



Homes &
Communities
Agency

Rent to Buy 2015 to 2017

BIDDING PROSPECTUS

September 2014

Rent to Buy

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Ministerial Foreword



I am very pleased to launch this exciting new fund to build more housing. The Rent to Buy Fund will give hard working people a springboard onto the property ladder without having to pay an expensive cash deposit when they move in. Under the scheme, Government will offer low cost loans to providers to build homes to be let at sub-market rent for a minimum of 7 years to households who have never owned a home before. The tenants can then use this fixed period of support to achieve their aspiration of home ownership, either by buying the home they are renting or another one.

The loan funding means we can invest more money, build more homes, and help more people along the path towards owning their own home. The fund complements our other investments in housing, including grant funded affordable homes, housing debt guarantees and Help to Buy. This expands the range of products we can offer to meet the diverse housing needs of households across the country.

I encourage all housing providers to look carefully at how this new fund could work within their development plans to help more households achieve their dream of a home of their own.

A handwritten signature in black ink, appearing to read 'Brandon Lewis', with a long horizontal flourish extending to the right.

Brandon Lewis, Minister for Housing and Planning

Chapter 1: Overview of the fund

Aims of the fund

1. This prospectus invites bids for £200 million of loan funding for homes to be delivered outside London. A further £200 million has been made available to deliver homes in London through a separate programme administered by the Greater London Authority. The fund will support working households who have not owned a home before to achieve their aspiration of home ownership through a fixed period of sub-market rented housing.
2. The fund will offer loans at a fixed interest rate to private providers registered with the Homes and Communities Agency to deliver new homes which achieve completion no later than 31 March 2017.
3. Homes built with the funding must be let at an Affordable Rent – that is at up to 80% of market rent – for at least 7 years. After this initial 7 year period, the requirement to hold the property at Affordable Rent will continue to apply until the loan is repaid.
4. The loan will be repayable no later than 16 years after initial draw down of the funding. Providers may choose to repay the loan at any time before this, but in any case they must retain and let the homes for Affordable Rent for a minimum of 7 years after completion. If the landlord seeks to sell the property at any time after the original seven years, the tenant should have a right of first refusal (to buy at open market value). At any time after the minimum seven year letting period, tenants should in any case be able to put in a request to buy their home; and we would expect the landlord to agree to sell it (at market value) unless there were clear business reasons for not doing so at that stage. In particular, the landlord would not be required to sell if the market value was lower than the cost to the association of providing the home (including financing costs).

Bidding route

5. This Prospectus invites bidders to submit bids for loan funding to the Homes and Communities Agency. The bidding requirements are set out in Chapter 3. The Homes and Communities Agency will commence assessment of bids received from 12 November 2014 on an ongoing basis.

Chapter 2: The funding model

1. The funding will be in the form of loans at a uniform, fixed interest rate for all successful bidders. The loans will have a fixed low rate of interest for the first 8 years. Interest rates will then rise gradually over the remainder of the loan period.
2. We currently expect to offer loans at the rates set out in the table below. The rates will apply from drawdown of the first tranche of loan funding. However the Agency reserves the right to change the rates offered under this programme.

Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15	Y16
1%	1%	1%	1%	1%	1%	1%	1%	1.25%	1.5%	1.75%	2%	2.25%	2.5%	2.75%	3%

3. The funding will be limited to a minority of the development cost of the new homes. Eligible expenditure will include land, construction, fees (including project management), planning costs, finance and fit out. Management and void costs post completion are not eligible costs. The Homes and Communities Agency expects providers to maximise value for money by bearing down on the costs of new supply. This will increase the number of new homes that can be delivered through the programme.
4. As one of the aims of the programme is to stimulate the supply of new housing, all properties eligible for funding must be new build. Homes that are acquired or brought back into use will not be eligible for funding.
5. Bidders are expected to submit competitive bids for the funding and will be required to set out the contributions they can make from their own resources (including other sources of borrowing) to support their proposals to deliver homes under this programme and maximise new supply through the programme.
6. Homes funded under the Homes and Communities Agency's grant funded affordable housing programmes or the Government's Affordable Housing Guarantee scheme are not eligible for funding under this programme. However, subject to offering good value for money, homes supported through this programme may be part of larger schemes that include homes benefitting from other forms of government support, providing expenditure that has already received funding support is excluded from eligible costs.
7. Agreement for providers to charge Affordable Rent for the new properties which are the subject of successful loan applications under this programme will be given through signing a contract with the Homes and Communities Agency. This programme will not be supported by increased financial capacity through the conversion of existing stock to Affordable Rent.

Payment

8. Payment of the loans will be on a per scheme basis. For existing registered providers, we will pay 50% of the loan funding at start on site and 50% upon practical completion (except for schemes procured under off the shelf contracts). Separate start on site and completions payments are not available to any bidder as yet unregistered who will be paid 100% of the funding at practical completion, subject to securing registration with the regulator. It should be noted that the registration process is subject to rigorous independent scrutiny by the regulator and will be a condition precedent on counterparties for drawdown of the funding

Chapter 3: Bidding requirements and assessment

1. The Homes and Communities Agency is inviting bids through this prospectus for up to £200 million of loan funding to build homes to support working households to achieve their aspiration of home ownership. At the point the provider decides to sell the home to repay the loan, the tenant will have the option of buying the home at market value.
2. Bids are only invited for named, firm schemes across England (outside London). Bids for firm schemes must include (alongside the scheme cost and unit data):
 - the name of the scheme
 - the x,y co-ordinates
 - details of ownership or control by the bidder (for example, ownership of the land, or an option)
 - planning stage reached (for example, planning application submitted/outline planning achieved/detailed planning achieved)
 - tender stage reached (for example, scheme tendered/contractor selected/contract signed)
3. Forecast dates for start on site (and completion) will be taken into account in our assessment of deliverability. Schemes with earlier delivery dates will be advantaged in assessment. We will expect forecast delivery dates for schemes which receive allocations to follow through into the contracted position as contracts are signed, and will reserve the right to withdraw any allocation offered where there is significant delivery slippage.
4. We do not undertake to allocate to bids in their entirety. Assessment will consider each individual named, firm scheme.

Credit risk assessment

5. Funding for the programme is in the form of a repayable loan. In order to allow us to offer a uniform, low interest rate to all providers, successful bidders will need to provide a very high level of assurance that they will be able to make all required payments on the loans, including repayment of principal and payments of interest. The Homes and Communities Agency reserves the right to use any relevant information in assessing the risk of default from individual providers, and from the overall programme.
6. This credit assessment will require the submission of the following information in order to form a compliant bid:
 - summary of the proposed delivery structure and cash-flows for the project
 - confirmation of specific entity(ies) that will act as contracting party
 - details of the ownership of the proposed contracting party (including identity of any intermediate and ultimate parent companies, companies under common control and ultimate owners)
 - group structure diagram (where applicable)

- most recent filed accounts for applicant; and Copies of draft statutory or recent management accounts (where the balance sheet date in the filed accounts supplied is more than 6 months ago)
7. This information should be submitted to RenttoBuy@hca.gsi.gov.uk as part of the bid in order for a bid to be compliant.
 8. The Homes and Communities Agency will seek assurance from the social housing regulator that individual providers are likely to remain compliant with the viability element of the Governance and Financial Viability standard if their bids are successful (see paragraphs 29 to 34 for more detail on the role of the regulator).
 9. The Homes and Communities Agency reserves the right to request further information or assurances from bidders about payments. Funding agreements will include requirements for collateral security on assets, which we would typically expect to be set in line with standard commercial security agreements.

Assessment of schemes

10. Bids are invited for schemes which:
 - offer good value for money, taking account of both the loan requested and anticipated costs, as well as the extent to which bidders have applied their own resources
 - have a good and demonstrable prospect of delivery within the programme timeframe
11. Our assessment of schemes bid for will take account of the extent to which bids meet these parameters. Value for money and deliverability will be given equal weighting within this assessment.

Value for money

12. The Homes and Communities Agency will assess bids to establish whether they offer value for money compared to other bids and bidders. Our assessment will take account of the amount of the loan requested and the costs of provision. We will use the metrics outlined below to identify outliers (based on loan amounts or costs of provision compared to bids from other providers) to ensure that we can understand the reasons, if any, for those outliers.
13. The primary metric for assessment of value for money will be the amount of loan funding requested per dwelling, compared to the operating area average (and the national average) of the bids received. In general, lower loan requirements will score more highly.
14. Indicators that will form a part of our assessment scoring are
 - government loan funding per home compared to the overall operating area average (used in assessment of value for money)

- government loan funding per home compared to the national average
- government loan funding as a percentage of total scheme cost (note that a low total scheme cost driven by low build cost is welcomed, not penalised)
- works cost per m² compared to the area average (used to identify outliers)

15. The value for money calculations will only consider the government loan funded units to be provided for Affordable Rent. No account will be taken of other units delivered alongside these as part of schemes.

Delivery

16. The Homes and Communities Agency wants to encourage bidders to bring forward schemes which can be built out quickly. We want to minimise the risks presented by a heavily back loaded programme and we will aim to do so by advantaging bids in our assessment that can demonstrate both starts and completion of schemes in the early part of the programme. It is expected that forecast delivery dates will be carried through to the contracting and delivery stages. Significant slippage against forecast dates may result in an allocation being withdrawn and the funding re-allocated. The contract will contain provisions which allow for this.

17. The Homes and Communities Agency's assessment of deliverability will take account of the level of planning achieved, where having already achieved full planning permission will be advantaged in our view of deliverability.

18. The status of land ownership will also feed into the assessment, with schemes being proposed on land already in the provider's ownership scoring more highly.

19. Our view of deliverability will therefore be formed on the basis of planning status and land ownership.

20. Our view of the realism and the robustness of early delivery forecasts will be informed by evidence of good delivery against forecasts for bidders who received allocations through our grant funded affordable homes programmes.

Meeting local needs

21. The homes delivered through this programme will be additional to the housing delivered through our grant funded affordable housing programme, and is housing that may become available for market sale or rent in due course. As such, we would expect local authorities to consider the overall contribution this housing could make to meeting local housing needs, both in providing additional housing at a sub-market rent for a limited period, and in contributing to the wider supply of housing over the longer term.

22. The Homes and Communities Agency will consider bids for funding the development of homes that are being delivered as part of a developer's section 106 contribution where it can be clearly demonstrated that funding such bids will provide additional homes and offer good value for public money. Where funding for such schemes is sought, we will test the economics of individual schemes through our development appraisal tool. We reserve the right to request other information to inform our decision making if necessary.

More detail on the Homes and Communities Agency's development appraisal tool can be found [here](#) on its website, as can the tool itself.

Programme building

23. All bids will be ranked at operating area level based on our assessment of value for money and of deliverability. Taking account of available funding and the number of homes to be delivered, this will lead to a proposed initial list of schemes for each operating area.
24. Changes to the initially ranked programme to remove specific bids may be made where the proposed programme is considered to lead to an oversupply of a particular type of provision in an area, or lead to an enhanced delivery risk due to over-dependence on one or a small number of providers.
25. The credit risk assessment will then consider the counterparty risks from individual bidders and the risks from the overall portfolio of bid schemes. The aim will be to build a balanced programme that achieves the maximum possible value for money and good prospects of delivery.

Clarification

26. We expect bidders to submit their best bids at initial bid stage. In a small number of cases we anticipate that, during assessment, there may be a need for discussion and clarification with bidders. Where required, such discussions will be held with bidders across their proposed areas of operation, led by a Homes and Communities Agency contract manager. The Homes and Communities Agency may request bidders to submit revisions to bids and/or further information before offers of allocations can be finalised and contracts entered into.
27. Homes and Communities Agency operating area teams will undertake this dialogue with bidders as appropriate. Dialogue with bidders may take the form of individual meetings, telephone or email communication. The Homes and Communities Agency reserves the right to choose whether to seek further clarification from bidders at its absolute discretion.
28. However, bidders should note that our expectation is that they will submit their strongest bids at the outset. Doing so will enable early agreement of allocations. Where there is a need for additional clarification, this may lead to bids being rejected if assessment cannot be concluded within a reasonable timescale.

Role of the regulator

29. The credit risk assessment will take account of information in judgements published by the regulator on registered providers' performance against the Governance and Financial Viability standard.

30. The regulator will consider the impact of a provider's bid and proposed programme and provide advice to the Homes and Communities Agency's investment team on whether the registered provider(s) involved in delivering the bid are:
- currently in compliance with the regulator's Governance and Viability standard. This will reflect the regulator's current assessment of compliance and will not be based on information submitted as part of the bids; and
 - likely to be able to continue to meet the viability element of the Governance and Viability Standard if the full bids submitted result in allocations, taking account of the impact in addition to any existing programme agreement
31. The Homes and Communities Agency will take account of this advice in considering whether to proceed to invest and contract.
32. The regulator's assessment of the impact of bids recommended to go forward for allocation will need to consider the full impact of bids to both the HCA and GLA and neither can be judged in isolation from the other.
33. Sale of properties once the loan is repaid will require the regulator's consent under Section 172 of the Housing and Regeneration Act 2008. Where there is a planned programme of disposals providers can agree a 'programme approach' to obtaining consent rather than requiring consents for individual properties. Where the regulator has power to consent, and has not given a general consent, it will consider each individual application on its merits and will not unreasonably withhold consent. Current consent arrangements are set out in the regulator's publication Disposing of Land.
34. The regulator will work with the Homes and Communities Agency and Department for Communities and Local Government to set out the regulatory parameters that will apply to the scheme and the other specific flexibilities set out in the prospectus, such as conversion of properties to market rent.

Chapter 4: Provider and programme requirements

Who can bid?

1. This bidding round is open to private registered providers who meet the regulatory standard on governance and viability at the date their bid is submitted, or unregistered providers who intend to register and be the landlord of the funded schemes by the time the scheme is complete. Regulatory judgements on Governance and Viability, and a track record in delivering affordable housing, will provide key evidence in assessing risk in this pilot programme. This will allow us to offer all successful bidders a uniform, low rate of interest on our loans.
2. As this is a recoverable investment programme, and therefore classified as a financial transaction, local authorities and bodies classified to the public sector are not eligible to bid.
3. Bidders who intend to be the landlord of all completed properties must be registered providers or intend to become registered providers. Full details of how to register are available on the Homes and Communities Agency's [website](#).
4. Providers should note the indicative timescales for registration included in the regulator's guidance are for illustrative purposes only and timescales can be longer or shorter depending upon the volume of applications being processed at the time of application. Providers will need to demonstrate as part of their bid that they are likely to achieve registered provider status within a short timescale to ensure that they will be able to achieve delivery of new supply within the timeframes envisaged. Bidders that are considering whether to register to become registered providers of social housing are encouraged to talk to the regulator's registration team at the earliest opportunity.

Investment partner status

5. Existing Homes and Communities Agency investment partners are not required to submit a new qualification questionnaire. Investment partner performance is reviewed annually and those already qualified through the 2011 to 2015 Affordable Homes Programme will have their partner status confirmed for the current financial year which is subject to a review of the outcome of delivery performance in 2013 to14.
6. Organisations that are not already qualified as investment partners with the Homes and Communities Agency will need to submit an application for qualification. Assessment of applications for investment partner status considers an applicant's financial and technical capacity to undertake an agreed programme of new supply, and the organisation's good financial standing. Providers must have achieved Homes and Communities Agency investment partner status before payment under a completed contract can be made.

Information requirements

Bid information

7. Providers must submit their bids using the Homes and Communities Agency's Investment Management System. New bidders are able to apply for IMS access by telephoning our IT service desk 01908 353604 or emailing our service desk at servicedesk@hca.gsi.gov.uk.
8. Bids must include the minimum scheme information requirement set out in paragraph 2 of Chapter 3, for each scheme. All bids and proposals must outline the estimated scheme costs, and the amount and sources of funding (including the loan funding requested) to meet those costs. All bids and proposals should outline the anticipated, realistic timing of delivery (expected month of start on site and completion) and be fully supported by the information requirements for the credit risk assessment as set out in Chapter 3, paragraphs 6 and 7.
9. The level of information requested is intended to help the Homes and Communities Agency:
 - allow comparison of provider bids (particularly comparative value for money) and provide assurance that the cost of delivering new supply can be met from the range of funding sources proposed
 - test that proposals are realistic and deliverable
 - establish that proposals are clearly additional to plans needed to achieve delivery of existing agreed programmes
 - test creditworthiness and risk

Registered provider board approval

10. We expect registered providers to confirm that their boards have approved, at least in principle, the bid submitted. A copy of the relevant board paper and minute will be required to confirm this and should be submitted directly to the regulator.
11. Providers who are *not* registered with the regulator who need to become Homes and Communities Agency's investment partners will need to submit a qualification questionnaire which tests prospective partners for technical ability to deliver, financial ability to deliver and the financial standing of the provider. The Homes and Communities Agency as part of its financial assessment will require the last 2 years audited financial statements if available and any other information necessary to gain comfort as to the provider's financial standing and ability to deliver.
12. For registered and unregistered providers, the Homes and Communities Agency reserves the right to make additional financial checks and request further financial information if necessary.

Affordable Rent

13. Homes funded under this programme must be let at Affordable Rent for at least 7 years and until the loan funding is repaid (not later than year 16). Providers must adhere to the Government's policy on Affordable Rent which sets out that the rent level should be no more than 80% of gross market rent (service charge inclusive) based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors. Gross market rents are generally expressed inclusive of any service charges. An Affordable Rent, set at up to 80% of the gross market rent, should take account of the service charge for a property (where applicable). In establishing whether the rent to be charged is 80% of the gross market rent, the individual characteristics of the property should be taken into account, such as its location and size.
14. Providers will be required to assess the market rent (using the definition of the International Valuations Standard Committee as adopted by the Royal Institution of Chartered Surveyors) that the individual property would achieve and set the initial rent at up to 80% of that level (inclusive of service charges).
15. There are some circumstances, however, where the target social rent could exceed 80% of market rent. Under the terms of affordable rent, where the target social rent for a property (based on the social rent formula) exceeds 80% of market rent, the affordable rent for that property is set in line with the target social rent. Otherwise the Affordable Rent would be lower than the social rent. This is fairly rare, and tends to occur in areas with low market rates. Where this is the case bids should indicate that these are Affordable Rent properties to which the target rent "floor" has been applied. The Homes and Communities Agency reserves the right to test the calculation used for rents in such circumstances.
16. For more detail on the Affordable Rent product providers are directed towards the [Affordable Rent chapter](#) of the Affordable Housing Capital Funding Guide which includes details on rents to be charged and tenancy arrangements.

Rent Policy

17. The Government has consulted on a formula for annual rent increases from 2015 to 2016 onwards of Consumer Prices Index + 1 percentage point each year for 10 years. Bidders should bid on this basis.
18. Landlords of Affordable Rent properties are required to rebase the rent on each occasion that a new tenancy agreement is issued (or renewed) for an Affordable Rent let (except where the property is re-let to the same tenant as a consequence of a probationary tenancy coming to an end). This requirement, which overrides the annual rent increase limit, is designed to ensure that the rent set at the beginning of each new tenancy is no higher than 80% of the market rent. For further details on Affordable Rent please refer to the Affordable Housing Capital Funding Guide [Affordable Rent Chapter](#).

Chapter 5: Contract and programme management

1. As set out above, bids which offer early (and certain) delivery of starts and completions will be prioritised in assessment. In all cases, delivery timetables set out at bid stage will be expected to be carried through into the contracting and delivery phase of setting up the programme. Where there is significant slippage compared to bids (which will have influenced assessment and allocation decisions) we may withdraw an allocation, and intend to ensure that the contract will allow for this.
2. Changes in the range of contract parameters will be dealt with through quarterly reviews with each provider. Quarterly contract reviews will consider actual delivery achieved and a forward look at new supply proposals to be delivered and anticipated. Data will be provided on an open book basis. A strategic review of the operation of the contract will be undertaken, jointly with providers, on an annual basis.
3. It will not be possible at any stage during the programme period to respond to changes in scheme parameters by increasing the amount of funding for a scheme. If additional funding is needed - for whatever reason - such additional funding would have to be generated from a provider's own resources or capacity (where that is achievable without adversely impacting their financial viability).

Contract

4. Providers will be required to enter into a standard form contract with the Homes and Communities Agency. Annexes to the standard form contract will record the anticipated outputs. This information will be taken from the information on the Investment Management System at the point at which allocations are confirmed.

Reporting and information requirement

5. These will be outlined in the standard form of contract and will include, as a minimum, requirements to report on forecast and actual delivery, and to keep forecasts up to date, as well as to provide relevant cost and output information and details for each scheme.
6. As part of the investment portfolio management providers will be required to submit quarterly monitoring returns.

Chapter 6: Timetable

Milestone	Date
Launch of bid round and Investment Management System open	September 2014
Ongoing clarification and assessment of bids received	From November 2014
Allocation of funding to bidders	From January 2015

homesandcommunities.co.uk
mail@homesandcommunities.co.uk
0300 1234 500



Homes &
Communities
Agency

Homes and Communities Agency

Fry Building
2 Marsham Street
London SW1P 4DF
RenttoBuy@hca.gsi.gov.uk

The Homes and Communities Agency is committed to providing accessible information where possible and we will consider providing information in alternative formats such as large print, audio and Braille upon request.