



Department for  
Communities and  
Local Government

# Local Infrastructure Fund

Prospectus

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# Contents

Ministerial Forward.....	2
Summary.....	3
The Local Infrastructure Fund.....	6
Types of investment available.....	9
Assessment Process.....	10
Due Diligence.....	12
Annex A – Interest rates for loans.....	15
Annex B – Expression of Interest.....	17

Archived

# Ministerial foreword

Investment in infrastructure and property development, whether commercial or residential, can not only stimulate and help boost the UK economy in the short term, but ultimately create the environment for sustainable growth in the long term.

At Budget 2011, we set in motion plans to establish a new generation of Enterprise Zones, which through a combination of fiscal incentives and streamlined planning, would generate both businesses and jobs and drive forward local and national growth. We now have 24 Enterprise Zones in place across England, stretching from Newquay to Newcastle. In their first 9 months since going live in April 2012 they created around 1,700 jobs, and secured £150m of private sector investment.

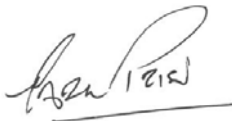
In November 2011 as part of the Housing Strategy we committed to 'provide more support for local areas that want to deliver larger scale new developments to meet the needs of their growing communities'. The locally led large sites programme was established to support the accelerated delivery of large scale housing schemes which have local and public support; the potential to deliver significant numbers of additional homes, and in parallel create jobs and growth. It has already been instrumental in accelerating delivery of homes at Cranbrook, Fairfield, Wokingham and Ebbsfleet.

However, despite the progress already made, we know that the current tough economic conditions continue to adversely affect the ability of Enterprise Zones and large scale developments to meet their full potential. That is why as part of the Autumn Statement 2012, we announced that we would invest £474m in local infrastructure to support both housing and commercial development.

Supporting jobs and growth is a key Government priority and I am keen that we do all we can to not only help strengthen the ability of our Enterprise Zones to deliver their growth ambitions, but also support the accelerated delivery of locally supported large-scale housing schemes who are struggling to move forward.

This Local Infrastructure Fund Prospectus sets out the criteria against which parties can apply for funding and invites both the public and private sector, working in partnership, to come forward with Expressions of Interest for consideration.

I would encourage all parties to take advantage of this opportunity to bring forward their schemes which meet the necessary criteria.



**Mark Prisk MP, Minister of State for Housing**

# Summary

1. ***The Local Infrastructure Fund - Investing in land and property schemes on a recoverable basis to deliver economic growth, providing an immediate economic boost, and mobilising long term private finance whilst providing a longer term return on investment to the taxpayer.***
2. A significant barrier to development is access to finance to fund the delivery of upfront infrastructure. This is preventing the delivery of a range of housing and commercial development sites, which is acting as a drag on economic activity. The Local Infrastructure Fund is designed to unlock these opportunities; specifically locally supported large housing sites and schemes with real growth potential in Enterprise Zones.

## The Local Infrastructure Fund

3. The Local Infrastructure Fund has been established to deliver short, medium and long term economic growth through targeted investments into large scale land, property and commercial projects which can offer financial and economic returns to the taxpayer. The Fund was announced at Autumn Statement when the Chancellor made available £474 million for upfront infrastructure investment and other site preparation works that will support economic growth, jobs and homes.
4. This support includes the Public Sector Land programme, which will help de-risk Government owned sites and make them more attractive to potential purchasers. Discussions with key Public Sector Land sites are already taking place outside of this Prospectus, and these will continue between the Homes and Communities Agency and owners of Public Sector Land sites.

## Large Housing Sites

5. The supply of new housing needs to increase significantly on recent levels if we are to meet the country's ongoing needs.
6. Delivering large scale housing development is complex. Development is naturally subject to a large number of investment and regulatory regimes – planning, transport infrastructure, water and energy supplies, flood defence and environmental designations to name a few. Evolving, considering and implementing schemes of the highest quality is essential, but can be time consuming and complicated. And securing funding and ensuring satisfactory cashflow can also be difficult, particularly in the present financial climate.

7. Government's objective is to maximise the amount of units delivered, and the speed at which these come to market. The locally led large sites programme was established specifically to accelerate delivery of large scale housing sites through partnership working with Government and access to up-front investment in infrastructure, which is needed many years before any house building can be completed, and we are currently working with a small number of sites.
8. This prospectus formally invites further sites to come forward for investment. Through the assessment process and due diligence we will work with schemes bidding for investment to consider how this can be complemented by the wider locally led large sites offer of:
  - i. Brokerage; with the Department and the Homes and Communities Agency working across Government to co-ordinate key partners and assist sites in overcoming barriers to delivery.
  - ii. Planning Support; The ATLAS (Advisory Team for Large Applications) team in the Homes and Communities Agency provides direct enabling support to local authorities, developers and other interested parties, bringing large scale residential led schemes through the planning process. Successful projects, where there are outstanding planning issues, would automatically be eligible and prioritised for direct support from ATLAS.
  - iii. Capacity; although capacity support is outside the scope of this prospectus, Local Authorities supporting large sites may have access to a small element of resource funding to help enable delivery where existing local capacity is limited. This will be discussed on a case by case basis.
9. For the purpose of this Prospectus a large site is defined as a single site of 1500+ housing units which is locally supported.
10. Locally led large sites of 1500+ units which do not require investment but would benefit from the wider offer of support should contact the Department at: LargeSites\_WiderSupport@communities.gsi.gov.uk .

## **Enterprise Zones**

11. Jobs and investment in commercial development are also crucial for economic growth. We know that the current tough market conditions are affecting all 24 Enterprise Zones. Supporting jobs and growth are a Government priority, and we need to do all we can to help unlock sites with real growth potential. With this in mind, Government is making available funding for infrastructure which responds to the specific needs of those sites which can deliver growth by 2015.

12. Similar market and institutional constraints are impacting on the viability of commercial development in the 24 Enterprise Zones. By targeting this funding to provide the infrastructure required to unlock sites with real growth potential, the ambition is to lever private sector investment to boost development within Enterprise Zones. Any of the 142 sites which make up the 24 Enterprise Zone programme are eligible for consideration providing they meet the core objectives and criteria set out in this prospectus.

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# The Local Infrastructure Fund

13. The Fund has the following key objectives:
- To promote economic activity; investing in large scale land and property projects, which have local support, to deliver the infrastructure required to unlock housing and commercial development.
  - Recoverability; investments made by the fund will be recovered by the Homes and Communities Agency, according to the principles of the investment instruments.
  - Flexibility; the Fund will be flexible in how it invests, enabling bespoke packages of support to be developed where needed.
14. The Fund will operate for England only and will be managed by the Homes and Communities Agency. For any sites that come forward in London, the Greater London Authority will be engaged and views taken into account.
15. The primary purpose of this prospectus is to seek Expressions of Interest for investment from sites in Enterprise Zones or locally led large housing sites which meet the criteria set out in this prospectus. The available funding will be invested on a recoverable basis.
16. In addition, we are keen to seek market intelligence on the level of interest in wider support for Government investment in large scale, long term development, including:
- i. Housing schemes which do not meet the 1500+ criteria and large scale commercial sites outside of Enterprise Zone areas (such as science parks) which could offer a financial return with a high degree of security for Government.
  - ii. Enterprise Zone and large housing sites where it is not clear that a return is achievable.
17. Developers who wish to provide information on such sites should visit [www.homesandcommunities.co.uk/ourwork/LIF-intelligence](http://www.homesandcommunities.co.uk/ourwork/LIF-intelligence) for further information.

## Who can bid?

18. We anticipate each bid will be put forward from a partnership of local interested parties, including public and private partners and local enterprise partnerships. All partners should be named, and the partnership does not have to be formally constituted.



19. For locally led large sites we expect the bid to be submitted by the organisation with majority control of the land. If the landowner is a local authority, they must have a private sector development partner which has been appropriately approved by the authority as part of the bid.
20. For Enterprise Zones we expect the bid to be led by the local enterprise partnership or the landowner/developer, but in any case should always include the local enterprise partnership.
21. We will determine the contracting party through the due diligence process.

## **Fund Eligibility Criteria**

22. The core eligibility criteria of the fund are as follows:
  - Funding will be provided on a recoverable basis (with funds returned to the Homes and Communities Agency), with an appropriate rate of return applied.
  - Appropriate security for the investment should be in place.
  - All investments will have to be state aid compliant (See Annex A for loans).
  - Schemes must be in a position to draw down funding prior to 31 March 2015; repayment profiles will be agreed on a case by case basis.
  - Projects must involve capital expenditure in infrastructure and/or other site preparation works that will support economic growth.
  - A minimum investment of £500k. There is no upper limit subject to fulfilling the bid criteria and value for money.
  - Bidders must confirm that the project is fundamentally viable, they can support the repayment of the Fund and have the consent of any existing lenders to access additional finance from this Fund.
  - Total public funding (including funding from other public sources) for the wider project that the infrastructure is serving must be below 50% of total project costs across the life of the wider project.
  - Bidding parties must be of robust financial standing.

## Programme Specific Eligibility Criteria

23. In addition to the fund level criteria there are some specific eligibility criteria associated with schemes coming forward under each of the key programmes; locally led large sites and Enterprise Zones.
24. Locally supported large sites Programme;
- Each individual site must be at least 1500 units in size.
  - Have support from the relevant local authority (the Homes and Communities Agency will test this with the local authority).
  - Demonstrate how the infrastructure investment will lead to housing starts.
  - Sites put forward must have local support, demonstrated through having outline planning consent, or the site being designated for development in a Local Plan or via a Local Development Order.
25. Enterprise Zones;
- Projects which involve infrastructure which is in the Enterprise Zone, or where falling outside it otherwise directly serves the Enterprise Zone.
  - Demonstrate how the infrastructure investment will lead to commercial development being realised within the Enterprise Zone.
  - Be supported by the local enterprise partnership, which must be a party to the bid.

## Multiple Bids

26. Under all of these categories we would welcome multiple bids from a single bidder. Under this scenario each bid must individually comply with the core criteria detailed above.

# Types of investment available

## Loan

27. Loans will be offered on commercial terms. The interest rate will be calculated using the European Commission Reference rate plus a margin calculated on the basis of an assessment of creditworthiness and collateralisation as detailed at Annex A.

## Equity

28. On a pari passu basis - the Homes and Communities Agency will invest alongside a bidder's equity investment. The Homes and Communities Agency will not invest more equity than the bidder across the total project. We will consider bespoke equity funding models, where those are state aid compliant.

## Common issues

29. We will require appropriate security for all forms of investment.
30. Whilst the early repayment of funding is preferable, Government is providing a long-term funding platform; as such we expect the repayment of funds to run over a 5-20 year timeframe. This will vary between projects and detailed negotiations on the timeframe offered will be carried out as part of our due diligence.

# Assessment Process

## Expressions of Interest

31. Expressions of Interest are invited in response to this prospectus, and these will be assessed and prioritised in order to decide which will progress to due diligence.

## Assessment and Prioritisation

32. When assessing bids consideration will be given to the size of the fund, delivery and recovery risks, and the need for a reasonable spread of these risks. If other public funding is being bid for to cover infrastructure costs, we reserve the right to consider bids jointly with the other funder and agree how outputs will be counted and investment recovery managed.
33. Bids which meet the eligibility criteria will be prioritised for investment based on the following criteria:
34. Locally supported large sites;
  - Sites that demonstrate a clear link between infrastructure to be provided and the housing which will ultimately be delivered.
  - Sites that offer the greater number of early starts on site.
  - Sites which are considered to offer the greatest prospects of delivery.
  - Sites in areas of higher housing demand - measured by house price to income ratio.
  - Sites which provide the most impact, determined by amount requested/units facilitated.
  - Bids which request investment into a private sector organisation.
  - Bids which offer earlier returns on investment.
35. Enterprise Zones;
  - Sites that demonstrate a clear link between infrastructure to be provided and the employment floorspace which will ultimately be delivered.
  - Proposals which can demonstrate a reasonable prospect of occupier demand.

- Sites which are cost effective - measured by amount of funding requested and the amount of employment floorspace (weighted by end use type) that could be provided.
- Sites which are considered to offer the greatest prospects of delivery.
- Sites which can realise development in the short term, including outputs by 2015.
- Bids which request investment into a private sector organisation.
- Bids which offer earlier returns on investment.

## Timing

36. The Expressions of Interest form will be available from the 7 March at [www.homesandcommunities.co.uk/ourwork/LIF](http://www.homesandcommunities.co.uk/ourwork/LIF). The closing date for expressions to be submitted is 3 April. Government reserve the option to use funds flexibly in order to respond quickly to strong opportunities which come forward outside of the bidding timetable. Such bids will be assessed against the same criteria, and detailed due diligence requirements will still need to be met.
37. Annex B details the information which will be requested in the Expression of Interest form. This has been included to enable bidders who are developed enough in their thinking to prepare the necessary information, in advance of the formal Expression of Interest form being published on the 7 March.
38. There is an overarching deadline given that all funds must be drawn down by March 2015. If you are considering a bid following the Expression of Interest deadline you should contact the Homes and Communities Agency in the first instance to avoid any nugatory work.

# Due diligence

## Process

39. Shortlisted bids will undergo a technical due diligence review carried out by the Homes and Communities Agency. Projects will need to satisfactorily complete the due diligence process and demonstrate that they offer the best value for money before funding is awarded, subject to contract.
40. A due diligence pack will be issued to all shortlisted bidders which will contain greater detail than summarised here.
41. Information put forward by bidders will be reviewed by the Homes and Communities Agency and its advisors. The Homes and Communities Agency's decision will be final.
42. In summary the due diligence phase will have three key elements:

## Project assumptions and finance

43. The Homes and Communities Agency will not fund schemes which would be funded in the absence of the Local Infrastructure Fund. We will test this throughout the bidding process.
44. Homes and Communities Agency investment will not substitute for existing development finance and on all sites the Homes and Communities Agency will want to be comfortable that it is providing the minimum funding required to allow the scheme to progress, that the developer is making an equity contribution and that the Homes and Communities Agency funding is below a maximum of 50% of project costs.
45. Through the due diligence appraisal we will therefore seek (amongst other things) to:
  - Appraise the project financial position and test underlying assumptions.
  - Establish the extent to which investment will realise development, including for Enterprise Zones likely developer and/or occupier commitment to sites, and the speed of delivery of new jobs and for locally supported large sites housing demand.
  - Test that the developer is making an equity contribution and understand the commitment and terms of all sources of funding.
  - Identify the minimum funding required.

- Consider the most appropriate form of Homes and Communities Agency investment.
- Secure the recovery of funding through loan repayment, interest, share of returns or overage.
- Favour those schemes which offer maximum opportunities for recovery of the Homes and Communities Agency's investment.
- Maximise return to the taxpayer.
- Understand partner roles and responsibilities.
- Understand pricing and marketing strategies for the relevant phase.
- Independently value the developer's equity where equity is sought – based on current market values.
- Understand and consider the financial, commercial and market risks associated with the project.
- Understand the security underpinning the investment.

## **Bidder financial standing**

46. Where the bidder is already a Homes and Communities Agency investment partner, it may not be required to undergo a separate assessment of financial standing, although where necessary bidders may be required to provide updated information such as recent accounts.
47. Organisations which are not investment partners will be asked to undergo a review of financial standing. Detailed guidance will form part of the due diligence pack.
48. For all bidders, the Homes and Communities Agency will consider the most appropriate form of security for its investment. This will involve the use of charges and guarantees and negotiation with existing financiers.
49. We reserve the right to request additional financial information from any bidder if necessary. We will take into account a bidder's track record on investment recovery with the Homes and Communities Agency, through current and previous programmes.

## Deliverability

50. The Homes and Communities Agency and its advisors will want to test the developer's project and review the risks associated with the programme in relation to:
  - Ability to start on site – including a review of title, progress towards full planning and other consents and site constraints.
  - Realism of the infrastructure/works programme and assumptions for draw down of investment.
  - Development programme and underlying assumptions.
  - Sales programme and underlying assumptions.

## Expectations and Delivery milestones

51. As part of the Expression of Interest stage, bidders are asked to indicate the amount of funding they are seeking under each of the available investment types.
52. Contracting parties will be required to deliver infrastructure and works to an agreed timetable and to an agreed draw down of funding. The risk of delays or cost overruns will sit with the contracting parties.
53. Each contract will set out a longstop date for repayment and the terms for repayment.
54. Contracts will specify security, which might necessitate use of charges, guarantees and/or intercreditor deeds with other funders.

## Investment

55. The level of investment offered by the Homes and Communities Agency at the end of the due diligence process will be based on the Agency's view of the minimum necessary for the project to proceed and of recoverability. Both the quantum and type of investment offered by the Homes and Communities Agency will be based on the Agency's appraisal of the project and might be less than the funding sought.
56. Longstop repayment dates will be considered as part of the due diligence process.
57. The investments must be structured in a way that is state aid compliant and we expect that this will typically take the form of a commercial loan or pari passu equity investment (i.e. proportionate sharing of risks and rewards) or some combination of the two.



# Annex A - Interest rates for loans

## Loans

58. The Homes and Communities Agency will consider the interest rate that can be offered for loan based individual project circumstances at the due diligence stage.
59. Based on European Commission guidance on calculating a “market rate” margin and the current European Commission Reference rate (1.46% at 01/11/12) as a variable base rate, loans can be offered at rates of interest from 2.06% to 11.46% (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	1.79	1.94	2.19
	Good	1.94	2.19	3.39
	Satisfactory	2.19	3.39	5.19
	Weak	3.39	5.19	7.69
	Financial Difficulties	5.19	7.69	11.19

## Creditworthiness

60. Where bidders have a rating from a recognised Credit Rating Agency this will be used.
61. Where the bidder does not have an external rating, its creditworthiness will be reviewed at due diligence. This involves an assessment of the bidder’s financial standing and the risks associated with lending to that business - likelihood of default (encompassing both capacity and willingness to pay) is an important factor. Considerations may include:
62. Financial analysis - profitability, net asset position/balance sheet strength, gearing, etc.
- Assessment of the trading history/development experience of a borrower - evidence of a “track-record” of delivery.
  - The ability of the borrower to service the loan (interest and capital when required under the legal agreements) in the context of its existing commitments.

- Accounts, credit-checks, references - leading to an overall profile of a borrower.
- Benchmarking against peer companies.

The Homes and Communities Agency's decision will be final.

## Collateralisation

63. 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 repayment from the scheme cash flow (assessed by our advisors) and adequate security (supporting the level of proposed borrowing) to minimise its loss in a default scenario (e.g. a legal charge, parent company guarantee, performance bond, personal guarantee).
64. Shortlisted bids which, through the due diligence process, clearly demonstrate repayment and appropriate security will be treated as having "Normal" collateralisation. Should the collateral offered justify a different categorisation, this will be taken into consideration in the rate offered.
65. The Homes and Communities Agency's decision will be final.

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# Annex B – Expression of Interest Information

## Local Infrastructure Fund – Expression of Interest Evidence Required

### All Applicants:

- Applicant's name and contact details.
- Organisation Type and Company Registration Number.

### Lead Applicant

- Confirmation of board sign-off.
- Role and responsibilities of partners.
- Confirmation that all sites within the bid are fundamentally viable.
- Confirmation bidders can support the repayment of the Fund.
- Confirmation of consent from existing lenders to access this fund.
- Description of infrastructure/site preparation works, including demonstrating a clear link between Local Infrastructure Fund funding and delivery of housing/employment floorspace.

### Site Information (per site)

#### Site Details

- Name and location (including Local Authority, post code and/or co-ordinates).
- Proposed recipient of Local Infrastructure Fund funding.
- Confirmation that a site plan has been provided.

#### Enterprise Zone bids only

- Local Enterprise Partnership partner and Enterprise Zone the site falls within/serves.
- Demonstrate evidence of occupier demand, including likely outputs (e.g. jobs).

- Amount of employment floorspace (sq m) by March 2015 and after March 2015.
- Planning class of employment floorspace (sq m).

### **Large Site bids only**

- Number of homes started by March 2015 and after March 2015.
- Tenure of homes - market, affordable rent/social rent, or affordable home ownership/low cost home ownership.
- If it is a Local Authority bid, confirmation there is a private sector partner in the bid.
- Confirmation lead applicant organisation has majority control of the site.

### **Timescales and Delivery**

- The anticipated start-on-site date of the infrastructure work.
- The date by which the Homes and Communities Agency will be repaid.

### **Infrastructure/Site Preparation Works**

- Total costs of infrastructure/site preparation works by year.
- Local Infrastructure Fund funding requested (loan/equity by year)
- Balance of funding for infrastructure works by source (bank loan/developer equity/other public funding/other)
- Profile of Local Infrastructure Fund repayment to Homes and Communities Agency by year.
- Planning Permission/Consents for infrastructure works.

### **Wider Project**

- Total costs (including land value, profit and infrastructure works).
- Confirmed public funding, including in total costs.
- Unconfirmed public funding included in total costs.
- The Gross Development Value.
- Current Planning Status (outline, detailed and whether the site is designated for development by Local Planning Authority)
- Planning reference/URL if applicable.
- The S106 date.
- Confirmation of any reserve matters outstanding.
- Details of any site characteristics that would delay start-on-site.

## **Ownership**

- Who controls the land - including nature of control.
- Who is the freehold owner.
- Was the site disposed by a public body.
- Details of any Homes and Communities Agency/other government organisation with on-going interest in the site.

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