

**BUILD TO RENT PROGRAMME
ROUND 2 – MARCH 2014**

**DUE DILIGENCE
DDD3 – Standard Monthly Cashflow
User Guide / Completion Instructions**

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1. INSTRUCTIONS FOR COMPLETION

1.1 PURPOSE OF THE DOCUMENT

The HCA has notified those applicants whose projects have been shortlisted to enter the detailed due diligence phase. Applicants for shortlisted projects have been sent a Due Diligence Pack (the Pack). The submission must be accompanied by a Standard Monthly Cashflow (SMC), completed by the bidder using the HCA standard model.

The SMC is intended to inform the HCA and its advisors of the current financial position and detailed make up of the development and seeks to capture all the required information necessary to enable the HCA to assess the applications and compare across the various schemes submitted. The finalised cashflow at the end of the Due Diligence process will also form part of the legal agreement for projects seeking loan and equity investment. This document is intended to provide guidance to those completing the SMC.

1.2 RESPONSES

Applicants should read all instructions contained within the Pack, this document and the SMC itself carefully before completing the spreadsheet. Failure to comply with these requirements for completion and submission may result in a rejection of the application.

Applicants must ensure that they fill in the SMC in full and in the format prescribed. If any supporting documentation is considered essential for HCA to understand the financial model of the development then this must be provided at the same time as the SMC and must be clearly referenced from the SMC. The HCA reserves the right to seek further information from respondents to clarify figures and calculations.

1.3 CHANGES TO INFORMATION

Applicants should notify their HCA Area Lead Officer of any changes to the information provided as part of the SMC as soon as they become aware of any changes. The HCA reserves the right not to accept any changes.

1.4 QUERIES AND REQUESTS FOR CLARIFICATIONS

In order to treat all applicants equally, all enquiries relating to the completion of the cashflow and requests for clarification should be addressed in writing only. Queries should be emailed to the competition email address btr.cashflow@hca.gsi.gov.uk

1.5 TIMETABLE AND FORMAT OF RESPONSES

HCA requirements for submission are set out in the Due Diligence Pack.

1.6 ELIGIBILITY OF APPLICATIONS

HCA requires completed SMCs in relation to all projects on the shortlist.

1.7 CONFIDENTIALITY

- The Freedom of Information Act 2000

The HCA is one of the authorities subject to the provisions of the Freedom of Information Act 2000 ("the Act"). The Act provides for information to be exempt from the general right of access if its disclosure would, or would be likely to, prejudice the commercial interests of any person. An applicant may request that certain information in their bid and any subsequent Agreement is treated as covered by this exemption. However if the information is requested the availability of this exemption will be subject to a test of whether the public interest lies in disclosing the information or keeping it confidential.

- How to request commercial confidentiality

Requests for information to be treated as commercially confidential should accompany the applicant's completed submission and must include clear and substantive justification together with a time limit after which such information may be disclosed. An applicant should make sure any information that is considered to be commercially confidential is clearly marked as such and kept separate from the rest of the submission. An applicant should be aware that while the HCA will endeavour to take into account its views as to the keeping of information confidential, it reserves the right to disclose information if required to do so.

- Data protection

The applicant and the HCA will co-operate with one another to enable each party to fulfil its statutory obligations under the Data Protection Act.

1.8 ACCURACY OF INFORMATION

It is the applicant's responsibility to ensure that all the information supplied in their response is up to date and accurate. In the event that the HCA enters into a contract or formal agreement with the respondent, the figures and information given by the respondent will be binding on the respondent and any misrepresentation by the respondent may lead to termination of the contract or agreement.

1.9 COST OF RESPONDING

The HCA will not be liable for and will not reimburse any costs associated with the Due Diligence Submission.

1.10 DISCLAIMER

This document is strictly confidential and is for use only by persons to whom it is issued. This document is being provided to you solely for information purposes. This document does not constitute part of, and should not be construed as an offer, nor shall this document nor any part of it nor the fact of its distribution form the basis of or be relied upon in any way in connection with any contract or commitment whatsoever, nor shall its issue be taken as any form of commitment on the part of the HCA to proceed with any transaction.

2. FORMAT OF SPREADSHEET

There are three versions of the SMC model as follows:

- A single spreadsheet for single site propositions;
- A multiple spreadsheet model with individual site input sheets and an aggregate proposition summary/ funding analysis sheet

The latter of the above comes in two versions – one for 2-5 sites and one for 6-10 sites.

The HCA will use the model as both a means of collecting data from applicants and also as an analytical tool.

Applicants should **insert site level costs and revenue information in the relevant Input Sheet.** **Input sheets may be renamed to reflect details of the particular site.** The 'Aggregate' sheet is automatically populated from formulas linked to the 'Input Sheets' to aggregate total costs and revenues and determine an overall programme funding requirement. Details of the proposed funding package (bank debt, developer equity and HCA funding) should be inserted here to demonstrate the overall financial viability of the scheme.

3. SCOPE

The inputs to the input cashflow should relate to the scheme or relevant phase which is the subject of the bid. For mixed use/ tenure schemes costs and revenues associated with each use/ tenure type should be clearly identified where practical (e.g. construction cost per unit). Where this is not practical HCA will assess the apportionment of costs (e.g. infrastructure, professional fees or site purchase costs) on an appropriate basis to determine eligibility for funding under the BTR scheme.

In the event that the bid relates to a phase within a wider development, the SMC should be completed for the phases from which BTR funding is to be recovered.

4. INPUT DATA

The Applicant is required to input the following data within the Input Sheet for each individual site:

Site Information (rows 9-14):	Development Title Development Company / Owner Site Location Gross Site Area (hectares) Gross BTR Area (hectares) Net (developable) BTR Area (hectares)
Development Costs (rows 23-38):	Land Acquisition – Purchase date and Price Land – Latest Valuation – Valuation date and amount Other Acquisition Costs Planning Fees Section 106 Infrastructure Abnormals Landscaping & Public Realm Car Parking Other
Construction Costs	Completions Phasing (analysed by units for sale, rent or affordable units)

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(rows 47-85):	Base Residential Construction Costs by Residential Tenure Commercial Construction Costs with descriptions and areas Preliminaries Construction Professional fees
Sales, Letting and Management Costs (rows 93-96):	Residential Sales, Marketing & Legal Fees (units for sale) Commercial Sales, Marketing & Legal Fees Letting fees (for private rented units) Ongoing portfolio management and operating costs (for private rented units)
Other Project Costs (rows 102-106):	Project Contingency Non-recoverable VAT Developer and Company Overheads
Revenues (rows 118-169):	Sales Phasing (i.e. numbers of units sold per month) Lettings phasing (i.e. number of units let per month) Sales Revenue Phasing by Residential Tenure Lettings revenue phasing for private rented units Commercial Revenues with descriptions and other details Other Car Parking income and number of spaces Ground Rents income and number of units Other Public Subsidy

In addition to the site specific input data outlined above the Applicant should complete rows 196-223 of the Aggregate Sheet to demonstrate how the overall proposition will be funded. The relevant information comprises:

Finance & Gearing	Debt Drawdown (principal amount) Interest and finance costs incurred to date Total interest and fees to project completion – including annual interest rate on debt Debt repayment
Developer Equity	Equity Drawdown Equity Repayment
HCA Funding Assumptions	HCA Loan – including anticipated interest rate HCA Equity

Timing: The cashflow starts in March 2013. Costs incurred and revenues received to date should be shown in the 'To Date' column.

5. INPUT SHEET

It is assumed that applicants will generally have their own development appraisals for the schemes seeking BTR funding support. Applicants are asked to directly input forecast expenditure and receipts into the Input Sheets, based on their own projections and phasing assumptions.

If applicants are unable to fully complete the SMC Input Sheets in the prescribed format, they should complete it as fully as possible and provide details of the assumptions used in completion.

The model uses colour coding to indicate the category of the spreadsheet cells:

- Grey cells signify cashflow inputs to be hard inputted by the applicant.
- Blue cells signify non-cashflow inputs (such as the number of car parking spaces).

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- Yellow cells signify comment cells, where the applicant should comment as required upon the approach they have taken and assumptions they have made in completing the Input Sheet. Please use these boxes to provide more information about underlying assumptions.
- White cells are either empty or cashflow workings.

All non-input cells within the model will be locked – but the formulas will be visible. If an attempt to edit these cells is made, then the following message will appear:

“The cell or chart that you are trying to change is protected and therefore read-only”

All figures should be inputted as positive amounts regardless of whether they are for cost or revenue, with the only exception being within the Finance and Gearing section of the Aggregate sheet where the sign convention is shown (typically positive figures for drawdown of funding and interest charges and negative for repayments of funding).

5.1 DEVELOPMENT COSTS

Because the HCA expect to assess sites at a variety of development stages, the model uses hard inputs rather than phasing formulas.

Grey cells indicate cashflow inputs – cashflow lines usually have a ‘To Date’ cell, where expenditure/revenue that either has been, or is expected to be incurred/ generated up to and including 31 March 2014 should be inputted.

The cashflow line then has a cell for each month from April 2014, to March 2019 followed by cells for annual amounts from 2019/20 to 2024/25. While March 2025 represents the absolute longstop date for exit and repayment of HCA funding, there is an expectation that the majority of propositions will have achieved exit much earlier than this longstop date. The Applicant should input their expected costs and revenues from April 2014, as appropriate, on each of these months (in the appropriate line of the cashflow) and the Totals will be calculated automatically.

Pre-Development (rows 23-30)

Acquisition Costs

- Land Costs (purchase) – the date at which the purchase of the land completed should be inserted together with the cost of purchase. If the land was bought in a number of tranches please use the date of the last acquisition and outline the timing of other purchases in the comments box.
- Latest Valuation – the date of the most recent valuation should be inserted. The value of the land should be inputted in the ‘To Date’ column in accordance with the most recent valuation (this should be consistent with any evidence submitted to the HCA).
- Any future land costs should be inputted at the month they are envisaged to occur.
- Other Acquisition Costs - costs associated with the acquisition of the site e.g. stamp duty.

The sub-total is calculated as the sum of the latest valuation and other acquisition costs.

Note: if current value is different from the purchase price this calculation may be reviewed as a part of the assessment of Developer’s Equity Contribution.

Other Costs

- Planning fees & S.106 - please input prior and anticipated expenditure as appropriate.

Development (rows 34-38)

- Infrastructure, Abnormals, Landscaping & Public Realm, Car Parking and other Development Costs – please input prior and anticipated expenditure as appropriate.
- For the avoidance of doubt, abnormal costs should not include anything that would typically be anticipated on a residential development. Foundations costs over and above standard strip foundations should be treated as abnormal costs. Costs for highways, services, street lighting etc, should be treated as infrastructure.

Important Note: HCA reserves the right to review and audit all costs spent to date

5.2 CONSTRUCTION COSTS

Construction Costs

Residential Completions Phasing (rows 47-60)

- For each market residential unit type listed (including units for sale, private rental and affordable units), enter the **number of units** forecast to be **completed** in each month in the cashflow. Any existing units which have been completed should be inserted in the 'To Date' column.

Base Residential Construction Costs (rows 65-69)

- Enter cost incurred to date and months in which future costs are expected to occur (i.e. not spread straight line over the project period) for: **open market residential and market rent units; Shared Equity/Ownership units; and affordable housing units** respectively. For the avoidance of doubt all figures entered should be for total cost rather than on a per unit basis and should reflect construction costs (Substructure AND superstructure) net of prelims (dealt with below), contingency and other development costs (see above).

Construction Costs – Commercial (rows 76-81)

- For each commercial property type to be constructed enter a description and:
 - Area in square metres
 - Build cost rate per square metre
 - Net to gross area (net lettable area to GIA as a percentage).
- In the cashflow section, for each commercial property type to be constructed enter the construction cost incurred to date and the expected construction cost to be incurred in each month of the development time frame. Ensure that the Total Cost identified in column 'F' matches the Cashflow Total calculated in column 'M'.

Prelims (row 83)

- Enter site based preliminary costs incurred to date followed by the expected preliminary costs to be incurred over the construction programme. This should include site specific overheads such as site management.

Construction Professional Fees (row 85)

- Enter the cost of professional fees incurred to date followed by the expected professional fees to be incurred in each month of the development time frame. This should contain all professional fees for market residential, affordable residential and commercial and development work.

Important Note: HCA reserves the right to review and audit all costs

5.3 SALES, LETTING AND MANAGEMENT COSTS (rows 93-96)

Residential Sales, Marketing & Legal Fees

- Enter the cost of residential sales, marketing and legal fees incurred to date followed by the expected residential sales, marketing and legal fees to be incurred in each month of the development time frame.

Commercial Sales, Marketing & Legal Fees

- Enter the cost of commercial sales, marketing and legal fees incurred to date followed by the expected commercial sales, marketing and legal fees to be incurred in each month of the development time frame.

Private Rental Units – Letting Fees

- Enter any letting fees incurred to date, followed by expected costs for private rental units over the investment/ operational phase of the project.

Private Rental Units – Management and Operating Costs

- Enter any portfolio management and operating costs incurred to date, followed by expected costs for private rental units over the investment/ operational phase of the project. Provide supporting information on the nature and make up of these costs.

5.4 OTHER PROJECT COSTS

Project Contingency (row 102)

- Enter the contingencies to be allowed for in each month of the development time frame. HCA does not expect contingency to be included on low risk sites with standard design types.

Non Recoverable VAT (row 104)

- Enter the non-recoverable VAT incurred to date and any additional non recoverable VAT to be allowed for in each month of the development and management phases of the project.

Developer and Company Overheads (row 106)

- Enter the developer's overheads incurred to date and any developer's overheads to be allowed for in each month of the development time frame. This should include, for example, head office costs. These overheads should exclude any profit element which will be captured in the total profit on cost calculations on the Summary Sheet. It should also exclude overheads in the investment/ operational phase (which should be picked up at row 95)

5.5 REVENUES

Residential Revenue – Cashflows

Market Residential & Shared Equity/Ownership – Sales Phasing (rows 118-119, 122-123):

- Enter the number of **units sold** in each month of the cashflow for the relevant unit types. Any existing units which have already been sold should be inserted in the 'To Date' column. Note: sales phasing assumptions should be consistent with the profile of unit completions set out in rows 47-60). The total number of units sold must match the number of unit completions.

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Market Rent Units (rows 120-121)

- Enter the profile of lettings achieved on private rental units. This should be consistent with the completion profile at rows 49-50)

Affordable Sales/Transfer Phasing (row 123)

- Enter the number of sales/transfers to Registered Providers in each month of the cashflow for all Affordable unit types. Any existing units which have already been sold should be inserted in the 'To Date' column.

Revenue Phasing: (rows 130-147)

- Enter revenue received to date and in the months in which future revenue is expected to be generated for each of the below units. For the avoidance of doubt all figures entered should be for total revenue rather than on a per unit basis and should be net of any allowance for sales incentives.
- Any pre-sale / deposits received should be shown as 'To Date'.
- For market rented units, rental income receivable should be recorded at row 131. Where units are subsequently sold to a third party or refinanced, the capital amount received (reflecting where necessary any agreed loan to value ratio) should also be recorded at row 131 in the month the sale/ refinance is completed.
- For Shared Equity/Ownership units, enter sales revenue received to date and in the months in which future sales revenue is expected to be generated in the "Shared Equity/Ownership – sales income" row, in addition to any rental income forecast. Any retained equity unrealised by the end of the cashflow should be shown in the final period of the cashflow in the "Shared Equity/Ownership – retained equity" row.
- For social rent, AH Rent, LCHO, and AHO units, the timing of income for these units should reflect the time at which the applicant expects to receive income from an RP partner.

Other Commercial (Offices, Retail) (row 153-158)

- Enter a description of commercial units on the development followed by
 - Rent per square metre
 - Yield applied (ensure that this reflects any void which has already been allowed for under the Commercial Construction Costs section).

OR, alternatively to rent and yield:

- Capital value per square metre
- Capitalised area per square metre (i.e. the net area to apply the capitalised value per square metre to)

A percentage figure for purchasers costs should be entered for all commercial items whichever of the above options is used.

- Enter revenue generated to date and subsequent revenue expected to be generated in each month of the cashflow for each commercial unit previously described. Ensure that the net revenue identified in column 'I' is consistent with the cashflow total in column 'M'.

Other Revenue (row 161)

- Please enter the sales revenue achieved to date and the expected revenue achieved in each month within the cashflow for any additional commercial revenue streams within the development.

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Car Parking (row 164)

- Please enter the number of car parking spaces followed by Capital Value per space and any applicable percentage for purchaser's costs. Please enter the sales revenue achieved to date and the expected revenue achieved in each month within the cashflow for car parking. Please check to ensure that the total revenue calculated in column F is equal to the cashflow total in column M.

Ground Rents (row 167)

- Please enter number of units for which ground rent is expected to be received. Enter average ground rental value per unit and yield to be applied to ground rents. A percentage figure for purchaser's costs should be entered. Please enter the sales revenue achieved to date and the expected revenue achieved in each month within the cashflow (obviously this is likely to be the achieved capital value in one payment) from ground rents. Please check to ensure that the total revenue calculated in column G is equal to the cashflow total in column M.

Other Public Subsidy (row 169)

- Enter any public subsidy received to date and any anticipated future public subsidy receipts in the monthly cashflow on the Input Sheet.

5.6 UNGEARED CASHFLOW (UNINFLATED)

- This is calculated automatically using Total Scheme Costs and Total Revenue and requires no inputs. Any comments can be added in the yellow boxes.

6 AGGREGATE SHEET

The cost and revenue sections of the aggregate sheet are populated automatically from the input sheets. This generates a monthly funding requirement at row 181. Where this net monthly cashflow is negative this represents the amount which will require to be financed over the life of the programme. Where the amount is positive this represents amounts available to either contribute to the funding of future costs or alternatively repay scheme funding.

6.1 FINANCE & GEARING

The purpose of the Finance and Gearing sections of the SMC is to help HCA explore the appropriate level of its funding to the overall proposition/ portfolio.

On the Aggregate Sheet rows 195-224 the applicant is asked to input the level of funding that it brings to the project (debt and equity) and the level of HCA investment sought through loan or equity.

Where a bidder is requesting HCA Equity, it is important that we understand the source of the bidder's funding and whether this is from a bank facility or bidder's own funds. Please refer to sections 6.2 and 6.3 below and speak to your Finance Department before completing this part of the cashflow.

HCA wants to understand the minimum HCA loan / equity funding necessary on a **peak cashflow requirement** basis, to unlock the development, taking account of the loan and equity finance the developer is bringing to the scheme.

All applicants are required to complete information on **funding to date** under the Debt Cashflow and Developer Equity headings.

6.2 DEVELOPER FUNDING TO DATE

Debt Cashflow

- Principal Debt Drawdown – **ALL** applicants should provide details of debt already drawn down prior to April 2014 in cell N196
- Total Interest to date – **ALL** applicants should provide details of interest to date which has not been paid in cell N197
- Under normal circumstances the sum of N196 and N197 should represent the current level of funds the bank would expect to recover in priority to any HCA funding/ developer equity

Developer Equity

- Developer Equity – **ALL** applicants should provide details of equity already drawn down (net of writedowns) prior to April 2014 in cell N204. (this will normally be the difference between total costs to date and debt drawn down to date)

If the applicant has a corporate bank funding facility (i.e. a facility not specific to the site/ scheme), costs to date should normally be shown as being funded in accordance with the corporate gearing ratio (net debt/ net debt + net assets) unless a justification is provided with the Finance Submission (e.g. bank making it clear what funding they would expect to recover in priority to a junior funder).

Net costs to date should be shown as fully funded from a combination of debt cashflow and/or developer equity.

6.3 DEVELOPER FUTURE FUNDING

Debt assumptions

The developer will input the future (*April 2014 onwards*) anticipated debt drawdown, interest/fees and repayment into the 'Debt Cashflow' (rows 196-198). **Drawdowns should be recorded as positive figures and repayments as negative figures**

Project Specific Facility:

- This will be shown as drawn down as required and in accordance with the terms of the facility in row 196.
- Anticipated interest and fees will be shown in row 197, with the annual interest rate in cell D192. Interest can be entered manually or can be entered as a formula.
- Repayment will be shown in row 198, driven by cash generated by the scheme and in accordance with the terms of the facility.

Corporate Facility:

- Should a scheme be utilising a developer's corporate bank funding facility, then providing the bank have confirmed that HCA's claim over project returns will rank ahead of any bank security, this can be treated as equity. Where the bank require absolute priority over project returns such funding should be treated as debt. In circumstances where the bank are comfortable limiting their priority to a defined amount, this amount should be treated as debt with the balance allocated to equity.
- Interest shall be allowed on the debt drawn in accordance with the above profile and entered in row 197.
- Repayment will be shown in row 198, driven by cash generated by the scheme and in accordance with the terms of the facility.

Equity assumptions

The developer will input the future (April 2014 onwards) anticipated equity drawn and repayment into the section labelled 'Developer Equity'. Again drawdowns should be shown as positive figures and repayments as negative.

Project Specific Facility:

- If a project specific bank funding facility is being used for the scheme then any developer funding which is not drawn from this facility/ any other debt facility or the HCA will be regarded as developer equity - this will be drawn as required in row 204.
- Repayment will be driven by scheme receipts once bank and HCA loans have been repaid (dependant on the repayment terms of the loan) in row 205.
- If HCA equity is requested, then repayments of both developer and HCA equity should be in proportion to the equity commitments – i.e. if the developer is committing £2m of equity and is requesting £2m of HCA equity, then equity should be shown as repaid on a 50:50 basis.

Corporate Facility:

- See commentary on debt assumptions above

6.4 HCA FUNDING ASSUMPTIONS

- The applicant should manually input their request for HCA loan and/or equity funding by month from April 2014.
- Timing of funding: draw down of funding should be profiled on the basis of project need (i.e. reflecting the project's net monthly cashflow requirements and taking account of other sources of debt and developer equity funding). HCA and its advisors may wish to amend the timing of funding draw down during discussions in the due diligence phase.

HCA loan:

- Developers should input the requested draw down of HCA loan (as a positive figure) into row 214.
- Interest will be completed in row 215 *with HCA's advisors during due diligence – it does not have to be completed by the developer upon initial submission.*
- Repayment will be completed in row 216 *with HCA's advisors during due diligence – it does not have to be completed by the developer upon initial submission.* This is likely to be after any Bank debt has been repaid in full (depending on the terms of the bank facility and any inter creditor agreements) but before any equity payments.

HCA Equity:

- Developers should input the requested equity draw down into row 222.
- Repayment will be as permitted by scheme receipts once bank debt and any HCA loan is repaid (dependant on the repayment terms of the loans) and will be completed in row 223 *with HCA's advisors during due diligence – it does not have to be completed by the developer upon initial submission .*
- HCA equity repayment should be in proportion to the equity commitments – i.e. if the developer is committing £2m of equity and is requesting £2m of HCA equity, then equity should be shown as repaid on a 50:50 basis.

Scheme Closing Balance (row 238)

This is essentially a check on the accuracy of the funding cashflows (and consistency with scheme costs and revenues). This should never show a negative figure (as this would indicate a funding gap). At the end of the project this balance should be zero (i.e. demonstrating that net scheme proceeds have been applied to repay funding and distribute profits).

Under normal circumstances this balance should not show consistently high positive balances (as this would indicate over-funding of the scheme)