

Appendix 2: Value for Money Evaluation Process and Criteria

Applications for Public Housing New Supply funding ("Gateway 2" applications) will be evaluated according to a comprehensive "Value for Money" framework. The analysis will be based on the main criteria and weightings below. Details on the Value for Money framework are provided below.

Main Criteria	Weighting
Ability to Deliver	20%
Fit for Purpose	30%
Financial Viability	30%
Price	20%

Process Overview

A Ministry of Housing and Urban Development (HUD) evaluation team will evaluate each project according to the main criteria above as well as detailed sub-criteria, which will each be scored on a scale of 1-10 and will also be weighted (details below). For most categories, the team will apply minimum thresholds that must be met or exceeded in order for projects to obtain funding (see below). The team will also confirm that the relevant pre-conditions (listed on page 1 of the Application for Funding) are in place. At the end of the process, the team will assign each project a preliminary "Value for Money" score.

The evaluation team will present its results to an Evaluation Panel, which will review the application and score, and will make a final funding decision on the project.

Rating Scale

The evaluation team will use the following scoring scale to evaluate Applications against the criterion:

Description	Rating
EXCELLENT Significantly exceeds the criterion	9-10
GOOD Exceeds the criterion in some aspects	7-8
ACCEPTABLE Meets the criterion in full, but at a minimal level	5-6
MINOR RESERVATIONS Marginally deficient	3-4
SERIOUS RESERVATIONS Significant issues that need to be addressed	1-2
UNACCEPTABLE Significant issues not capable of being resolved	0

- A score of 5 and above will be considered a pass of that evaluation criterion. A score of 3 or 4 will result in HUD seeking further clarification before final assessment of the Application (which may result in the Application being re-assessed). A score of 0-2 will result in the Application being rejected.

- The minimum scores indicated above will be applied to each of the main criteria, not to individual sub-criteria.

Ability to Deliver

Ability to Deliver (Capacity and Capability)	Rating	20%
Organisational Delivery	0-10	35%
Asset Delivery	0-10	35%
Asset Management	0-10	15%
Tenancy Management	0-10	15%

Organisational Delivery: HUD is seeking to fund providers who can deliver what they say and by when. The evaluation team will analyse providers' track records on previous projects (if available). A key element of the analysis will be whether counter party risk is clear, the roles and responsibilities of all of the main partners are clear and that all relevant delivery risks are mitigated. The team will also evaluate any internal governance structures that are unique to the proposed project.

Asset Delivery: HUD is seeking to support developers who have the experience and capability to deliver the specific proposal/asset. For new builds, this will include consideration of the master plan, including how the locations were selected, a description of the CFR will be used and programme plans identifying the timing, states and key milestones, ensuring that dependencies are properly identified. HUD will also be evaluating the build techniques and the implications of the techniques for timely delivery. The team will also be evaluating the degree of project readiness.

Asset Management: HUD will be evaluating the extent to which operating policies and procedures exist and have been supplied. The team will evaluate whether there are cyclical and life-cycle maintenance plans that are unique to the project and that these are undertaken in a timely manner. The team will evaluate the extent to which the asset management plan is tailored to the specific build type and any unique design features of the project.

Tenancy Management: The team will also consider tenancy management for the proposed project and the extent to which providers have robust tenancy management policies and procedures in place (and are supported by the necessary resources).

Fit For Purpose

Fit for Purpose		30%
Human/Habitable	0-10	30%
Social/Community	0-10	30%
Natural/Environmental	0-10	15%
Affordable/Durable	0-10	25%

Human / Habitable: HUD seeks to fund high quality new builds that incorporate good design principles and practices. This includes appropriately sized spaces, easy and functional living, access to sunlight and peaceful, safe spaces. HUD aims to support projects that are healthy and comfortable to live in. HUD also seeks to support projects designed to offer additional facilities for targeted cohorts, for example accessible units catering for disabled persons and/or seniors.

Social / Community: HUD seeks to support projects that create connected neighbourhoods and communities. HUD seeks to support projects that are served by good public transportation links, providing easy access to employment and connections to the wider community. HUD also seeks to support projects with good access to health providers and other essential services, shopping and recreational facilities. HUD also aims to support projects with community spaces, outdoor spaces and places and any other amenities appropriate to the tenant cohort. Where possible, HUD seeks to support projects with strong levels of community support and participation in the project design and/or construction.

Natural / Environmental: Where possible, HUD seeks to support projects that are low impact, responsible and resourceful. HUD welcomes proposals with higher levels of water efficiency and waste consciousness. It also encourages the use of recycled and recyclable materials and environmentally friendly materials and finishes.

Affordable / Durable: HUD seeks to fund projects that are affordable to run, managed to last and innovative. HUD welcomes proposals that help address the “fuel poverty” that many vulnerable people currently experience. HUD is looking to fund projects with superior durability of construction materials, as these will help ensure that our projects can continue to deliver good social housing outcomes for the duration of the HUD contracts and beyond. Projects that can demonstrate sustainability or durability, either through a 3rd party certification or other means, will be scored more highly in this category. HUD also seeks to fund projects with elements of innovation in design, construction processes, sustainability and/or commercial structures that have the potential to be replicated across the market and grow the capacity of the community housing sector.

Financial Viability

		Build Projects (BO)	Non-Build Projects (TK, BL, BT)
Financial Viability	Rating	30%	30%
Financing - Level of Support	0-10	30%	40%
Development Costings	0-10	25%	-
Cashflow Model requirements	0-10	25%	33%
Detailed Project Plan and Funding	0-10	20%	27%

The most significant weighting will be given to financial viability of projects. This is because HUD funding will only be effective if other required sources of funds are provided and projects are successfully built and operated, for the duration of the proposed contracts. HUD is seeking to fund projects that are viable and sustainable in the long-term. Projects with stronger financial viability are also more resilient to financial risks (eg cost overruns, delays etc.)

Financing – Level of Support: HUD is seeking to support projects that demonstrate that the required funding is in place. This can be evidenced by letters of support, pre-approval or commitment letters from financiers. The evaluation team will consider the levels of due diligence already conducted by these parties, in order to determine the soundness of their commitments. Projects with stronger commitments will be scored more highly.

Development Costings: For Build and Own projects, the evaluation team will be looking carefully at the development costings, including the level of detail provided, whether all

material costs have been included, whether adequate contingencies have been budgeted for and other allowances been made.

Cash Flow Model Requirements: The evaluation team will be carefully analysing respondents' cash flow models. HUD seeks to support projects that are financially strong, as they will be more resilient to the various risks throughout the projects. HUD will be seeking projects with high levels of equity provided, stronger interest cover ratios and adequate overall debt service coverage ratios. The evaluation team will also be testing the reasonableness of the assumptions and benchmarking them to HUD standards.

Detailed Project Plan and Funding (Money Flows): Another key element of the analysis will be the project plan and funding flows. Respondents should provide evidence that the financing can be delivered according to the timetable (milestones) and conditions set out in the proposal, and that the timing of the various fund flows has been carefully considered and accounted for.

Price

Price	Rating	20%
Whole of Life NPV (by Typology)	0-10	100%

The final factor that will be evaluated is Price. The evaluation team will calculate a "Whole of Life" Net Present Value (NPV) and projects will be assessed based on the whole of life NPV. This calculation will reflect the NPV of the proposed HUD investments (eg operating supplement and/or upfront capital funding) and enable like for like comparison of proposals with different funding structures. The rating will then be calculated based on benchmarks developed by the evaluation team, based on comparable transactions in the relevant region.

For purposes of NPV calculation, the team will use a discount rate of 4% which includes an inflation element of 2% with the discount rate based on [October 2016 Treasury Guidance](#), (the rate for "General purpose office and accommodation buildings.")