Appendices
4

NORTHAMPTON
BOROUGH COUNCIL

Item No.
11

CABINET REPORT

Report Title	Housing PFI - Amended Proposals

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	16th December 2009
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	HOUSING
Accountable Cabinet Member:	Councillor Sally Beardsworth
Ward(s)	Billing, Ecton, Brook, Lumbertubs, Thorplands

1. Purpose

1.1 For Cabinet to consider and amend or approve proposals for a scaled down Expression of Interest for Housing HRA PFI on two estates in Northampton East.

2. Recommendations

2.1 To Note the work of external advisors in producing assessment criteria to assist in producing a scaled back Expression of Interest in PFI.

2.2 To decide, in the light of the reports on the scaled back bid and the revised financial implications whether to proceed with the PFI project.

2.2 To approve the inclusion of Eastfield and Thorplands estates in the scaled back bid.

2.3 To Authorise the Director of Housing, in consultation with the Portfolio Holder, to submit the revised bid after the financial assumptions have been scrutinised by the new team of external advisors

2.4 To note the financial implications of proceeding with the bid as set out in section 4.2 of the report and to call for regular monitoring reports to be provided on progress and project expenditure

2.5 To call for a report on the way forward for the two estates not included in the PFI project.

3. Issues and Choices

3.1 Report Background

3.1.1 The outcome of the Expression of Interest (EOI) or bid for PFI credits, approved by Cabinet on 30th October 2008, was reported to Cabinet on 5th August 2009. An outline of the bid, which covered the four estates of Eastfield, Blackthorn, Bellinge and Thorplands, is attached at Appendix A.

3.1.2 Members will recall that the Homes and Communities Agency (HCA) advised that the bid, originally for £167 million but revised upwards to £208 million, needed to be scaled back to an indicative level of credits of approximately £100 million. This should cover Eastfield Estate and other elements. The letter from HCA was attached to the Cabinet report.

3.1.3 It has always been the Council’s approach that, in the event of a scaled down bid, the same depth and scope of work would take place over a smaller area, rather than reduce the scope of works to cover a wider area. This was because the impact of that investment would be diluted. This report therefore describes the exercise to reduce the number of estates included in the PFI proposals to the level of investment available.

3.1.4 HCA criteria for a revised bid were set out in the guidance notes attached to their letter and are repeated below.

- Maximum PFI credits of £100 million
- Value for money
- Demand
- Policy Objectives-how the project will contribute towards achieving transformational change in local authority stock.
- Policy Objectives-additional social rented housing
- Tenant participation
- Efficiency
- Marketability
- Project Management
- Design quality

3.1.5 Of all the criteria listed above, achieving transformational change creates the greatest challenge. The guidance document to support bids made as part of the original EOI in October 2008 stated it funds regeneration projects that can achieve ‘transformational change’ by:

- Improving the design, quality and diversity of housing
- Improving the reputation of and demand for housing on selected estates
- Providing more affordable rented housing
- Creating employment opportunities
- Supporting communities

3.1.6 The expression “transformational change”, for the purposes of the exercise to scale down the bid, has been taken to mean greatest physical change in appearance, layout and design, combined with the scope to make real differences to the quality of life for those communities. This would cover community safety, health, employment and education, leisure and community development and sustainment. Many of these factors are reflected in the Index of Multiple Deprivation (IMD) scores for the estates in question, which reflected the greatest need for intervention in Northampton East and was the reason those four estates were originally chosen for the initial PFI bid. The difficulty in respect of this project is in assessing the scope for transformational change involving additional inward investment over and above the basic PFI scheme, which does not involve any additional market investment beyond refurbishing or replacing council housing. The true scope for transformational change in the physical sense will not therefore be fully assessed until the scheme comes to market and the communities on those estates have been consulted about the detailed proposals put forward by the short-listed consortia. Additional programmes to improve health, job prospects, address anti-social behaviour and improve the quality of life in those neighbourhoods will build on the momentum provided by the PFI investment.

3.1.7 Appendix A to this report describes the revised bid as submitted in the spring of 2009. PFI credits are cash paid by Government to the Council in instalments during the life of the scheme. The Council is not engaged in borrowing in respect of the PFI capital programme, but it will incur costs in relation to achieving vacant possession for demolition and replacement and in its role as client to the contractor/provider of services. These costs are covered in paragraph 4.2 below. The housing remains in the Council’s ownership at all times and Council tenants remain secure tenants of the Council (unless they breach the conditions of their tenancy). At the end of the PFI contract, all responsibility for management and maintenance will revert to the Council. Additional housing and other facilities, not funded by the PFI credits, may be built for sale or rent by the appointed consortium and the ownership and proceeds from those assets will be part of the negotiations going forward with a preferred bidder. The commercial elements of market housing were specifically not included in the PFI bid, although the potential was identified.

3.2 Issues

3.2.1 The process of reducing the bid down from four estates to a project valued at around £100 million in PFI credits has been carried out. Firstly, a set of objective criteria was developed by officers with ward councillors and stakeholders. Consultation on criteria included the implications of the criteria selected for the ranking of the four estates and this was demonstrated in a series of public drop-in sessions run through September 2009. It should be noted that the ward councillors for Lumbertubs expressed some concern that the Index of Multiple Deprivation (IMD) scores for the Blackthorn estate included two very different areas or enumeration districts and that averaging the scores could give a potentially misleading impression. This is covered in the AECOM report. The outcome of the drop-in sessions is included in the AECOM report at Appendix B, from which it appears that the combination, which most fits the agreed criteria, is Eastfield and Thorplands. Such exercises are by no means conclusive, however, especially as the scope for transformational change cannot truly be established at this point.

3.2.2 Secondly, Grant Thornton, financial advisors to the original bid, were re-commissioned to run the three variations, of Eastfield plus one other estate, through the revised model, to establish whether the two estates could be included within the £100 million of PFI credits described by HCA as the maximum. This indicates ***the*** following combination of estates and the amount of credits required.

Estate Combination	**PFI credits (Inclusive of revised life-cycle costs funded by PFI)**
Eastfield and Bellinge	£98.668 million
Eastfield and Blackthorn	£117.863 million
Eastfield and Thorplands	£101.333 million

3.2.3 This suggests that the combination of Eastfield and Blackthorn would not be affordable within the maximum PFI credits available. Both the other combinations are close to the £100 million indicative figure.

3.2.4 Recruitment of a new team of advisors is nearing completion and, subject to decisions made at this Cabinet meeting, they will be required to review all of the financial information before the scaled-back Expression of Interest is submitted in late January 2010. They will be carrying out that review at the same time as commencing work on the outline business case, due to be submitted in the period July to September 2010.

3.3 Choices (Options)

3.3.1 The options fall into three distinct categories.

Option A: withdraw from PFI

3.3.2 The Council could decide, in the light of this report, not to proceed with the PFI scheme. As was previously established[1], PFI does not close the short-term Decent Homes investment gap, largely due to upfront investment required in early years to cover the cost of advisors and securing vacant possession for demolition and replacement and because the scale of works carried out is much larger than Decent Homes. Over the longer term, thirty years, the full PFI bid made a difference of about £19 million. On a pro rate basis, it could be expected that the scaled back bid would reduce the investment gap by around £8 million. Detailed modelling of the impact is currently in hand and any revisions to that figure will be reported in the presentations to Cabinet.

3.3.3 The estimated shortfall of £73 million in capital investment needed to achieve Decent Homes standards in the housing stock over the five years from April 2009, as reported to Cabinet on 15th July 2009, takes no account of the regeneration needs of the estates. To achieve regeneration and transformational change will require the injection of additional funds over and above the £73 million shortfall. At present only PFI or a selective transfer to a different landlord could achieve this. The option of selective transfer also now looks to be in doubt following the proposed changes to HRA finance.

3.3.4 In summary, not to proceed with the PFI project will leave regeneration plans in limbo until the proposed HRA reforms become much clearer in terms of their local impact. The Council could also face reputational risks with the HCA and Government and costs incurred to date would be abortive.

Option B: to proceed with the combination suggested

3.3.5 The combination suggested is Eastfield and Thorplands, based on the AECOM and Grant Thornton reports. It is not suggested that this work is conclusive, but the AECOM work builds on the process by which the original four estates were selected out of a possible fourteen in Northampton East, a limited amount of additional objective criteria and the results of an extensive survey of residents. The Grant Thornton financial modelling suggests that this combination is close to the indicative maximum amount of PFI credits available.

Option C: Agree a different combination

3.3.6 The different combinations that could be considered are Eastfield with Bellinge and Eastfield with Blackthorn. The remainder of this section takes Eastfield as a given and deals with the variations concerning the two other estates.

3.3.7 The Bellinge combination could be accommodated within the indicative PFI credits. The Bellinge estate, as set out in the AECOM report, has the highest

[1] Report to Cabinet 15th July 2009-Future Housing Investment Options-Appendix 1-Paper from Housing Quality Network paragraph 4.1

cost of preparing voids and for responsive repairs, which may reflect the significant proportion of elderly persons' accommodation on the estate. That factor also affects the scope for transformational change in that demolition and replacement is problematic when dealing with a large number of elderly residents. With regard to the Index of Multiple Deprivation, Bellinge ranks equally with Thorplands. Of the four estates, however, Bellinge is the most popular with residents and applicants, according to the residents' survey.

3.3.8 With respect to Blackthorn estate, this estate has the lowest unit cost / need for investment, but the combination in total is not affordable within the PFI credits limit. Scaling back elements of the bid by reducing the scope or area covered by the proposal would not meet the HCA criterion of scope for transformational change and could therefore put at risk the PFI funding. A separate point has been made by the ward councillors that the area boundaries of the bid need to be adjusted to reflect the areas of greatest need. This will be possible for taking forward proposals outside of the PFI round 6 programme.

What happens to the estates not included in the PFI scheme?

3.3.9 This has been described as "Plan B". The difficulty at the present time is that the consultation on the reform of council housing finance renders some of the investment options uncertain. In addition, the end of the Comprehensive Spending Review (CSR) period means that there is currently no other source of central government funding for regeneration. There is however an opportunity to work with the residents, ward councillors and local stakeholders of the neighbourhoods not included in the PFI project, to develop proposals for regeneration of those areas and to be prepared to bid for funding in the new round of CSR. Over the past fifty years there has always been some form of government assistance for council estate regeneration. The case has been made for these two estates, but the funding sought is currently not available and options for securing additional funding from the private sector are also uncertain in the present economic climate.

3.3.10 The proposal is therefore to work with the relevant interests on those two estates, to develop a vision for the area and to consider the options going forward. These options could include:

- A limited decent homes programme funded from council HRA resources coupled with a limited amount of environmental improvements.
- A further round of PFI (if available, or a variation of central government funding)
- A local joint venture with a developer and/or a housing association (e.g. a local housing company)
- Selective interventions with particular problem areas

3.3.11 The difference compared with current initiatives, is that the Council could be pro-active in promoting schemes for these areas and shaping possible funding opportunities. It would then be in a position, as many other councils are, to bid for funding with a developed proposal and community backing, as opposed to reacting in the short term to funding programmes with particular bidding rules.

3.3.12 The (consultative draft) housing asset management strategy proposes reviews of investment options for homes with investment challenges beyond the decent homes standard. This includes reviews of single persons' accommodation, sheltered housing, non-traditional construction and regeneration areas such as Spring Boroughs and Kings Heath. It is proposed that the two estates not included in the PFI project should be added to the two area reviews and that a report on the options for those two estates should be brought back to Cabinet in due course.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None at this stage.

4.2 Resources and Risk

The costs to the Council

4.2.1 The financial elements of the proposal are summarised at Appendix D in the form of a PowerPoint hand out from Grant Thornton, which will form the basis of their presentation to Cabinet at the meeting. A summary of this is set out in the table below for the preferred option for Eastfield & Thorplands

Annual Projected Contract Revenue Costs	**Annual costs (£k) 2008/9 Base Year**
Current costs (Management, Maintenance & Insurance)	£989k
Additional Housing Management payment forecast to PFI operator	£426k
Management & Maintenance Allowances	(£989k)
Reduction to Housing Maintenance	(£46k)
Additional 10% to MM allowance	(£99k)
Additional Council Contribution Required £k p.a (2008/9 base).	**£281k**
Rounded to	**£280k**

4.2.2 The Council's additional financial contributions, i.e. those in addition to the Council's internal project team, including Project Leader and Estate's Renewal Team, to the scheme fall into three distinct areas, as shown on the table below

Activity	Approximate Costs (£k)	Revenue / Capital
Project Development through to financial closure;		
Finance, Legal and Technical advisors (including Local Partnerships)	£850k	Revenue*
Project Team (Project Manager and Finance Manager)	£200k	Revenue*
Planning assistance	£50k	Revenue*
Consultation events and materials	£50k	Revenue*
Subtotal	**£1,150k**	
Securing vacant possession:		
Leasehold buy-backs (40 assumed)	£3,600k	Capital
Home loss and disturbance (218)	£1,744k	Capital
Subtotal	**£5,344k**	
Additional revenue costs for management and maintenance (after the scheme starts)	**£280k** per year, indexation to 2014/15 may mean this is approx **£326k**	Revenue

Note: these revenue items may be capitalised

4.2.3 A cost plan is currently being drawn up by the Finance Manager to annualise the Project Development costs and establish what funds are required in each of 2010/11, 2011/12, 2012/13, 2014/15 and a paper will de drafted setting this out and requesting the funds for those years. For 2009/10 £275k has already been approved and authorised.

4.2.4 The request for funding for the capital costs has been included in the capital programme bid report to Cabinet.

4.2.5 There may also be the need for additional transitional costs leading up to financial close and in the early months of the contract while things get set up and training occurs as there will be increased activity to be fully prepared for contract start and to deal with and learn from early contract management issues. As we draw closer to financial close and plan for these activities we can assess the likely level of resource required, but the implementation costs quoted above should be regarded as the minimum.

Project development

4.2.6 Estimates given in previous reports to Cabinet have covered the first element of project development and the most recent figure quoted to Cabinet on 5Th

August 2009 was £1.1 million at 2009 prices. In the event of any delays in reaching financial closure or other significant amendments (e.g. revised scope or significant contract derogations) this figure could rise. The PFI Finance Manager is specifically charged with monitoring all scheme development costs

Securing vacant possession

4.2.7 The figure of £5.344 million is in line with previous estimates given to Cabinet. The estimate of 40 buy-backs is based on 29 originally sold under the Right to Buy at November 2009 potentially increasing as the scheme develops.

Additional Revenue Costs

4.2.8 Once the procurement process gets underway, it will be possible to periodically test the assumptions previously made about the costs of management and maintenance. The Council currently meets these revenue costs. Under the current Housing Revenue account (HRA) subsidy system, the Council receives allowances for management and maintenance. Setting aside proposed reforms to council housing finance, the Council will continue to receive management and maintenance allowances for the PFI estates, but not the Major Repairs Allowance (MRA). The question is whether the bidding consortia can contain their costs within the continuing management and maintenance allowances, taking into account a proposed uplift of 10% in such allowances, as acknowledged by the Government in its consultation paper. The evidence from previous rounds of PFI is that most consortia plan to charge considerably in excess of those allowances, which would mean those additional revenue costs would need to be funded by the HRA.

4.2.9 Ways of reducing the risks of excessive revenue contributions relate to the procurement process, making it clear that the revenue costs will be a key consideration in selection, capping the costs in advance or reviewing the specification. Capping revenue costs has featured in some recent PFI schemes and has the benefit of fixing both the capital costs (through the known maximum PFI credit) and the revenue costs through the cap. Consortia effectively tender for what they will provide for the capital and revenue funding available.

4.2.10 It has been argued that higher management and maintenance costs in PFI schemes stem from onerous contract conditions and a higher performance specification. As part of the procurement process therefore, and subject to resident consultation, consideration could be given to amending the contract conditions and specification to reduce revenue costs.

4.2.11 Finally, the question of insurance has arisen since unit costs are much higher in PFI schemes, at £275 per home per year, compared to the Council's current cost of about £15 per home per year. Ways of reducing those costs will be explored. The Council will need to be prepared, at this stage however, to acknowledge that additional revenue costs over and above management and maintenance allowances of up to £280,000 (subject to indexation from now to financial close) per year may have to be funded from the HRA.

Offset Benefits

4.2.12 Against the identified costs above could be set two principal financial benefits, which would reduce the net financial impact of the scheme. Firstly, the there is the advantage of 610 council properties not requiring any major works funded by the Council for 30 years, at which time management and maintenance will be handed back to the Council. Secondly, there is the potential for infill development of market housing on council owned land. This should yield some capital receipts either to be re-cycled within the scheme or use to finance other works elsewhere within the council housing stock. This potential is however unknown at 2009 and will be subject to market forces over the next four years.

4.2.13 Financial, technical and legal advisers have been appointed to support the project through to completion (subject to Cabinet authority to proceed), with a break clause at Outline Business Case (OBC). The OBC stage is now estimated at around July-September 2010. The financial advisers will be directly accountable to the Director of Finance and Support and supervised by the PFI Operational Team.

4.2.14 In addition to financial advisers, a PFI finance manager has been appointed and recruitment is in hand for a project manager to join the operational team.

4.2.15 The full risk map for the life of the scheme, including implementation, is under development. This runs into several pages but the key risks in this phase were reported to the Cabinet meeting on 5th August 2009 and principally include:

- Community engagement and support
- Project delay
- Outline Business Case not accepted
- Tender costs too high
- Affordability in capital and revenue

4.3 Legal

4.3.1 The decanting programme will involve the need for full consultation and exchange of views with the tenants and other residents affected within prescribed timescales and consideration of any representations they make before the programme is finalised. Court action may be required in the event of a tenant's refusal to be involved with the programme which would prevent its implementation. As a last resort CPO powers may have to be utilised in respect of a leaseholder's refusal.

4.3.2 Legal advisors have been appointed to support the project through to financial completion (subject to Cabinet authority to proceed). They will be accountable directly to the Borough Solicitor and provide all legal advice through him. They have professional indemnity insurance on which the Council could rely in the event that their advice was negligent. The PFI operational team will supervise their work programme.

4.4 Equality

4.4.1 The tenants' survey responses were compared with the tenant profiles for the four estates and shown to be broadly representative with respect to age and ethnicity. The survey achieved a 70.7% response rate.

4.4.2 Across the four estates, the tenant profile shows that Bellinge has the lowest proportion of tenants in the age group of 16-25 (4%) and the highest proportion over 65 (30.6%). Eastfield has the lowest proportion of white British whilst the other three estates are broadly similar (Tenants Survey page 10).

4.4.3 An Equalities Impact Assessment has been carried out and can be found on our website on the Housing PFI web pages.

4.5 Consultees (Internal and External)

4.5.1 A full schedule of consultation events and communications is attached at appendix B. This report in draft and the emerging conclusions has been discussed at the PFI project board, with stakeholders and with ward councillors and representatives of the local MPs.

4.5.2 The conclusions of the estates review by Aecom (formerly EDAW) and the financial review by Grant Thornton, both of whom advised on the original bid, were discussed with ward councillors on 3rd December 2009. A further session was held with some stakeholders on the same evening. Whilst ward councillors expressed appreciation of the rigour of the exercise, the point was again made that the boundaries of the Blackthorn estate had been wrongly drawn up in the original bid made in October 2008. If Goldings had been included at that time the estate would have scored higher priority in the estates review. Against that, it was recognised that the quantum of funding required considerably exceeded the PFI credits available. All present agreed that the opportunity to secure nearly £60 million of capital investment should not be passed up.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Links to the Corporate Plan

Highlighted below are the corporate priority outcomes that this project would work towards delivering, with consequential improvements in other corporate priorities:

CORPORATE PRIORITY	PRIORITY OUTCOMES
Safer, greener and cleaner communities	Reduced fear of crime
	Reduced anti-social behaviour
	Reduced crime
	Increased recycling and composting
	Reduced Council 'carbon footprint'
	Improved air quality
	Reliable, cost-effective refuse collection and street cleansing service
	Less waste produced
	Cleaner neighbourhoods

	Good quality open spaces and parks
Housing, health and wellbeing	**Achieving the Decent Homes standard**
	Increased affordable homes
	Reduced homelessness
	Meeting housing needs
	Leisure and cultural activities for young people
	Improved participation and access to cultural opportunities
	Healthier living for young people
	Improved health for local people
	Vibrant neighbourhoods and engaged communities
A Confident, Ambitious and Successful Northampton	**A vibrant and viable town centre**
	Sustainable growth in jobs and housing
	Improved town centre management with partners
	Regeneration of key sites
	Quality shopping, leisure and cultural activities and events
	Enhanced reputation and regional influence
	Sound planning policy framework
Partnerships and community engagement	**Improved education and skills attainment**
	Strong community leadership
	Effective working with voluntary and community sectors
	Increased customer consultation
A well managed organisation that puts customers at the heart of what we do	**Accessible services**
	Improved financial management
	Services with a local focus
	Achieve a positive Comprehensive Area Assessment rating
	Equitable services
	Improved customer insight
	Effective governance arrangements
	Value for money
	An employer of choice
	Efficient and effective management

5. Background Papers

5.1

Original Bid Summary: (Appendix A)
Consultation Programme: (Appendix B)
Technical Adviser's Report (AECOM) (Appendix C)
Financial Adviser's Report (Grant Thornton) (Appendix D)
Original submission 31st October 2008*
Equalities Impact Assessment*
Residents' Survey Report *
Regeneration Principles*
Risk register*

* Copies of these documents can be downloaded from the Council's web pages from the PFI page in the Housing section or can be obtained by calling the Estate Renewal Team on 01604 838633

Brian Queen.
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Appendix A

PFI
Expression of Interest Summary

The bid focuses on 4 estates in Northampton East:

Bellinge Blackthorn Eastfield Thorplands

The revised PFI Credit requested was £208.508 million.
The amount agreed in principle is £100 million.

PFI Credits are cash from the Government, paid in even amount s quarterly over the life of the contract. Provided the awarded contract is within the PFI credit approved therefore, the capital element of any housing PFI scheme is entirely externally funded. The Council may have to invest up to £10 million to progress the scheme and to achieve vacant possession in areas to be re-modelled.

There were **1429** properties in the original bid area. After 4 years, at the end of the redevelopment works, there would have been **1393** properties.

The PFI proposals included:

- Demolition and replacement of 576 Council rented homes, mostly unpopular flats, with a 57% increase in family accommodation.

- Refurbishment of 817 Council rented homes (Including the remodelling of 72 small and unpopular flats into 36 family homes). (The proposals would have required the acquisition of 27 leasehold properties and the development of a range of ownership options for these leaseholders)

- A Range of public realm improvements.

- Social and economic initiatives – including the improvement of the local shopping and community hubs and local labour and employment initiatives.

- Additional opportunity sites (not included in the bid) could provide 304 homes for private sale, 49 Low cost home ownership, and 115 homes for affordable rent.

Appendix B

PFI Consultation and Communication Plan Revising the bid- July- December 2009			
Event/Activity	**Audience**	**Person/Org responsible**	**Timescale**
Eastfield Residents Association To discuss- PFI outcome and setting up Resident Steering Group	Residents	Andrew Treweek	30th July
Update to Northampton East Neighbourhood Management Forum on project including result and overview of way forward for revision of bid	Northampton East Neighbourhood Management Forum	Andrew Treweek	10th September
Update to Northampton East Neighbourhood Management Board on project and proposal for October consultation sessions	Northampton East Neighbourhood Management Board	Peter Wright	17th September
Article in Eastfield & Headlands local newsletter publicising drop in sessions	Eastfield & Headlands	Alice Arden-Barnatt Linda Martin	End September
Ward Cllrs to preview consultation materials which display criteria, for estate drop in sessions	Ward Cllrs	Andrew Treweek	7th October
Stakeholder and staff briefing	Stakeholders Key staff	Andrew Treweek	8th October
Estate drop in sessions to consult on criteria and Regeneration Principles Press release opportunity	All Residents,	Andrew Treweek/AECOM Lois Winstanley	Bellinge 13th October Thorplands 15th October Blackthorn 20th October Eastfield 22nd October
Outcome of Independent Estate Review and cost modelling recommending two estates to go forward	Cllrs Stakeholders	Brian Queen	December 3rd Weston Favell
Communication of the two estates to go forward: Letter to residents Press release	All residents on the four estates	Lesley Wearing Lois Winstanley	December 8th

Resident Steering Groups (1 per estate)	Residents	Andrew Treweek	Start of 2010

Appendix C

The AECOM Estate Review Report

Appendix D

Grant Thornton Presentation