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Award

Affordable Homes Guarantee Scheme 2020 (AHGS20)

DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES

F15: Voluntary ex ante transparency notice

Notice identifier: 2023/S 000-035560

Procurement identifier (OCID): ocds-h6vhtk-04212d

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Section I: Contracting authority/entity

I.1) Name and addresses

DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES

2 Marsham Street

LONDON

SW1P4DF

Email

commercialtenders@levellingup.gov.uk

Country

United Kingdom

Region code

UK - United Kingdom

Justification for not providing organisation identifier

Not on any register

Internet address(es)

Main address

<https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities>

I.4) Type of the contracting authority

Ministry or any other national or federal authority

I.5) Main activity

General public services

Section II: Object

II.1) Scope of the procurement

II.1.1) Title

Affordable Homes Guarantee Scheme 2020 (AHGS20)

Reference number

CPD4120017

II.1.2) Main CPV code

- 66100000 - Banking and investment services

II.1.3) Type of contract

Services

II.1.4) Short description

The Department for Levelling Up, Housing and Communities (the "Department") is publishing this voluntary transparency notice to alert economic operators of its intention to vary a concession arrangement entered into with Saltaire Housing Limited (the "Concessionaire") on 16 October 2020 following a period of 10 days from the date of publication of this notice. The Department considers that the relevant modifications (as

described below) are justified on the basis that they are in compliance with the Concession Contract Regulations 2016 (the "CCRs") pursuant to Regulation 43(1)(a) and 43(1)(b) of the CCRs.

By way of background, on 6 November 2019, the Department published a contract notice to appoint a concessionaire to deliver the Affordable Homes Guarantee Scheme ("AHGS20"). The contract notice explained that the concessionaire was required to raise £3bn of capital from investors (with a potential £3bn top up at the Department's sole discretion) and on-lend to registered housing providers ("RPs") and manage the resulting loan portfolio over the lifetime of the borrowings (which shall continue to be a maximum of 30 years from the date the relevant loan is advanced). The estimated total value of the concession contract was stated to be in the range of £80m-£125m.

The purpose of the AHGS20 was to enable the Secretary of State for Housing, Communities and Local Government to provide guarantees covering scheduled interest and scheduled principal payable to investors by the capital-raising special purpose vehicle established by the successful tenderer and the corresponding loans made to RPs under the scheme. The scheme seeks to maximise the benefit of the guarantee, by reducing RPs' cost of borrowing, thereby enabling them to deliver more new affordable homes. Management of the concession agreement would be delegated to Homes England.

Since the award of the above concession, a more hostile macro-economic environment and a growing and urgent need for RPs to address decarbonisation and decency issues have resulted in RPs deprioritising delivery of new affordable homes in favour of investment in existing assets. By allowing lower-cost scheme funding to be split between new development (with a minimum of 50% of each loan to be used for this purpose) and decarbonisation and remediation, RPs are incentivised to carry on developing while simultaneously addressing issues with their existing stock, rather than pausing or significantly cutting back on development. The modifications envisaged to the concession agreement are therefore necessary to achieve the scheme's primary objective of providing lower cost debt to enable RPs to develop more homes than they would otherwise have done in circumstances where for both economic and technical reasons as described further below it is not possible to change the concessionaire in order to facilitate the Tranche B lending.

II.1.6) Information about lots

This contract is divided into lots: No

II.1.7) Total value of the procurement (excluding VAT)

Value excluding VAT: £213,000,000

II.2) Description

II.2.3) Place of performance

NUTS codes

- UK - United Kingdom

Main site or place of performance

England only.

II.2.4) Description of the procurement

The Department requires changes to be made to the Scheme Rules so as to broaden the range of delivery undertakings which may be eligible for funding (referred to as "Scheme Expansion"), to include improvements relating to energy efficiency and housing decency as well as the construction of new-build and additional affordable housing. Those improvements will be facilitated via:

- 'Tranche B' loans (while an amount equal to 'Tranche A' loans must continue to be spent on the delivery of new affordable housing); and
- secondly, to clarify or in some cases modify the current rules of the scheme, to ensure it remains accessible to a broad range of RPs whose business plans incorporate a degree of new development (referred to as "Scheme Acceleration").

As part of the Scheme Expansion and Scheme Acceleration, consequential changes will be made to the concession agreement and programme documentation (as more particularly described in section II.2.14 below). This will include an increase to the Cumulative Guarantee Amount to £6bn and to extend the application window to April 2026.

In respect of the intended increase to the Cumulative Guarantee Amount and the extension of the guarantee application period, the concession agreement contained provisions contemplating these particular modifications (clauses 3.1 and 7.2 respectively). To that end, the Department is of the view that such modifications are justified on the basis that they are compliant with the requirements of Regulation 43(1)(a) of the CCRs.

In respect of the remaining modifications referred to elsewhere within this notice, the Department is of the view that such changes are justified on the basis that they are compliant with the requirements of Regulation 43(1)(b) of the CCRs for the reasons set out below.

Firstly, the Department believes those modifications are necessary due to the fact that the required delivery undertakings under each loan as originally designed no longer meets RP, or government, requirements due to financial and non-financial issues that have had

a significant impact on the affordable housing sector since it was launched. This original scheme requires all funding to be spent on new development, which has been deprioritised by many of RPs in favour of expenditure on decarbonisation and decency works to their existing stock. This reprioritisation occurred towards the end of 2022 in light of rising inflation, interest rate rises, capital expenditures, maintenance costs, potential rent caps, the urgent need to address decency standards and health and safety issues in respect of their existing social housing (e.g. discovery of mould/damp within social housing accommodation which have resulted in health issues, and ongoing fire safety concerns) and a desire to improve energy efficiency of housing (both for environmental and anti fuel-poverty reasons).

Many RPs that would otherwise have been eligible for the scheme paused development activity and diverted their available funding towards existing stock improvements, which inevitably reduced demand for the existing scheme given its development focus. By allowing AHGS20 finance to be used both for new development (with a minimum of 50% of each loan to be used for this purpose) and decarbonisation and remediation, the scheme will be better aligned to RPs' current priorities, enabling them to access funding at lower rates than are available in the market (that can in turn be reinvested in delivering their business plans) and ensuring they can continue to develop new homes while addressing issues with their existing stock. Further, the political landscape has changed since the procurement was conducted in 2019/2020, such that there is a more intensive focus today in respect of tackling environmental and quality issues. The Department believes that the AHGS20 is the optimal vehicle to address these issues and the expansion of the required delivery undertakings under each loan and the limited range of associated variations to the benefit of RPs does not materially alter the services procured under the initial concession contract (i.e the raising of finance to lend to RPs and the subsequent underwriting and administration of that lending). Indeed, not only would the adjustment to the borrowing restrictions be optimal, but in respect of the health and safety issues referenced above, the Department believes it is entirely necessary for the AHGS20 to assist with this objective. Therefore, in order for the AHGS20 to continue to deliver its primary objective (i.e. support the delivery of new-build and additional affordable housing), it is necessary to ensure that the scheme facilitates safe practices and ensures that borrowers meet their contractual obligations and wider duties to comply with latest government guidance/regulations. Changes to the security arrangements (whereby borrowers will have the option to calculate the minimum value of their security by reference to the amount allocated to new development only) are required because, unlike new development, expenditure on decarbonisation and decency works does not necessarily lead to a corresponding increase in asset values. Requiring borrowers to provide security in the absence of such an increase would create a drag on their unencumbered asset base, prejudicing their ability to access finance from commercial lenders who require a more traditional security package. These factors, coupled with the other factors discussed below, means that the Department believes it is necessary to incorporate these modifications.

The Department also believes that a change of concessionaire cannot be made for economic and technical reasons. Tranche A and Tranche B constitutes an integrated product, in that both are advanced to the same borrower at the same time and are secured by the same asset pool. If Tranche A and Tranche B were advanced by different lenders, and the Tranche B lender were unsecured, then in the event of a default on the Tranche B loan resulting in a call on the guarantee, the Department would have no recourse to the Tranche A security in relation to the Tranche B default. The Department would not accept such a diminished security position, and it would also involve operational complexity for all parties and would also result in the loss of efficiencies associated with utilising the existing bond programme to finance the Tranche B lending and lead to increased costs.

A change of concessionaire would also cause significant inconvenience and substantial duplication of costs for the Department. The 2019/2020 procurement process took some 18 months given the complexity of the subject-matter of the contract and ensuring that bidders were provided with sufficient time to respond. Delaying the implementation of the required changes would have a significant impact on RPs' ability to access funding necessary to enable them to deliver their business plans to support the delivery of new-build and additional affordable housing, thereby jeopardising the objectives of the scheme. It would also increase costs and the administrative burden on RP applicants because of the need to make separate applications for and put in place separate loan and security agreements with separate entities depending on whether the loan was for new development or investment in existing stock, with a high degree of overlap and duplication. It would also necessitate separate due diligence and approval processes within the Department which would extend the timeline for making loans available. To that end, the Department takes the view that the timescales and costs which would be involved if it was required to undertake a further procurement process, and operate a parallel scheme, would be significant. The administrative burden on the Department as described in this paragraph would lead to substantial duplication of public funds.

In respect of whether an increase in value of the concession contract does not exceed 50% of the value of the original concession contract, the Department believes this is the case. The original contract value was estimated to be £105m (on the basis of the Cumulative Guarantee Amount being £3bn) and £192m (on the basis of the Cumulative Guarantee Amount being £6bn). The modifications described in this notice would result in the Cumulative Guarantee Amount being £6bn and an increase to the estimated contract value to £213m in total), which is significantly below the 50% threshold.

II.2.5) Award criteria

Quality criterion - Name: Quality / Weighting: 70%

Cost criterion - Name: Price / Weighting: 30%

II.2.11) Information about options

Options: No

II.2.14) Additional information

The changes to the Scheme Rules which shall be reflected in the concession agreement are primarily to enable the making of Tranche B loans to support energy efficient and housing decency improvements ("Existing Asset Investments"), alongside Tranche A Loans to support development of "Approved Pipeline Schemes". Loans will continue to be made for general corporate purposes, with amounts equivalent to Tranche A and Tranche B required to be spent on Approved Pipeline Schemes and Existing Asset Investments, respectively. Changes include:

- the addition of provisions to enable Approved Borrowers to request that up to 50% of a Loan be classified (or reclassified) as a Tranche B loan;
- the addition of provisions to enable up to 50% of an existing Loan to be recategorised as a Tranche A Loan (subject to Guarantor consent) giving borrowers who elect to take a Tranche B Loan the option for their minimum security value to be calculated by reference to the Tranche A amount only, in return for paying a non-refundable fee that will be for the guarantor's sole account. On any default, the security will be available to cover the aggregate Tranche A and Tranche B loan amount, and the aggregate loan amount also will be used as the basis for calculating the threshold for security releases;
- A replacement of the concept of Debt Service Cover with Interest Cover, to reflect how the scheme has operated in practice over the past three years;
- the Guarantee Application Period can be extended by a further year on a maximum of two occasions at the sole discretion of the Guarantor, which is in addition to the two year extension already granted under the terms of the Agreement pursuant to the exercise of the original option.
- an extension to end date of the concession to be the earlier of the date two years after the last date on which final repayment is due under a loan and 31 December 2063 (originally 31 December 2059), which is necessary to prevent the concession agreement ending prior to the final loan position being finalised;
- discrete changes to the Approved Borrower proposal which the Concessionaire submits to the Department to provide necessary details including in relation to any Tranche B loan;
- incorporating an additional obligation on the Concessionaire to ensure that each loan agreement provides that an amount equal to loan funds are utilised for projects that satisfy the eligibility requirements of the Scheme Rules at the time of the loan application;

- amending the 'Borrower Arrangement Fee' in respect of loans funded by on-lending the proceeds of a capital raising such that where a loan does not include a Tranche B Loan as well as a Tranche A Loan, the arrangement fee shall be 0.55 per cent of the nominal total committed amount of the Loan rather than 0.50 per cent. For the avoidance of doubt, if an Approved Borrower takes only Tranche A borrowing, the arrangement fee remains 0.50 per cent;
- amending the 'Borrower Management Services Fee' such that the 0.02 per cent step down (from 0.10 per cent per annum to 0.08 per cent per annum plus CPI on the loan balance) that would have applied to loans funded if the Cumulative Guarantee Amount increased from £3bn to £6bn, shall be removed i.e. the 'Borrower Management Services Fee' will be the same for all borrowers and all loans at 0.10 per cent per annum plus CPI from scheme inception on the loan balance;
- additional drafting to incorporate additional obligations on the Concessionaire in respect of reporting/attending meetings with the Department and monitoring/periodically calculating the asset cover amount in accordance with the loan agreements;
- revisions to the scheme rules to articulate the eligibility criteria for Tranche B loans;
- revision to the form of loan agreement which stipulates that borrowers must start on site within 3 years rather than 2 years (to provide additional time in light of the challenges outlined above in respect of RPs' prioritisation); and
- minor clarificatory changes to the drafting to ensure alignment throughout the scheme documentation and to reflect updated legislation.

Section IV. Procedure

IV.1) Description

IV.1.1) Type of procedure

Award of a contract without prior publication of a call for competition in the cases listed below

- The procurement falls outside the scope of application of the regulations

Explanation:

As explained in section II.2.4 above:

In respect of the intended increase to the Cumulative Guarantee Amount and the extension of the guarantee application period, the concession agreement contained provisions contemplating these particular modifications (clauses 3.1 and 7.2 respectively). To that end, the Department is of the view that such modifications satisfy the requirements of Regulation 43(1)(a) of the CCRs and therefore the contract may be modified without a new concession award procedure; and

In respect of the other modifications required, the Department is of the view that such changes satisfy the requirements of Regulation 43(1)(b) of the CCRs for the reasons set out within section II.2.4. and therefore the contract may be modified without a new concession award procedure;

The Department will publish a modification notice pursuant to Regulation 43(3) of the CCRs.

IV.1.8) Information about the Government Procurement Agreement (GPA)

The procurement is covered by the Government Procurement Agreement: Yes

IV.2) Administrative information

IV.2.1) Previous publication concerning this procedure

Notice number: [2019/S 214-526473](#)

Section V. Award of contract/concession

A contract/lot is awarded: Yes

V.2) Award of contract/concession

V.2.1) Date of conclusion of the contract

1 December 2023

V.2.2) Information about tenders

The contract has been awarded to a group of economic operators: No

V.2.3) Name and address of the contractor/concessionaire

Saltaire Housing Ltd

4th Floor Phoenix House, 1 Station Hill

Reading

RG1 1NB

Country

United Kingdom

NUTS code

- UKJ - South East (England)

Justification for not providing organisation identifier

Not on any register

The contractor/concessionaire is an SME

No

V.2.4) Information on value of contract/lot/concession (excluding VAT)

Total value of the contract/lot/concession: £213,000,000

Section VI. Complementary information

VI.4) Procedures for review

VI.4.1) Review body

Department for Levelling Up, Housing and Communities

2 Marsham Street

London

SW1P 4DF

Country

United Kingdom