



Office of the
Deputy Prime Minister

Creating sustainable communities

Private Finance Initiative Schemes for HRA/Non HRA Housing:

2004 Guidance for
Authorities Making
Proposals

housing



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October 2004

Office of the Deputy Prime Minister: London

The Office of the Deputy Prime Minister
Eland House
Bressenden Place
London SW1E 5DU
Telephone 020 7944 4400
Web site www.odpm.gov.uk

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MINISTERIAL FOREWORD

Since 1997 great progress has been made in reducing the number of homes that fall below the Decent Homes Standard – the number is down by 1 million. But there is a lot more to do.

Where Local Authorities need additional investment to meet this target they have three options that will deliver this: transferring their housing stock to a Registered Social Landlord (RSL); using housing Private Finance Initiative contracts; establishing high performing Arm's Length Management Organisations (ALMOs) or some combination of these.

These three programmes are proving an effective way to channel billions of pounds of extra investment into social housing. So far there have been 194 successful housing stock transfers, 41 ALMOs are up and running and 10 more schemes are being set up. There are currently 33 schemes on the PFI programme aiming to deliver decent homes, and delivering affordable social housing for rent through new build general needs, sheltered and extra care housing.

This document is one of a set of three that launches the latest bidding rounds for the ALMO, PFI and transfer programmes enabling even more Local Authorities to deliver decent homes. There will be a further bidding round in 2005.

Important changes have been made to the options to shape them to the local needs and circumstances. With PFI there is a renewed emphasis on building new affordable social housing. With immediate effect, the cost of demolition is brought within the scope of ALMO funding to ensure robust decisions between demolition and refurbishment in Decent Homes programmes. Housing stock transfer is now a realistic option for Local Authorities and tenants where there is negative value stock with the introduction of a gap-funding scheme.

Giving people decent homes makes real differences to their lives. However these programmes are about more than delivering Decent Homes – they each bring additional benefits. Perhaps most importantly, they offer tenants the opportunity to become much more involved in making decisions about the management and ownership of their homes, through the Options Appraisal process, through implementation of the chosen option and beyond.

We have made it clear that tenant empowerment and tenant consultation must be at the heart of a successful Options Appraisal. The Community Housing Task Force is continuing to make good progress working with tenants, Local Authorities and the Government Offices for the Regions to deliver robust Options Appraisals. For the first time, this year each Local Authority applying for programmes must have their Options Appraisal signed off by the Regional Government Office prior to submitting their bid.

I look forward to continuing to work with Local Authorities and other social landlords in the future to offer their tenants a Decent Home.



Rt Hon Keith Hill MP
Minister of State for housing and planning.

Summary

The Spending Review 2004 announced £1.22 billion of new Private Finance Initiatives (PFI) credits being made available for social housing, and that the government will be striving to make it easier for local authorities to refurbish homes and build affordable new housing for rent to help tackle homelessness through the PFI.

A number of changes have been made to the way in which PFI will be implemented in the future. These result from ongoing work, learning the lessons from signed deals, from current PFI schemes in procurement, and from *PFI: meeting the investment challenge (2003)* by HM Treasury (HMT).

- PFI credits will give a further boost to the provision of new affordable housing (including general needs, extra care and sheltered housing) for rent through the Non HRA, where this fits into regional priorities.
- We intend to give priority to projects that deliver a range of outputs contributing to regeneration and sustainable communities. In particular, we would encourage bids that deliver the joint outcomes of reducing non decent homes, increasing affordable housing to tackle homelessness, or contribute to our aims of reducing low-demand housing and complement local Supporting People strategies.
- A consultation is currently taking place to revise the grant regime to support local authority PFI. This will impact on support for Housing Non HRA schemes. Comments should be received by 15 October.
- A procurement pack has been developed with standard documentation for all schemes to use, building on lessons learned from current schemes. The pack is available to help successful 4th Round authorities to prepare their Outline Business Case (OBC).
- Treasury Guidance set as the guideline for the minimum size of a PFI project an overall capital value of £20m. This is on the basis that transaction and bid costs are often disproportionately high for smaller schemes. Social housing has a specific market for small value schemes where they offer value for money (vfm) and bring benefits to the community. Therefore, Non HRA Housing PFI projects of £10m upwards will, exceptionally, be considered in future bidding rounds, provided they can demonstrate vfm and that transaction costs are proportionate. This will be kept under review.
- The publication of *PFI: meeting the investment challenge (2003)* which recommended a new vfm assessment was part of a reform of the Public Sector Comparator. New guidance has been published along with a model to test the potential vfm of procurement options. The new document: *Value for Money Assessment Guidance (2004)*, will replace the advice set out in Treasury Taskforce technical note 5 for PFI procurements. Local Authorities will be expected to adhere to this guidance (and any ODPM requirements for demonstrating vfm) when developing and procuring a housing PFI scheme.

- In April 2004 HM Treasury published *Standardisation of PFI contracts (SoPC) Version 3*, a revision of SoPC Version 2 of September 2002. All PFI schemes that had not reached contract signature by 14 May 2004 have to comply with the mandatory wording. Changes have been made to sections on permitted borrowing and refinancing, to procedures for approval of sector specific contracts and the submission of any derogations from SoPC. More details of the implementation are set out in HMT letters published on 29 April and 19 July, which are available on Treasury's website at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/key_documents/standardised_contracts/ppp_keydocsstand_index.cfm.

As part of the 2004 Spending Review outcome, Sir Peter Gershon's *Review of Public Sector Efficiency* focussed on how best to target resources on front line services by releasing resources through more efficient working practices. We will be seeking to ensure that housing PFI schemes contribute to and support the delivery of efficiency savings. The Gershon Review, *Releasing resources to the frontline: Independent Review of Public Sector Efficiency (2004)* can be found on Treasury's website at http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_efficiency.cfm.

This bidding round invites expressions of interest in both HRA and Non HRA schemes. In order to maximise efficiency of procurement we encourage a joined up approach in putting schemes together and therefore particularly welcome proposals that would enable the development of a number of projects in a geographical area. This might include bids from a partnership of local authorities and/or joined up with other PFI sectors.

Julie Pearce
Housing Private Finance Initiative Team Leader
October 2004

Introduction

1. The 2004 Spending Review allocated significantly more PFI credits to enable ODPM to meet the decent homes target in 2010 and to increase the provision of affordable new build housing for rent to help tackle homelessness.
2. This is the fourth bidding round for HRA/Non-HRA housing projects and we have issued a letter inviting outline proposals from local authorities who wish to pursue PFI projects for housing and who wish to receive central government support in the form of PFI credits.
3. In assessing and selecting schemes, the Office will take account of the housing-specific criteria (see Annex A), and will also be mindful of the criteria to be applied by all government departments in considering whether to submit schemes for Project Review Group endorsement (see Annex B).
4. We shall also be asking the relevant Government Office in your region to comment on proposals and, in particular, to give their views on the appropriateness and deliverability of individual schemes, given local circumstances and regional priorities. Non HRA proposals need to be focussed on delivering national objectives/targets and/or priorities identified in Regional Housing Strategies. For HRA schemes, Option Appraisals (OA) will need to be signed off by the Government Offices prior to an expression of interest being submitted in this bidding round.
5. Demand for PFI credits is likely to outstrip supply. Our purpose in inviting outline proposals at the first stage is to minimise the time and effort authorities spend on developing projects which do not ultimately receive support, because of funding constraints. We do want to ensure however that estimates of the likely level of PFI credits required to support projects are as accurate as possible. We will therefore be asking all applicants to complete either the HRA or Non HRA ODPM model designed to generate the PFI credit requirement. Authorities who wish to develop proposals should obtain a copy of the relevant model and guidance from the ODPM website at www.odpm.gov.uk or on application from the housing PFI team, whose details are listed on page 15.
6. Authorities should be realistic about the amount of PFI funding they intend to seek from the total housing allocation. They should set out how they will use complementary sources of funding i.e. land and dowry from the sale of properties to lessen the PFI credit requirement. All applications will need to be robustly justified in terms of strategy and value for money.

Bidding Timetable

7. The timetable for this bidding round is as follows:

Invitation to submit expression of interest	Oct 04
Fourth round workshop	02 Nov 04
Deadline to submit expression of interest	28 Jan 05
Announcement of successful schemes	May 05

Format of Proposals

8. Applications should consist of a completed cover sheet, as specified in the attachment to this guidance, together with a written proposal covering all the topics specified below in the order in which they appear. Proposals should not exceed 20 pages in length, excluding the annexes indicated in this guidance. All documents should be relevant to the case. Please do not include supplementary material that is not directly relevant to the bid.

9. A completed copy of the relevant ODPM model must be attached. There should be a clear indication of the amount of PFI credits required (and the authority should specify whether these are for HRA or Non HRA schemes). Authorities should note that the ODPM model calculates the upper limit of credits that would be required for the scheme. Success in this bidding round should not be taken as a guarantee that the scheme will receive the level of credits calculated by the model. No decision will be taken on the level of credits to be awarded to the scheme until the OBC has been approved.

Topics to be covered

Scheme location and size

Authorities should describe the location of the proposed scheme and the number and type of dwellings to be included.

10. Authorities should note that ODPM does not anticipate considering PFI schemes covering the whole housing stock. Rather, authorities should consider applying the PFI solution to an area or areas in priority need of housing investment as part of their wider housing strategy. The Office does not wish to place an arbitrary limit on the size of schemes or the PFI credit requirement, but resources may best be focused on a defined geographical area with a common sense of identity. Local authorities should seek to maximise the opportunity to deliver a comprehensive and coherent investment and management solution. To achieve this it may be sensible to consider working with neighbouring authorities or joining up with other PFI proposals in the area. ODPM would be willing to consider models for developing a strategic framework if this is the most efficient way to deliver a number of small projects. The Office would like to see schemes, which are mixed developments, with multiple outcomes, offering new build/reprovision and/or refurbishment and delivering regeneration and sustainable communities.
11. Please note that the capital cost of the scheme will represent the upper limit of the possible PFI credit. However, in many cases the actual credit will be lower. Local authorities will be expected to cover as much as possible of the costs of the project through resulting operating cost savings, third party use of assets and services and other sources of revenue, and to minimise their applications for PFI credits accordingly. Authorities putting forward Non HRA proposals should note that ODPM will not support schemes with a capital value of below £10m.
12. HRA schemes only – Describe the specific geographical area to be covered and if applicable, the quantity and type of council stock (general needs, extra care or sheltered housing) to be included in the scheme. Give a description of the various building archetypes included in the scheme. Detail the number and location of Right to Buy (RTB) properties in the area, i.e. whether these are concentrated in specific locations or pepper-potted throughout the area, and identify numbers and location of leasehold properties. Authorities should detail the impact of the scheme on the Decent Homes Standard in the area. A map of the area should be attached as an annex and photographs may also be attached for illustrative purposes.
13. Those authorities submitting proposals for Non HRA schemes should detail their strategy for obtaining sites, for example the use of Section 106 sites or land owned by the council and the impact they expect new affordable housing to have in tackling homelessness or in providing support to other vulnerable groups.

Scope of the contract

Authorities should describe the scope and length of the contract.

14. Housing PFI should focus on delivering decent homes and the provision of affordable social housing. This should aim to help tackle homelessness and support other vulnerable groups and the wider works required to ensure that decent homes and affordable housing are set in sustainable communities. In the last bidding round new build was included for the first time in HRA, instead of being confined to the refurbishment of local authority housing stock. The Office would like to build on this and see more emphasis on additional new build and re-provision. Where there is new build, vfm would need to be demonstrated. The standard approach to HRA contracts encompasses upfront refurbishment or demolition and re-provision works, ongoing housing management services, and repairs and maintenance services including programmed renewals, during the course of the contract. Schemes may also encompass estate works, including community safety measures. The typical contract length is 30 years. Authorities should describe their intended approach, and explain and justify any major variation from the approach outlined above.
15. Non HRA schemes are usually in the form of long-term (25-30 years) service contracts with RSLs, with new build or acquisition and refurbishment, and continuing management and maintenance. These PFI projects would be accounted for in the General Fund. ODPM will welcome proposals for joined up schemes, including social services schemes, those with the aim of preventing homelessness and creating more sustainable communities and support to vulnerable groups. Examples of this type of scheme might include offering a comprehensive package of housing and support for homeless families and single homeless people with support needs, older people, adults with learning disabilities or vulnerable young people. We would also welcome proposals, also of a joint nature for affordable and rented housing for specified groups, e.g. homeless families living in temporary accommodation, people with a disability or mental health problems, keyworkers etc. in areas of particularly high demand.
16. Current PFI projects are tackling a wide range of stock – from tower blocks to terraced houses – in a diverse range of areas – from the inner city and the suburbs to former coalfield communities. Annex C provides a few examples of schemes, some of which are underway or where contracts are shortly to be signed.

Strategic context

Authorities should describe how the proposed scheme fits within their wider housing and regeneration strategy.

17. Explain how the scheme relates to the authority's overall Housing Strategy and HRA Business Plans, and why it is a priority for investment and contribution to delivering decent homes. Where appropriate, explain how the scheme supports any wider regeneration initiatives or strategies for the area – for example, Market Renewal, Single Regeneration Budget (SRB) investment, New Deal 4 Communities (NDC) Partnerships, Community Plans, local homelessness and Supporting People strategies. In particular, set out why a PFI scheme is needed and what it adds to the overall strategy.

Evidence of housing demand

Authorities should provide evidence of long-term need and demand for the housing stock within the proposed scheme.

18. Being able to demonstrate long-term need and demand for the stock is key to delivering sustainable investment and optimising the balance of risks between the partners to the PFI contract. Authorities are asked to provide evidence of current demand and anticipated demand, drawing on housing-specific information, e.g. waiting lists, levels of homelessness and use of temporary accommodation (especially for families), voids etc and more general information relating to population projections, economic development, prevalence and housing and accommodation needs of vulnerable groups etc. If there are current or anticipated problems of oversupply or variable demand for the stock, authorities will need to demonstrate they have a strategy for managing this. This will be particularly important in areas of low housing demand.
19. In all areas it will be important to set this demand in the context of the wider housing market. The ODPM's Housing Market Assessment Manual will assist authorities in understanding how their housing market works. This manual can be found on the ODPM website at www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=4313&I=1

Stock condition (HRA only)

Authorities bidding for HRA schemes should provide an outline description of the condition of the stock to be included within the proposed scheme. In the case of schemes involving new build, the number of sites or units to be demolished should be identified along with the number of dwellings that are to be built.

20. The Office does not necessarily expect authorities to have completed an up to date PFI stock condition survey for the area/estate covered by the proposed scheme. Authorities should have up to date stock condition data sufficient to have completed its Option Appraisal. The Office recognises that this data may not be sufficiently detailed for the purposes of developing a PFI scheme. Indeed, should authorities be successful in moving on to a PFI procurement, the Office will expect a survey to be commissioned prior to OBC, to inform contract negotiation. This helps to minimise risks the authority might otherwise retain. In the meantime, authorities will be able to use information in surveys undertaken for their Option Appraisal. Authorities are asked at this stage to outline the main works that they anticipate would need to be carried out based on their best available information. It is essential that authorities present as robust a picture as possible about the condition of their stock and recommend that they use sensitivity analysis at this stage, and identify any risk mitigation strategies that may be necessary. This should also inform the option appraisal and vfm analysis.

Value for Money (VFM) analysis

Authorities should explain why PFI has been selected as the option and demonstrate that it represents a value for money solution for the proposed project.

21. In providing an explanation of why PFI is the preferred option, authorities should provide the relevant analysis from their Option Appraisal for the area/estate and an outline analysis of options considered for affordable new social housing, including the 'do nothing' option. Scheme finances should be compared with the other potential investment options for refurbishment of existing and/or new build social housing, using best available information. Authorities should use the appropriate HRA or Non HRA ODPM model designed for this purpose – available from the ODPM website or on application from the housing PFI team. The model generates the maximum PFI credit requirement. Please note ODPM will not necessarily fund the maximum level of credit generated by the model. The Office recognises that the analysis will probably need to be further refined if the project proceeds to the next stage but it will be of value to the Office and the authority in providing best available information on costs and will familiarise the authority with the type of analysis that will be essential at OBC stage.
22. The ODPM model includes a sheet for optimism bias, which should be completed in all cases. Optimism bias forms part of the value for money comparison, but does not feed through to the calculation of the level of PFI credits for schemes. Commentary should be included in the Expression of Interest to support the mitigation of optimism bias. The completed model should be provided as an annex.
23. Authorities should note Treasury's new guidance for vfm, which can be accessed at http://www.hm-treasury.gov.uk/documents/public_privatepartnerships/key_documents/ppp_keydocs_vfm.cfm.

Marketability

Authorities should identify the commercial interest of potential bidders, providing evidence of their own tests of the market.

24. The success of Housing PFI is as much to do with the preparation of the authority, as with the interest of the private sector in the proposal being made. The Office expects authorities to be certain that there is enough commercial interest to generate competition and deliverability in the project. This should be monitored from an early stage of project development. Authorities should detail their tests of the market and how these have been taken into consideration in working up their bid.

Risk transfer

Authorities should give their preliminary views on the allocation of risks between the authority and the contractor.

25. A basic premise of PFI is that the risks attached to a project are allocated to the party best able to manage them. The Office expects authorities to allocate risks appropriately with significant risk transfer to the private sector while, at the same time, achieving good vfm for the public sector. At this stage authorities are asked to demonstrate an understanding of these principles with reference to any particular issues that are raised by their scheme.

Consultation

For HRA, authorities should set out what has already been done as part of the options appraisal and set out any further detailed consultation with tenants and for Non HRA, their strategy for consulting stakeholders on the proposal and any consultation they have so far undertaken.

26. In HRA schemes, tenants will remain tenants of the local authority throughout the course of the PFI contract. There will be no change in their status or their rights as a result of the PFI project and the Office would expect rents for dwellings included in the scheme to be set in accordance with the authority's general approach to rent-setting and within the Office rent restructuring framework. Therefore, ODPM does not anticipate authorities will ballot tenants on whether or not to proceed with a PFI scheme. However, the Office does expect tenants will be given the opportunity for involvement in decision-making in line with best practice in tenant participation and consultation incorporating the diversity of the residents. The consultation should also include a strategy to deal with leaseholders as part of the statutory requirement to consult them. Tenants must be fully engaged and as part of the Option Appraisal a tenants empowerment strategy needs to be agreed with the Community Housing Taskforce (CHTF).
27. Please note the Office does not expect authorities to commission surveys or other initiatives specifically to support this application, but would welcome details of any relevant information already gathered, which can be attached as an annex.

Councillor commitment

Authorities should indicate the extent to which Councillors are aware of, and are committed to, the project.

28. Authorities should describe what steps have been taken to inform Councillors of the proposal, including any corporate impact it may have, and the level of commitment to this application and the project so far gained. The Office expects that the Council (through delegated arrangements if appropriate) is supportive in principle of the PFI project and has been informed of the outcome of the vfm analysis detailed above, as evidence of the deliverability of the proposal. Minutes of any relevant meetings must be presented in an annex.

Project management

Authorities should indicate the nature of the team they would anticipate putting in place to deliver the project through to contract signature.

29. Authorities should describe what skills and experience they would expect to bring to the project and how the project team might be composed, including any external advice they anticipate might be required. The Office will be looking for evidence that the local authority has given careful consideration to planning and resourcing the project. Authorities should note we consider project management a dedicated job for a full time member of staff. They should also identify any risks in the procurement process and identify mitigation strategies for these risks. Local authorities will need to demonstrate that there is senior level support and commitment to the proposal.

Timetable

Authorities should provide an indicative timetable.

30. Authorities should describe, in outline, a realistic timescale over which they expect their project to be developed and provide their best estimate of when contract signature might be achieved. This should include the time estimated for preparation of the full OBC for Project Review Group consideration, as well as the time estimated for the main stages of the procurement process itself. Authorities should note their place on the programme will be subject to adhering to agreed timetables.

Other considerations

The Office wants authorities to justify and explain any issues arising from their proposals. A few of them are specified below but these should not be viewed as prescriptive.

HRA only

31. Authorities need to be aware of the implications for the scheme of stock that is managed by another party i.e. an Arms Length Management Organisation or Tenant Management Organisation (TMO) etc. in the PFI proposal, and explain how they will tackle the issues that arise from such an arrangement.

Non HRA only

32. The expansion of the Non HRA PFI programme for affordable new social housing schemes will take into account the Regional Housing Boards (RHB) regional priorities, where applicable. Overall, the emphasis of schemes will be considered in the context of ODPM's national priorities throughout England, including its aim to tackle homelessness more effectively, and to deliver outputs according to merit.

General

33. The ODPM welcomes proposals, which are jointly funded by different government departments and/or across local authority departments. These schemes need to be fully integrated and be able to demonstrate this practically i.e. where a county council is procuring on behalf of a number of district authorities there needs to be a clear strategy to manage the relationship and decision making process. Other government departments with PFI schemes are also encouraging joined up projects. There will be a jointly co-ordinated bidding round between ODPM/Department of Health (DH) and the Department for Culture, Media and Sport (DCMS).
34. The national priorities under the PFI programme include two of ODPM's Public Service Agreements (PSA). They are:
- PSA 5 – Achieve a better balance between housing availability and the demand for housing in all English regions while protecting valuable countryside around our towns, cities and in the green belt – and the sustainability of existing towns and cities – through specific measures to be set out in the Service Delivery Agreements.
 - PSA 7 – By 2010, bring all social housing into a decent condition with most of this improvement taking place in deprived areas, and for vulnerable households in the private sector, including families with children, increase the proportion who live in homes that are in decent condition.
35. Authorities should note that PSA 7 has recently been revised to include families with children. They should also note that the number of homeless families in temporary accommodation is a key indicator of achievements against PSA5. PSA 5 and 7 technical notes are being reviewed and will be published on the website shortly, subject to finalisation in the Autumn.

Sources of information

36. Information on Housing PFI can be found on the ODPM website at:
http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_601815.hcsp.
37. The aims and objectives of Housing PFI are outlined, and there are details of current initiatives as well as relevant guidance notes and guidance for local authorities on tenant consultation.
38. A guide for tenants is available on our website at http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/downloadable/odpm_house_025670.pdf and a report identifying good practices guidelines for involving BME communities in the Decent Homes stock options is available at http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_029119-03.hcsp.

39. There is also a significant amount of more general guidance available on PFI. Much of it is conveniently brought together on the 4Ps website at www.4Ps.gov.uk, which also has links to other main sources of information such as the Treasury and ODPM websites. To access the ODPM website on local government PFI go to <http://www.local.odpm.gov.uk/pfi/index.htm>. From this page information can be found on endorsed PFI projects, PFI regulations (including the Capital Finance Regulations) and PFI published guidance. Relevant Treasury advice can be accessed at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm
40. Local authorities can also direct enquiries to members of the housing PFI team. Contact details for members of the team and the regions they are covering for the purposes of this exercise are as follows:

Sheldon Ferguson 020 7944 8117 South East, South West & Eastern Regions
Sheldon.Ferguson@odpm.gsi.gov.uk

Ellie Simcox 020 7944 3606 West Midlands & East Midlands Regions
Ellie.Simcox@odpm.gsi.gov.uk

Jon Yates 020 7944 3625 London Region
Jon.Yates@odpm.gsi.gov.uk

Timothy Coburn 020 7944 8110 North East, North West & Yorkshire
Timothy.Coburn@odpm.gsi.gov.uk & the Humber Regions

APPLICATION FOR PROVISIONAL ODPM SUPPORT FOR HOUSING PFI PROJECTS

HRA COVER SHEET

NAME OF LOCAL AUTHORITY:	NAME OF GOVERNMENT OFFICE:	
SCHEME TITLE:		
CONTACT NAME AND ADDRESS:		
Telephone:		
Fax:		
E-mail:		
SHORT DESCRIPTION OF THE SCHEME		
TOTAL NUMBER OF UNITS OWNED BY THE COUNCIL:	TOTAL NUMBER OF UNITS <u>Before Development</u> Non-Decent (ND): NDs To Be Demolished: <u>After Development</u> Made Decent: New Build:	TOTAL NUMBER OF LEASEHOLDER UNITS IN SCHEME: Please ensure these units are not included in the model calculations.
ESTIMATED PFI CREDITS REQUIRED:	WHAT IS THE PROPOSED COUNCIL CONTRIBUTION TO THE PROJECT:	
PLEASE LIST PFI CREDITS BEING SOUGHT OR CONFIRMED FROM ANY OTHER PFI SECTOR AS PART OF THIS PROJECT:		

APPLICATION FOR PROVISIONAL ODPM SUPPORT FOR HOUSING PFI PROJECTS

Non HRA COVER SHEET

NAME OF LOCAL AUTHORITY:	NAME OF GOVERNMENT OFFICE:
SCHEME TITLE:	
CONTACT NAME AND ADDRESS:	
Telephone:	
Fax:	
E-mail:	
SHORT DESCRIPTION OF THE SCHEME	
TOTAL NUMBER OF UNITS	HAVE SITES BEEN IDENTIFIED? Y/N
Before development:	If so, how many units can be built on those sites?:
After development:	
ESTIMATED PFI CREDITS REQUIRED:	WHAT IS THE PROPOSED COUNCIL CONTRIBUTION TO THE PROJECT:
PLEASE LIST PFI CREDITS BEING SOUGHT OR CONFIRMED FROM ANY OTHER PFI SECTOR AS PART OF THIS PROJECT:	

ANNEX A

Prioritisation criteria for HRA & non HRA housing PFI schemes

In considering HRA/Non HRA housing projects for submission to the Interdepartmental Project Review Group, ODPM will apply the following criteria in addition to the published assessment criteria of the Project Review Group:

- **Value for money:** Scheme finances will need to demonstrate equal or better value for money than the other main investment options. If the scheme includes joined up elements as well as housing, overall value for money will need to be demonstrated and details of other sources of income required to fund the scheme, including PFI credits from the relevant Government Department should also be provided.
- **Demand:** Authorities will need to demonstrate continuing high demand for the refurbished/new properties over the length of the PFI contract in the context of the local or sub-regional housing market.
- **Policy Objectives – HRA:** Authorities will need to demonstrate how the project will contribute towards achieving the Decent Homes target.
- **Policy Objectives – Affordable Housing:** Authorities will need to demonstrate how the project will help to tackle homelessness and fit into regional housing priorities.
- **Strategic context:** Schemes should be integrated within the authority's overall housing or homelessness strategy and should represent an investment priority for the authority. Where appropriate, the Office will also take account of the extent to which schemes are embedded within a wider regeneration strategy for the area and are linked to complementary initiatives. Authorities will also need to demonstrate how the project will contribute towards wider government priorities and initiatives, such as: tackling homelessness; combating social exclusion and helping to create sustainable communities; where there is a local need providing additional or larger units of affordable social housing to combat overcrowding or a large number of homeless families living in temporary accommodation and the short fall in affordable social housing; solving recruitment and retention problems in public services through the provision of key worker housing in areas of high demand; helping to revitalise areas suffering from low housing demand where the project may complement housing market renewal investment; and, fostering innovation and cost-effectiveness in construction methods and promoting energy efficiency.
- **Tenant participation (HRA Only):** Authorities will need to demonstrate that they have considered the implications of the scheme for tenants and that they have a sound strategy for consulting tenants on the proposals. The Office will take account of the extent to which tenants have already been actively involved in decision-making for the area as part of the Option Appraisal process.

- **Efficiency:** The Office will look favourably upon schemes that promote the use of innovative and cost-effective solutions both in meeting their objectives and during the procurement process. ODPM is working on a number of ways in which efficiency in social housing procurement can be increased to deliver more resources to the front line. Efficiencies may not only result in cost savings but also in increased quality. Value for money is more likely to be secured if the PFI work is procured in such a way as to maximise efficiency.

Authorities should set out how they expect to ensure that contractors maximise efficiencies in both the procurement of their capital programmes and in managing the housing. They should set out what their expectations of contractors will be and how they might measure efficiencies that are achieved.

- **Marketability:** Authorities will need to demonstrate that there is commercial interest in the project from the private sector.
- **Project management:** Authorities will need to demonstrate that they have a good record of programme delivery, a good grasp of the project management skills and understanding of the resources required to deliver a PFI scheme.

ANNEX B

Criteria to be applied by all Government Departments

(1) ADMINISTRATIVE PROCEDURE

(1.1) First Approach. The procedures for applying for central government support vary between departments. Some hold annual bidding rounds, whilst others will assess proposals submitted at any time. Local authorities should check on the procedures at an early stage. Once submitted, though, departments will make an initial appraisal and, on the basis of that, will decide whether to submit the project to the inter-departmental Project Review Group (PRG). Before the project can proceed to procurement it needs the endorsement of the PRG that the case is sufficiently developed to take this step (but see 1.5 below).

(1.2) Programmes of Projects. Applications for a programme of projects may be considered by departments and PRG. Each project would continue to have to meet all of the criteria, although assessment would not follow the normal route. An authority submitting a programme of projects should take particular note of the advice in paragraph 1.5 on early informal discussions.

(1.3) Outline Business Case. In all cases, departments need at least the authority's clear statement of the way in which each of the general and specific Criteria has been addressed as part of the business planning process. Subject to that, formal applications for credits should be submitted as an Outline Business Case (OBC). Departments may differ in the level of detail they require and the extent to which they wish to see documentary evidence to support the statements in the OBC. These requirements should be ascertained early on. However, OBCs should be as concise as possible. Authorities are advised to take account of the advice in the 4ps publication *Options Appraisal and the Outline Business Case*.

(1.4) Criteria Checklist. The OBC should always include as an Appendix a checklist indicating the paragraph numbers in the main documentation where information on each of the Qualifying Criteria (as at Section 2 Qualifying Criteria) and any sector specific criteria is to be found. This will help authorities to ensure that all points have been covered and assist departments and the PRG when processing applications.

(1.5) Timetable. A timetable should be prepared covering all stages from submission of the initial proposal to start of service provision. In particular a realistic deadline should be proposed to reach contract signature. The stages of the procurement process should be kept to a minimum consistent with achieving value for money.

(1.6) NHS LIFT projects. Procedures for applying for support when taking out a leaseplus agreement with a LIFT Company vary in a number of ways. They do not need to be endorsed by PRG and some of the qualifying criteria vary. A separate note on this is available from the ODPM at <http://www.local.odpm.gov.uk/pfi/liftv2.pdf>.

(1.7) Informal Enquiries. To reduce the risk of abortive work, authorities are recommended to discuss their proposals with the 4ps and the department concerned at an early stage. They should obtain an early indication of the realism of a project, which may involve soft market testing, and an assessment of the prospects for funding (particularly for a programme of projects with the implicit uncertainties over funding requirements). Authorities should, however, appreciate that no commitment on revenue support can ever be given until a scheme has been formally approved by Ministers and endorsed by the PRG.

(2) QUALIFYING CRITERIA

To qualify for PFI support a project must show that it meets the following qualifying criteria (though with some variations for LIFT projects – see www.local.odpm.gov.uk/pfi/liftv2.pdf).

(2.1) OUTPUTS

(2.1.1) Output specification. Any project should be specified in terms of service outputs required rather than particular assets or solutions. The specification should be defined broadly to offer scope for efficiencies and innovation; and be pitched at a level that is justifiable as the level which the local authority would specify if using traditional procurement. Any enhancement or betterment included in the output specification should provide greater value for money or other justifiable benefits.

(2.1.2) Planning and performance framework. Projects must be consistent with and flow from the authority's plans and priorities, including Best Value Performance Plan and Community Strategy, the Capital Strategy and Asset Management Plan and/or the relevant strategic service plan.

(2.1.3) Sustainable development. Projects must demonstrate an integrated approach to the social, environmental and economic well-being of the area, now and for future generations, in line with the OGC guidance note *Green Public Private Partnerships*. This covers the promotion of sustainable development in location, design, construction, operation and maintenance.

(2.1.4) Design quality. Where relevant, projects must contribute to the Government's commitment to achieving "Better Public Buildings". When applying for support that could be demonstrated by the possible appointment of a 'design champion'; involvement of stakeholders; use of Design Quality Indicators (available from Construction Industry Council); use of expert advice on design; and the extent to which design quality will be a key evaluation criteria for bidders. If the project involves construction work and life-cycle maintenance of buildings authorities should demonstrate how they intend to meet, as appropriate, the key objectives of the Egan Report. Authorities are expected to take account of the guidance on design quality in PFI projects available from OGC (*How to achieve Design Quality in PFI Projects*), CABE (*Improving Standards of Design in the Procurement of Public Buildings*, October 2002) and 4ps (*Achieving Quality in Local Authority PFI Building Projects*).

(2.1.5) Diversity. Any project must take account of diversity issues and any application for support must demonstrate how these have been approached. Authorities will already have their own policies on diversity and their implementation will depend upon the particular scheme. However, obvious examples include addressing the requirements of people who are disabled or whose first language is not English.

(2.2) ACCOUNTING TREATMENT

(2.2.1) Use of FRS5. A project must be considered a PFI contract under standard accounting requirements. FRS5 provides the basis for determining whether projects should be accounted for as a PFI contract directly within the FRS; or as akin to a lease – when SSAP 21 should be applied. The determination is based on whether or not there is an associated service element which is not independent of payments for the property.

(2.2.2) Balance sheet treatment. Central Government sponsoring departments will have different budgetary considerations in considering whether they wish to support on or off balance sheet projects. Therefore, although projects may qualify for support whether or not they score on the authority's balance sheet, authorities will need to provide an "initial view" of the accounting treatment on seeking support, as set out in Section 2 of *Technical Note No. 1 (Revised) How to Account for PFI Transactions (June 1999)* available from the Treasury web site. The initial view must be supported by comments from the authority's external auditor as to whether it is reasonable.

(2.3) OPTIONS APPRAISAL

(2.3.1) Project options. Projects must show that they are value for money, firstly in terms of a project scoped to best meet the needs and outputs identified. This will be considered in the context of the benefits typically achieved (including secondary benefits), compared to costs. The methodology used should be in line with the new Treasury guidance *Appraisal and Evaluation in Central Government* (the 'Green Book') which came into effect on 1 April 2003.

(2.3.2) Procurement options. Value for money must also be shown in relation to the best procurement option. Again, the methodology used should be in line with the Treasury guidance *Appraisal and Evaluation in Central Government* (the 'Green Book'), and with Technical Note 5 *How to construct a Public Sector Comparator* (to be replaced with new value for money guidance from HMT shortly). The comparison of procurement options is not a pass/fail test for PFI but a means of informing judgement, especially if the results are close. It is therefore essential that the underlying assumptions used in the analysis should be explicitly identified, including the level of direct costs, efficiencies predicted and the approach taken to valuing risks to be transferred.

(2.4) PFI CREDIT AMOUNT

(2.4.1) Toolkits. In a number of sectors, including schools and housing, the sponsoring department uses a toolkit to calculate the level of capital support which will be supported.

(2.4.2) Capital value. Where a toolkit is not used, the basic capital value of the scheme will represent the upper possible limit of the PFI credits. This can be calculated in one of two ways, which must be agreed with the sponsoring department in advance: (1) Revenue abatement; or (2) Discounted capital expenditure.

(1) Revenue abatement. An estimate of the likely unitary charge – including capital, revenue and financing costs – should be provided in nominal terms. The costs over the length of the contract should be discounted by the prescribed PFI discount rate for the year in which the calculation is done. The result is then abated by a factor agreed with the sponsoring department to exclude revenue costs. For buildings this is 70%.

(2) Discounted capital expenditure. This is particularly appropriate where no revenue abatement has yet been specified or for schemes of a mixed type. An estimate should be made of the year in which capital costs will be incurred by the contractor, again in nominal terms, and these costs discounted using the prescribed PFI discount rate. Capital costs will include lifecycle costs (but not day-to-day maintenance), ICT infrastructure, and a pro-rate proportion of financing costs, SPV costs and set-up costs incurred by the contractor.

(2.4.3) Prescribed discount rate. The prescribed discount rate for 2004-05 will be 6.6%. This is the same rate as set for the capital financing SSA. Discounting should be calculated using the year in which services commence as the base year (Year 1).

(2.4.4) Minimisation of support requested. All reasonable opportunities should have been taken to reduce the direct cost of the scheme to the authority. Where it represent value for money and is appropriate for the project, that can include transferring assets with an immediate or potential value to the contractor (or to parties nominated by him). Other ways in which local authorities reduce the need for support are through resulting operating cost savings, third party use of assets and services and other sources of revenue.

(2.4.5) Optimism bias. Optimism bias should not be applied to the calculation of the capital value.

(2.4.6) Supported Capital Value. In many cases the PFI credits agreed may be lower than the capital value of the project. Ministers may offer a sum lower than that sought, for example, where several schemes of similar quality cannot all be accommodated within a department's allocation. A number of departments also operate a cap on levels of PFI credits which will be considered.

(2.4.7) Benchmarking. Sponsoring departments will benchmark capital cost estimates against other similar projects and query the costs if they are out of line. Authorities are advised to do the same and should describe any benchmarking exercises they have undertaken in the OBC.

(2.4.8) Sensitivity analysis. Authorities will need to carry out some sensitivity analysis to meet the general criteria. It is recognised that, in particular, the discount rate may well have changed by the time that the contract is signed. Authorities are therefore required to do some sensitivity analysis on the effect of likely changes in the interest rate on affordability, and to discuss the results with sponsoring departments before the OBC is endorsed.

(2.5) DELIVERABILITY

(2.5.1) Sponsorship and support. Projects must have support from all key sponsors (such as Councillors and Senior Officers) and other stakeholders such as School Governors. A project sponsor or 'local champion' who will be sufficiently well placed to promote and pilot the project and drive it to successful implementation should be identified. Typically this would be the Director for the relevant service area or the executive member who has the authority to negotiate and ensure that the project is completed.

(2.5.2) Affordability. Projects must be affordable to the local authority and the impact on budgets of the part of the projected service payments which the authority will have to meet itself must be accepted by members, senior management and budget holders. Any affordability tests should include sensitivity analysis on factors likely to change, including the level of central government support (eg through a change of interest rate).

(2.5.3) Commercial interest. A project must be able to show evidence of commercial interest, based either on the authority's own soft market testing or on the experience of other authorities.

(2.5.4) Project team. A project manager and project team (whether from advisers or in house) with project management experience and the necessary range of skills and experience needs to be demonstrated. A project manager will normally be expected to be involved in the preparation of the outline business case. A project will also need to demonstrate that suitable arrangements, funding and means of demonstrating value for money are in place for legal, financial and technical advisers. The project will be expected to be accessible to involvement of the 4ps and departments.

(2.5.5) Statutory processes. The impact of statutory processes such as planning permission, public enquiry etc. on the project must have been considered, and an authority will need to indicate how any potential problems will be resolved in the procurement process.

(2.5.6) Sharing of Information. The local authority must confirm that they will be ready to share experience and final contract documentation, at no cost, with other local authorities procuring similar projects, with Government departments and with the 4ps. Any information of genuine commercial sensitivity may be withheld – but such material is normally expected to be minimal. Authorities should make clear to potential contractors that this information-sharing requirement is a formal condition imposed by the Government as a condition of support.

(2.6) CONTRACT

(2.6.1) PFI contract. A project contract must be based on accepted standardised contract documentation. With the exception only of projects noted in 2.6.2 below, this will be *Standardisation of PFI Contracts* (SoPC), as well as recognised sector specific guidance, including Building Schools for the Future contracts and 4ps procurement packs. The version used, and possible agreement to any deviations, should comply with the instructions issued by HM Treasury in conjunction with the latest version of SoPC.

(2.6.2) NHS LIFT. PFI support can also be given in respect of capital costs incurred under the alternative standard contract documentation used for NHS LIFT projects.

(2.6.3) Payment mechanism. As a result of following the standard contracts noted above, eligible projects will be structured so that at least some part of any payments will be by annual or more frequent fees which are not paid until services start, and where the level of payment is at least partly determined by performance standards or usage.

(2.6.4) Risk register. Projects must have supplied an acceptable risk register making a preliminary allocation of all the foreseeable risks associated with the scheme.

(2.6.5) Indemnity or guarantees. No indemnity or guarantees must be given by the authority to any person in respect of any liabilities of the contractor with whom they enter into the contract (whether those liabilities were incurred in respect of the contract or otherwise), and thus limit the risk exposure of the contractor.

ANNEX C

Examples of Schemes

HRA PFI Schemes

Reading Borough Council's pathfinder scheme is an estate of mainly pre-war homes in need of refurbishment and a degree of remodelling. The scheme would link with improvements to a large comprehensive school, in receipt of New Deal for Education funding. Complementary training, community safety and health initiatives are being pursued locally. The contract will encompass full management functions as well as capital improvements and repairs and maintenance. This scheme was signed in March 2004.

Manchester City Council's pathfinder scheme is part of the Stockport Road SRB area, occupying a central location adjacent to both Manchester University and the hospital complex. It is an inner city area that at the time of selection was experiencing low demand due to high crime and perception of crime and the condition of the property. The stock is of traditional construction and the scheme comprises a selective demolition programme with comprehensive refurbishment of the remaining stock and estate remodelling. The number of properties is to be reduced from 1,091 to 661. Some housing for sale will be built on cleared sites, introducing tenure diversification, as well as managing the mismatch between supply and demand for social housing. This scheme was signed in March 2003.

Oldham Metropolitan Borough Council 2nd round scheme involves the repair, improvement and maintenance of around 1500 units of the Borough's most popular sheltered and warden supported accommodation. Improvements will include the provision of 1500 units suitable for extra care sheltered housing and warden supported bungalows and flats with ground floor or lift access. As part of the renovation the contractor will convert some bedsits into flats and some one bed flats into two bed flats, in line with demand. Housing management will be part of the contract with support services provided through a separate single management body for the whole of the Borough.

London Borough of Lambeth will redevelop a 1970's estate comprising 494 properties, low to medium deck block groupings of flats featuring ground floor/underground garages and central stairwells. 305 units will be demolished and rebuilt, 136 will be refurbished and 182 new homes will be built. Much of design problems have helped exacerbate crime levels affecting the estate, this is mainly drug related, graffiti and vandalism. The proposal is a mixture of demolition, refurbishment, remodelling and new build to help revitalise the area into a sustainable community. This would include the demolition of the stairwells and the conversion of ground floor/underground garages into maisonettes.

Non HRA PFI Schemes

Derby City Council's project involves provision of assured tenancies created through the acquisition and improvement of 150 empty unfit private sector properties in the city centre over a two year period by Home Housing Association. They will be improved to equip them for a 30-year life, contributing to the City's objective of meeting the demand for affordable city centre living. The properties will be let by the private sector partner to nominations supplied by Derby on conditions of tenancy and at rent levels specified by the Council. Housing management to be provided to standards capable of meeting Housing Corporation criteria for RSLs. This contract was signed in July 2000.

Derby City Council's 3rd Round Scheme will provide 150 homes for social renting (100 new build negotiated under section 106 agreement and a further 50 acquired from the non-decent/derelict private sector for refurbishment). This will meet the increased demand for affordable housing in the area. The scheme is an extension of the signed PFI scheme across the city.

Selby District Council will provide 250 affordable homes in the urban and rural areas of a district abutting Leeds and York. The development period is expected to take five years, and would match a programme of new build with the purchase and renovation of satisfactory private sector voids, to suit local conditions. This contract was signed in March 2004.

London Borough of Hammersmith and Fulham will provide a range of services for older people through this joined up housing and social services PFI. The scheme comprises 140 nursing care beds, to include 48 beds for the Health Authority in a partnership agreement and 32 extra care sheltered housing places. There will also be in house provision of a resource centre for day care and outreach, and a day centre for day care and outreach, specifically for older people suffering dementia. This contract was signed in March 2004.

Warrington Borough Council's project involves the redevelopment and regeneration of part of the Blackbrook Estate. 261 existing units in Anson and Blenheim Close will be demolished and replaced with a mixed development of affordable rented accommodation and homes for sale. At this stage it is estimated that upwards of 100 of the new houses built on the existing site would be for affordable social housing. In addition the Authority wishes to increase affordable rented accommodation through 40 to 50 homes to be provided on alternative sites within the borough.

London Borough of Croydon will provide 43 new-build extra care sheltered flats (40 for social renting and 3 for leasehold sale) on a Council site that currently houses a day centre for elderly people, which will be demolished. This would help meet the shortage of affordable housing for older people in Croydon. This scheme will be taken forward as a joint project with a Department of Health scheme that will provide 3 Resources Centres for older people with residential and nursing care beds.