

Kickstart Housing Programme

HCA review of Round 1

16 December 2009

Introduction

In the April 2009 Budget, the Chancellor announced a £400m package of funding to help kickstart stalled housing developments which were unable to proceed due to market conditions. The package included investment support for infrastructure and upfront development costs (through loan/equity/gap funding), complemented by support for new housing for affordable rent and sale (including funding for HomeBuy Direct and affordable housing grant), in mixed-tenure housing developments.

Additional funding of up to £500m for the Kickstart Programme was announced as part of the Building Britain's Future Housing Pledge in June. The Programme was set a target of unlocking 22,000 homes, of which 8,000 were intended to be affordable.

The programme is being allocated through two bidding rounds. Bidding for funding under Round 1 began in May, with a shortlist announced in July, and successful schemes announced by the end of November. Bidding for Round 2 began in September, with a shortlist announced today (16 December).

The following outlines the results of an internal review of the Round 1 process and is designed to highlight areas of change in advance of Round 2 due diligence. It should be read in conjunction with the detailed due diligence guidance published on the HCA website:

<http://www.homesandcommunities.co.uk/kickstart-round-two.htm>

Round 1 shortlisting

The timetable for the allocation of funding under Kickstart Round 1 is set out below:

- Start of competition process – May 2009
- Deadline for Expressions of Interest to be returned to the HCA – June 2009
- Announcement of shortlist – late July 2009
- Due diligence (and prequalification where necessary) – on-going July to November
- Detailed approval – completed by end of November 2009

The shortlist was announced on 27 July. A total of 270 projects were shortlisted, with a combined value of £925m. Funding was allocated nationally, achieving a balance of projects across the regions as set out below.

Region	No. of schemes	Funding
East Midlands	32	£114m
East of England	21	£55m
London	25	£171m
North East	26	£82m
North West	54	£135m
South East	26	£110m
South West	25	£66m
West Midlands	35	£109m
Yorkshire & Humber	26	£83m

The basis upon which schemes were assessed and the approach taken to shortlisting is available from the HCA website, along with more detail about the shortlisted schemes. However, the broad requirements each scheme needed to meet under Round 1 were:

- To be a minimum of 50 units;
- To have received detailed planning permission by 1 September 2009;
- To fit with locally identified needs and priorities;
- To be able start or re-start on site by 31 March 2010; and
- To be able to complete on site by 31 March 2011 (3 December for HomeBuy Direct units).

Broad requirements for Round 2 remain the same, with the exception of a longer delivery timescale (introduced in response to requests from the industry). Round 2 schemes need to start on site by 31 March 2011 and complete on site by 31 March 2012. Furthermore it is an expectation that those who receive funding under Round 2 of Kickstart will have in place or work to offer an apprenticeship scheme and local labour opportunities.

Round 1 due diligence – general

Projects shortlisted under Round 1 underwent a robust due diligence process. For all projects this included a risk and deliverability assessment, value for money review, and design assessment. Developers who were not already pre-qualified as HCA investment partners were required to complete the pre-qualification process. (A strategic fit with locally identified needs and priorities and local context had been considered as part of the shortlisting).

For projects seeking Investment Support (loan/equity/gap funding) due diligence was undertaken on the financial position of the project, including the status of any bank finance and the ability of the company to provide any guarantees. Property assumptions (land values, sales rates, build costs, etc) were also independently reviewed.

Following completion of Round 1 due diligence the outcome for the 270 shortlisted schemes is as follows:

- 136 schemes approved
- 20 approved subject to conditions
- 32 not approved
- 82 withdrawn

Investment and outputs are as follows:

	Market (sale/rent)	HBD	Social rent	LCHO (inc. IMR)	Total units unlocked ¹	Total £'m
Approved	5,214	2,052	2,206	809	10,281	359.9
Approved STC	1,362	134	286	424	2,206	108.5
Total	6576	2186	2492	1233	12487	468.3
Units as % total	53%	17%	20%	10%	100%	

At the time of writing, schemes which have yet to meet conditions of approval are being reviewed by HCA. The next milestone for approved schemes is exchange of contracts.

Of the schemes which were withdrawn by developers, the vast majority were on the basis that the developer concluded it could not deliver within the required timescale. A total of 47 of the schemes which were withdrawn from Round 1 were re-submitted under Round 2, where the timescale for delivery is longer.

For the schemes not approved, the reasons were evenly split between design, deliverability and value for money issues.

The regional distribution of approved funding is set out on the table below.

Region	Funding £m
East Midlands	50.2
East of England	12.1
London	52.6
North East	48.7
North West	48.2
South East	35.3
South West	23.9
West Midlands	53.4
Yorkshire and The Humber	35.4
Total	359.9

The regional balance has held across due diligence: no region's share of the total programme has fallen by more than 3%.

¹ Includes c. 1,000 units funded through the main NAHP programme

The approved schemes include a wide variety of projects, as illustrated by some examples in Appendix 1. These include projects introducing HomeBuy Direct and affordable housing to areas where affordability and access to mortgages remain problems and other investments where the combination of support for infrastructure costs and HomeBuy Direct to promote owner occupation can open up regeneration sites. Kickstart remains a fiscal stimulus intervention and by its nature has not been appropriate for those sites with long lead in times and significant infrastructure requirements before housing development can start.

Change to general due diligence under Round 2

One of the key issues for HCA is the desire to avoid sites being shortlisted and then withdrawn before or during the due diligence process. The process of assessing and shortlisting expressions of interest under Round 2 has therefore included an enhanced role for HCA regional teams in carrying out project checks on key deliverability factors (eg land ownership and planning) in partnership with the local authority and the developer, to ensure that some of the key reasons for fall out post shortlisting in Round 1 have already been independently verified before due diligence starts.

Round 1 due diligence – financial

Kickstart was conceived and launched at the height of the credit crunch as it impacted on development finance. During the Round 1 due diligence period development finance conditions started to stabilise for some of the larger developers. For the smaller and/or more heavily indebted companies, however, development finance constraints remain and we have worked closely with them, their shareholders and their banks to find an investment position that does not subject the public sector to unreasonably high risks, but nevertheless recognises the position that many still find themselves in.

Change finance due diligence under Round 2

The bids received under Round 2 reflect the ongoing changes in development finance referred to above. The number of schemes seeking assistance with liquidity issues (through loan and equity funding) has reduced as a proportion of the total and is more concentrated amongst a smaller group of developers.

There has been an increase in the proportion of projects seeking gap funding, reflecting the position of regeneration sites that continue to face viability issues. There has also been an increase in the proportion of sites where HomeBuy Direct funding alone is seen as sufficient to unlock the project. As a result it is anticipated that a greater number of approved schemes will include HomeBuy direct funding, enabling us to simultaneously kickstart stalled sites and help more first time buyers into home ownership in a sustainable way. Kickstart is expected to add around 3,000 more homes to the original target of 10,000 through the HomeBuy Direct Programme.

Round 1 due diligence – property

The Round 1 due diligence process was used to review the quantum and form of investment sought. Gap funding appraisals were based on a realistic current land value (rather than price paid) and through the appraisal process, the funding required by approved schemes has been reduced by over £90m, compared to the investment sought by the same projects at the expressions of interest stage.

Change property due diligence under Round 2

HCA and its advisors have been able to pool the experience of and information from the Round 1 projects to develop a framework for carrying out gap funding appraisals in Round 2. The Round 2 guidance for bidders sets out the basis upon which different elements of the gap funding appraisal will be assessed.

Round 1 due diligence – design and sustainability

Overall, we were pleased with the positive moves towards uptake of the Code for Sustainable Homes with 70 of the 136 approved schemes aiming to achieve Code 3 or above. The results for design however were much less strong.

The design assessments need to be seen in the context of schemes that by definition as stalled sites have already received, or are well advanced towards, detailed planning permission where no public subsidy was originally anticipated; and in the need to maintain housing supply and help mitigate against the effects of the market downturn on the housebuilding industry. Some sites received planning permission in 2004 – at a time when the Code for Sustainable Homes was still being refined and before Building for Life was fully established as a key industry standard.

While priority was given to schemes delivering an optimum number of homes at best value for money and in areas of locally identified need, good quality was also an important consideration throughout the selection process.

Under Round 1 every scheme was assessed by a CABA Enabler using the Building for Life scoring template, and reviewed by the HCA's regional teams, including regional HCA design managers. The process has raised some issues with the use of Building for Life (BfL) as a desk-based assessment tool, using information submitted as part of the planning application as the basis, and in many cases there was insufficient information to reach a definitive BfL score.

Looking at the raw scores provided by the CABA enablers, the average BfL score on approved schemes was 9.3. We consider actual BfL scores for specific schemes to be commercially sensitive, but indicative groupings are as follows:

- 16 or more: 11 schemes
- 14 to 16: 12 schemes
- 12 to 14: 19 schemes
- 9 to 12: 27 schemes
- Less than 9: 67 schemes

The CABA assessments provided a good starting point for further assessment by the HCA regional teams. A strong benefit was to highlight schemes where more attention was needed and 11 schemes were rejected on the basis of poor design quality. However, for other schemes the HCA regional teams were able to use local knowledge and their regular contact with the local authority and developer to augment the CABA assessment to inform decision-making, for example where the Kickstart project is a single site within what the local authority views as a wider strategic development through which amenities will be provided.

Change to design due diligence under Round 2

The main aim as Round 2 due diligence is launched is to improve the amount, quality and transparency of information available to allow the most thorough design assessment to take place. CABA, HCA regional design managers and some housebuilders have been consulted on improving the way in which information is presented to allow a more rounded assessment of schemes.

Round 2, which has a longer delivery timescale, therefore allows for the inclusion of sites without detailed planning consent at time of approval, meaning that there is greater scope to work with housebuilders to improve design, where necessary and CABA's role will be focused on the loan/equity/gap funded projects. HomeBuy Direct and National Affordable Housing Programme projects will be mainstreamed within those programmes, using Housing Quality Indicators to assess affordable housing investments, which are asked to demonstrate their value for money in the context of the main NAHP programme.

Apprenticeships

Under Kickstart Round 1 delivery of apprenticeships was not a requirement but schemes which offered apprenticeships/local labour opportunities scored more highly. Developers have stated that apprenticeships/local labour opportunities will be offered on 112 of the approved Round 1 schemes.

Apprenticeships under Round 2

It is an expectation that those who receive funding under Round of Kickstart 2 will have in place or work to offer an apprenticeship scheme and local labour opportunities. Bidders have been asked to identify how many apprenticeships will be created or safeguarded and to describe their apprenticeship/local labour schemes and intentions.

Next steps

HCA teams are now working to get Round 1 schemes under contract and started on site, and will simultaneously begin detailed assessment of the Round 2 schemes shortlisted today. Inevitably, given the complexity of property projects and ongoing changes in the market, some Round 1 sites may drop out prior to contract, in which case funding will be taken forward to support projects on the reserve list for Round 2.

We expect to begin announcing successful Round 2 schemes in February, as part of a process to be completed by April.

We will carry out a further review following completion of the process.

Examples of schemes supported

London

Plashet Grove, East Ham, London and Quadrant Housing Trust: £1.7m

Kickstart funding unlocks 42 homes in this project that provides a mix of residential and commercial uses. The scheme is built to Code for Sustainable Homes Level 5 and will deliver three very large five-bedroom houses for affordable rent and one LCHO larger family home (three bed, five person) as part of the scheme.

South West

Essence, Bristol, Galliford Try: £808,763

Kickstart investment will unlock 64 homes for market sale and HomeBuy Direct at this stalled redevelopment of a former garage and car show room on Cheltenham Road, a key gateway into Bristol.

North East

Clayport, Alnwick, Gentoo Group: £5.8m

The market town of Alnwick is a popular residential location in Northumberland with average house prices typically higher than most locations within the region. Consequently there are significant affordability issues and high demand for social housing. The Kickstart scheme will unlock 93 homes including 41 for social rent and 12 low cost home ownership. The securing of Kickstart funding will also enable the Gentoo Group to continue with its apprentice programme.

South East

The Acres, Horley, Barratt Developments: £0.6m

Horley is within Reigate and Banstead which is a Growth Point as designated by CLG which has the aim of making a significant contribution to housing growth. Horley is also a key town within the Gatwick Diamond which has been recognised as key economic growth area within the South East. The Kickstart investment unlocks 67 homes, of which 19 will be HomeBuy Direct, 10 social rent and six low cost home ownership.

West Midlands

Kalamazoo, Birmingham Miller Homes: £1.79m

The Kalamazoo site was formerly a printing works and was partially redeveloped five years ago by Fairclough Homes. Kickstart funding has been granted to Miller Homes which will result in a further 50 dwellings including 16 flats and 34 houses (a mixture of studios, two, three and four bedroom houses) which will be available through a combination of open market sale, Homebuy Direct and Social Rent. Site preparation works are to commence in October 2009 with all Kickstart units being completed by March 2011 HCA West Midlands Team and Job Centre Plus are working with developers on the KHD scheme to identify, prepare and up-skill suitable unemployed candidates for employment opportunities that will arise through the programme.

Yorkshire and Humberside

Verve, Hull, Galliford Try: £3.65m

This distinctive scheme of two, three and four-bedroom semi-detached and detached homes will provide greater choice and quality of housing for local residents in an area consisting of a majority of converted Victorian town houses. The Kickstart investment will unlock 82 HomeBuy Direct and social rented homes, addressing the need for more social rented housing in the area.

East of England

Port Lane, Colchester, Bellway plc: £729,000

This investment will deliver a total of 109 homes, for market sale, HomeBuy Direct and social rent, providing much needed affordable and larger housing in this area. The developer has stated that it will provide apprenticeships on this site. The investment will unlock 32 market sale, 30 HomeBuy Direct and 47 social rented homes.

North West

Tranmere Site E, Birkenhead, Merseyside Lovell Partnerships Ltd: £1,08m

Tranmere Site E comprises one phase of a wider residential development programme within Tranmere HMRI, Birkenhead. It had stalled due to the economic downturn and market failure. It is a prominent, cleared site and lies on a main arterial route leading into Birkenhead town centre. Its redevelopment will, because of its location, be high profile and it will significantly improve the image and perception of the area. It will provide

much needed new family accommodation for local people. Kickstart funding will result in the delivery of 56 houses (a mixture of two, three and four-bedroom semi detached and terraced houses). They will all be for sale and 20 of them will be sold with the benefit of HBD support. Site preparation works commence in November 2009 with all the dwellings being completed by March 2011. The development will be built to Code for Sustainable Homes Level 3.

East Midlands

Nene Road, Lincoln, Miller Homes: £1,76m

Nene Road 1 is a site to the north of Lincoln and is well connected into the city centre. Kickstart funding will unlock 55 homes, and will open the door to Nene Road 2, which encompasses the remainder of the development and delivers another 79 homes.