



## **Pre-Tender Market Engagement**

### **Affordable Homes Guarantee Scheme 2020**

**External Delivery Partner to operate the scheme under the terms of a Concession Agreement from  
MHCLG**

**Ref: CPD/004/120/017**

**Authority:** Ministry for Housing, Communities and Local Government (MHCLG) (“the Authority”).

**Date Response required:** 12.noon (GMT) 24 July 2019

## **1 PURPOSE**

1.1 This Pre-Tender Market Engagement (“PTME”) seeks information in preparation for the potential procurement of a supplier (from herein referred to as a “Potential Supplier”) to procure an external delivery partner to operate the Affordable Homes Guarantee Scheme 2020 (“AHGS 2020”) under a Concession Agreement with the Authority. The purpose of this PTME is to:

1.1.1 help define the requirement;

1.1.2 help provide a better understanding of the feasibility of the requirement;

1.1.3 understand the best approach;

1.1.4 understand the capacity of the market to deliver and possible risks involved;  
and

1.1.5 provide the market with an opportunity to ask questions, raise queries and any issues to be addressed at an early stage.

1.2 The Authority shall maintain commercial confidentiality of information received during the PTME. References in this document to MHCLG include Homes England, which is MHCLG’s delegated agent in relation to the procurement of this scheme.

## **2 INTRODUCTION**

2.1 In 2012, the then Chancellor announced a £10bn housing debt guarantees programme. £3.5bn of that allocation was made available for affordable housing (resulting in the Affordable Homes Guarantee Scheme 2013, or AHGS 2013) and £3.5bn to support the emerging Build to Rent sector (resulting in the Private Rented Sector Guarantees Scheme, or PRSGS). £3bn was to be held in reserve for either scheme according to demand.

2.2 Both AHGS 2013 and PRSGS were debt aggregator services run by an external delivery



partner under a licence from MCHLG. The delivery partner promoted the scheme, processed applications and acted as the debt issuer, having raised debt from the capital markets. AHGS 2013 was generally well received by borrowers, through providing long-term, low-cost and fixed rate finance. A copy of the AHGS 2013 scheme rules may be found [here](#)<sup>1</sup>. At Spring Statement 2019, the Chancellor announced a new £3bn Affordable Homes Guarantee Scheme (to be termed AHGS 2020).

### **3 HIGH LEVEL OUTLINE PROJECT OUTCOMES REQUIRED**

- 3.1 The supplier of this requirement will act as the Authority's delivery partner to provide a debt aggregation service that will enable not-for-profit and for-profit private registered providers to develop additional, new-build homes for affordable and social rent and/or affordable home ownership. If an appointment is made, the supplier will operate the scheme under a Concession Agreement from the Authority.
- 3.2 The AHGS 2020's objective is to reduce the overall finance costs to borrowers to support them to deliver a greater number of additional, new affordable homes than they would otherwise have done. MHCLG will provide a guarantee, covering full repayment of principal and interest, in respect of both:
  - 3.2.1 the payment obligations of a borrower pursuant to a loan from, or arranged by, the successful bidder; and
  - 3.2.2 the payment obligations of the successful bidder, or a vehicle established by the successful bidder, in respect of any capital raised for the purpose of on-lending to one or more borrowers.
- 3.3 The successful bidder (who will owe a duty of care to MHCLG) will be required under the terms of the concession agreement to:
  - 3.3.1 promote the scheme to eligible borrowers
  - 3.3.2 manage the raising of finance from the capital markets (likely to be listed debt securities) and on-lend the proceeds to approved borrowers;
  - 3.3.3 process applications from loan applicants, undertake due diligence, credit assessment and risk assessment;
  - 3.3.4 provide such management information and stress testing analysis as may be required under the terms of the Concession Agreement; and
  - 3.3.5 during the term of the loans, perform facility agent type services such as

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/505590/AHGS\\_Proposed\\_Changes\\_to\\_Scheme\\_Rules.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/505590/AHGS_Proposed_Changes_to_Scheme_Rules.pdf)



processing any waivers or amendments and monitoring ongoing reports and certificates received from the borrowers.

- 3.4 Provision of the guarantee for each loan, or any capital raised for the purpose of funding a loan, will be subject to MHCLG approval which will take account of the eligibility and purpose of the loan, and satisfaction with and approval of the risks of the individual borrowing. Of key importance to HMG is the maximisation of the benefit of the guarantee in reducing the cost of borrowing and supporting the development of new affordable homes.

#### **4 KEY DATES & TENDERING PROCESS**

- 4.1 The Authority and Homes England will be available to hold meetings with prospective bidders at the following dates and times to discuss responses to the questions below.

Thursday 25 July: 0900 – 1200; 1430 – 1700

Tuesday 30 July: 1100 – 1600

Wednesday 31 July: 1100 – 1600

Thursday 1 Aug: 0900 – 1200; 1500 - 1700

Friday 2 Aug: 1000 – 1700

Appointments will last 1 hour and can be made by submitting a message on by the 'Messages' function in PQQ\_8 **Affordable Homes Guarantee Scheme 2020**. Meetings will be held at Windsor House, 50 Victoria Street, London SW1H 0TL.

- 4.2 If it is decided the service described in this PTME is required, it is anticipated that a procurement may start September 2019 with the contract to commence in Q1 2020. These indicative dates are for information purposes only. MHCLG reserve the right to amend these dates at any time, and Potential Suppliers rely on them entirely at their own risk.
- 4.3 The contract is expected to be for a period of up to 39 years, with the possibility of extensions dependent on market conditions. The Authority also intends to provide for a 'top-up' to the £3bn allocation, again dependent on market conditions.



- 4.4 It is anticipated that the tender will be conducted under the Concession Contracts Regulations 2016 and will be opened in September 2019 via the publication of contract notice in the Official Journal of the European Union.

## 5 RESPONSE

**Please respond by uploading your answers to the PQQ\_8 Affordable Homes Guarantee Scheme 2020 on BravoSolution by 12.noon (GMT) 24<sup>th</sup> July 2019 (the “Response Deadline”).**

### QUESTIONS

#### *General*

- 5.1 Would you be interested in bidding for this project?
- 5.2 Is what the Authority is seeking to procure clear?
- 5.3 What, if anything, has the Authority missed or overlooked in setting out their requirement?
- 5.4 Would you be able to deliver all of the outcomes envisaged? If not, which outcomes would be excluded and why?
- 5.5 How would you propose to provide comfort to the Authority on commercial conflicts of interest that could prejudice the maximisation of deployment of the Scheme and/or result in the scheme objectives not being met?
- 5.6 What issues are you expecting Technical Questions to cover in any future Invitation to Tender?

#### *Envisaged Scheme structure and funding of the Affordable Housing Market*

- 5.7 Would you see any merit in dividing the various components of the services to be provided by the delivery partner and allow for segregation of (a) promotion of the scheme to eligible borrowers, (b) the upfront due diligence and credit assessment role and (c) the fundraising role, with a view to the possibility of different delivery partners for each role?
- 5.8 Would it be reasonable to expect the Potential Supplier to be able to perform, where applicable, the arrangement and underwriting of listed bonds “in-house” or would this be through third party regulated intermediaries? If it is the latter, what would be any benefit of the delivery partner being nominally responsible for the fundraising role?
- 5.9 What would the optimum fee structure be under the concession agreement, bearing in mind the need to balance the scheme’s objectives of ensuring that borrowers’



overall cost of funds is reduced, alignment of interests with MHCLG as the guarantor of the borrowers, and/or market appetite.

- 5.10 Compared to the 2013 Scheme, in light of the current sector environment and the Authority's objectives, are there any suggestions you would make to maximise the take-up and effective deployment of the new Scheme? These could include, for example, changes to the application and approval process, eligibility criteria and/or the terms of the contracts with borrowers.
- 5.11 In terms of encouraging the development of more affordable housing using cheaper debt and any debt leverage limitations of Registered Providers in the context of current finances, in the context of the Scheme, could you suggest any enhancements to the 2013 Scheme to be considered by the Authority?

#### ***Project Eligibility and Management***

- 5.12 Bearing in mind the desired outcomes, what would be the advantages and disadvantages of allowing borrowing to support a development pipeline as opposed to specific development projects? Should this course be pursued, how do you recommend borrowers are asked to forecast and demonstrate additionality?
- 5.13 What information could the supplier be expected to provide to facilitate stress testing and review by the Authority of the borrowers' and supplier's performance? This could include information collected from borrowers and/or information prepared by the supplier.
- 5.14 To what extent could the Authority perform stress tests based on economic scenarios similar to those issued by the Bank of England?

#### ***Lending***

- 5.15 What would be the advantages and disadvantages of offering different types or structure of lending under AHGS 2020? Examples would include unsecured or partially secured borrowing, amortising loans, index-linked loans or other loan structures or repayment types?

#### ***Security***

- 5.16 What would be the advantages and disadvantages of using MVSTT rather than EUV-SH, bearing in mind the objectives of the scheme. What level of security (as a percentage) might be appropriate for each valuation methodology?
- 5.17 AHGS 2013 allowed shared ownership properties to constitute up to around 30% of security. Do you consider a cap is required and, if not, why not? If so, what level do



you consider appropriate and why?

- 5.18 AHGS 2013 required borrowers to provide the aggregator with 12 months of interest payments, held in escrow. What would be the advantages and disadvantages of reducing this period, and if it were to be reduced, should this be to 6 months or 9 months? Do you have any suggestions regarding other methods of providing the protection offered by this buffer?
- 5.19 AHGS 2013 required that security be revalued every 5 years. Do you consider that this frequency is appropriate? In what circumstances should valuations be undertaken within this period and who should bear the cost of these?
- 5.20 In the previous scheme, security release was allowed when 115% LTV was reached. Should this figure be revised and what other conditions do you think should be attached to security releases? How would you propose streamlining the security release process?

#### ***Application and Drawdown***

- 5.21 Assuming that the application window is relatively short (3 years), what maximum timeframes would you recommend for drawdowns and repayments after the window has closed?
- 5.22 What would be the advantages and disadvantages of allowing multiple drawdowns on an individual loan and how could this be achieved given the capital markets funding mechanism? What level of market capacity do you envisage for multiple draws in the capital markets context and over what period?
- 5.23 What documentary and other conditions/covenants should be imposed (pre- and post-initial drawdown) if we allow borrowing for development pipelines and/or multiple drawdowns?
- 5.24 AHGS 2013 had a minimum drawdown limit of £5m. Would it be feasible to reduce this limit to make the scheme more accessible to smaller RPs? What would be the advantages and disadvantages of doing so, including any capital markets implications?
- 5.25 Do you have any other suggestions as to how the scheme can be more accessible to smaller RPs?

#### ***State Aid***

- 5.26 In order to conform to State Aid rules, the guarantees issued under AHGS 2020 must be consistent with the Services of General Economic Interest (SGEI) State aid



exemption.<sup>2</sup> This requires that the guarantees do not overcompensate borrowers for their provision of the SGEI – in this case, affordable housing<sup>3</sup>. This means that the compensation to borrowers, in the form of guarantee, must not exceed what is necessary for them to cover the net cost incurred in providing the affordable housing. 'Net cost' here means the difference between the costs of providing the housing, including a reasonable profit, and the revenues earned from that housing. 'Reasonable profit' here means the rate of return on capital that would be required by a typical undertaking considering whether or not to provide the housing. What potential mechanisms might be available to Potential Suppliers for ensuring that overcompensation is avoided and that the necessary reporting is provided to the EU Commission or the UK Competition and Markets Authority, as the case may be?

## 6 QUESTIONS AND CLARIFICATIONS

- 6.1 Potential Suppliers may raise questions or seek clarification regarding any aspect of this PTME document **before 12. noon on 22 July 2019.**
- 6.2 Questions must be submitted by the 'Messages' function in PQQ\_8 **Affordable Homes Guarantee Scheme 2020** on **Bravosolution**. To use this service:
  - 6.2.1 Register for a free account at <https://dclg.bravosolution.co.uk>
  - 6.2.2 Click the 'PQQs Open To All Suppliers' link. (These are Selection Questionnaires (SQ) open to any registered supplier).
    - Click on the relevant PQQ to access the content.
    - Click the 'Express Interest' button at the top of the page.
    - This will move the PQQ into your 'My PQQs' page. (This is a secure area reserved for your projects only) You can now access any attachments by clicking 'Buyer Attachments' in the 'PQQ Details' box
  - 6.2.3 Click 'My Response' under 'PQQ Details', you can choose to:
    - 'Create Response', or,
    - 'Decline to Respond' (please give a reason if declining).
  - 6.2.4 You can now use the 'Messages' function to communicate with the Authority and seek any clarification. Follow the onscreen instructions to complete the PQQ. There may be a mixture of online & offline actions for you to perform. You must then submit your reply using the 'Submit Response' button at the top

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<sup>2</sup> See the Commission Decision of 20 December 2011 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012D0021&from=EN>)

<sup>3</sup> See Article 5 of the Commission Decision of 20 December 2011.



of the page. If you require any further assistance please consult the online help, or contact the eTendering help desk.

- 6.3 To ensure that all Potential Suppliers have equal access to information regarding this PTME exercise, responses to questions raised by Potential Suppliers will be published in a “Questions and Answers” document, which will also be circulated by email, with updates appearing at regular intervals (approximately two to three working days).
- 6.4 Responses to questions will not identify the originator of the question.
- 6.5 If a Potential Supplier wishes to ask a question or seek clarification without the question and answer being revealed, then the Potential Supplier must state this in their email and provide its justification for withholding the question and any response. If the Authority does not consider that there is sufficient justification for withholding the question and the corresponding response, the Potential Supplier will be invited to decide whether:
  - 6.5.1 the question/clarification and the response should in fact be published; or
  - 6.5.2 it wishes to withdraw the question/clarification.

## **7 GENERAL CONDITIONS**

- 7.1 This PTME will help the Authority to refine the requirements and to understand the potential level of interest in the delivering requirements. It will also aid Potential Supplier’s understanding of the requirements in advance of any formal competitive tender exercise.
- 7.2 The Authority reserves the right to change any information contained within this PTME at any time, and Potential Suppliers rely upon it entirely at their own risk.
- 7.3 The Authority reserves the right not to proceed with a competitive tender exercise after this PTME or to award any contract.
- 7.4 Any and all costs associated with the production of such a response to this PTME must be borne by the Potential Supplier.
- 7.5 No down-selection of Potential Suppliers will take place as a consequence of any responses or interactions relating to this PTME.
- 7.6 The Authority expects that all responses to this PTME will be provided by Potential Suppliers in good faith to the best of their ability in the light of information available at the time of their response.



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- 7.7 No information provided by a Potential Supplier in response to this PTME will be carried forward, used or acknowledged in any way for the purpose of evaluating the Potential Supplier, in any subsequent formal procurement process.