 25 years), or redeems their mortgage prior to that period (without immediately refinancing) the loan based on the relevant percentage share of the market value at the time becomes repayable in full.

An example of how HomeBuy Direct will work is as follows:

Purchase price	£200,000
Mortgage	£140,000 (70 per cent)
Equity loan	£60,000 (30 per cent) (developer £30,000 (15 per cent) and the HCA £30,000 (15 per cent))

For the first five years the equity loan is rent-free. After 5 years a monthly fee of 1.75 per cent + RPI + 1 per cent is charged against the equity loan.

Sale after five years:

OMV	£250,000 (a 25 per cent uplift in value)
Mortgage repayment	£140,000

Equity loan 30 per cent of OMV split equally between the HCA and the Developer is equal to £75,000 or £37,500 each).

Remainder available to the purchaser to use as a deposit £35,000 for their next purchase.

We recognise that the value of homes can also fall. It is intended that the HCA and the developer via their respective equity loans, will share the equity depreciation as well as to benefit from any appreciation. As the equity loans take effect as second charge, the first lender will always recover up to the full amount due under its loan before the second chargees have any rights to the proceeds of the sale. In circumstances where house prices have fallen since the initial purchase, HomeBuy Direct provides an extra cushion for the homeowner against negative equity. It is the HCA's policy that HomeBuy Direct mortgages will be released upon sale of the property provided the borrower is in compliance with the terms of the mortgage, notwithstanding the fact that in a falling market the proceeds of sale may not be sufficient to repay the full value of the outstanding percentage. We believe that this offer will make HomeBuy Direct attractive to eligible purchasers and stimulate demand for available new build homes selected via the competition process.

Role of HomeBuy Agents

HomeBuy Agents will act as a filter to ensure that buyers meet eligibility criteria. They will review applications from potential buyers and determine whether applicants meet the criteria.

Additionally, HomeBuy Agents will carry out an affordability check to determine whether applicants are able to afford and sustain home ownership in the long-term. The financial check HomeBuy Agents undertake centres on an affordability calculation using net income and applies a maximum cap of 45 per cent for housing costs as a proportion of net available income. We believe that this approach provides a robust assessment of an applicant's ability to afford and sustain home ownership in the long-term.

Following application and eligibility approval, HomeBuy Agents will also issue the necessary authorisations (e.g. authority to exchange contracts) to the purchaser and their solicitor and have oversight of the sales conveyancing process.

Eligible purchasers are strongly encouraged to take independent financial and legal advice and will be offered contact details for relevant professionals when they make their application. However, HomeBuy Agents will have the final say in determining whether a buyer is deemed to be able to afford and sustain home ownership longer term as a result of its own checks.

As outlined below, we expect successful developers to take the lead in the marketing of individual schemes approved for HomeBuy Direct. HomeBuy Agents will continue to play a role in supporting the overall marketing effort, in the same way as they currently do with the other HomeBuy products including the FTBI. This includes the provision of general information about the products on offer and providing information about the sites available for each of the products.

The National HomeBuy Agent will collect the interest charges for each of the equity loans (for example both the HCA and the developer) and deliver after sales services.

The Homes and Communities Agency is able to provide literature in alternative formats including large print, braille and audio.

Please contact us on 0300 1234 500 or by email at mail@homesandcommunities.co.uk for further information.



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