Department for Communities and Local Government

Estate Regeneration Programme

Prospectus for 2015/16

June 2014
Department for Communities and Local Government

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If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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Ministerial foreword

At a time when there is acute demand for housing, it is imperative not only that we build new developments but also that we maximise the potential of existing estates.

There are estates, particularly those high-rise council estates from the 1960s and 70s, that simply do not work for the people who live there. When built, they may have temporarily solved a few social problems but, in too many cases, they created and entrenched many more. These are places that encourage crime and have poor quality homes that are expensive and difficult to maintain.

That is why, during his Budget speech earlier this year, the Chancellor set aside £150 million that could be invested to regenerate and increase the number of homes on large, deprived housing estates.

There are three good reasons for doing this:

First, the demand for homes continues to grow and we need innovative ways to provide more homes on already developed brownfield land.

Second, we want to radically increase the quality of housing on these estates. Past experience tells us mere tinkering won't work. We need to be more ambitious and redesign our estates in ways that make them better. In particular, there is real potential to go back to traditional streetscapes, creating neighbourhoods in which people want to live.

Third, this radical approach could also create value in land in a way that is not possible with the incremental building-by-building regeneration that has been favoured in the past. Whole-scale regeneration creates greater potential for private investment, encouraging the building of many more homes in the future.

While the advantages of redevelopment are clear for all to see, major regeneration schemes are susceptible to delays and can even stall completely. Regenerating housing estates will not be easy. But it must be done.

I therefore urge developers and their local authority partners to take advantage of this major funding opportunity and get going.

Eric Pickles

The Rt Hon Eric Pickles MP,
Secretary of State for Communities and Local Government

Mayor of London foreword

London's population is growing at its fastest pace since the 1930s, and in less than ten years there will be more Londoners than at any time in our history. By 2031 we expect to be a city of 10 million inhabitants.

We need to turbo charge housing supply in London to meet the rising need for homes across all tenures. It is clear that supply above all else is central to London's housing needs. With increased supply come opportunities to address affordability, help for people to meet their aspirations, improved quality, renewal of post-war estates, and the ability to tackle entrenched issues like homelessness and overcrowding.

Across London, many estates of post war public housing are reaching the end their functional life, too often built as impersonal blocks at lower densities than our most successful neighbourhoods. Carefully planned redevelopment will give existing residents bright, warm new homes meeting my improved design standards, provide urgently needed homes of all tenures and establish vibrant neighbourhoods in areas which have not seen any investment for over a generation.

I want to support the regeneration plans of boroughs. Projects of this scale are often complex and susceptible to delays or may be stalled, thereby holding back a significant source of new housing supply. The cause of delay is often the cost of building new streets and infrastructure, clearing sites and combining land into a single ownership.

That is why the GLA has worked with Government on a plan to provide funding to reduce these risks and in the process provide a boost to housing and neighbourhoods. With the GLA working in partnership on this exciting new programme in London, I want to see housing associations and commercial house builders accelerate and unlock their estate regeneration projects, moving projects off the drawing board and into construction delivering the enormous benefits of new homes, shops and streets more quickly for communities in London.

Boris Johnson
Mayor of London

MAYOR OF LONDON

Introduction

1. There are many ambitious schemes across the country that are transforming existing social housing estates to create better designed and more accessible mixed tenure communities; better social and economic outcomes; and better use of land that allows more housing without unpopular and expensive tower blocks.

2. There is also interesting work being carried out to inform such regeneration. For example, the government is part funding research by Savills on increasing the supply of popular, high quality neighbourhoods in London, and Create Streets is an independent research institute focusing particularly on traditional street-scapes.

3. Estate regeneration carries real benefits for residents living in social and affordable housing. The best regeneration projects actively involve residents so that the new homes and area are re-developed to meet local needs, provide well-designed and high quality new homes and reflect a sense of community identity.

4. Successful estate regeneration will enable the government to recover its early investment, with a return, whilst avoiding expensive grant funding. Our approach to estate regeneration investment will maximise delivery whilst working with, not against, the grain of the market and and providing value for taxpayers' money.

5. We recognise that estate regeneration schemes are long and complex projects, requiring significant upfront expenditure which may only be fully recovered over the full ten to twenty years of a scheme as new housing is sold. We know that, because of cashflow constraints, there are a number of major estate regeneration schemes that are stalled or only able to move slowly, even though they are fundamentally viable over the life of the project.

6. In the 2014 Budget, the government therefore announced that it would establish a £150 million fund to kick-start and accelerate the regeneration of large estates through fully recoverable loans, helping to boost housing supply. Funding will be available for financial years 2015/16 to 2018/19.

7. We will publish a new prospectus, inviting expressions of interest, for each of these four financial years, subject to funds remaining uncommitted.

8. This is the 2015/16 prospectus and we invite funding bids for schemes where they are needed, locally supported, clear on funding requirements, and commercially viable projects that will enable full recovery of the funding.

9. Whilst we recognise that transformational estate regeneration may require some demolition of existing homes, this will need to be clearly justified. We would expect landlords to first consider options to upgrade and refurbish existing homes, in consultation with residents, in line with George Clarke's 12 point plan[1].

[1] http://www.emptyhomes.com/what-we-do-2/campaign-demands/2470-2/

Eligibility criteria

To be eligible for Estate Regeneration funding, schemes must deliver regeneration through the redevelopment of existing social housing estates and comply with the following terms:

Financial

- The full funding amount to be repaid, with interest
- Bidders to be private sector and all investments to comply with state aid rules
- Bidders to demonstrate that
  - the project is fundamentally viable
  - they can support the repayment schedule (capital and interest)
  - they can provide appropriate security for the investment
  - they have the consent of any existing lenders to access this additional finance
  - they are materially invested in the scheme (for example, by putting in capital or taking an equity stake in the project)
- Schemes to make the first drawdown of funds by 31st March 2016, under this bidding round. All funding sought must be drawn down by 31st March 2019
- Funding to be used for costs associated with land assembly (including leaseholder buy-outs), de-canting/ re-housing tenants, demolition, preparatory construction and other infrastructure works necessary to enable development to take place or accelerate delivery
- We would generally expect bids to be a minimum of £5 million
- Total public funding (including funding from other public sources) to be below 50% of total project costs across the life of the wider project.

Outcomes

- The scheme to deliver a net increase in the supply of housing, with mixed tenures, over the entire programme of redevelopment.

Deliverability

- Bidding parties to demonstrate a robust delivery plan and investment proposal
- The scheme to have support from the local community, including on the approach to regenerating the estate and increasing density
- The scheme to have support from the relevant local authority (provided in writing within the application), including in kind (including works to local authority owned properties in the area) and/ or financial support for overall scheme costs
- As a minimum, the site to have outline planning consent or be designated for development in an adopted development plan by the time funding is awarded in 2015
- Bidders to set out how they will report on income, expenditure, delivery, risks and returns throughout the scheme, including regular and transparent delivery reports.

Making an application

Expressions of Interest should to be submitted online via the Homes and Communities Agency Partner Portal which is available at:

https://partners.hca-online.org.uk/

All Expressions of Interest should be submitted by noon Friday 12 September 2014 using the guidance at Annex A. In addition to the Expression of Interest form, an Investment Proposal should be attached outlining the delivery plan for the programme (max 15 pages). The template proposition is available at:

https://www.gov.uk/government/publications/estate-regeneration-programme

These must be completed and uploaded for submission via the partner portal (see application guidance for further details).

Guidance on the application process and completing your online submission is available on the Homes and Communities Agency's website at:

https://www.gov.uk/government/publications/estate-regeneration-programme

Applications for schemes within London will then be passed directly to the Greater London Authority. The Greater London Authority will lead on assessment and recommendations for shortlisting of all projects in London, and will remain a key part of the relationship management process for all selected projects as schemes progress.

Further information

For further information on submitting applications for schemes outside of London, please contact the Homes and Communities Agency at:

EstateRegeneration@hca.gsi.gov.uk

or visit the website at:

https://www.gov.uk/government/publications/estate-regeneration-programme

For information on submitting applications for schemes inside London, please contact the Greater London Authority at:

estateregeneration@london.gov.uk

or visit the website at:

http://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/estate-regeneration-fund

The assessment process

Expression of Interest stage

When submitting a bid, applicants must be able to demonstrate clearly that they can meet the requirements set out in this prospectus, and indicate the amount of funding sought for each financial year. **Funding will only be provided to private sector partners.** The delivery body must not be classifiable as a public sector body.

A single bidder can put forward more than one bid. Applicants can also bid for funding for one or more development phases within a scheme. Each bid must individually comply with the criteria and requirements set out in this prospectus. Applicants should note that the Homes and Communities Agency will be seeking to manage exposure at a portfolio level and the Agency's decision is final.

The fund will be available in England only and will be managed by the Homes and Communities Agency. The Greater London Authority will lead on the assessment of expressions of interest as they relate to London sites. The GLA's Housing Investment Group will review London bids and make recommendations on project investment decisions to the HCA for the overall fund. The GLA will also sit on the Programme Board, a key decision-making body for allocating and monitoring the funding.

Shortlisting stage

Capital bids will assess against the requirements set out in this prospectus and prioritise based on:

- Schemes that provide the greatest prospect of investment recovery
- Schemes which offer the greatest value for money
- Schemes which provide the largest net addition to the supply of housing for the amount of proposed government investment
- Schemes which provide the largest number of affordable and social housing for the amount of proposed government investment
- Schemes which offer the greatest prospect of early delivery, including through accelerating existing delivery plans
- Schemes with the greatest degree of local need and support, including quantifiable evidence that people have been involved locally and have influenced decision-making
- Schemes that deliver the greatest increases in housing density on sites using a mixture of different types of well-designed housing.

Due Diligence stage

All shortlisted schemes will then undergo a technical due diligence review to test value for money of the proposition and the ability of the bidder to pay back the loan.

Applicants will need to satisfactorily complete the due diligence process and demonstrate that their scheme offers the best value for the taxpayer against the investment criteria before funding is awarded.

The due diligence review will, in broad terms, consider the following:-

- **What alternative sources of funding have been explored.**

- The **level of funding** that is appropriate – consideration will be given to the minimum amount of public funding necessary for the scheme to be unlocked or accelerated and might be less than the funding sought. The private sector will be funding other scheme costs and, other than in exceptional circumstances, total public funding (including funding from other public sources) will only be up to 50% of project costs.

- Appraise the scheme's **financial, commercial and market position** and its ability to generate income to pay back the investment at a later date. This will involve testing the assumptions underpinning the viability of the scheme and the degree of tolerance/ sensitivity for changes in key market conditions, such as house values and construction costs.

- The **ability of the loan recipient to re-pay the loan and interest** – it is a requirement that all loans will be repaid with interest (See Annex A with respect to detail on interest payments). An assessment will be made of the ability to deliver against agreed dates for land assembly, demolition and site preparation and the construction and sale of housing. This will include consideration of delivery, costs and returns for each development phase in the overall scheme. Clear recovery schedules will be put in place to correspond to these plans with a longstop payment date by which point the loan must be paid back in full.

- The **bidder's financial standing** – bidders will be expected to provide up to date accounting and other financial information and an assessment will be made of their track record of paying back investments along with their overall credit rating.

- The **level of loan security** required – loans will not be given without appropriate security being in place to assure its re-payment. Examples include a legal charge, parent company guarantee or performance bond.

- The **deliverability** of the scheme over the projected timescale.

- The **legal due diligence** will include, as a minimum, the provision by the funding applicant of a fully completed Certificate of Title. This will be required for the site (in its entirety) that the funding is to be provided for and any other site over which the Agency is to receive security. Applicants should also be prepared to provide detail of any other senior lending at the beginning of the due diligence process.

‘Know Your Customer’ requirements

The Homes and Communities Agency will require sufficient information to satisfy its ‘Know Your Customer’ requirements. This includes, but is not limited to, the provision of appropriate financial accounts and evidence of any funding lines available to the bidder. Where the bidder is a consortium, the Agency will require full details of the consortium structure and accounts information for each of the consortium members. Further details on the initial information that will be required at due diligence are included at Annex C.

A due diligence pack will be issued to all shortlisted bidders which will contain greater detail than summarised here.

Contract stage

Schemes that pass the due diligence stage will enter into formal negotiations to contract terms before finance is issued.

The interest rate on any loan will be calculated with reference to the European Commission Reference rate plus a margin calculated on the basis of an assessment of creditworthiness and collateralisation. Consideration of what interest rate can be offered for a loan based on individual project circumstances will be made at the due diligence stage (see Annex A). This will take into account the credit rating of the bidder and the level of security being offered for the loan.

Management and monitoring

A number of reporting obligations will be included within the contract to allow the appropriate monitoring of the investments. This shall include scheme specific financial and delivery related information, typically on a monthly basis. In addition, corporate level information may be required from the contracting parties throughout the term of the investment.

The Greater London Authority will be directly involved in the management and monitoring of all schemes in London, given their strategic relationships and knowledge of specific London sites.

Annex A

Interest rates for loans

Based on European Commission guidance on calculating a "market rate" margin and the current European Commission Reference rate (0.88% at 01/04/14) as a variable base rate, loans can be offered at initial rates of interest from 1.48% to 10.88% (please see the matrix below). This is based on our assessment of the creditworthiness of the bidder and the collateral offered.				
Collateralisation		**High**	**Normal**	**Low**
Credit Worthiness	**Strong**	1.48	1.63	1.88
	Good	1.63	1.88	3.08
	Satisfactory	1.88	3.08	4.88
	Weak	3.08	4.88	7.38
	Financial Difficulties	4.88	7.38	10.88

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

Bidders creditworthiness will be reviewed at due diligence. This involves an assessment of the bidder's financial standing and the risks associated with lending to that business - likelihood of default (encompassing both capacity and willingness to pay) is an important factor. Considerations may include:

- Ratings from a recognised Credit Rating Agency
- Financial analysis - profitability, net asset position/balance sheet strength, gearing, etc.
- Assessment of the trading history/development experience of a borrower - evidence of a "track-record" of delivery
- The ability of the borrower to service the loan (interest and capital when required under the legal agreements) in the context of its existing commitments
- Accounts, credit-checks, references - leading to an overall profile of a borrower
- Amount of capital and/ or equity stake provided by the bidder to support the scheme.Benchmarking against peer companies.

Collateralisation

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

Annex B

Expression of Interest - evidence required for Estate Regeneration Programme

Applicant details:
- Name of organisation
- Contact name
- Contact email address
- Contact telephone number
- Address of organisation
- Organisation type
- Company Registration Number and/or Charity Registration Number
- Details of joint venture or consortium arrangements
- Confirmation of board sign-off
- Confirmation that prospectus has been read and understood
- Confirmation of involvement in any other government funded programmes, such as the Large Sites Infrastructure Fund, Get Britain Building
- Confirmation that the proposed recipient of the funding is a private sector body

Site details:
- Name and location (including Local Authority area, co-ordinates and postcode)
- Confirmation that a site plan has been provided
- Size of site
- Planning status (by phase)
- Number of units (by phase)
- Confirmation of applicant's control of site

Timescales and delivery:
- Start on site date of works funded through the programme
- Details of anticipated build programme
- Confirmation of whether the funding is for unlocking or accelerating the development
- Confirmation of degree of acceleration of build programme if capital funding bid successful

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

Financial details:
- Cost profile for infrastructure works
- Profile of loan funding requested
- Overall funding profile for the scheme
- Detailed profile of income and costs for each development phase of the scheme
- Details of market and cost assumptions underpinning the viability of the scheme
- Source details for balance of funding (bank loan, developer equity, other public funding)
- Profile of capital repayment to Homes and Communities Agency
- Profiles of repayments of returns to all investors, including information on the prioritisation of repayment by investor

Planning details:
- Confirmation of planning permission, or date when of committee when permission is expected (which must be prior to the award of funding)
- Confirmation of whether any other consents are required
- Confirmation that the site is fundamentally viable, can support the repayment of the fund and has the consent of any existing lenders to access additional finance from this fund
- Confirmation that description has been given of the infrastructure/site preparation works required, including demonstrating a clear link between this and the delivery of the housing/employment floorspace in the Investment Proposal (see below)

Wider project financial details:
- Confirmation of total cost (to include land value, profit and infrastructure costs)
- Confirmation of confirmed public funding
- Confirmation of unconfirmed public funding
- Gross Development Value
- Information on the bidder’s own investment, including debt financing, capital and equity stake in the scheme

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

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

Investment proposal:
All Estate Regeneration Fund bids should be accompanied by an investment proposal of no more than 15 pages in length summarising the key points regarding the proposed project. This should include information on community engagement and the offer for existing residents.

A template document is available on the Homes and Communities Agency's website at:
https://www.gov.uk/government/publications/estate-regeneration-programme

Further information

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

https://www.gov.uk/government/publications/estate-regeneration-programme

Annex C

Due Diligence – 'Know Your Customer' requirements

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

In the case of bidders acting alone:

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

In the case of consortia bids

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

- In the case of newly formed joint venture vehicles, details of the structure of the opening balance sheet, including details of partner’s proposed equity and stakeholder loan investments

- Latest audited financial accounts for each of the consortium members (full accounts rather than abbreviated)

- In respect of the bid vehicle and each consortium member, details of any events occurring since the last audited accounts that have a material effect on the understanding of the bidder’s, or its wider group’s, financial standing, including but not limited to change of control or ownership, corporate re-financing, significant acquisitions, disposals or closure of subsidiaries or business units and potential contingent liabilities including litigation. If none of these apply then a statement confirming that fact

- Evidence of funding lines available to the bidder, including up to date details of headroom within facilities and undrawn facilities

- Similar information in relation to the funding lines available to each consortium member

- Where it is proposed that funding will be introduced from related parties then similar information in relation to headroom and undrawn facilities

- Identity of proposed guarantor(s) (if applicable).